

Oregon

Comprehensive Annual Financial Report



For the Fiscal Year Ended June 30, 2005

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Theodore R. Kulongoski
Governor

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Year Ended June 30, 2005**

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Introductory Section



Oregon

Theodore R. Kulongoski, Governor

Department of Administrative Services

State Controller's Division
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(503) 378-3156
FAX (503) 378-3518

December 31, 2005

To the Honorable Governor Theodore R. Kulongoski and Citizens of the State of Oregon:

We are pleased to provide you with the Comprehensive Annual Financial Report of the State of Oregon for the fiscal year ended June 30, 2005. This report is published to fulfill the requirement for annual financial statements in Oregon Revised Statute 291.040.

This report consists of management's representations concerning the finances of the State of Oregon. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the State has established a comprehensive internal control framework. The framework is designed to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. We believe the information presented is accurate in all material respects.

The Secretary of State Audits Division, the constitutional auditor of public accounts in Oregon, audited the State's financial statements for the fiscal year ended June 30, 2005. The goal of the independent audit was to provide reasonable assurance that the financial statements are free of material misstatement. Based on the audit, the auditors concluded that there was a reasonable basis for rendering an unqualified opinion that the financial statements for fiscal year 2005 are fairly presented in accordance with GAAP. The audit report is the first component in the financial section of this report.

The audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the needs of federal agencies that provide aid to the State. The standards governing single audit engagements require the auditor to report on the State's internal controls and compliance with legal requirements, particularly as they relate to federal awards. This information, also prepared by the Audits Division, will be available in a separately issued report on or about February 28, 2006.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The State provides services to Oregon's citizens through a wide range of programs including education, human resources, public safety, economic and community development, natural resources, transportation, consumer and business services, administrative support, legislative, and judicial programs. Oregon's primary government as reported in the accompanying financial statements consists of approximately 100 state agencies. In addition to the primary government, we report three entities as discretely presented component units to emphasize that they are legally separate from the State. A more detailed discussion of the reporting entity can be found in Note 1 to the basic financial statements.

Oregon's Legislature adopts a budget on a biennial basis, where the biennium begins July 1 and ends June 30 of each odd-numbered year. This biennial budget serves as the foundation for the State's financial planning and control. Appropriation bills approved through the legislative process include one or more appropriations which may be at the agency, program, or activity level. Accordingly, the legal level of budgetary control is at one of these various levels depending on the Legislature's view of the activity. Legislative authority is required to authorize the transfer of expenditure authority between appropriations.

Management can reallocate within an appropriation without legislative approval. The following budgeted appropriated funds account for the State's budgetary functions: General, Federal, Lottery, and Other. Additional information about the budget process and budgetary monitoring are presented in the notes to the required supplementary information.

Local Economy

Oregon is the least populous of the three west coast states that also include California and Washington. Oregon had about 1.9 million of the three states' 23.1 million workers in late 2005. Oregon's largest metro area is the Portland-Vancouver-Beaverton metropolitan statistical area. The Portland area is the sixth largest of the seven metro areas with one million or more workers in the three states. It includes about half of Oregon's jobs.

Employment grew more rapidly in Oregon than in most neighboring states in the mid-1990s due largely to a boom in high technology (primarily computer chips), transportation equipment (such as recreational vehicles and heavy trucks), and construction. The Asian financial crisis in 1997 led to weaker manufacturing employment and slower overall job growth in Oregon. Then the national recession hit the state. Between late 2000 and the middle of 2003, employment fell by as much as 4.0 percent, much worse than neighboring states. Since then, Oregon has seen very rapid job recovery. The state surpassed its November 2000 pre-recession peak employment level in early 2005 and added about 35,000 jobs (+2.2%) during the following eight months.

During the rapid job growth of the mid-1990s, Oregon's unemployment rate ranked in the middle of all states and lower than its neighboring states. However, the rate rose with the Asian financial crisis. During the economic boom of the late 1990s and in 2000, Oregon's unemployment rate did not fall as low as did the rates in neighboring states. With the onset of the recession, Oregon's unemployment rate soared from just over 5.0 percent in late 2000 to a peak of 8.5 percent in the middle of 2003. The state's population continued to grow despite the high unemployment rate with weaker, but still positive, net migration. Oregon had the nation's highest or second-highest state unemployment rate for 43 months, from April 2001 to October 2004. With the recovery in job growth, the unemployment rate eased to about 6.0 percent by late 2005, still about one percentage point higher than the national rate.

Oregon's major export-related industries include lumber and wood products, high technology, agriculture and food products, machinery, transportation equipment, and tourism-related sectors. The state also has a concentration in call center employment. Despite the recent rapid job recovery, forecasters see no major source of rapid job growth in the near future. Therefore, annual employment growth is expected to slow to less than 1.5 percent by 2007 and to only 1.0 percent by 2011. Still, this is higher than the growth forecast for the nation as a whole. Job growth is expected to be fastest in the professional and business services sector and in the health care industry. Manufacturing is projected to lose jobs. With population projected to grow faster than jobs between 2005 and 2011, Oregon may continue to have an elevated unemployment rate.

During the past ten years, the State's general governmental expenditures related to education have increased in amount, but have decreased as a percentage of total expenditures (a ten-year decrease of 4.5 percent). This relative decline results from a shift in allocation of total expenditures for other program areas such as public safety, transportation, and debt service expenditures. Although general governmental expenditures related to human resources have increased as programs to serve needy Oregonians have expanded, the percentage of total expenditures remains the same as it was ten years ago.

During this same ten-year period, federal revenues, while continuing to increase in amount, have actually decreased as a percentage of total revenue (a ten-year decrease of 3.8 percent). The reason for this relative decline is the relative increase in general governmental expenditures related to services that are supported more by taxes than by federal revenues (e.g., education, human resources, public safety); thus, as taxes have increased to support these services, so has the proportion of total revenue generated by taxes.

Long-term Financial Planning

Oregon's prison population continues to increase as a result of a ballot measure passed by voters in 1994, mandating minimum sentences for certain crimes. During the 2005 legislative session, the Legislature

increased 2001-03 capital construction limitations related to expansion of the Shutter Creek facility and construction of the Madras prison by a net \$133.0 million. The prison population in Oregon is expected to increase 7.9 percent during the 2005-07 biennium. The State will use a combination of new capacity and rental beds to meet this anticipated growth with the opening of the Warner Creek facility in Lakeview (400 beds), 100 new beds at the Shutter Creek facility, and 215 new beds for women at Coffee Creek in Wilsonville. The Legislature delayed the opening of the new Madras men's prison until September 2007, saving approximately \$10.6 million in start-up and operating costs during the 2005-07 biennium. As a result, the State will need to rely on over 500 rental or other temporary beds at the end of the biennium.

The December 2005 forecast projects \$11,654.0 million of General Fund revenues for the 2005-07 biennium. Including the estimated remaining \$301.2 million ending balance from the prior biennium, total available General Fund resources are projected to be \$11,955.2 million for the 2005-07 biennium. Given anticipated expenditures of \$11,493.7 million, the projected General Fund ending balance for the 2005-07 biennium is \$461.5 million. General Fund revenues are forecast to increase by 8.6 percent in the 2007-09 biennium and 14.0 percent in the 2009-11 biennium.

Relevant Financial Policies

The budget adopted for the 2005-07 biennium included only \$24.5 million of one-time discretionary revenues, representing a shift away from using one-time revenues for ongoing operations. This is a significant reduction in the use of one-time revenues which were approximately \$600.0 million for the 2003-05 biennium and \$1.4 billion in the 2001-03 biennium. About one-third of the \$1.3 billion General Fund and Lottery Funds increase from the 2003-05 legislatively approved budget to the 2005-07 legislatively adopted budget is due to the Legislature's use of General Fund support to backfill one-time revenues from discretionary sources relied on during the 2003-05 biennium.

Major Initiatives

The Smart Buy initiative, an effort to pool the State's purchasing power to reduce expenditures for items consumed in the normal course of business, was initiated in the 2003-05 biennium. Contracts for office equipment, long-distance telecommunications, personal computers, computer peripherals, software, cell phones, and express mail were negotiated or renegotiated, resulting in savings of approximately \$9.5 million in the 2003-05 biennium. For the 2005-07 biennium, as existing contract savings are carried forward and new contracts are put into place, projected savings are approximately \$16.4 million.

In an effort to expand the State's investment in key non-highway facilities, the Legislature authorized the issuance of \$100 million in lottery bonds for the Connect Oregon initiative in its 2005-07 adopted budget. Improvements in public transit and air, rail, and marine transportation infrastructure will keep sectors of the economy connected to distribution points and allow the Oregon Transportation Commission to take advantage of the most efficient and cost-effective system for transporting products.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Oregon for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. This was the thirteenth consecutive year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The State Controller's Division takes great pride in the preparation of the Oregon Comprehensive Annual Financial Report. We greatly appreciate the professionalism, commitment, and effort of Statewide Accounting and Reporting Services and the other individuals involved. We also want to thank all state agencies for their continuing support in planning and conducting the financial operations of the State in a professionally

responsible manner. Without the participation and cooperation of the agencies' fiscal units, the preparation of this report would not have been possible. In addition, we appreciate the contributions of the Office of Economic Analysis, the Budget and Management Division, the Oregon State Treasury, and the staff of the Secretary of State Audits Division.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John J. Radford". The signature is written in a cursive style with a large initial "J" and "R".

John J. Radford, Administrator
State Controller's Division
State of Oregon

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



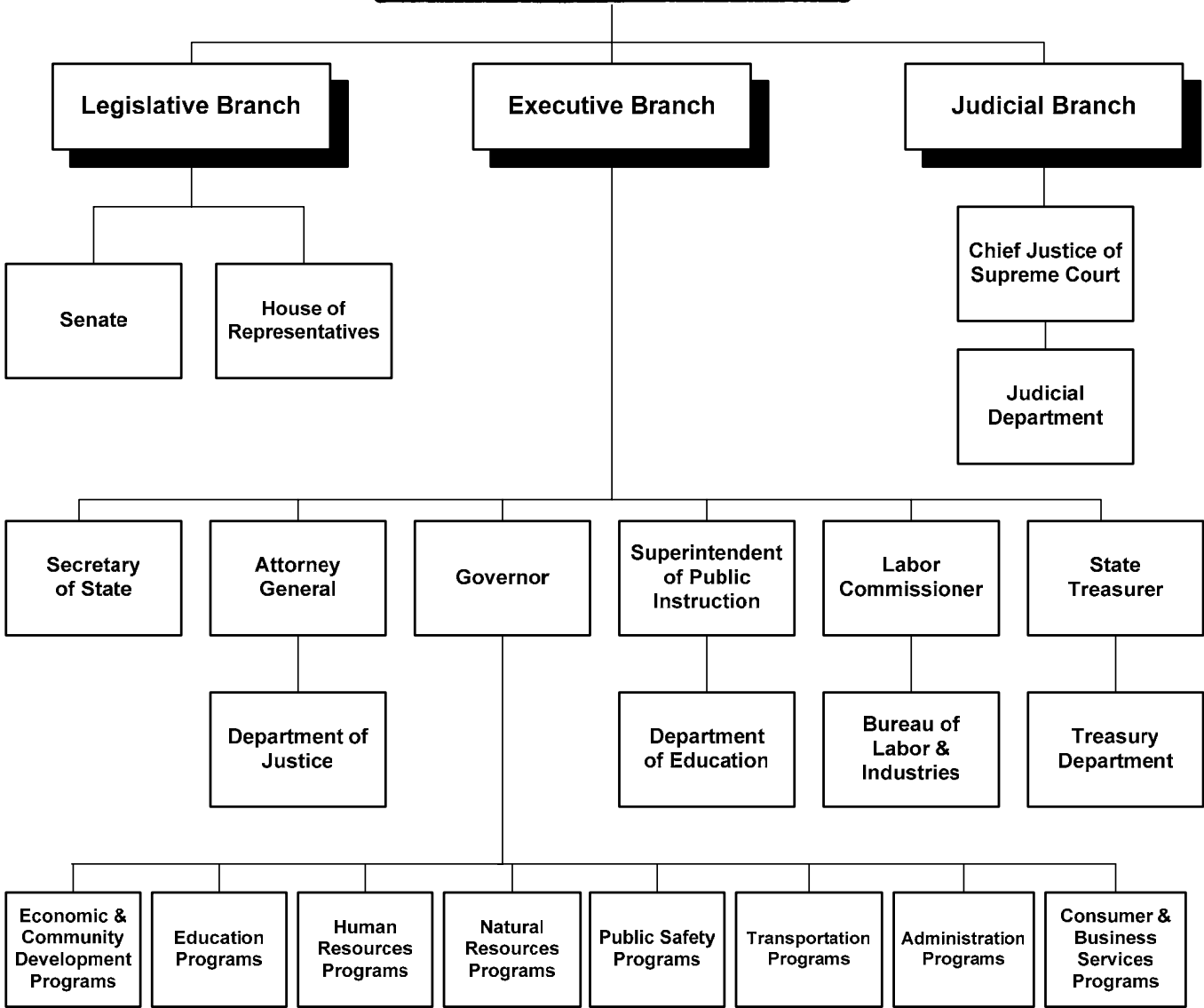
Carla E. Perry

President

Jeffrey R. Emmer

Executive Director

STATE OF OREGON ORGANIZATION CHART



Principal State Officials



EXECUTIVE

Theodore R. Kulongoski, *Governor*

Bill Bradbury, *Secretary of State*

Randall Edwards, *State Treasurer*

Hardy Myers, *Attorney General*

Dan Gardner, *Commissioner, Labor and Industries*

Susan Castillo, *Superintendent of Public Instruction*

LEGISLATIVE

Peter Courtney, *Senate President*

Karen Minnis, *Speaker of the House of Representatives*

JUDICIAL

Wallace P. Carson, Jr., *Chief Justice of the Supreme Court*

“To Serve Our Public Well”

Mission of Oregon State Service



Financial Section



Auditing for a Better Oregon

The Honorable Theodore R. Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of and for the year ended June 30, 2005, which collectively comprise the State of Oregon's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Oregon's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. We also did not audit the financial statements of the University System or the Veterans' Loan Fund, which represent 40 percent and 36 percent, respectively, of the assets and revenues of the business-type activities. 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 for the discretely presented component units, the University System, and the Veterans' Loan Fund, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 State'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 financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. As part of our audit, we performed audit procedures related to the Common School Fund, a major governmental fund. The State Land Board was created to manage lands dedicated to the Common School Fund with the objective of obtaining the greatest benefit for the people of Oregon. The Oregon Constitution designates the Secretary of State as both a member of the State Land Board and Auditor of Public Accounts. To minimize this impairment, auditors who did not have any known personal impairments in relation to the Common School Fund performed the audit. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

As described in note 17, corrections were made to restate beginning fund equity in the financial statements of the governmental activities to recognize a \$2 billion negative net pension obligation (asset). An additional restatement of \$659.3 million was made to beginning fund equity of governmental activities to correct the classification of the Common School Fund.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of June 30, 2005, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 12 through 21 and budgetary comparison information on pages 106 through 112 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Oregon's basic financial statements. The introductory section, combining fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

OREGON AUDITS DIVISION



Bill Bradbury
Secretary of State

December 20, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State's comprehensive annual financial report presents our discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2005. This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. It is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund issues.

We encourage readers to consider the information presented in this analysis in conjunction with the transmittal letter beginning on page 2 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by \$13.9 billion (net assets). Of this amount, \$726.0 million is unrestricted net assets, while \$3.5 billion is restricted for specific uses.
- The State's total net assets increased by \$191.6 million as a result of the year's operations. The net assets for governmental activities decreased by 1.8 percent of total governmental activities net assets, while the net assets for business-type activities increased by 10.1 percent of total business-type net assets.
- As of the close of the most recent fiscal year, the State's governmental funds reported combined ending fund balances of \$3.1 billion. Of this amount, 72.3 percent is available for spending at the State's discretion (unreserved, undesignated fund balance).
- At fiscal year end, unreserved fund balance for the General Fund was \$237.8 million.
- The State's total debt outstanding for bonds and certificates of participation increased by \$512.3 million (6.3 percent) during the fiscal year. New issues of debt for single-family and multi-family mortgage loans as well as bonds issued for transportation infrastructure projects contributed to this increase.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to this discussion and analysis, the financial section of this annual report contains the *basic financial statements*, *required supplementary information*, and an optional presentation of *combining financial statements* for nonmajor funds, internal service funds, and fiduciary funds. A *statistical section* is presented following the combining financial statements. The basic financial statements contain three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide a broad overview of the State's finances, in a manner similar to a private-sector business. All of the State's activities are reported in the government-wide statements, except for activities accounted for in fiduciary funds because resources of those funds are not available to support the State's own programs.

- The *statement of net assets* presents information on all of the State's assets and liabilities, with the difference between the two reported as *net assets*.
- The *statement of activities* presents information showing how the State's net assets changed during the fiscal year. All of the changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes).

These two government-wide financial statements report the State's *net assets* and the change in net assets. Net assets, which represent the difference between assets and liabilities, are one measure of the State's financial health, or financial position. Over time, increases or decreases in the State's net assets may serve

as a useful indicator of whether its financial position is improving or deteriorating. However, to assess the overall health of the State, the reader needs to consider additional non-financial factors such as changes in Oregon's income tax base and changes in Oregon's economy.

The government-wide financial statements of the State are divided into the following three categories:

1. **Governmental activities.** This includes the basic services provided by the State to its citizens, such as K-12 schools and community colleges, public assistance programs, public safety and public transportation. Income taxes and federal grants finance most of these activities. The State's internal service funds, which provide services to other departments or state agencies, are included in governmental activities because these services predominately benefit governmental programs rather than business-type functions.
2. **Business-type activities.** The State charges fees to customers to help cover the costs of certain services it provides. For example, the State administers loan programs to provide housing to citizens with low incomes and those who are elderly or disabled. The operation of the State's lottery is also reported under business-type activities as well as the Oregon University System, consisting of seven higher education facilities.
3. **Component units.** The State includes three other entities in its report: Oregon Health and Science University, the SAIF Corporation, and the Oregon University System Foundations. Although legally separate, these entities are reported as "component units" either because the State is financially accountable for them or because of the nature and significance of their relationship to the State. Financial information for these component units is reported separately from the financial information of the State itself (known as the primary government).

The government-wide financial statements can be found on pages 24-27 of this report.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds (not the State as a whole). Funds are accounting mechanisms the State uses to keep track of specific sources of funding and spending for particular purposes. Similar to other state and local governments, the State uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements. Some funds are required by state law (such as the Lottery Operations Fund) or bond covenants. The State establishes other funds to control and manage money for particular purposes (like health and social services) or to show that it is properly using certain taxes and grants (like gas taxes for transportation).

All of the State's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Most of the State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year end that are available for spending. Thus, the governmental fund statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the State's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide information following the governmental fund statements that reconciles the government-wide focus to the governmental fund focus.

The State maintains twenty individual governmental funds. Information is presented separately in the governmental fund financial statements for the five major governmental funds, including the general fund. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 28-35 of this report.

Proprietary funds. Services for which the State charges customers a fee, similar to a business operation, are generally reported in proprietary funds. Proprietary fund statements, like the government-wide statements, provide both long-term and short-term financial information. The State's enterprise funds (one

type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. We use internal service funds (the other type of proprietary fund) to report activities that provide services to the State's other programs and activities (such as the State's Central Services Fund).

The proprietary fund financial statements provide separate information for the State's five major proprietary funds. Data from the other nine proprietary funds are combined into a single, aggregated presentation. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for each of the nonmajor proprietary funds and for each of the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 36-45 of this report.

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. The State is the trustee, or fiduciary, for its employees' pension plan. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. Fiduciary funds are accounted for in a manner similar to proprietary funds. All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities have been excluded from the State's government-wide financial statements because the State cannot use these assets to finance its operations.

The basic fiduciary fund financial statements include the investment trust fund, the agency fund, and aggregated data for the State's pension trust and private purpose trust funds. Individual fund data for each of the pension trust and private purpose trust funds is provided in the form of combining statements elsewhere in this report. The basic fiduciary fund financial statements can be found on pages 46-47 of this report.

Discretely Presented Component Units

Combining statements that report activities of the State's component units, the SAIF Corporation, Oregon Health and Science University, and the Oregon University System Foundations can be found on pages 49-51 of this report. Although activity for component units is reported in the government-wide statements in an aggregate column, the combining statements provide greater detail for each component unit.

Notes to the Financial Statements

The basic financial statements also include notes, which provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 52-101 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a section of *required supplementary information* (RSI), beginning on page 103, which contains budget-to-actual comparison schedules for all of the State's budgeted appropriated funds as well as accompanying notes to the RSI.

The combining financial statements referred to earlier are presented immediately following the required supplementary information beginning on page 113 of this report. These combining statements provide details about our nonmajor governmental funds, nonmajor enterprise funds, and internal service funds, each of which are added together and presented in single columns in the basic financial statements. The combining financial statements also provide details about the fiduciary funds when data has been aggregated in a single column in the basic financial statements.

A statistical section containing selected financial, economic, and demographic information is presented immediately following the combining statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. The State's *combined* net assets for fiscal year 2005 were approximately \$13.9 billion as shown in Table 1. Most of this balance consists of capital assets (largely infrastructure). Since the State uses its capital assets to provide services to citizens, the amount of net assets invested in capital assets, net of related debt, is not available for future spending. An additional portion of the State's net assets (24.9 percent) represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets is \$726.0 million.

Table 1
State of Oregon's Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 7,728.2	\$ 6,097.5	\$ 6,836.0	\$ 6,946.6	\$ 14,564.2	\$ 13,044.1
Capital assets	10,407.6	10,456.3	1,474.0	1,301.5	11,881.6	11,757.8
Total assets	18,135.8	16,553.8	8,310.0	8,248.1	26,445.8	24,801.9
Long-term liabilities	5,645.2	5,429.3	3,303.3	3,198.0	8,948.5	8,627.3
Other liabilities	2,278.4	3,393.2	1,323.7	1,740.2	3,602.1	5,133.4
Total liabilities	7,923.6	8,822.5	4,627.0	4,938.2	12,550.6	13,760.7
Net assets:						
Invested in capital assets, net of related debt	9,151.4	9,555.7	562.3	549.2	9,713.7	10,104.9
Restricted	904.9	334.3	2,550.6	2,233.5	3,455.5	2,567.8
Unrestricted	155.9	(2,158.7)	570.1	527.2	726.0	(1,631.5)
Total net assets	\$ 10,212.2	\$ 7,731.3	\$ 3,683.0	\$ 3,309.9	\$ 13,895.2	\$ 11,041.2

Changes in net assets. The State's *combined* change in net assets associated with current year operations for fiscal year 2005 was an increase of \$191.6 million as shown in Table 2. Governmental activities had a decrease in net assets while business-type activities had an increase in net assets. A major factor that contributed to the reduction in governmental activities net assets was the issuance of additional long-term debt, such as \$426.5 million of revenue bonds for transportation infrastructure projects.

Although current year operations for governmental activities resulted in a decrease in net assets, total ending net assets for fiscal year 2005 are \$10.2 billion, up from \$7.7 billion in the prior fiscal year. Ending net assets reflect a prior period adjustment of \$2.0 billion that was made to increase beginning net assets to correctly report a negative net pension obligation (asset) which resulted from the issuance of pension obligation bonds in the prior fiscal year. The \$2.0 billion was contributed to the State's pension plan with the Public Employees Retirement System last fiscal year in excess of the annual required contribution and should have been capitalized in the Statement of Net Assets rather than being reported as an expense in the Statement of Activities. Another major factor that contributed to the increase in net assets of governmental activities was the reclassification of the Common School Fund from a private purpose trust fund (fiduciary fund) to a special revenue fund. Based on research of the nature and purpose of the Common School Fund, it was determined that the fund did not meet the definition of a fiduciary fund; thus, this resulted in a correction to increase beginning net assets by \$659.3 million.

For business-type activities, the increase in net assets primarily resulted from the operations of the Unemployment Compensation Fund, where employee-employer assessments and other income exceeded distributions of benefits, as Oregon's economic recovery brought about fewer numbers of people seeking unemployment benefits combined with the effects of unemployment assessments being paid for more workers. The decrease in net assets for governmental activities is 1.8 percent of total governmental activities net assets after prior period adjustments, while the increase in net assets for business-type activities is 10.1 percent of total business-type activities net assets.

Table 2
State of Oregon's Changes in Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 1,080.7	\$ 1,005.4	\$ 3,045.4	\$ 2,862.6	\$ 4,126.1	\$ 3,868.0
Operating grants & contributions	4,850.1	4,378.5	771.0	908.6	5,621.1	5,287.1
Capital grants & contributions	6.6	5.8	-	-	6.6	5.8
General revenues:						
Personal income taxes	4,746.7	4,294.4	-	-	4,746.7	4,294.4
Corporate income taxes	211.0	314.5	-	-	211.0	314.5
Other taxes	1,891.3	1,710.9	13.9	13.7	1,905.2	1,724.6
Unrestricted investment earnings	44.7	11.1	-	-	44.7	11.1
Total revenues	12,831.1	11,720.6	3,830.3	3,784.9	16,661.4	15,505.5
Expenses:						
Education	3,204.6	3,485.9	-	-	3,204.6	3,485.9
Human resources	4,675.8	4,276.2	-	-	4,675.8	4,276.2
Public safety	928.5	857.6	-	-	928.5	857.6
Economic & community development	340.7	296.5	-	-	340.7	296.5
Natural resources	582.8	488.5	-	-	582.8	488.5
Transportation	1,882.7	1,410.7	-	-	1,882.7	1,410.7
Consumer and business services	282.9	388.3	-	-	282.9	388.3
Administration	622.0	2,693.6	-	-	622.0	2,693.6
Legislative	31.4	25.5	-	-	31.4	25.5
Judicial	249.0	239.8	-	-	249.0	239.8
Interest on long-term debt	254.8	164.5	-	-	254.8	164.5
Housing and community services	-	-	89.6	88.7	89.6	88.7
Veterans' loan	-	-	51.5	59.1	51.5	59.1
Lottery operations	-	-	504.1	494.6	504.1	494.6
Unemployment compensation	-	-	577.4	1,106.0	577.4	1,106.0
University system	-	-	1,729.1	1,617.7	1,729.1	1,617.7
State hospitals	-	-	162.6	151.4	162.6	151.4
Liquor control	-	-	237.6	220.1	237.6	220.1
Other business-type activities	-	-	75.2	71.2	75.2	71.2
Total expenses	13,055.2	14,327.1	3,427.1	3,808.8	16,482.3	18,135.9
Increase (decrease) before contributions, special and extraordinary items, and transfers	(224.1)	(2,606.5)	403.2	(23.9)	179.1	(2,630.4)
Contributions to permanent funds	11.4	4.7	-	-	11.4	4.7
Capital contributions	0.4	0.4	0.7	0.6	1.1	1.0
Special items	-	-	-	21.9	-	21.9
Transfers	31.9	(44.3)	(31.9)	44.3	-	-
Increase (decrease) in net assets	(180.4)	(2,645.7)	372.0	42.9	191.6	(2,602.8)
Net assets – beginning	7,731.3	10,403.1	3,309.9	3,256.8	11,041.2	13,659.9
Prior period adjustments	2,661.3	(26.1)	1.1	10.2	2,662.4	(15.9)
Net assets – beginning – as restated	10,392.6	10,377.0	3,311.0	3,267.0	13,703.6	13,644.0
Net assets – ending	\$10,212.2	\$ 7,731.3	\$ 3,683.0	\$ 3,309.9	\$ 13,895.2	\$ 11,041.2

Figure 1 below illustrates fiscal year 2005 revenues of the State as a whole, by source. Approximately 33.7 percent comes from other entities and governments in the form of operating grants and contributions (e.g., federal revenues). An additional 29.8 percent of total revenue comes from personal and corporate income taxes and 24.7 percent comes from charges for services provided.

Figure 1
State of Oregon's Revenue by Source
For the Year Ended June 30, 2005

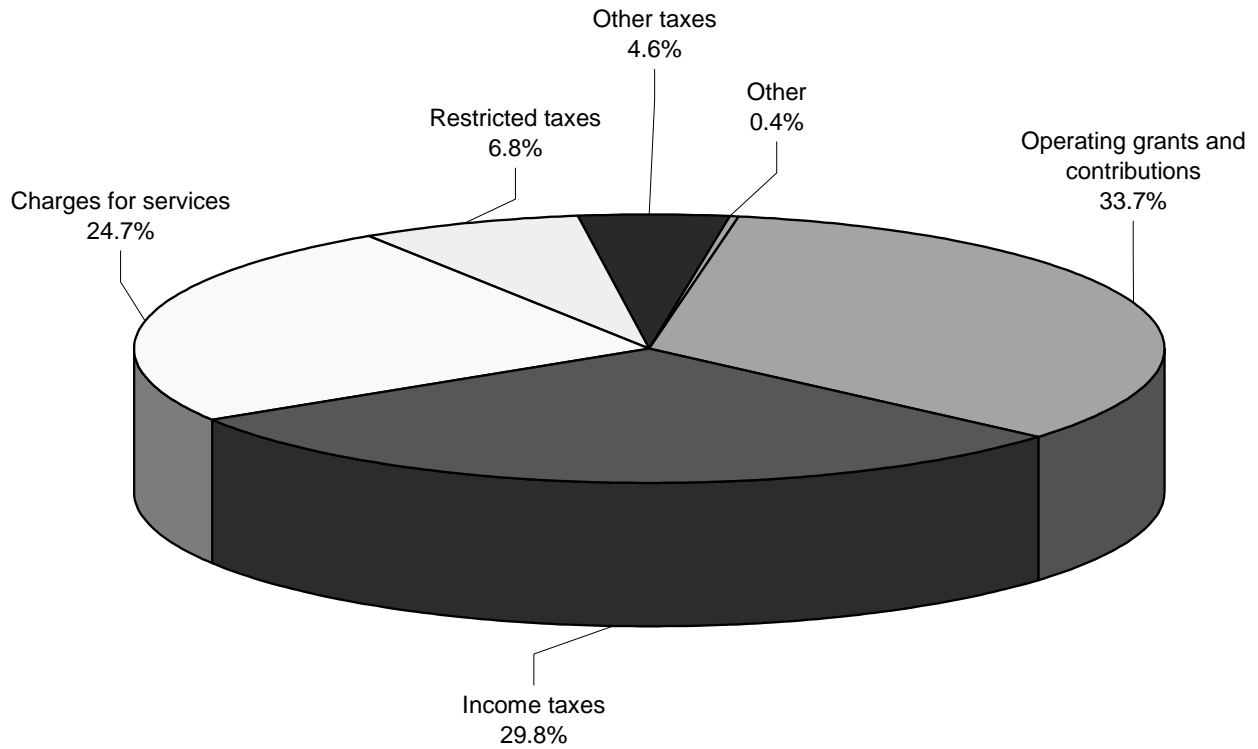
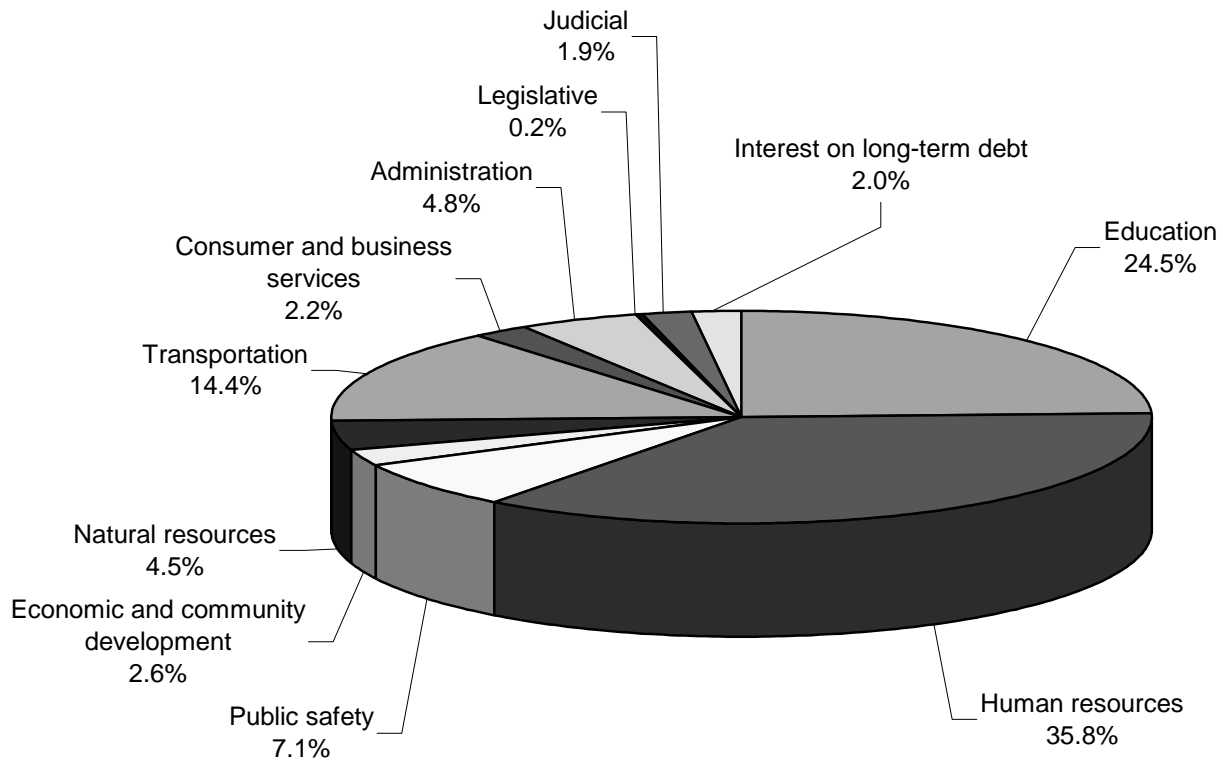


Figure 2 below shows the percentages of total governmental activity expenses for each function of the State. The largest portion of expenses is for human resources to provide for Oregon’s citizens in need of assistance at 35.8 percent, with elementary and secondary education the second largest at 24.5 percent of total expenses.

Figure 2
State of Oregon’s Governmental Expenses by Function
For the Year Ended June 30, 2005



FINANCIAL ANALYSIS OF THE STATE’S FUNDS

As noted earlier, the State of Oregon uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the State’s governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* financial resources. In governmental funds, *unreserved fund balance* may serve as a useful measure of a government’s net resources available for spending. At the end of fiscal year 2005, approximately 72.3 percent of the total fund balance of governmental funds represents unreserved, undesignated fund balance, which is available for spending on governmental programs at the State’s discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed. For example, such commitments are to pay debt service or to pay claims and judgments.

At the end of fiscal year 2005, the State’s governmental funds reported combined ending fund balances of \$3.1 billion, an increase of \$1.1 billion in comparison with the prior year. This increase in fund balances is primarily attributed to the results of operations in the general fund and the reclassification of the common school fund as discussed below.

The general fund is the chief operating fund of the State. The unreserved, undesignated fund balance of the general fund at the end of fiscal year 2005 was \$237.8 million, while total fund balance was \$301.6 million. During the fiscal year, the accumulation of spendable financial resources outpaced spending and obligation of commitments, increasing the total fund balance of the general fund by \$646.3 million. Revenues increased by \$366.4 million, with the largest gain in personal income taxes, and expenditures decreased by \$492.1 million, contributing to the increase in total fund balance. In addition, resources were transferred into the general fund from various other funds during the year, as a result of legislative action related to the 2003-05 budget. Another major factor that contributed to the increase in the fund balance of governmental funds was the reclassification of the common school fund from a private purpose trust fund (fiduciary fund) to a special revenue fund. Based on research of the nature and purpose of the Common School Fund, it was determined that the fund did not meet the definition of a fiduciary fund; thus, this resulted in a correction to increase beginning fund balance by \$659.3 million.

While revenues of the Health and Social Services Fund were slightly higher than expenditures, transfers to other funds contributed to a decrease in fund balance. The majority of these transfers were to the State Hospitals Fund, a nonmajor enterprise fund, the Community Protection Fund, a nonmajor governmental fund, and the General Appropriation Bond Fund, a nonmajor governmental (debt service) fund. An increased level of highway construction and maintenance contributed to the reduction in fund balance in the Public Transportation Fund. An increase in expenditures for public safety programs contributed to the decrease in fund balance of the Community Protection Fund, a nonmajor governmental fund. Increased expenditures for education programs also contributed to the reduction in fund balance in the Educational Support Fund, a nonmajor governmental fund.

Proprietary funds. The State's enterprise funds provide the same type of information presented for business-type activities in the government-wide financial statements, but in more detail. Total net assets of the Housing and Community Services Fund increased by \$6.8 million from the prior year, as operating income exceeded operating expenses. This is a self-supporting activity, providing loans for housing that are funded through the issuance of bonds. As compared to the previous year, the net assets of the Veterans' Loan Fund decreased by 5.4 percent, while the net assets of the Lottery Operations Fund increased by 50.2 percent. In the Unemployment Compensation Fund, employee-employer assessments and other income exceeded distribution of benefits during the year, as Oregon's economic recovery brought about fewer numbers of people seeking unemployment benefits combined with the effects of unemployment assessments being paid for more workers.

Restrictions and commitments significantly affect the availability of Housing and Community Services Fund resources for future use. For example, net assets that will be used to repay outstanding bonds are restricted for debt service. A significant portion of University System Fund net assets are restricted for capital construction, higher education, debt service, and for purposes stipulated by donors of resources.

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. Net assets of the Pension Trust Fund, which accounts for resources held in trust for the payment of retirement, disability, postemployment healthcare, and death benefits to members of the Public Employees Retirement System, increased by \$4.6 billion. The net appreciation in fair value of investments and other investment income primarily contributed to this increase in net assets. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGETARY HIGHLIGHTS

For the 2003-05 biennium, final budgeted expenditures for the general fund decreased by \$356.8 million from original budgeted expenditures reflected in the Legislatively Adopted Budget. This reduction was due largely to the disapproval of Measure 30 by Oregon voters at the February 2004 special election. Ballot Measure 30 would have enacted several temporary and permanent tax increases and changes in order to maintain certain levels of service in public education, senior services, public safety as well as other areas and to avoid budget cuts. On a percentage basis, program areas most impacted by appropriation reductions were education, which was reduced by 4.5 percent, and human resources, which was reduced by 3.9 percent. Forecasted revenues decreased by \$521.3 million from the original budgeted revenues. This reduction was primarily due to lower income tax revenue projections.

Actual revenue and other financing sources exceeded actual expenditures and other financing uses by \$212.4 million for the 2003-05 biennium, increasing the ending budgetary fund balance. For the biennium, actual revenues were greater than budgetary estimates mainly due to higher than expected corporate income tax revenues. These higher than expected corporate income tax revenues resulted in a corporate income tax credit of \$101.0 million. Actual expenditures for the biennium were less than budgeted expenditures, as presented in the (cash basis) budgetary schedule for the General Fund; however, it is expected that the majority of remaining budget will be expended as obligations are paid during the six-month lapse period from July 1 to December 31, 2005.

DEBT ADMINISTRATION

The State Debt Policy Advisory Commission advises the Governor and the legislative assembly regarding policies and actions that enhance and preserve the State's credit rating and maintain the future availability of low-cost capital financing. The State's debt credit rating, which is an indication of the State's ability to repay its debt, was upgraded by Fitch Investors Service from A+ to AA- during the fiscal year.

Debt outstanding for the years ended June 30, 2005 and 2004 is summarized in Table 3 below. The majority of new revenue bonds issued for business-type activities this year were multi-family housing revenue bonds and single-family mortgage revenue bonds. For governmental activities, the majority of new revenue bonds were issued for transportation infrastructure improvement projects.

During the fiscal year, \$202.4 million of general obligation bonds were issued to finance a variety of construction and improvement projects for higher education institutions within the Oregon University System. In addition, the State refinanced some of its existing debt to take advantage of favorable interest rates. Additional information on the State's long-term debt can be found in Note 9 of this report.

Table 3
State of Oregon's Outstanding Debt
For the Years Ended June 30, 2005 and 2004
(dollars in millions)

	2005	2004	2005 Over (Under) 2004	
			Amount	Percent
General Obligation Bonds	\$ 4,345.1	\$ 4,364.5	\$ (19.4)	(0.4)%
Revenue Bonds	2,920.5	2,475.1	445.4	18.0%
Certificates of Participation	930.1	818.0	112.1	13.7%
General Appropriation Bonds	440.4	466.2	(25.8)	(5.5)%
Totals	\$ 8,636.1	\$ 8,123.8	\$ 512.3	6.3%

CAPITAL ASSETS

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2005, is \$11.9 billion (net of accumulated depreciation) as summarized in Table 4. This investment in capital assets includes land, buildings, improvements, equipment, construction in progress, highways, tunnels and bridges, and works of art and historical treasures. The total increase in the State's investment in capital assets for the current fiscal year was 1.0 percent.

Table 4
State of Oregon's Capital Assets, Net of Depreciation
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 1,603.3	\$ 1,573.3	\$ 93.3	\$ 56.0	\$ 1,696.6	\$ 1,629.3
Buildings, property and equipment	1,216.7	1,198.4	1,093.6	1,025.6	2,310.3	2,224.0
Construction in progress	1,344.7	817.2	210.7	144.6	1,555.4	961.8
Infrastructure	6,242.3	6,866.8	17.4	16.9	6,259.7	6,883.7
Works of art and historical treasures	0.6	0.6	59.0	58.4	59.6	59.0
Totals	\$ 10,407.6	\$ 10,456.3	\$ 1,474.0	\$ 1,301.5	\$ 11,881.6	\$ 11,757.8

Major capital asset events during the fiscal year included the following:

- The State spent nearly \$519.8 million on 1,762 highway and bridge construction projects
- Nearly \$12.0 million was spent on capital equipment used to maintain highways and bridges, such as road graders, bulldozers, and similar vehicles
- Commitments of \$1,085.0 million have been made for highway and bridge construction

Additional information on the State's capital assets can be found in note 5 of this report.

ECONOMIC FACTORS AND NEXT BIENNIUM'S BUDGET

- The unemployment rate for Oregon is currently 6.0 percent, down from 7.3 percent a year ago. This is higher than the national rate of 5.0 percent.
- Employment growth in the second quarter of 2005 was 3.1 percent. This was the eighth consecutive quarter of job growth, an indication of a well-established economic recovery in Oregon's job market.
- The December 2005 General Fund revenue forecast indicates revenues are projected to increase by 11.6 percent from the 2003-2005 biennium to the 2005-2007 biennium.
- Subsequent to June 30, 2005, the State issued \$148.1 million of tax anticipation notes to meet seasonal cash needs during the 2005-2007 biennium. Due to improving economic conditions and a larger cash balance in the General Fund, the need to borrow for cash flow purposes during the 2005-2007 biennium has been significantly reduced from prior years.

These factors will likely have an impact on the State's financial position and/or the budget for the 2005-2007 biennium.

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Basic Financial Statements

Statement of Net Assets
June 30, 2005
(In Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,685,998	\$ 2,047,263	\$ 3,733,261	\$ 339,386
Cash and Cash Equivalents - Restricted	34	22,208	22,242	37,153
Investments	1,170,791	213,714	1,384,505	2,964,419
Investments - Restricted	-	530,822	530,822	-
Securities Lending Cash Collateral	575,705	313,815	889,520	800,101
Accounts and Interest Receivable (net)	406,450	416,767	823,217	340,700
Pledges Receivable	-	-	-	52,451
Taxes Receivable	379,234	-	379,234	-
Internal Balances	118,258	(118,258)	-	-
Due from Component Units	5,326	-	5,326	-
Due from Other Governments	106	8,302	8,408	-
Due from Primary Government	-	-	-	5,301
Inventories	71,522	34,769	106,291	12,077
Prepaid Items	1,977	15,343	17,320	11,699
Foreclosed and Deeded Property	-	1,371	1,371	-
Total Current Assets	4,415,401	3,486,116	7,901,517	4,563,287
Noncurrent Assets:				
Cash and Securities Held in Trust	20,029	4	20,033	-
Cash and Cash Equivalents - Restricted	203,644	813,559	1,017,203	-
Investments	-	109,280	109,280	376,496
Investments - Restricted	172,548	511,753	684,301	1,187,214
Taxes Receivable	381,543	-	381,543	-
Deferred Charges	17,402	17,426	34,828	8,942
Interfund Loans	2,179	(2,179)	-	-
Advances to Component Units	-	41,935	41,935	-
Net Contracts, Notes and Other Receivables	176,898	84,824	261,722	552
Pledges Receivable	-	-	-	68,294
Loans Receivable	374,596	1,773,203	2,147,799	-
Net Pension Asset	1,964,000	-	1,964,000	-
Capital Assets:				
Land	1,603,347	93,357	1,696,704	58,142
Buildings, Property and Equipment	2,040,573	2,160,139	4,200,712	1,271,597
Construction in Progress	1,344,664	210,668	1,555,332	230,034
Infrastructure	13,875,272	51,408	13,926,680	-
Works of Art and Historical Treasures	655	58,980	59,635	384
Less Accumulated Depreciation and Amortization	(8,456,912)	(1,100,517)	(9,557,429)	(594,310)
Total Noncurrent Assets	13,720,438	4,823,840	18,544,278	2,607,345
Total Assets	18,135,839	8,309,956	26,445,795	7,170,632

(continued on next page)

Statement of Net Assets

June 30, 2005

(In Thousands)

(continued from previous page)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current Liabilities:				
Accounts and Interest Payable	\$ 706,569	\$ 201,159	\$ 907,728	\$ 164,907
Reserve for Loss and Loss Adjustment Expense	-	-	-	202,011
Obligations Under Securities Lending	575,705	313,815	889,520	800,101
Due to Component Units	5,301	-	5,301	-
Due to Other Governments	110,654	4,593	115,247	12,409
Due to Primary Government	-	-	-	5,326
Matured Bonds/COPS and Coupons Payable	34	7,991	8,025	-
Obligations Under Capital Lease	490	255	745	602
Obligations Under Life Income Agreements	-	-	-	81,587
Bonds/COPS Payable	138,814	629,189	768,003	5,395
Claims and Judgments Payable	132,920	-	132,920	-
Arbitrage Rebate Payable	-	360	360	-
Contracts, Mortgages and Notes Payable	82,325	1,556	83,881	-
Trust Funds Payable	414,831	19,852	434,683	10,058
Deferred Revenue	31,779	78,478	110,257	169,475
Compensated Absences Payable	79,019	37,604	116,623	37,789
Lottery Prize Awards Payable	-	28,767	28,767	-
Total Current Liabilities	2,278,441	1,323,619	3,602,060	1,489,660
Noncurrent Liabilities:				
Bonds/COPS Payable	4,626,739	3,183,840	7,810,579	585,683
Obligations Under Capital Lease	3,464	456	3,920	3,548
Claims and Judgments Payable	980,078	-	980,078	2,373,690
Lottery Prize Awards Payable	-	109,280	109,280	-
Compensated Absences Payable	33,866	5,398	39,264	-
Arbitrage Rebate Payable	569	400	969	-
Contracts, Mortgages and Notes Payable	511	3,389	3,900	10,161
Trust Funds Payable	-	580	580	-
Advances from Primary Government	-	-	-	41,935
Total Noncurrent Liabilities	5,645,227	3,303,343	8,948,570	3,015,017
Total Liabilities	7,923,668	4,626,962	12,550,630	4,504,677
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	9,151,443	562,325	9,713,768	474,388
Expendable Restricted Net Assets:				
Restricted for Unemployment Compensation	-	1,712,779	1,712,779	-
Restricted for Residential Assistance	129,901	1,545	131,446	-
Restricted for Higher Education	-	169,481	169,481	-
Restricted for Debt Service	-	240,830	240,830	-
Restricted for Capital Construction	1,567	193,200	194,767	-
Restricted for Transportation	-	22,697	22,697	-
Restricted for Workers' Compensation	18	-	18	539,169
Restricted for Education	712,373	-	712,373	637,074
Restricted for Natural Resource Programs	35,285	-	35,285	-
Restricted for Health Services	2,113	-	2,113	-
Restricted for Public Safety	2,270	-	2,270	-
Restricted for Lottery Projects	-	80,097	80,097	-
Restricted for War Veterans' Programs	-	115,237	115,237	-
Nonexpendable Restricted Net Assets:				
Restricted for Donor Purposes	-	14,682	14,682	456,712
Restricted for Education	875	-	875	112,053
Restricted for Residential Assistance	16,822	-	16,822	-
Restricted for Natural Resource Programs	3,374	-	3,374	-
Restricted for Workers' Compensation	250	-	250	-
Unrestricted	155,880	570,121	726,001	446,559
Total Net Assets	\$ 10,212,171	\$ 3,682,994	\$ 13,895,165	\$ 2,665,955

The notes to the financial statements are an integral part of this statement.

State of Oregon

**Statement of Activities
For the Year Ended June 30, 2005
(In Thousands)**

	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Primary Government:					
Governmental Activities:					
Education	\$ 3,204,580	\$ 14,350	\$ 539,336	\$ -	\$ (2,650,894)
Human Resources	4,675,846	221,522	2,980,670	-	(1,473,654)
Public Safety	928,483	35,107	147,572	6,005	(739,799)
Economic and Community Development	340,653	16,323	288,950	-	(35,380)
Natural Resources	582,788	270,465	230,595	333	(81,395)
Transportation	1,882,649	129,351	401,248	228	(1,351,822)
Consumer and Business Services	282,875	158,999	19,415	-	(104,461)
Administration	622,036	203,275	240,679	-	(178,082)
Legislative	31,447	1,769	10	-	(29,668)
Judicial	249,036	29,522	1,666	-	(217,848)
Interest on Long-term Debt	254,840	-	-	-	(254,840)
Total Governmental Activities	<u>13,055,233</u>	<u>1,080,683</u>	<u>4,850,141</u>	<u>6,566</u>	<u>(7,117,843)</u>
Business-type Activities:					
Housing and Community Services	89,583	68,685	28,657	-	7,759
Veterans' Loan	51,479	26,579	18,014	-	(6,886)
Lottery Operations	504,102	938,370	15,863	-	450,131
Unemployment Compensation	577,396	783,594	91,075	-	297,273
University System	1,729,107	799,122	612,994	-	(316,991)
State Hospitals	162,651	40,179	-	-	(122,472)
Liquor Control	237,604	313,308	-	-	75,704
Other Business-type Activities	75,182	75,521	4,368	-	4,707
Total Business-type Activities	<u>3,427,104</u>	<u>3,045,358</u>	<u>770,971</u>	<u>-</u>	<u>389,225</u>
Total Primary Government	<u>\$ 16,482,337</u>	<u>\$ 4,126,041</u>	<u>\$ 5,621,112</u>	<u>\$ 6,566</u>	<u>\$ (6,728,618)</u>
Component Units:					
SAIF Corporation	\$ 570,857	\$ 401,516	\$ 173,280	\$ -	\$ 3,939
Oregon Health and Science University	1,198,101	772,259	561,511	-	135,669
Oregon University System Foundations	120,914	11,761	213,613	-	104,460
Total Component Units	<u>\$ 1,889,872</u>	<u>\$ 1,185,536</u>	<u>\$ 948,404</u>	<u>\$ -</u>	<u>\$ 244,068</u>

(continued on next page)

Statement of Activities
For the Year Ended June 30, 2005
(In Thousands)
(continued from previous page)

	Primary Government			Component Units
	Governmental Activities	Business- type Activities	Total	
Changes in Net Assets:				
Net (Expense) Revenue	\$ (7,117,843)	\$ 389,225	\$ (6,728,618)	\$ 244,068
General Revenues:				
Taxes:				
Personal Income Taxes	4,746,727	-	4,746,727	-
Corporate Income Taxes	211,016	-	211,016	-
Tobacco Taxes	255,035	-	255,035	-
Other Taxes	503,666	13,964	517,630	-
Restricted for Transportation Purposes:				
Motor Fuels Taxes	407,729	-	407,729	-
Weight Mile Taxes	253,419	-	253,419	-
Vehicle Registration Taxes	204,787	-	204,787	-
Restricted for Workers' Compensation Benefits:				
Employer-employee Taxes	266,688	-	266,688	-
Total Taxes	<u>6,849,067</u>	<u>13,964</u>	<u>6,863,031</u>	<u>-</u>
Unrestricted Investment Earnings	44,662	-	44,662	-
Contributions to Permanent Funds	11,453	-	11,453	-
Capital Contributions	407	700	1,107	638
Transfers - Internal Activities	31,901	(31,901)	-	-
Total General Revenues, Contributions, Special Items, Extraordinary Items, and Transfers	<u>6,937,490</u>	<u>(17,237)</u>	<u>6,920,253</u>	<u>638</u>
Change in Net Assets	<u>(180,353)</u>	<u>371,988</u>	<u>191,635</u>	<u>244,706</u>
Net Assets - Beginning	7,731,329	3,309,847	11,041,176	2,421,249
Prior Period Adjustments	2,661,195	1,159	2,662,354	-
Net Assets - Beginning - As Restated	<u>10,392,524</u>	<u>3,311,006</u>	<u>13,703,530</u>	<u>2,421,249</u>
Net Assets - Ending	<u>\$ 10,212,171</u>	<u>\$ 3,682,994</u>	<u>\$ 13,895,165</u>	<u>\$ 2,665,955</u>

The notes to the financial statements are an integral part of this statement.

State of Oregon

Balance Sheet
Governmental Funds
June 30, 2005
(In Thousands)

	General	Health and Social Services	Public Transportation
ASSETS			
Cash and Cash Equivalents	\$ 247,738	\$ 177,516	\$ 372,229
Investments	-	4,304	-
Cash and Securities Held in Trust	-	-	16,595
Securities Lending Cash Collateral	66,201	198,727	77,938
Accounts and Interest Receivable (net)	17,410	67,318	58,654
Taxes Receivable	630,140	55,322	60,275
Due from Other Funds	73,092	53,708	724
Due from Component Units	-	-	-
Due from Other Governments	-	-	78
Inventories	21,955	2,669	22,829
Prepaid Items	1,232	7	-
Advances to Other Funds	40,598	-	5,000
Net Contracts, Notes and Other Receivables	16,591	4,081	1,594
Loans Receivable	-	-	-
Total Assets	\$ 1,114,957	\$ 563,652	\$ 615,916
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts and Interest Payable	\$ 219,520	\$ 82,128	\$ 126,057
Obligations Under Securities Lending	66,201	198,727	77,938
Due to Other Funds	48,387	47,572	15,725
Due to Component Units	-	5,301	-
Due to Other Governments	137	8,686	60,852
Matured Bonds/COPS and Coupons Payable	28	-	-
Advances from Other Funds	2,008	-	-
Trust Funds Payable	6,255	6,662	16,384
Deferred Revenue	470,853	7,362	7,591
Contracts, Mortgages and Notes Payable	11	82,300	83
Total Liabilities	813,400	438,738	304,630
Fund Balances:			
Reserved for Inventories	21,955	2,669	22,829
Reserved for Loans Receivable	-	-	-
Reserved for Other Long-term Receivables	-	3,291	-
Reserved for Advances to Other Funds	40,598	-	5,000
Reserved for Prepaid Items	1,232	7	-
Reserved for Debt Service	-	-	-
Reserved for Permanent Fund Principal	-	-	-
Reserved for Claims and Judgments Payable	-	-	-
Reserved for Revolving Accounts	3	227	40
Unreserved, Undesignated	237,769	118,720	283,417
Unreserved, Undesignated, Reported in:			
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Permanent Funds	-	-	-
Total Fund Balances	301,557	124,914	311,286
Total Liabilities and Fund Balances	\$ 1,114,957	\$ 563,652	\$ 615,916

The notes to the financial statements are an integral part of this statement.

State of Oregon

Environmental Management	Common School	Other	Total
\$ 292,848	\$ 11,233	\$ 566,332	\$ 1,667,896
-	920,955	337,787	1,263,046
777	682	1,975	20,029
53,766	33,346	102,454	532,432
35,496	8,558	160,547	347,983
-	-	15,040	760,777
34,945	87	214,089	376,645
-	-	5,326	5,326
-	-	28	106
17,745	25	4,792	70,015
48	-	690	1,977
-	384	-	45,982
8,355	68	146,184	176,873
278,044	4	96,548	374,596
\$ 722,024	\$ 975,342	\$ 1,651,792	\$ 5,643,683

\$ 29,925	\$ 32,075	\$ 150,651	\$ 640,356
53,766	33,346	102,454	532,432
4,672	3,405	139,558	259,319
-	-	-	5,301
20,904	-	20,075	110,654
-	-	5	33
301	-	41,898	44,207
2,266	198,771	4,073	234,411
10,987	-	169,252	666,045
-	-	430	82,824
122,821	267,597	628,396	2,575,582

17,745	25	4,792	70,015
278,044	4	96,548	374,596
320	68	129	3,808
-	384	-	45,982
48	-	690	1,977
-	-	175,129	175,129
-	-	21,321	21,321
-	-	155,236	155,236
367	-	222	859
302,679	707,264	-	1,649,849
-	-	499,175	499,175
-	-	64,405	64,405
-	-	5,749	5,749
599,203	707,745	1,023,396	3,068,101
\$ 722,024	\$ 975,342	\$ 1,651,792	\$ 5,643,683

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**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005
(In Thousands)**

Total fund balances of governmental funds \$ 3,068,101

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 1,592,444	
Buildings, property and equipment	1,666,400	
Construction in progress	1,316,494	
Infrastructure	13,874,150	
Works of art and historical treasures	514	
Accumulated depreciation and amortization	<u>(8,291,748)</u>	
Total capital assets		10,158,254

The net pension asset resulting from contributions in excess of the annual required contribution in 2004 are not financial resources and therefore are not reported in the funds. (See Note 12) 1,964,000

Some of the State's revenues will be collected after year end but are not available soon enough to pay the current year liabilities and are therefore deferred in the funds. 636,351

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. 142,849

Unamortized debt issuance costs are reported as deferred charges for governmental activities in the Statement of Net Assets, but are reported as expenditures in the funds. 16,751

Some liabilities are not due and payable in the current year and therefore are not reported in the funds. Those liabilities consist of:

Bonds and COPS	(4,594,470)	
Accrued interest on bonds and COPS	(37,842)	
Claims and judgments	(1,024,863)	
Compensated absences	(107,349)	
Obligations under capital leases	(3,954)	
Income tax refunds	(5,088)	
Arbitrage rebate	<u>(569)</u>	
Total long-term liabilities		<u>(5,774,135)</u>

Net assets of governmental activities \$ 10,212,171

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2005

(In Thousands)

	General	Health and Social Services	Public Transportation
Revenues:			
Personal Income Taxes	\$ 4,712,999	\$ -	\$ -
Corporate Income Taxes	219,606	-	-
Tobacco Taxes	53,051	200,700	-
Motor Fuels Taxes	-	-	408,182
Weight-Mile Taxes	-	-	252,453
Employer-Employee Taxes	-	-	-
Vehicle Registration Taxes	-	-	204,787
Other Taxes	118,389	186,710	1,397
Licenses and Fees	24,984	35,965	46,177
Federal	-	2,493,939	491,689
Charges for Services	2,940	76,896	63,577
Fines and Forfeitures	1,983	694	4,248
Rents and Royalties	-	25	13,097
Investment Income	44,662	6,659	13,590
Sales	2,381	3,830	10,229
Donations and Grants	20	2,231	75
Contributions to Permanent Funds	-	-	-
Tobacco Settlement Proceeds	-	73,142	-
Pension Bond Debt Service Assessments	-	-	-
Other	10,918	182,463	3,094
Total Revenues	5,191,933	3,263,254	1,512,595
Expenditures:			
Current:			
Education	2,299,531	-	-
Human Resources	1,109,107	3,054,776	-
Public Safety	559,944	-	-
Economic and Community Development	5,572	-	-
Natural Resources	49,581	-	-
Transportation	4	8,900	1,751,564
Consumer and Business Services	5,647	81,133	-
Administration	104,472	27,698	116,354
Legislative	28,831	-	-
Judicial	207,192	751	-
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	31,409	-	-
Interest	49,209	-	-
Other Debt Service	614	40	2,368
Total Expenditures	4,451,113	3,173,298	1,870,286
Excess (Deficiency) of Revenues Over (Under)			
Expenditures	740,820	89,956	(357,691)
Other Financing Sources (Uses):			
Transfers from Other Funds	294,539	74,217	2,032
Transfers to Other Funds	(388,552)	(299,368)	(91,529)
Long-Term Debt Issued	-	4,875	324,702
Debt Issuance Premium	-	213	8,245
Debt Issuance Discount	-	-	(24)
Refunded Debt Issued	-	-	-
Leases Incurred	3,939	-	-
Refunded Debt Payment to Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	(90,074)	(220,063)	243,426
Net Change in Fund Balances	650,746	(130,107)	(114,265)
Fund Balances - Beginning	(344,730)	230,854	422,146
Prior Period Adjustments	(786)	23,136	-
Fund Balances - Beginning - As Restated	(345,516)	253,990	422,146
Change in Reserve for Inventories	(3,673)	1,031	3,405
Fund Balances - Ending	\$ 301,557	\$ 124,914	\$ 311,286

The notes to the financial statements are an integral part of this statement.

State of Oregon

Environmental Management	Common School	Other	Total
\$ -	\$ -	\$ -	\$ 4,712,999
-	-	-	219,606
-	-	-	253,751
-	-	-	408,182
-	-	-	252,453
-	-	264,221	264,221
-	-	-	204,787
17,456	-	177,378	501,330
107,643	559	154,298	369,626
130,950	-	1,492,181	4,608,759
12,616	90	66,990	223,109
610	25	60,839	68,399
978	3,600	2,526	20,226
14,249	79,448	47,200	205,808
101,645	39	7,275	125,399
557	6	10,558	13,447
-	-	11,453	11,453
-	-	-	73,142
-	-	121,895	121,895
17,805	255	61,402	275,937
404,509	84,022	2,478,216	12,934,529
-	-	904,282	3,203,813
-	-	501,760	4,665,643
-	-	345,566	905,510
-	-	336,235	341,807
441,035	48,515	34,650	573,781
-	-	7,311	1,767,779
-	-	275,985	362,765
2	-	339,139	587,665
-	-	1,857	30,688
-	-	42,495	250,438
-	-	83,784	83,784
-	-	99,595	131,004
5	-	217,116	266,330
23	-	1,914	4,959
441,065	48,515	3,191,689	13,175,966
(36,556)	35,507	(713,473)	(241,437)
123,996	19,227	1,082,908	1,596,919
(67,617)	(6,316)	(620,982)	(1,474,364)
6,000	-	237,584	573,161
-	-	11,473	19,931
-	-	(3)	(27)
-	-	21,625	21,625
-	-	-	3,939
-	-	(130,389)	(130,389)
62,379	12,911	602,216	610,795
25,823	48,418	(111,257)	369,358
570,046	-	1,137,077	2,015,393
3,271	659,327	(2,073)	682,875
573,317	659,327	1,135,004	2,698,268
63	-	(351)	475
\$ 599,203	\$ 707,745	\$ 1,023,396	\$ 3,068,101

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**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2005
(In Thousands)**

Net change in fund balances of total governmental funds	\$	369,358
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:</p>		
Capital outlay	\$	642,806
Depreciation expense		(663,855)
Excess of depreciation over capital outlays		(21,049)
The net effect of sales, transfers, and donations of capital assets is a decrease to net assets.		(34,586)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability.		(3,939)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets.		(614,692)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		261,393
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these items are deferred and amortized in the Statement of Activities.		(7,141)
Accrued interest on long-term debt does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds.		11,490
Some expenses reported in the Statement of Activities do not require the use of current financial resources; thus, they are not reported as expenditures in governmental funds.		49,552
Investment income related to rebatable arbitrage does not provide current financial resources and is not reported as revenue in the funds.		453
Some revenues will not be collected for several months after the State's fiscal year ends; thus, they are not considered "available" revenues and are deferred in the governmental funds.		(188,125)
Change in inventory is reported as a separate line after the change in fund balances in the governmental statements, but is included in expenses in the governmental activities.		475
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is reported within governmental activities.		(3,542)
Change in net assets of governmental activities	\$	(180,353)

Balance Sheet
Proprietary Funds
June 30, 2005
(In Thousands)

	Business-type Activities — Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 5,387	\$ 74,808	\$ 191,760
Cash and Cash Equivalents - Restricted	14,333	4,538	-
Investments	-	-	13,232
Investments - Restricted	530,822	-	-
Securities Lending Cash Collateral	11,809	84,522	70,747
Accounts and Interest Receivable (net)	7,687	4,074	14,671
Due from Other Funds	68	494	-
Due from Other Governments	-	-	-
Inventories	-	-	2,758
Prepaid Items	-	8	766
Foreclosed and Deeded Property	1,275	96	-
Total Current Assets	571,381	168,540	293,934
Noncurrent Assets:			
Cash and Securities Held in Trust	-	-	-
Cash and Cash Equivalents - Restricted	57,969	428,158	2,172
Investments	-	-	109,280
Investments - Restricted	298,925	134,929	-
Deferred Charges	12,506	1,930	-
Advances to Other Funds	-	-	-
Advances to Component Units	-	-	-
Net Contracts, Notes and Other Receivables	-	360	-
Loans Receivable	1,038,932	284,702	-
Capital Assets:			
Land	-	-	-
Buildings, Property and Equipment	1,089	9,945	91,639
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Historical Treasures	-	85	-
Less Accumulated Depreciation and Amortization	(1,030)	(5,392)	(44,087)
Total Noncurrent Assets	1,408,391	854,717	159,004
Total Assets	\$ 1,979,772	\$ 1,023,257	\$ 452,938

State of Oregon

Business-type Activities — Enterprise Funds					Governmental Activities Internal Service Funds
Unemployment Compensation	University System	Other	Total		
\$ 1,284,704	\$ 276,766	\$ 213,838	\$ 2,047,263	\$	218,336
-	3,208	129	22,208	-	-
200,478	-	4	213,714	52,685	-
-	-	-	530,822	-	-
29,949	97,710	19,078	313,815	43,273	-
222,728	147,182	20,425	416,767	58,465	-
-	3,522	141	4,225	1,728	-
8,302	-	-	8,302	-	-
-	5,977	26,034	34,769	1,509	-
-	14,051	518	15,343	-	-
-	-	-	1,371	-	-
1,746,161	548,416	280,167	3,608,599	375,996	-
4	-	-	4	-	-
1,342	271,531	52,387	813,559	3,444	-
-	-	-	109,280	-	-
-	71,658	6,241	511,753	27,607	-
-	-	2,990	17,426	651	-
1,108	-	17,925	19,033	805	-
-	41,935	-	41,935	-	-
15,322	59,670	9,472	84,824	27	-
-	-	449,569	1,773,203	-	-
-	89,272	4,085	93,357	10,903	-
-	1,938,145	119,321	2,160,139	374,173	-
-	193,410	17,258	210,668	28,170	-
-	49,971	1,437	51,408	1,122	-
-	58,855	40	58,980	141	-
-	(998,544)	(51,464)	(1,100,517)	(165,164)	-
17,776	1,775,903	629,261	4,845,052	281,879	-
\$ 1,763,937	\$ 2,324,319	\$ 909,428	\$ 8,453,651	\$	657,875

(continued on next page)

Balance Sheet
Proprietary Funds
June 30, 2005
(In Thousands)

(continued from previous page)

	Business-type Activities — Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts and Interest Payable	\$ 35,503	\$ 10,391	\$ 7,759
Obligations Under Securities Lending	11,809	84,522	70,747
Due to Other Funds	70	-	106,974
Due to Other Governments	-	-	-
Matured Bonds/COPS and Coupons Payable	116	4,538	-
Obligations Under Capital Lease	-	-	-
Bonds/COPS Payable	510,311	62,727	-
Trust Funds Payable	-	1,674	94
Deferred Revenue	23	-	-
Lottery Prize Awards Payable	-	-	28,767
Compensated Absences Payable	199	252	1,168
Arbitrage Rebate Payable	147	213	-
Contracts, Mortgages and Notes Payable	1,340	-	-
Total Current Liabilities	559,518	164,317	215,509
Noncurrent Liabilities:			
Bonds/COPS Payable	1,257,540	738,767	-
Obligations Under Capital Lease	-	-	-
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	109,280
Compensated Absences Payable	85	108	500
Arbitrage Rebate Payable	72	189	-
Contracts, Mortgages and Notes Payable	3,081	-	-
Trust Funds Payable	-	-	-
Advances from Other Funds	-	-	-
Total Noncurrent Liabilities	1,260,778	739,064	109,780
Total Liabilities	1,820,296	903,381	325,289
Net Assets:			
Invested in Capital Assets, Net of Related Debt	58	4,639	47,552
Expendable Restricted Net Assets:			
Restricted for Residential Assistance	1,545	-	-
Restricted for Higher Education	-	-	-
Restricted for Debt Service	152,184	-	-
Restricted for Capital Construction	-	-	-
Restricted for Transportation	-	-	-
Nonexpendable Restricted Net Assets:			
Restricted for Donor Purposes	-	-	-
Unrestricted	5,689	115,237	80,097
Total Net Assets	159,476	119,876	127,649
Total Liabilities and Net Assets	\$ 1,979,772	\$ 1,023,257	\$ 452,938

The notes to the financial statements are an integral part of this statement.

State of Oregon

Business-type Activities — Enterprise Funds					Governmental Activities Internal Service Funds
Unemployment Compensation	University System	Other	Total		
\$ 11,816	\$ 109,403	\$ 26,287	\$ 201,159	\$	23,287
29,949	97,710	19,078	313,815		43,273
4,885	20	11,276	123,225		51
4,146	-	447	4,593		-
-	3,208	129	7,991		-
-	244	11	255		-
-	30,031	26,120	629,189		11,601
362	12,705	5,017	19,852		180,422
-	75,901	2,554	78,478		2,085
-	-	-	28,767		-
-	30,679	5,306	37,604		3,918
-	-	-	360		-
-	216	-	1,556		-
51,158	360,117	96,225	1,446,844		264,637
-	875,721	311,812	3,183,840		159,482
-	450	6	456		-
-	-	-	-		88,135
-	-	-	109,280		-
-	2,431	2,274	5,398		1,618
-	130	9	400		-
-	308	-	3,389		11
-	-	580	580		-
-	14,640	6,571	21,211		402
-	893,680	321,252	3,324,554		249,648
51,158	1,253,797	417,477	4,771,398		514,285
-	450,474	59,602	562,325		107,245
-	-	-	1,545		-
-	169,481	-	169,481		-
-	64,594	24,052	240,830		-
-	193,200	-	193,200		-
-	-	22,697	22,697		-
-	14,682	-	14,682		-
1,712,779	178,091	385,600	2,477,493		36,345
1,712,779	1,070,522	491,951	3,682,253		143,590
\$ 1,763,937	\$ 2,324,319	\$ 909,428	\$ 8,453,651	\$	657,875

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are included with the business-type activities.

	741
Net assets of business-type activities	<u>\$ 3,682,994</u>

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005
(In Thousands)

	Business-type Activities — Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
Operating Revenues:			
Assessments	\$ -	\$ -	\$ -
Licenses and Fees	2,926	237	-
Federal	-	-	-
Charges for Services	1,356	2,762	-
Fines and Forfeitures	-	-	-
Rents and Royalties	-	535	-
Sales	-	-	939,529
Loan Interest Income	64,114	22,411	-
Investment Income	28,621	18,014	-
Gifts, Grants and Contracts	36	-	-
Other	20	495	-
Gain (Loss) on Foreclosed Property	269	139	-
Total Operating Revenues	97,342	44,593	939,529
Operating Expenses:			
Salaries and Wages	5,102	4,794	25,010
Services and Supplies	6,115	9,907	232,950
Cost of Goods Sold	-	-	-
Distributions to Other Governments	439	-	-
Special Payments	2,856	-	239,540
Bond and COP Interest	71,780	37,104	-
Other Debt Service	3,075	247	-
Depreciation and Amortization	87	359	6,918
Bad Debt Expense	(98)	(1,104)	-
Total Operating Expenses	89,356	51,307	504,418
Operating Income (Loss)	7,986	(6,714)	435,111
Nonoperating Revenues (Expenses):			
Investment Income (Loss)	-	-	15,863
Other Taxes	-	-	-
Other Nonoperating Items	-	-	(1,159)
Gain (Loss) on Disposition of Assets	-	-	-
Loan Interest Income	-	-	-
Loan Interest Expense	(226)	(159)	-
Total Nonoperating Revenues (Expenses)	(226)	(159)	14,704
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	7,760	(6,873)	449,815
Capital Contributions	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(920)	-	(407,166)
Change in Net Assets	6,840	(6,873)	42,649
Net Assets - Beginning	152,636	126,749	85,000
Prior Period Adjustments	-	-	-
Net Assets - Beginning - As Restated	152,636	126,749	85,000
Net Assets - Ending	\$ 159,476	\$ 119,876	\$ 127,649

The notes to the financial statements are an integral part of this statement.

State of Oregon

Business-type Activities — Enterprise Funds

Unemployment Compensation	University System	Other	Total	Governmental Activities Internal Service Funds
\$ 768,734	\$ -	\$ -	\$ 768,734	\$ -
-	-	3,467	6,630	-
26,630	508,940	-	535,570	-
-	476,344	65,773	546,235	217,805
3,610	-	410	4,020	-
-	-	1,742	2,277	32,024
-	216,583	330,728	1,486,840	12,602
-	-	23,275	109,800	-
64,445	-	4,367	115,447	-
-	85,741	-	85,777	-
11,250	15,951	3,612	31,328	8,518
-	-	-	408	-
874,669	1,303,559	433,374	3,693,066	270,949
-	941,011	159,678	1,135,595	88,023
693	674,300	85,247	1,009,212	139,068
-	-	167,435	167,435	18,579
13,271	-	37,655	51,365	-
561,547	-	4,460	808,403	-
-	38,334	16,091	163,309	6,491
-	-	319	3,641	21
-	75,950	4,092	87,406	17,939
2,487	-	249	1,534	3
577,998	1,729,595	475,226	3,427,900	270,124
296,671	(426,036)	(41,852)	265,166	825
-	18,313	-	34,176	4,706
-	-	13,964	13,964	-
-	90,243	-	89,084	-
-	371	(86)	285	317
-	-	-	-	49
-	-	(120)	(505)	(26)
-	108,927	13,758	137,004	5,046
296,671	(317,109)	(28,094)	402,170	5,871
-	692	921	1,613	7,182
6,656	343,236	153,415	503,307	2,322
(24,563)	(105)	(103,369)	(536,123)	(7,635)
278,764	26,714	22,873	370,967	7,740
1,434,015	1,043,808	467,919	3,310,127	135,835
-	-	1,159	1,159	15
1,434,015	1,043,808	469,078	3,311,286	135,850
\$ 1,712,779	\$ 1,070,522	\$ 491,951	\$ 3,682,253	\$ 143,590

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with the business-type activities.

Change in net assets of business-type activities	1,021
	\$ 371,988

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005
(In Thousands)

Business-type Activities — Enterprise Funds

	Housing and Community Services	Veterans' Loan	Lottery Operations
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 4,159	\$ 14,394	\$ 943,384
Receipts from Other Funds for Services	-	663	-
Loan Principal Repayments	142,640	86,915	-
Loan Interest Received	64,108	22,710	-
Taxes and Assessments Received	-	-	-
Payments to Employees for Services	(5,158)	(5,216)	(24,955)
Payments to Suppliers	(5,721)	(17,008)	(234,421)
Payments to Other Funds for Services	-	(536)	-
Payments to Prize Winners	-	-	(239,101)
Claims Paid	-	-	-
Loans Made	(207,164)	(30,974)	-
Distributions to Other Governments	-	-	-
Other Receipts (Payments)	(2,332)	179	-
Net Cash Provided (Used) in Operating Activities	<u>(9,468)</u>	<u>71,127</u>	<u>444,907</u>
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bond/COP Sales	771,395	60,000	-
Loan Proceeds	3,173	40,000	-
Principal Payments on Bonds/COPS	(683,111)	(141,740)	-
Principal Payments on Loans	(4,469)	(40,000)	-
Interest Payments on Bonds/COPS	(69,815)	(39,650)	-
Interest Payments on Loans	(240)	(159)	-
Bond/COP Issuance Costs	(3,311)	(1,289)	-
Advances Received	-	-	-
Repayments on Advances Received	-	-	-
Interest Payments on Advances	-	-	-
Taxes and Assessments Received	-	-	-
Other Nonoperating Receipts	-	-	312
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(920)	-	(415,847)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>12,702</u>	<u>(122,838)</u>	<u>(415,535)</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Bond/COP Sales	-	-	-
Principal Payments on Bonds/COPS	-	-	-
Interest Payments on Bonds/COPS	-	-	-
Bond/COP Issuance Costs	-	-	-
Repayments on Advances Made	-	-	-
Repayments on Advances Received	-	-	-
Interest Payments on Advances	-	-	-
Principal Payments on Loans	-	-	-
Interest Payments on Loans	-	-	-
Acquisition of Capital Assets	-	-	(21,451)
Payments on Capital Leases	-	-	-
Proceeds from Disposition of Capital Assets	-	1	111
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>-</u>	<u>1</u>	<u>(21,340)</u>
Cash Flows from Investing Activities:			
Purchases of Investments	(1,290,447)	(266,428)	(3,357)
Proceeds from Sales and Maturities of Investments	1,269,422	285,531	13,144
Interest on Investments and Cash Balances	18,512	18,721	3,360
Interest Income from Securities Lending	460	2,233	1,600
Interest Expense from Securities Lending	(454)	(2,199)	(1,525)
Net Cash Provided (Used) in Investing Activities	<u>(2,507)</u>	<u>37,858</u>	<u>13,222</u>
Net Increase (Decrease) in Cash and Cash Equivalents	727	(13,852)	21,254
Cash and Cash Equivalents - Beginning	76,962	521,356	172,678
Prior Period Adjustments Restating Beginning Cash Balances	-	-	-
Cash and Cash Equivalents - Ending	<u>\$ 77,689</u>	<u>\$ 507,504</u>	<u>\$ 193,932</u>

State of Oregon

Business-type Activities — Enterprise Funds				Governmental Activities Internal Service Funds
Unemployment Compensation	University System	Other	Total	
\$ 2,813	\$ 1,259,957	\$ 400,149	\$ 2,624,856	\$ 23,256
-	-	25	688	232,353
-	18,939	36,590	285,084	-
-	-	21,723	108,541	-
777,633	-	-	777,633	-
-	(945,292)	(158,694)	(1,139,315)	(90,387)
-	(585,432)	(251,835)	(1,094,417)	(130,377)
-	-	(9,490)	(10,026)	(3,273)
-	-	-	(239,101)	-
(570,757)	-	-	(570,757)	(7,360)
-	(75,965)	(81,034)	(395,137)	-
(15,524)	-	(37,463)	(52,987)	-
35,979	12,252	3,690	49,768	23,182
230,144	(315,541)	(76,339)	344,830	47,394
-	-	18,557	849,952	-
-	-	-	43,173	-
-	-	(61,249)	(886,100)	-
-	-	-	(44,469)	-
-	-	(15,557)	(125,022)	-
-	-	-	(399)	-
-	-	(250)	(4,850)	-
-	-	5,000	5,000	-
-	-	(775)	(775)	-
-	-	(48)	(48)	-
-	-	13,963	13,963	-
-	78,165	-	78,477	-
6,858	339,548	151,067	497,473	6,702
(21,580)	-	(103,485)	(541,832)	(22,772)
(14,722)	417,713	7,223	(115,457)	(16,070)
-	173,366	-	173,366	65,600
-	(28,836)	(3,493)	(32,329)	(13,642)
-	(34,216)	(1,467)	(35,683)	(5,946)
-	-	-	-	(696)
-	-	-	-	35
-	-	-	-	(24)
-	-	-	-	49
-	-	-	-	(99)
-	-	(72)	(72)	(26)
-	(245,340)	(3,017)	(269,808)	(42,382)
-	-	(10)	(10)	-
-	21,962	12,260	34,334	996
-	(113,064)	4,201	(130,202)	3,865
(54,405)	(2,043)	(7,736)	(1,624,416)	(30,912)
54,438	-	9,544	1,632,079	26,394
62,986	14,655	4,892	123,126	5,469
751	1,551	491	7,086	269
(693)	(1,527)	(469)	(6,867)	(269)
63,077	12,636	6,722	131,008	951
278,499	1,744	(58,193)	230,179	36,140
1,007,547	549,761	324,297	2,652,601	185,640
-	-	250	250	-
\$ 1,286,046	\$ 551,505	\$ 266,354	\$ 2,883,030	\$ 221,780

(continued on next page)

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005
(In Thousands)

(continued from previous page)

Business-type Activities — Enterprise Funds

	Housing and Community Services	Veterans' Loan	Lottery Operations
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income (Loss)	\$ 7,986	\$ (6,714)	\$ 435,111
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	87	359	6,918
Amortization of Bond/COP Issuance Costs	1,354	-	-
Amortization of Bond/COP Premium and Discount	(339)	(69)	-
Amortization of Deferred Charges	1,924	247	-
Bad Debt Expense	(98)	(1,104)	-
Interest Income Reported as Operating Revenue	(28,621)	(18,014)	-
Investment Expense Reported as Operating Expense	454	2,199	-
Interest Payments Reported as Operating Expense	71,815	37,173	-
Bond/COP Issuance Costs Reported as Operating Expense	101	1,077	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	(8)	342	3,855
Due from Other Funds	-	-	-
Due from Other Governments	-	-	-
Inventories	-	-	(60)
Prepaid Items	8	11	301
Foreclosed and Deeded Property	736	-	-
Deferred Charges	-	-	-
Advances to Other Funds	-	-	-
Loans Receivable	(64,068)	56,277	-
Net Contracts, Notes and Other Receivables	-	-	-
Accounts and Interest Payable	(776)	(778)	(336)
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Trust Funds Payable	-	178	(1,377)
Deferred Revenue	(7)	-	-
Claims and Judgments Payable	-	-	-
Contracts, Mortgages and Notes Payable	-	-	-
Compensated Absences Payable	(16)	(57)	55
Lottery Prize Awards Payable	-	-	440
Total Adjustments	(17,454)	77,841	9,796
Net Cash Provided (Used) by Operating Activities	\$ (9,468)	\$ 71,127	\$ 444,907
Noncash Investing and Capital and Related Financing Activities:			
Net Change in Fair Value of Investments	\$ 11,492	\$ (1,473)	\$ 10,903
Capital Assets Transferred from Governmental Funds	-	-	-
Capital Leases Entered into During the Year	-	-	-
Capital Assets Transferred to Governmental Funds	-	-	-
Capital Assets Contributed	-	-	-
Loan Modification - Interest Capitalized	2	-	-
Foreclosed Property	3,941	564	-
Total Noncash Investing and Capital and Related Financing Activities	\$ 15,435	\$ (909)	\$ 10,903

The notes to the financial statements are an integral part of this statement.

State of Oregon

Business-type Activities — Enterprise Funds					Governmental Activities Internal Service Funds
Unemployment Compensation	University System	Other	Total		
\$ 296,671	\$ (426,036)	\$ (41,852)	\$ 265,166	\$	825
-	75,950	4,092	87,406		17,939
-	-	255	1,609		-
-	-	(27)	(435)		192
-	-	332	2,503		21
2,487	-	249	1,534		3
(64,445)	-	(4,367)	(115,447)		5,947
693	-	469	3,815		-
-	38,335	17,002	164,325		-
-	-	-	1,178		696
2,253	(18,365)	(3,525)	(15,448)		13,236
-	-	(11)	(11)		(867)
1,633	-	-	1,633		-
-	3	(2,650)	(2,707)		604
-	(2,058)	(44)	(1,782)		280
-	-	-	736		-
-	-	20	20		(654)
-	-	2,804	2,804		-
-	-	(47,228)	(55,019)		-
(4,788)	(394)	(10)	(5,192)		28
(1,553)	9,507	(7,114)	(1,050)		7,177
-	-	4,744	4,744		(103)
(2,252)	-	(160)	(2,412)		-
(555)	492	(209)	(1,471)		9,218
-	6,529	583	7,105		(16,566)
-	-	-	-		9,955
-	496	-	496		(729)
-	-	308	290		192
-	-	-	440		-
(66,527)	110,495	(34,487)	79,664		46,569
\$ 230,144	\$ (315,541)	\$ (76,339)	\$ 344,830	\$	47,394
\$ (2,417)	\$ 3,671	\$ 29	\$ 22,205	\$	(806)
-	-	623	623		7,181
-	898	-	898		-
-	-	-	-		(59)
-	-	298	298		-
-	-	-	2		-
-	-	23	4,528		-
\$ (2,417)	\$ 4,569	\$ 973	\$ 28,554	\$	6,316

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005
(In Thousands)

	Pension Trust	Private Purpose Trust	Investment Trust	Agency
ASSETS				
Cash and Cash Equivalents	\$ 2,932,818	\$ 28,399	\$ 3,341,152	\$ 114,951
Receivables:				
Employer Contributions	17,784	-	-	-
Employee Contributions	14,221	-	-	-
Interest and Dividends	151,678	-	8,917	1
Investment Sales	1,070,790	-	-	-
Accounts	-	143	736	8,154
From Other Funds	1,960	-	-	-
Total Receivables	<u>1,256,433</u>	<u>143</u>	<u>9,653</u>	<u>8,155</u>
Investments:				
Fixed Income	14,325,485	731	-	6,875
Equity	27,720,557	1,224	-	-
Real Estate	2,907,267	-	-	-
Alternative Equity	4,306,859	-	-	-
Restricted Investment Contracts	4,491	-	-	-
Total Investments	<u>49,264,659</u>	<u>1,955</u>	<u>-</u>	<u>6,875</u>
Cash and Securities Held in Trust	-	97	-	1,454,380
Securities Lending Cash Collateral	5,598,887	4,094	604,425	-
Inventories	5	-	-	-
Prepaid Items	1,703	-	-	-
Net Contracts, Notes and Other Receivables	-	-	-	50,384
Conservatorship and Custodial Assets	-	3,789	-	39
Receivership Assets	-	-	-	91,097
Loans Receivable	-	136	82,300	-
Capital Assets (net of accumulated depreciation):				
Land	944	14	-	-
Buildings, Property and Equipment	14,238	-	-	-
Total Assets	<u>59,069,687</u>	<u>38,627</u>	<u>4,037,530</u>	<u>1,725,881</u>
LIABILITIES				
Accounts and Interest Payable	2,676,331	7	-	341
Obligations Under Securities Lending	5,598,887	4,094	604,425	-
Due to Other Funds	1,960	3	-	-
Due to Other Governments	-	-	-	2,802
Trust Funds Payable	121,336	1,417	-	1,722,738
Bonds/COPS Payable	57,549	-	-	-
Contracts, Mortgages and Notes Payable	-	1,582	-	-
Total Liabilities	<u>8,456,063</u>	<u>7,103</u>	<u>604,425</u>	<u>1,725,881</u>
NET ASSETS				
Held in Trust for:				
Employees' Pension Benefits	49,698,210	-	-	-
Employees' Postemployment Healthcare Benefits	172,204	-	-	-
External Investment Pool Participants	-	-	3,433,105	-
Individuals, Organizations and Other Governments	743,210	31,524	-	-
Total Net Assets	<u>\$ 50,613,624</u>	<u>\$ 31,524</u>	<u>\$ 3,433,105</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2005
(In Thousands)

	Pension Trust	Private Purpose Trust	Investment Trust
ADDITIONS			
Contributions:			
Employer	\$ 855,461	\$ -	\$ -
Employee	514,817	-	-
Other Sources	23,587	-	-
Total Contributions	<u>1,393,865</u>	-	-
Investment Income:			
Net Appreciation in Fair Value of Investments	4,558,639	-	-
Interest, Dividends and Other Investment Income	1,560,847	363	102,096
Total Investment Income	<u>6,119,486</u>	<u>363</u>	<u>102,096</u>
Less Investment Expense	315,899	115	16,375
Net Investment Income	<u>5,803,587</u>	<u>248</u>	<u>85,721</u>
Gifts, Grants and Contracts	-	420	-
Other Income	6,589	12,470	-
Share Transactions:			
Participant Contributions	-	-	12,174,761
Participant Withdrawals	-	-	12,071,140
Net Share Transactions	<u>-</u>	<u>-</u>	<u>103,621</u>
Transfers from Other Funds	-	523	-
Total Additions	<u>7,204,041</u>	<u>13,661</u>	<u>189,342</u>
DEDUCTIONS			
Pension Benefits	2,394,470	-	-
Death Benefits	10,572	-	-
Contributions Refunded	60,242	-	-
Healthcare Premium Subsidies	27,205	-	-
Distributions to Participants	-	-	89,241
Retiree Health Care Expense	86,457	-	-
Administrative Expenses	43,238	9,715	-
Payments in Accordance with Trust Agreements	-	6,398	-
Total Deductions	<u>2,622,184</u>	<u>16,113</u>	<u>89,241</u>
Change in Net Assets Held in Trust For:			
Employees' Pension Benefits	4,484,804	-	-
Employees' Postemployment Healthcare Benefits	27,115	-	-
External Investment Pool Participants	-	-	100,101
Individuals, Organizations and Other Governments	69,938	(2,452)	-
Net Assets - Beginning	46,031,767	702,743	3,333,004
Prior Period Adjustments	-	(668,767)	-
Net Assets - Beginning - As Restated	<u>46,031,767</u>	<u>33,976</u>	<u>3,333,004</u>
Net Assets - Ending	<u>\$ 50,613,624</u>	<u>\$ 31,524</u>	<u>\$ 3,433,105</u>

The notes to the financial statements are an integral part of this statement.

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State of Oregon

**Combining Balance Sheet
Discretely Presented Component Units
June 30, 2005
(In Thousands)**

	SAIF Corporation	Oregon Health and Science University	Oregon University System Foundations	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 243,988	\$ 75,871	\$ 19,527	\$ 339,386
Cash and Cash Equivalents - Restricted	-	-	37,153	37,153
Investments	2,790,555	33,283	140,581	2,964,419
Securities Lending Cash Collateral	800,101	-	-	800,101
Accounts and Interest Receivable (net)	191,489	134,768	14,443	340,700
Due from Primary Government	-	5,301	-	5,301
Pledges Receivable	-	6,786	45,665	52,451
Inventories	83	7,777	4,217	12,077
Prepaid Items	1,298	8,034	2,367	11,699
Total Current Assets	4,027,514	271,820	263,953	4,563,287
Noncurrent Assets:				
Investments	-	363,665	12,831	376,496
Investments - Restricted	-	480,395	706,819	1,187,214
Deferred Charges	-	8,942	-	8,942
Net Contracts, Notes and Other Receivables	-	-	552	552
Pledges Receivable	-	11,424	56,870	68,294
Capital Assets:				
Land	2,922	49,046	6,174	58,142
Buildings, Property and Equipment	46,422	1,175,765	49,410	1,271,597
Construction in Progress	-	230,034	-	230,034
Works of Art and Historical Treasures	-	-	384	384
Less Accumulated Depreciation and Amortization	(26,859)	(562,551)	(4,900)	(594,310)
Total Noncurrent Assets	22,485	1,756,720	828,140	2,607,345
Total Assets	\$ 4,049,999	\$ 2,028,540	\$ 1,092,093	\$ 7,170,632
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts and Interest Payable	\$ 34,713	\$ 127,772	\$ 2,422	\$ 164,907
Reserve for Loss and Loss Adjustment Expense	202,011	-	-	202,011
Obligations Under Securities Lending	800,101	-	-	800,101
Due to Primary Government	5,326	-	-	5,326
Due to Other Governments	-	12,409	-	12,409
Obligations Under Capital Lease	-	602	-	602
Obligations Under Life Income Agreements	-	19,706	61,881	81,587
Bonds/COPS Payable	-	5,395	-	5,395
Trust Funds Payable	-	-	10,058	10,058
Deferred Revenue	99,426	69,797	252	169,475
Compensated Absences Payable	2,686	35,103	-	37,789
Total Current Liabilities	1,144,263	270,784	74,613	1,489,660
Noncurrent Liabilities:				
Bonds/COPS Payable	-	538,258	47,425	585,683
Obligations Under Capital Lease	-	3,548	-	3,548
Claims and Judgments Payable	2,344,082	29,608	-	2,373,690
Contracts, Mortgages and Notes Payable	-	716	9,445	10,161
Advances from Primary Government	-	41,935	-	41,935
Total Noncurrent Liabilities	2,344,082	614,065	56,870	3,015,017
Total Liabilities	3,488,345	884,849	131,483	4,504,677
Net Assets:				
Invested in Capital Assets, Net of Related Debt	22,485	444,459	7,444	474,388
Expendable Restricted Net Assets:				
Restricted for Workers' Compensation	539,169	-	-	539,169
Restricted for Education	-	190,797	446,277	637,074
Nonexpendable Restricted Net Assets:				
Restricted for Donor Purposes	-	-	456,712	456,712
Restricted for Education	-	112,053	-	112,053
Unrestricted	-	396,382	50,177	446,559
Total Net Assets	561,654	1,143,691	960,610	2,665,955
Total Liabilities and Net Assets	\$ 4,049,999	\$ 2,028,540	\$ 1,092,093	\$ 7,170,632

The notes to the financial statements are an integral part of this statement.

**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Discretely Presented Component Units
For the Year Ended June 30, 2005
(In Thousands)**

	SAIF Corporation	Oregon Health and Science University	Oregon University System Foundations
Operating Revenues:			
Charges for Services	\$ -	\$ 701,271	\$ 3,136
Rents and Royalties	-	-	2,549
Sales	-	20,652	-
Premiums Earned (net)	373,520	-	-
Investment Income (net)	173,280	-	59,489
Gifts, Grants and Contracts	-	467,865	154,124
Auxiliary Enterprises (net)	-	11,346	-
Other	27,996	38,990	6,076
Total Operating Revenues	574,796	1,240,124	225,374
Operating Expenses:			
Salaries and Wages	-	664,966	220
Services and Supplies	-	402,500	119,034
Loss and Loss Adjustment Expense	477,133	-	-
Policyholders' Dividends	5	-	-
Underwriting Expenses	90,699	-	-
Bond and COP Interest	-	16,294	-
Depreciation and Amortization	-	65,287	1,660
Bad Debt Expense	-	47,732	-
Other Expenses	3,020	-	-
Total Operating Expenses	570,857	1,196,779	120,914
Operating Income (Loss)	3,939	43,345	104,460
Nonoperating Revenues (Expenses):			
Investment Income	-	50,816	-
Gain (Loss) on Disposition of Assets	-	(1,322)	-
State Appropriations	-	42,830	-
Total Nonoperating Revenues (Expenses)	-	92,324	-
Income (Loss) Before Capital Contributions	3,939	135,669	104,460
Capital Contributions	-	638	-
Change in Net Assets	3,939	136,307	104,460
Net Assets - Beginning	557,715	1,007,384	856,150
Net Assets - Ending	\$ 561,654	\$ 1,143,691	\$ 960,610

The notes to the financial statements are an integral part of this statement.

Total	Adjustments to Recast	Statement of Activities
\$ 704,407	\$ 481,129	\$ 1,185,536
2,549	(2,549)	-
20,652	(20,652)	-
373,520	(373,520)	-
232,769	(232,769)	-
621,989	326,415	948,404
11,346	(11,346)	-
73,062	(73,062)	-
<u>2,040,294</u>	<u>93,646</u>	<u>2,133,940</u>
665,186	-	665,186
521,534	-	521,534
477,133	-	477,133
5	-	5
90,699	-	90,699
16,294	-	16,294
66,947	-	66,947
47,732	-	47,732
3,020	1,322	4,342
<u>1,888,550</u>	<u>1,322</u>	<u>1,889,872</u>
<u>151,744</u>	<u>92,324</u>	<u>244,068</u>
50,816	(50,816)	-
(1,322)	1,322	-
42,830	(42,830)	-
<u>92,324</u>	<u>(92,324)</u>	<u>-</u>
244,068	-	244,068
638	-	638
244,706	-	244,706
2,421,249	-	2,421,249
<u>\$ 2,665,955</u>	<u>\$ -</u>	<u>\$ 2,665,955</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity. The State of Oregon (State) was admitted to the Union in 1859 and is governed by an elected governor and a ninety-member elected legislative body. The accompanying financial statements present the State, which includes all agencies, boards, commissions, courts, and colleges and universities that are legally part of the State (primary government) and its component units. Component units are legally separate entities for which a primary government is financially accountable or entities that warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government. The State's discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the State.

Discretely Presented Component Units

The component unit column in the government-wide financial statements includes the data of the State's three discretely presented component units.

SAIF Corporation (SAIF) is a public corporation, created by an act of the Legislature, which is authorized to write workers' compensation insurance coverage in Oregon and certain other jurisdictions as required by the Department of Consumer and Business Services and to service accounts in the assigned risk pool. SAIF is governed by a board of directors appointed by the Governor, and is financed solely through policyholder premiums and investment income. SAIF reports on a fiscal year ended December 31, and uses proprietary fund accounting principles. The December 31, 2004, financial information of SAIF is included in this report.

The Oregon Health and Science University (OHSU) is a governmental entity performing governmental functions and exercising governmental powers. OHSU is an independent public corporation governed by a board of directors appointed by the Governor and confirmed by the Senate. It is an academic health center that provides education and training to health care professionals, conducts biomedical research, and provides patient care and public service. It is financed primarily through patient service fees, government grants and contracts, tuition charges, and other incidental fees. OHSU also receives general fund monies from the State. The State legislature has acknowledged its intent to make funds available to pay any shortfall in general obligation bonds issued for OHSU purposes prior to July 1, 1995, when OHSU became an independent public corporation. OHSU uses proprietary fund accounting principles.

The Oregon University System (OUS) Foundations are not-for-profit corporations that provide assistance in fundraising, public outreach and other support for the missions of Oregon's seven public universities. The OUS foundations report under Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. The OUS foundations are component units of the Oregon University System, a proprietary fund of the State, because the majority of resources that each foundation holds and invests can only be used by, or for the benefit of, the OUS universities. Combined, the foundations are discretely presented as a component unit of the State.

Complete financial statements for SAIF, OHSU and OUS Foundations may be obtained from their respective administrative offices or from the State Controller's Division, 155 Cottage Street NE U50, Salem, Oregon 97301-3969.

Related Organizations

The following professional and occupational licensing boards are semi-independent: the Board of Architect Examiners, the Board of Examiners for Engineering and Land Surveying, the Landscape Architect Board, the Board of Geologist Examiners, the Board of Optometry, the Board of Massage Therapists, the Physical Therapists Licensing Board, the Appraiser Certification and Licensure Board, the Landscape Contractors Board, the Wine Board and the Patient Safety Commission. Although the Governor appoints the administrators of these boards, the boards are all self-supporting. The State has no financial accountability for these related organizations.

The Oregon Utility Notification Center (OUNC) is an independent nonprofit public corporation. Although the Governor appoints members to OUNC's board of directors, OUNC is funded through fees paid by operators of underground utilities who subscribe to OUNC. The OUNC receives no general fund monies, and the State has no financial accountability for OUNC.

State of Oregon
Notes to the Financial Statements

B. Government-wide and Fund Financial Statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The effect of interfund activity has been eliminated from these statements through consolidation, except for interfund activity that represents a true exchange of goods and services between funds. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Interfund activity within governmental and within business-type activities has been eliminated through consolidation; however, balances due and resource flows between governmental and business-type activities have not been eliminated. The *primary government* is reported separately from its *component units*.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Included in direct expenses are administrative overhead charges for centralized services charged to functions through internal service funds. *Program revenues* include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, 2) operating grants and contributions that are restricted to meeting the operational requirements of a particular function, and 3) capital grants and contributions that are restricted to meeting the capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation. The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities existing at the end of the year. For this purpose, the State considers revenues to be available if they are collected within 90 days of the end of the current fiscal year. Primary revenue sources susceptible to accrual are income taxes, excise taxes, fines, forfeitures, and federal revenues. Derived tax revenue, net of estimated refunds, is recognized in the fiscal year in which it becomes measurable and available. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Revenue items not susceptible to accrual are considered to be measurable and available only when cash is received; for example, license and fee revenue, the principal portion of loan repayments, and cash sales of goods and services.

Expenditures generally are recognized when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund and accounts for all financial resources of the general government, except those accounted for in another fund.

The *Health and Social Services Fund* accounts for programs that provide assistance, services, training, and health care to individuals and families who do not have sufficient resources to meet their basic needs. The primary sources of funding for these programs come from federal grants, cigarette taxes, insurance premiums, and non-federal grants and donations.

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The *Public Transportation Fund* accounts for the planning, design, construction, and maintenance of highways, roads, bridges, and public systems relating to air, water, rail, and highway transportation. Funding is provided from dedicated highway user taxes and vehicle registration taxes in addition to various federal highway administration funds.

The *Environmental Management Fund* accounts for programs that promote, protect, and preserve the State's forests, parks, wildlife, fish, and waterways. The main funding sources for these programs are usage fees, federal grants, and sales revenue.

The *Common School Fund* accounts for programs to manage state-owned land, including a leasing program that generates annual revenues, for the benefit of the public school system. Estate funds that become the property of the State, unclaimed property, and income derived from unclaimed property are also accounted for in this fund. Assets of the fund, including investment income, are dedicated through statutory as well as constitutional provisions to be used for common school purposes. Constitutionally dedicated assets of the Common School Fund represent a trust created to support the State's public school system. The primary funding sources for these programs come from investment income, leasing revenues, forest management, unclaimed property receipts, and transfers from other funds.

The State reports the following major proprietary (enterprise) funds:

The *Housing and Community Services Fund* accounts for activities to finance multi-family housing construction and home mortgages for low-income families and other programs such as the moderate-income elderly and disabled housing finance program, the single-family loan program, and the community development corporation program. Funding is from the issuance of bonds that are repaid from the interest and principal payments made on mortgages.

The *Veterans' Loan Fund* accounts for activities to finance owner-occupied, single-family residential housing for qualified eligible Oregon veterans. Funds for lending are provided through the issuance of general obligation bonds that are repaid from the interest and principal payments made on mortgages.

The *Lottery Operations Fund* accounts for the operation of the Oregon State Lottery. The primary objective of the State Lottery is to produce the maximum amount of net revenues to be used for K-12 education programs, furthering economic development, as well as restoring and protecting certain parks and natural resources.

The *Unemployment Compensation Fund* accounts for federal monies and unemployment taxes collected from employers to provide payment of benefits to the unemployed.

The *University System Fund* accounts for the operations of Oregon's seven public universities, including the Chancellor's Office. Funding is from General Fund appropriations, tuition and fees, and auxiliary enterprise revenues, in addition to funds from external donors and federal agencies.

Additionally, the State reports the following fund types:

The *Internal Service Funds* account for goods and services provided by state agencies or departments to other state agencies or departments and to other governmental units on a cost-reimbursement basis. These include central services such as accounting, budgeting, personnel, mail, printing, copy center, data center, property development, telecommunications, motor pool, and an insurance fund. Legal, banking, and audit services are also accounted for in internal service funds.

The *Pension Trust Funds* account for activities of the Public Employees Retirement System, which administers resources for the payment of retirement, disability, postemployment healthcare, and death benefits to members of the retirement system.

The *Private Purpose Trust Funds* account for all trust arrangements, other than those properly reported in pension trust funds, investment trust funds or special revenue funds, under which principal and income benefit individuals, private organizations, or other governments.

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The *Investment Trust Fund* accounts for the portion of the Oregon Short-term Fund (OSTF) belonging to local governments. The OSTF is a cash and investment pool, managed by the State Treasurer, which is available for use by all funds and local governments. Oregon reports the State's portion of the pool within the funds of the State.

The *Agency Fund* accounts for assets held by the State as an agent for other governmental units, organizations, or individuals. For example, the Department of Consumer and Business Services holds deposits and investments to secure the faithful performance by insurers of insurance company obligations, including claims due to policyholders. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not measure the results of operations.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. Only the Oregon Health and Science University, a discretely presented component unit of the State, applies private sector guidance issued after November 30, 1989.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The primary operating revenues for the State's enterprise funds and internal service funds include assessments, charges for services, sales revenue, and grants. The principal operating expenses for enterprise funds and internal service funds include salaries and wages, services and supplies, and special payments. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

D. Deposits and Investments

Deposits

Cash deposits not held in a cash management or investment pool are classified as cash and cash equivalents. Cash deposits that are held in a cash management or investment pool are classified as cash and cash equivalents when the pool has the general characteristics of a demand deposit account. Cash and cash equivalents include: cash on hand, cash and investments held by the State Treasury in the Oregon Short-term Fund, and cash deposits of debt proceeds in investment funds held by a trustee.

Investments

Investments are reported at fair value with the following exceptions, which are reported using cost-based measures:

- Nonparticipating interest-earning investment contracts and certain investments not held for investment purposes.
- Investments in the Oregon Short-term Fund with remaining maturities of up to ninety days are carried at amortized cost, which approximates fair value. The State reports these investments as cash and cash equivalents on the balance sheet or statement of net assets but as investments in Note 2.

Changes in the fair value of investments are recognized as investment income (loss) in the current year.

The fair value of debt and equity securities is determined by the custodial agent, using recognized pricing services. Equity securities traded on a national or international exchange are valued at the last reported sales price. Debt securities are generally valued at the midpoint between the bid and ask prices. A small percentage of debt securities cannot be priced in this manner, and for these, a similar "benchmark" security is used. The benchmark has a coupon rate and maturity date comparable to the debt security being valued, and its market risk is similar considering current market conditions. Investments in alternative equities representing publicly traded securities are stated at the quoted market price. Investments in alternative equities representing private securities are generally reported at cost unless a significant market event warrants an adjustment to cost. Mortgage loans on real estate and State agency loans are stated at the

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amortized unpaid principal balance. Fair values of investments in real estate are based upon valuations provided by investment managers and advisors retained by the Oregon State Treasury.

Derivatives

In accordance with State investment policies, the Oregon State Treasury invests either directly or through its outside investment managers on behalf of the State in contracts that have derivative characteristics. Derivatives are used to manage the overall risk of investment portfolios. The State does not hold or issue derivative financial instruments for trading purposes. All derivatives held by the State are reported at fair value.

E. Receivables and Payables. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” or “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Trade and income tax receivables consist of revenues earned or accrued in the current period and are shown net of uncollectible amounts.

F. Intrafund Transactions. Intrafund balances (due to/from other funds and advances to/from other funds) and intrafund activity (transfers to/from other funds) within a major fund column in the fund financial statements have been eliminated.

G. Inventories. Inventories, which consist primarily of operating supplies, are stated at cost utilizing the first-in, first-out cost valuation method. In governmental funds, inventories are recorded as expenditures when purchased. Reported inventories in governmental funds are equally offset by a reservation of fund balance since they are not available for appropriation. In proprietary funds, inventories are expended when consumed rather than when purchased. OHSU records inventories at the lower of cost or market, with the majority accounted for under the first-in, first-out method.

H. Prepaid Items. Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items in both government-wide and fund financial statements. In governmental funds, prepaid items are accounted for using the consumption method and a portion of fund balance equal to the prepaid items has been reserved to indicate that it is not available for appropriation.

I. Restricted Assets. Certain proceeds of the State’s bond and certificate of participation (COP) issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet or statement of net assets because these resources are segregated and their use is limited by applicable bond covenants or COP financing agreements. Generally, this includes cash and investments set aside for current and future debt service payments.

J. Foreclosed and Deeded Properties. Properties acquired through foreclosure proceedings or by acceptance of deeds in lieu of foreclosure are recorded at the lower of cost or fair market value.

K. Receivership Assets. Net assets of insurance companies that have been placed into receivership under the control of the Department of Consumer and Business Services in accordance with Oregon Revised Statutes are recorded as receivership assets.

L. Capital Assets. Capital assets, which include property, equipment, and infrastructure assets (i.e., highways, tunnels, bridges, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the State as assets with an initial cost of \$5,000 or more and an estimated useful life of at least one year. Such assets, when purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance

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and repairs that do not add to the value of assets or significantly extend assets lives are expensed rather than capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Significant interest expense incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as its component units, are depreciated over their estimated useful lives using the straight-line method, unless they are considered inexhaustible. Useful lives for buildings and related assets range from 5 to 100 years while useful lives of equipment and machinery range from 2 to 99 years. For infrastructure assets, useful lives range from 5 to 99 years. Useful lives for works of art and historical treasures range from 1 to 99 years.

M. Compensated Absences. Employees accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the State does not pay any amounts when employees separate from State service. A liability for vacation leave (compensated absences) is accrued when incurred in the government-wide, proprietary fund, and fiduciary fund financial statements. A liability for compensated absences is reported in governmental funds only if the liabilities have matured, for example, as a result of employee resignations and retirements.

N. Long-term Obligations. In the government-wide statement of net assets, long-term debt and other long-term obligations are reported as liabilities for governmental activities or business-type activities, as applicable. In proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the balance sheet. Bond or certificate of participation (COP) premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the debt using the effective interest method or the bonds outstanding method. Bonds/COP payable is reported net of the applicable bond/COP premium or discount. Bond/COP issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond/COP premiums and discounts, as well as bond/COP issuance costs, in the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issues are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Fund Equity. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. No portion of the unreserved fund balance in the accompanying financial statements has been designated.

In the government-wide statement of net assets and the proprietary fund balance sheet, fund equity (referred to as *net assets*) is reported in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Restricted net assets result from restrictions imposed on a portion of net assets by law through constitutional provisions or enabling legislation or by parties outside the State, such as creditors, grantors, contributors, or laws or regulations of other governments.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available for use, it is the discretion of the individual state agencies whether to use restricted resources first, then unrestricted resources as they are needed, or to use unrestricted resources first, then restricted resources.

2. DEPOSITS AND INVESTMENTS

The State's investment policies are governed by statute and the Oregon Investment Council (Council). The State Treasurer (Treasurer) is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. In accordance with Oregon statutes, the investment funds are invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill and caution. While the Treasurer is authorized to use demand deposit accounts and fixed-income investments, equity investment transactions must be directed by external investment managers that are under contract with the Council. Furthermore, equity investments are limited to not more than 50 percent of the monies contributed to the Oregon Public Employees Retirement Fund (OPERF or PERS), the Industrial Accident Fund (SAIF Corporation), and not more than 65 percent of the Common School Fund (Division of State Lands). The Deferred Compensation Fund, the Education Stability Fund, and the State Board of Higher Education may also invest in equities.

The Treasurer maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. Oregon reports the State's portion of the pool within the funds of the State. The portion of the pool belonging to local governments is reported in the investment trust fund. Because the pool operates as a demand deposit account, each fund's portion of this pool is classified on the financial statements as cash and cash equivalents. A separate financial report for the OSTF is prepared by the Treasurer. Copies of the report can be obtained from the Oregon State Treasury, Finance Division, 350 Winter Street NE, Suite 100, Salem, Oregon 97301-3896 or from their website at <http://www.ost.state.or.us/divisions/investment/index.htm#fund>.

The Treasurer also makes short-term and long-term investments, which are held separately by several of the State's funds. Other investments are made directly by state agencies rather than by the Treasurer, although only a few agencies are authorized to make such investments and then only for specific programs. The State Treasury's direct investments in short-term securities are limited by portfolio rules established by the Oregon Short-Term Fund Board and the Council.

A. Custodial Credit Risk

Custodial Credit Risk for Deposits. The custodial credit risk for deposits is the risk that, in the event of a bank failure the State's deposits may not be recovered, or the State will not be able to recover collateral securities that are in the possession of an outside party.

The insurance and collateral requirements for deposits in the OSTF are established by banking regulations and Oregon law. Monies in the OSTF are held in demand deposit accounts and time certificates of deposits. Where balances continually exceed \$100,000, Oregon Revised Statute (ORS) 295.025 requires the depositor to obtain certificates of participation in the amount of the excess deposits from its pool manager. ORS 295.005 provides that the pool manager can be the State Treasury, an insured bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank. Depository banks must pledge securities with a value of at least 25 percent of the certificates of participation, and the securities are held by a custodian for the benefit of the State. Deposits in the OSTF in excess of FDIC coverage and the State's statutory collateralization requirement are not collateralized and are uninsured; thus, the deposits are considered exposed to custodial credit risk.

As of June 30, 2005, \$2.7 billion of the primary government and its discretely presented component units deposits were exposed to custodial credit risk as follows (in thousands):

	Primary Government	Discretely Presented Component Units	Total
Uninsured and uncollateralized	\$ 2,460,357	\$ 209,105	\$ 2,669,462
Uninsured and collateralized by the pledging bank's trust department but not in the State's name	17,332	-	17,332
Total	<u>\$ 2,477,689</u>	<u>\$ 209,105</u>	<u>\$ 2,686,794</u>

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Included in these deposits are the following amounts held in institutions other than State Treasury qualified depositories that are exposed to custodial credit risk:

- Pension plan investment managers held \$2.3 billion of the State's uncollateralized and uninsured deposits in custodian banks. These monies are backed by the full faith and credit of the custodian bank.
- Bond trustees held \$18.1 million of uncollateralized and uninsured monies. Bond trustees assume responsibility for those funds.
- Fiscal Agents held \$8.0 million of deposits for redemption of the State's bonds and coupons that have matured, but have not yet been redeemed. These monies are uninsured and uncollateralized.

Custodial Credit Risk for Investments. Custodial credit risk for investments of the primary government is the risk that, in the event of the failure of the counterparty to a transaction, the State will not be able to recover the value of an investment or collateral securities in the possession of an outside party. For the primary government and its discretely presented component units, \$799.8 million in domestic equity securities were held by a custodial agent and were not registered in the State's name nor insured. This amount represents 1.1 percent of the fair value of investments at June 30, 2005.

B. Investments – Primary Government Excluding the Pension Trust Fund

Investments of the primary government (excluding the Pension Trust Fund) held by the Treasurer require the exercise of prudent and reasonable care in the context of the fund's investment portfolio and as part of an overall investment strategy. The Treasurer is required to diversify investments unless it is not prudent to do so. In addition, the Treasurer must exercise reasonable care to incorporate risk and return objectives reasonably suitable to the particular investment fund. Each Treasury fund has a policy and procedure that addresses objectives and strategies. For investments held outside of the State Treasury, statutes govern the placement of funds with outside parties as part of trust agreements or mandatory asset holdings by regulatory agencies.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investment policy for fixed income investments under the management of the Treasurer generally limits the time horizon of the portfolio to an average maturity to 1 to 5 years. In addition, one investment fund is required by policy to maintain an average bond duration level within 20 percent of the Lehman Brothers aggregate bond index. For investments not under the management of the Treasurer, there are no formal policies on interest rate risk. Investment objectives and strategies of the primary government (excluding the Pension Trust Fund) are based on credit quality, asset diversification, and staggered maturities. For variable rate securities, the next interest rate reset date is used instead of the maturity date.

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The following table presents the interest rate risk information for investments of the primary government (excluding the Pension Trust Fund) using the segmented time distribution method as of June 30, 2005 (in thousands):

Investment Type	Schedule of Interest Rate Risk				Fair Value
	Investment Maturities (in years)				
	Less than 1	1 to 5	6 to 10	More than 10	
U.S. Treasury Securities	\$ 80,899	\$ 287,469	\$ 149,248	\$ 259,298	\$ 776,914
U.S. Treasury Strips	13,232	46,408	36,003	28,272	123,915
U.S. Agency Securities	4,331,470	666,172	87,766	86,948	5,172,356
International Debt Securities	-	307	740	1,682	2,729
Commercial Paper	2,560,314	-	-	-	2,560,314
Corporate Bonds	109,327	186,439	101,153	24,477	421,396
Municipal Bonds	6,423	72,397	235,088	302,722	616,630
Collateralized Mortgage Obligations	-	-	160	18,187	18,347
Repurchase Agreements	14,500	-	-	-	14,500
Asset-Backed Securities	-	5,227	-	3,941	9,168
Time Certificates of Deposit	92,438	817	-	-	93,255
Guaranteed Investment Contracts	43,998	138,240	39,432	46,934	268,604
Annuity Contracts	-	-	-	909	909
Mutual Funds – Domestic Fixed Income	n/a	n/a	n/a	n/a	140,178
Mutual Funds – International Fixed Income	n/a	n/a	n/a	n/a	7,253
Total Debt Investments	\$ 7,252,601	\$ 1,403,476	\$ 649,590	\$ 773,370	\$ 10,226,468

The schedule above includes \$1.6 billion in interest-rate sensitive securities. For these securities, the original maturity date was used in the schedule of interest rate risk. However, the terms and relevant indexes of these interest-rate sensitive securities include the following: 73.7 percent are indexed to the three-month or one-month London Interbank Offered Rate (LIBOR), a coupon multiplier feature. Another 17.2 percent include a stepped rate feature with a stated reset date which will occur in the next fiscal year. The remaining securities used different indexes as part of a coupon multiplier feature.

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk. Investment policy for fixed income investments under the management of the Treasurer require that the portfolio maintain an average credit quality of AA or A, as determined for each investment fund. For investments not under management of the Treasurer, there are no formal policies on credit risk.

The following table presents the credit quality ratings of investments in debt securities of the primary government (excluding the Pension Trust Fund) using Standard & Poors ratings as of June 30, 2005 (in thousands):

Credit Quality Ratings (Standard & Poors)	Fair Value
AAA	\$ 5,939,476
AA	1,378,090
A	1,259,553
BBB	132,830
BB	99,552
B	2,413
CCC	1,362
CC	780
C and below	115
Not rated	241,955
Total	\$ 9,056,126

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Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the primary government's (excluding the Pension Trust Fund) investment in a single issuer. Investment policy for fixed income investments under the management of the Treasurer generally limit investments in a single issuer to 5 percent of the portfolio, with the exception of securities of the U.S. government and U.S. agencies. For investments not under the management of the Treasurer, there are no formal policies on concentration of credit risk. At June 30, 2005, there were three issuers that exceeded 5 percent of the portfolio's investment holdings: \$2.1 billion of Federal Home Loan Mortgage Corporation (19.3 percent), \$1.7 billion of Federal National Mortgage Association (15.2 percent), and \$1.7 billion of Federal Home Loan Bank (15.1 percent).

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Oregon state agencies are required to deposit monies in state-qualified depositories under Oregon law. Exceptions due to foreign field offices and related circumstances are approved by the Treasurer. International debt securities denominated in U.S. dollars are not subject to currency risk if the investment's obligations will be paid in U.S. dollars. Investment policy for fixed income investments under the management of the Treasurer generally prohibits investments in non-U.S. dollar denominated international securities. In addition, one investment fund is allowed to invest in international equity securities within a target allocation range of 15 to 25 percent of its portfolio. For investments not under the management of the Treasurer, there are no formal policies on foreign currency risk.

The primary government (excluding the Pension Trust Fund) is invested in an international non-fixed income mutual fund with a fair value of \$6.5 million as of June 30, 2005. The following table presents deposits that are exposed to foreign currency risk as of June 30, 2005 (in thousands):

Foreign Currency Denomination	Deposits (U.S. Dollars)
Chilean peso	\$ 1
Chinese yuan	1
Eurodollar	138
Japanese yen	115
New Taiwan dollar	11
Total	\$ 266

Derivatives - Interest Rate Swap. Oregon Housing and Community Services Department (OHCS D) entered into an interest rate swap in conjunction with the issuance of Multi-family Housing Revenue Bonds Series 2004 B variable rate debt to lower borrowing costs compared to fixed-rate bonds. The bonds and the related swap agreement were effective on December 16, 2004 and mature on July 1, 2046. The notional amount of the swap is \$15.0 million. Under the swap, OHCS D pays the counterparty, Merrill Lynch Capital Services, a fixed payment of 3.9 percent and receives a variable payment computed as 64 percent of the LIBOR, plus 27 basis points. No cash was paid or received when the interest rate swap was initiated.

To provide flexibility to reduce the swap notional amount if the project were to come in under budget and a portion of the bonds were retired, the swap contains an embedded one-time call option in 2007 on up to 10 percent of the notional amount. To manage credit risk, the swap has a call option where the OHCS D has the right to call the swap, in whole or in part, semiannually beginning in 2015.

Because of interest rate declines after the swap was executed in December 2004, the fair value of the swap as of June 30, 2005 is negative \$517 thousand. This amount was not reported at fair value on the statement of net assets. The valuation provided is derived from proprietary models based upon well recognized financial principals and reasonable estimates about relevant future market conditions. This valuation methodology is believed to be consistent with accepted practice in the market for interest rate swaps.

The swap exposes OHCS D to basis risk should the relationship between LIBOR and Bond Market Association converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (3.9 percent) and the synthetic rate as of June 30, 2005 (2.4 percent). The swap may be terminated if the counterparty's credit rating falls below A3. The counterparty's credit rating as of June 30, 2005 is Aa3/AA3. As of June 30, 2005, OHCS D was not exposed to credit risk because the swap had a negative fair value. However, should the interest rates change and the fair value become positive, OHCS D would be exposed to interest rate risk and credit risk in the amount of the

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derivative's fair value. Termination payments are guaranteed by Merrill Lynch Derivative Products, presently rated Aaa/AAA (as rated by Moody's and Standard & Poors, respectively). With the counterparty guarantee, the maximum credit loss due to credit risk is mitigated.

As rates vary, variable-rate bond interest payments and net swap payments will differ between the fixed payments paid to the counterparty and the variable rate paid to OHCSO. Using rates as of June 30, 2005, debt service requirements of the variable-rate debt and net swap payments are as follows (in thousands):

Year Ending June 30,	Variable-Rate Bonds			Interest Rate Swap (Net)	Total
	Principal	Interest			
2006	\$ -	\$ 368	\$ 120	\$ 488	
2007	-	363	222	585	
2008	155	362	222	739	
2009	160	360	219	739	
2010	165	355	217	737	
2011-2015	950	1,709	1,044	3,703	
2016-2020	1,165	1,582	967	3,714	
2021-2025	1,435	1,427	872	3,734	
2026-2030	1,755	1,235	755	3,745	
2031-2035	2,160	1,001	612	3,773	
2036-2040	2,645	713	436	3,794	
2041-2045	3,245	359	220	3,824	
2046-2047	1,115	27	17	1,159	
Total	\$ 14,950	\$ 9,861	\$ 5,923	\$ 30,734	

C. Investments – Primary Government – Pension Trust Fund

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Policies state that the Pension Trust Fund debt investment portfolio will maintain an average bond duration level of plus or minus 20 percent of the benchmark duration. As of June 30, 2005, the average duration of the debt investment portfolio was 4.07 years, 4.5 percent lower than the benchmark duration of 4.26 years. Since the debt investment portfolio may contain holdings with prepayments and variable cash flows, an analysis of interest rate risk using the segmented time distribution method as of June 30, 2005, is presented in the schedule below (in thousands):

Investment Type	Schedule of Interest Rate Risk				
	Investment Maturities (in years)				
	Less Than 1	1 to 5	6 to 10	More Than 10	Fair Value
U.S. Treasury Securities	\$ 16,636	\$ 829,815	\$ 236,305	\$ 516,429	\$ 1,599,185
U.S. Federal Agency Mortgage Securities	68,726	117,240	18,329	1,971,349	2,175,644
U.S. Federal Agency Securities	159,061	111,908	158,146	5,794	434,909
U.S. Treasury Securities – Strips	-	-	-	53,167	53,167
U.S. Treasury Securities – TIPS	-	294,565	55,201	101,903	451,669
International Debt Securities	85,020	343,234	601,753	513,701	1,543,708
Corporate Bonds	205,615	795,221	1,126,246	746,389	2,873,471
Municipal Bonds	11,571	-	9,335	19,284	40,190
Collateralized Mortgage Obligations	280,203	138,373	121,352	828,100	1,368,028
Asset-Backed Securities	348,438	264,615	123,938	144,302	881,293
Futures and Options	(5,837)	250	(3,142)	(2,327)	(11,056)
Mutual Funds – Domestic Fixed Income	51,659	1,612,044	310,569	33,917	2,008,189
Mutual Funds – International Fixed Income	-	195,227	553,115	156,476	904,818
Annuity Contracts	2,269	-	-	-	2,269
Guaranteed Investment Contracts	4,492	-	-	-	4,492
Total Debt Investments	\$ 1,227,853	\$ 4,702,492	\$ 3,311,147	\$ 5,088,484	\$ 14,329,976

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Credit Risk. The Council establishes policies for the investment of moneys in the Pension Trust Fund. Investment policy states that no more than 30 percent of the debt securities portfolio will be below investment grade. Securities with a quality rating of below BBB- (using Standard & Poors credit ratings) are considered below investment grade. Policies also require that the minimum aggregate credit quality be A+ as measured by the weighted average of the portfolio. As of June 30, 2005, the fair value of below grade investments is \$2.5 billion or 17.7 percent of the debt investments portfolio, and the weighted average quality rating is AA.

The following table presents the credit quality ratings for debt securities within the Pension Trust Fund investment portfolio as of June 30, 2005 (in thousands):

Credit Quality Ratings (Standard & Poors)	Fair Value
AAA	\$ 3,520,077
AA	1,204,090
A	921,786
BBB	1,427,730
BB	1,260,812
B	930,606
CCC	108,211
CC	9,216
C	6,248
Not Rated	219,865
Total	<u>\$ 9,608,641</u>

Concentrations of Credit Risk. The Council's investment policy pertaining to Pension Trust Fund investments requires that investment managers maintain diversified portfolios by sector and by issuer using the following guidelines:

- There are no restrictions on obligations issued or guaranteed by the U.S. government, U.S. agencies, or government sponsored enterprises.
- No more than 10 percent of the debt investment portfolio per issuer may be invested in obligations of other national governments.
- No more than 10 percent of the debt investment portfolio per issuer or 25 percent in a single issuer after meeting additional collateral requirements can be invested in private mortgage-backed and asset-backed securities. The collateral is credit-independent of the issuer and the security's credit enhancement is generated internally.
- No more than 3 percent of the debt investment portfolio may be invested in other issuers, excluding investments in commingled investments.

At June 30, 2005, there were no single issuer debt investments for the Pension Trust Fund that exceeded the above guidelines, nor were there investments in any one issuer that represented 5 percent or more of total plan net assets.

There is no limit on single issuer investments for domestic equities, although the amount that may be invested in domestic equities is targeted at 28 to 38 percent of the Pension Trust Fund portfolio. Policy states that the asset class will be diversified across the U.S. stock market. Additionally, both passive and active investing strategies are employed, and several external managers engage in active management. The policy for international equity investing is the same as that of the domestic equity portfolio in that holdings are diversified across stock markets outside of the U.S. Passive and active investment strategies are employed, and several active managers invest in different market segments. The target allocation range for international equities is 15 to 25 percent of the Pension Trust Fund portfolio.

Foreign Currency Risk. Foreign currency risk arises from changes in currency exchange rates. Policy states that no more than 15 percent of the Pension Trust Fund debt investment portfolio may be invested in non-dollar denominated securities. As of June 30, 2005, approximately 4.7 percent of the debt investment portfolio was invested in non-dollar denominated securities. Policies for the equity portion of the Pension Trust

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Fund portfolio are silent regarding this risk, although investment manager contracts provide guidelines that vary from manager to manager. The Pension Trust Fund's exposure to foreign currency risk as of June 30, 2005 is as follows (in thousands):

Foreign Currency Denomination	Deposits and Investments (U.S. Dollars)					Total
	Deposits	International	International	Alternative	Other	
		Equity Securities	Debt Securities	Equities		
Argentine peso	\$ 32	\$ -	\$ 4,940	\$ -	\$ -	\$ 4,972
Australian dollar	3,040	238,833	-	-	-	241,873
Brazilian real	136	63,316	-	-	-	63,452
Canadian dollar	4,120	281,837	46,373	-	5,146	337,476
Chilean peso	4	-	-	-	-	4
Colombian peso	-	35	-	-	-	35
Czech koruna	4	5,813	-	-	-	5,817
Danish krone	120	41,714	-	-	-	41,834
Egyptian pound	649	23,585	-	-	-	24,234
Eurodollar	11,600	2,479,378	215,729	88,808	5,171	2,800,686
Hong Kong dollar	1,625	208,650	-	-	-	210,275
Hungarian forint	2	17,411	-	-	-	17,413
Indonesian rupiah	350	36,861	-	-	-	37,211
Israeli shekel	756	8,059	1,103	-	-	9,918
Japanese yen	10,761	1,387,279	180,775	-	29,258	1,608,073
Malaysian ringgit	503	11,066	6,485	-	-	18,054
Mexican peso	1,894	63,340	29,994	-	-	95,228
New Russian ruble	-	6	-	-	-	6
New Taiwan dollar	14,128	61,411	-	-	-	75,539
New Turkish lira	127	50,441	-	-	-	50,568
New Zealand dollar	54	16,394	10,325	-	-	26,773
Norwegian krone	403	135,804	-	-	-	136,207
Pakistan rupee	1	18,233	-	-	-	18,234
Peruvian nouveau sol	-	734	-	-	-	734
Philippine peso	62	9,132	-	-	-	9,194
Polish zloty	29	15,371	2,322	-	-	17,722
Pound sterling	14,437	1,315,503	-	-	-	1,329,940
Singapore dollar	1,652	69,701	-	-	-	71,353
South African rand	293	97,526	-	-	-	97,819
South Korean won	1,172	277,029	-	-	-	278,201
Sri Lanka rupee	-	2,945	-	-	-	2,945
Swedish krona	2,973	173,935	51,490	-	-	228,398
Swiss franc	3,429	343,114	-	-	-	346,543
Thai baht	614	21,044	-	-	-	21,658
Uruguayan peso	-	-	7,642	-	-	7,642
Venezuelan bolivar	562	1,856	-	-	-	2,418
Zimbabwe dollar	9	758	-	-	-	767
Total	\$ 75,541	\$ 7,478,114	\$ 557,178	\$ 88,808	\$ 39,575	\$ 8,239,216

Derivatives. Derivatives are contracts for which the value depends on, or derives from, the value of an underlying asset, reference rate, or index. In accordance with its investment policy, the State Treasury invests either directly or through its outside investment managers on behalf of PERS in contracts that have derivative characteristics. Derivatives are used to manage the overall risk of investment portfolios. PERS does not hold or issue derivative financial instruments for trading purposes. Pension Trust Fund investments, including those with derivative characteristics, are reported at fair value in the Statement of Fiduciary Net Assets.

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D. Investments – Discretely Presented Component Units

Interest Rate Risk. Investment policies of the Oregon Health and Science University (OHSU) are approved by OHSU's Board of Directors. Investment policies for OHSU vary based on the investment objectives of the portfolio. The operating and trustee held portion of the portfolio seeks to preserve principal with the intent of maximizing total return within appropriate risk parameters. Maturities of securities in these portfolios are based on returns available at the time of investing while considering cash requirements of the organization. The endowment portion of the portfolio seeks to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. Fixed income securities held in this fund shall have a medium to long duration (3 to 10 years). Both the charitable gift annuity pool and the charitable trust funds seek to produce a relatively predictable and stable payout stream that will satisfy the fund distribution obligations while achieving long-term capital appreciation of the overall fund balance. Fixed income securities held in these funds shall have a short duration (1 to 3 years). Fixed income duration is determined based on the individual circumstances of each trust account.

Investment policies of SAIF Corporation (SAIF) are governed by Oregon Revised Statutes and the Council. SAIF does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. SAIF's investment objective is to maintain an average bond duration level of a custom fixed income benchmark.

The Oregon University System (OUS) Foundations follow the investment reporting requirements of the Financial Accounting Standards Board (FASB). Because FASB accounting and reporting standards differ from the Governmental Accounting Standards Board (GASB), the OUS Foundations are excluded from investment risk disclosures.

The following table presents the interest rate risk information for investments of OHSU as of June 30, 2005 and SAIF as of December 31, 2004 (in thousands):

Investment Type	Schedule of Interest Rate Risk				Fair Value
	Investment Maturities (in years)				
	Less than 1	1 to 5	6 to 10	More than 10	
U.S. Treasury Securities	\$ 21,694	\$ 411,194	\$ 63,586	\$ 85,560	\$ 582,034
U.S. Agency Securities	140,794	168,377	53,739	490,048	852,958
U.S. Treasury Strips	-	134	69,057	80,895	150,086
Corporate Bonds	22,734	257,483	248,601	265,417	794,235
International Debt Securities	1,589	36,642	73,306	111,881	223,418
Asset-Backed Securities	864	84,154	38,660	37,353	161,031
Collateralized Mortgage Obligations	-	-	3,452	118,959	122,411
Commercial Paper	15,712	-	-	-	15,712
Municipal Bonds	-	-	-	8,539	8,539
Time Certificates of Deposit	16,263	-	-	-	16,263
Mutual Funds – Domestic Fixed Income	n/a	n/a	n/a	n/a	74,524
Total Debt Investments	\$ 219,650	\$ 957,984	\$ 550,401	\$ 1,198,652	\$ 3,001,211

Credit Risk. OHSU's endowment fund requires a weighted average credit rating of each fixed income portfolio within the pool of A or higher and an avoidance of the prospect of credit failure or risk of permanent loss. The endowment fund may hold up to a maximum of 10 percent of the fixed income portion of the fund in below investment grade, but rated B or higher by Moody's or S&P, fixed income securities. The charitable gift annuity pool and charitable trust investment fund require a minimum credit quality rating in Baa/BBB bond investments and a minimum rating of A1-P1 for investments in commercial paper.

SAIF maintains an overall fixed income portfolio quality of AA or higher. A portion of the portfolio shall be invested in convertible securities, maintaining a convertible weighted average quality of BB or higher. No convertible investment in any issue shall be in excess of 5 percent of the outstanding obligations of the issuer.

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The following table presents the credit quality ratings for debt investments of OHSU as of June 30, 2005 and SAIF as of December 31, 2004 (in thousands):

Credit Quality Ratings (Standard & Pools)	Fair Value
AAA	\$ 1,264,543
AA	87,540
A	315,125
BBB	426,064
BB	70,124
B	49,620
CCC	12,744
C	10
Not Rated	43,321
Total	<u>\$ 2,269,091</u>

Concentration of Credit Risk. OHSU's operating and trustee-held portfolios limit investments in any one issue to a maximum of 10 percent depending on the investment type, except for issues of the U.S. Treasury or U.S. Agencies. The endowment fund and charitable gift annuity pool limit investments in any one issue to a maximum of 5 percent, except for issues of the U.S. Treasury or U.S. Agencies. The charitable gift trust policies place no limit on the amount that may be invested in any one issue. More than 5 percent of OHSU's investments are invested in PIMCO Total Return Institutional fund, which comprise \$47.6 million or 5.4 percent of OHSU's total investments.

SAIF investment policy limits the total fair value of the SAIF fixed income portfolio to no more than 3 percent investment in a single issuer, excluding U.S. Treasury and U.S. Agency obligations. Private mortgage-backed and asset-backed securities are limited to 10 percent per issuer. In addition, obligations of other foreign governments are limited. Furthermore, the SAIF portfolio is limited to 25 percent in any one industry or government agency. SAIF invests a portion of its investment portfolio in equity securities. The broad objective of these holdings is to provide a diversified portfolio of stocks to enhance total return. Policy does not limit holdings that may be concentrated; however, the investment manager's results are compared to an index fund as a benchmark. More than 5 percent of SAIF's investments are in Federal National Mortgage Association (FNMA) mortgage-backed securities, which comprise \$339.7 million or 12.2 percent of SAIF's total investments.

Foreign Currency Risk. OHSU investment policies permit investments in international equity and other asset classes, which can include foreign currency exposure. The operating and trustee-held portfolios allow investments in Eurodollar certificates of deposit. The endowment fund allows up to 35 percent of the portfolio to be invested in international equities and up to 25 percent of the fixed income portion of the fund to be invested in non-U.S. dollar denominated bonds. The charitable gift and annuity pool allows up to 10 percent of the portfolio to be invested in international equities. The charitable trust fund investments are permitted to include international equities, and the amount of the investment is determined based on the individual circumstances of each trust account.

SAIF's investment policy limits obligations of foreign governments to 10 percent per issuer. In addition, SAIF is prohibited by investment policy from investing in non-U.S. dollar denominated securities.

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For the discretely presented component units, there were no deposits in foreign currencies. However, there were international debt securities denominated in foreign currencies for OHSU. The following table presents the foreign currency risk exposure of OHSU as of June 30, 2005 (in thousands):

Foreign Currency Denomination	Investments (U.S. Dollars)
Australian dollar	\$ 35
Brazilian real	555
British Sterling pound	506
Canadian dollar	1,587
Eurodollar	22
Japanese yen	1,930
Mexican peso	476
New Zealand dollar	52
Singapore dollar	585
Thailand baht	198
Total	<u>\$ 5,946</u>

E. Repurchase Agreements. During the fiscal year, external investment managers for the Pension Trust Fund, SAIF Corporation, and the Common School Fund invested in overnight repurchase agreements. Repurchase agreements held as of June 30, 2005 were \$4.4 million for the Pension Trust Fund and \$14.5 million for the Common School Fund. SAIF Corporation had repurchase agreements of \$193.1 million at December 31, 2004.

Investments in repurchase agreements made with cash collateral from securities lending transactions had the following fair values at June 30, 2005:

- \$829 million, or 36.8 percent of the Oregon Short Term Investment Fund, the cash collateral pool for all agencies except PERS.
- \$533 million, or 9.7 percent of PERS' share of the collective investment pool, the cash collateral pool in which PERS is a participant along with other qualified pension plans.

F. Securities Lending. The State participates in securities lending transactions in accordance with State investment policies. The State Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the State's securities to broker-dealers and banks pursuant to a form of loan agreement. There were no significant violations of the provisions of securities lending agreements.

During the year, State Street lent U.S. government and agency securities, domestic fixed income and equity securities, and international fixed income and equity securities, and received as collateral U.S. dollar-denominated cash, U.S. government and agency securities, and foreign sovereign debt securities of the Organization of Economic Cooperation Development countries. Borrowers were required to deliver collateral for each loan equal to at least 102 percent of the fair value of the loaned security, or 105 percent in the case of international securities. Loans are marked to market daily. If the market value of collateral falls below 102 percent or 105 percent of the fair value of the loaned security, the lender may demand from the borrower sufficient collateral to raise the market value to 102 percent or 105 percent. If the market value of collateral falls below 100 percent, the borrower must provide additional collateral to raise the market value to 102 percent or 105 percent. The State did not impose any restrictions during the fiscal year on the amount of the loans State Street made on its behalf. The State did not have the ability to pledge or sell collateral securities absent a borrower default, but was fully indemnified by State Street against such losses.

During the year, the State and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on loans from the OPERF was invested together with cash collateral of other qualified tax-exempt plan lenders in a collective investment pool (Pool) maintained by State Street. The cash collateral received on loans from State entities other than the OPERF was invested in the Oregon Short Term Investment Fund (Fund) also maintained by State Street. The cash collateral is reported in the Statement of Net Assets, and since the cash collateral for all agencies is pooled, it is not exposed to custodial credit risk. Because loans were terminable at will by either party, their duration did not

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generally match the duration of investments made with cash collateral in either the Pool or the Fund. The State had no credit risk exposure to borrowers related to securities on loan. As of December 31, 2004, the fair value of securities on loan and collateral held for SAIF Corporation was \$783.9 million and \$800.1 million respectively. The primary government received \$192.9 million of investment securities as collateral as of June 30, 2005. The security lending balances on loan, cash collateral received, and investment of collateral as of June 30, 2005 of the primary government are presented below (in thousands):

Investment Type	Securities on Loan at Fair Value	Cash Collateral Received	Invested Collateral at Fair Value
U.S. Treasury and Agency Securities	\$ 3,948,253	\$ 4,028,910	\$ 4,008,767
Domestic Fixed Income Securities	434,391	439,170	444,649
International Fixed Income Securities	53,001	54,026	49,465
Domestic Equity Securities	1,263,509	1,252,903	1,258,802
International Equity Securities	1,393,653	1,321,917	1,321,189
Total	\$ 7,092,807	\$ 7,096,926	\$ 7,082,872

G. Restricted Assets. Included in deposits and investments are amounts which are committed for specific purposes, including loan acquisitions, payment of debt service, lottery prizes, and deferred compensation. At June 30, 2005, the primary government had restricted assets of \$1.0 billion in deposits and \$1.2 billion in investments. The discretely presented component units had restricted assets of \$1.2 billion in investments.

3. RECEIVABLES AND PAYABLES

A. Receivables. The following tables disaggregate receivable balances reported in the fund financial statements as Accounts and Interest Receivable (net) and Net Contracts, Notes, and Other Receivables. Contracts, Notes, and Other Receivables are not expected to be collected within one year of the date of the financial statements.

Receivables reported for governmental activities at June 30, 2005, were as follows (in thousands):

	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Other	Total	Internal Service
Governmental activities:								
General accounts	\$ 17,833	\$ 23,052	\$ 8,871	\$ 11,544	\$ 334	\$ 60,321	\$ 121,955	\$ 58,603
Due from federal government	-	44,982	49,658	22,510	-	92,351	209,501	-
Interest	1	-	170	1,585	889	8,511	11,156	738
Broker receivable	-	-	-	-	7,335	-	7,335	-
Contracts	-	-	1,266	1,500	-	128	2,894	-
Mortgages	-	4,018	-	-	-	-	4,018	-
Court fines and fees	-	-	-	-	-	360,566	360,566	-
Child support recoveries	-	-	-	-	-	285,015	285,015	-
Other	49,530	82	2,707	9,499	68	101,264	163,150	35
Gross receivables	<u>67,364</u>	<u>72,134</u>	<u>62,672</u>	<u>46,638</u>	<u>8,626</u>	<u>908,156</u>	<u>1,165,590</u>	<u>59,376</u>
Allowance for uncollectibles	<u>(33,363)</u>	<u>(735)</u>	<u>(2,424)</u>	<u>(2,787)</u>	<u>-</u>	<u>(601,425)</u>	<u>(640,734)</u>	<u>(884)</u>
Total receivables, net	<u>\$ 34,001</u>	<u>\$ 71,399</u>	<u>\$ 60,248</u>	<u>\$ 43,851</u>	<u>\$ 8,626</u>	<u>\$ 306,731</u>	<u>\$ 524,856</u>	<u>\$ 58,492</u>

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Receivables reported for business-type activities at June 30, 2005, were as follows (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
Business-type activities:							
General accounts	\$ 23	\$ 197	\$ 15,094	\$ 205,708	\$ 116,592	\$ 9,566	\$ 347,180
Due from federal government	-	-	-	3,955	13,814	-	17,769
Interest	7,664	3,877	-	17,733	60	11,617	40,951
Notes - short-term	-	-	-	-	26,364	-	26,364
Broker receivable	-	-	-	-	2,648	-	2,648
Notes - long-term	-	360	-	-	59,670	-	60,030
Other	-	-	-	24,413	-	9,474	33,887
Gross receivables	7,687	4,434	15,094	251,809	219,148	30,657	528,829
Allowance for uncollectibles	-	-	(423)	(13,759)	(12,296)	(760)	(27,238)
Total receivables, net	\$ 7,687	\$ 4,434	\$ 14,671	\$ 238,050	\$ 206,852	\$ 29,897	\$ 501,591

Receivables reported for fiduciary funds at June 30, 2005, were as follows (in thousands):

	Agency
Fiduciary fund activities:	
Restitution	\$ 215,231
Allowance for uncollectibles	(164,847)
Total receivables, net	\$ 50,384

Receivables reported for the SAIF Corporation (SAIF) at December 31, 2004, and the Oregon Health and Science University (OHSU) at June 30, 2005, were as follows (in thousands):

	SAIF	OHSU
Discretely presented component units:		
Patient accounts	\$ -	\$ 157,619
Premiums	156,895	-
Interest	20,863	2,518
Student loans	-	27,872
Broker receivable	6,683	-
Other	9,262	28,583
Gross receivables	193,703	216,592
Allowance for uncollectibles	(2,214)	(81,824)
Total receivables, net	\$ 191,489	\$ 134,768

B. Payables. The following tables disaggregate payables reported in the fund financial statements as Accounts and Interest Payable and Contracts, Mortgages and Notes Payable.

Payables reported for governmental activities at June 30, 2005, were as follows (in thousands):

	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Other	Total	Internal Service
Governmental activities:								
General accounts	\$ 219,483	\$ 82,128	\$ 126,057	\$ 29,925	\$ 581	\$ 150,649	\$ 608,823	\$ 22,011
Interest	6	-	-	-	-	2	8	1,276
Broker payable	-	-	-	-	31,494	-	31,494	-
Taxes	31	-	-	-	-	-	31	-
Contracts	11	-	83	-	-	430	524	10
Loans	-	82,300	-	-	-	-	82,300	1
Total payables	\$ 219,531	\$ 164,428	\$ 126,140	\$ 29,925	\$ 32,075	\$ 151,081	\$ 723,180	\$ 23,298

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Payables reported for business-type activities at June 30, 2005, were as follows (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
Business-type activities:							
General accounts	\$ 740	\$ 499	\$ 7,759	\$ 11,816	\$ 91,218	\$ 19,116	\$ 131,148
Interest	34,763	9,892	-	-	10,097	7,171	61,923
Broker payable	-	-	-	-	299	-	299
Loans	4,421	-	-	-	-	-	4,421
Notes	-	-	-	-	10	-	10
Contracts	-	-	-	-	8,303	-	8,303
Total payables	<u>\$ 39,924</u>	<u>\$ 10,391</u>	<u>\$ 7,759</u>	<u>\$ 11,816</u>	<u>\$ 109,927</u>	<u>\$ 26,287</u>	<u>\$ 206,104</u>

Payables reported for fiduciary funds at June 30, 2005, were as follows (in thousands):

	Pension Trust	Private Purpose Trust	Agency
Fiduciary fund activities:			
General accounts	\$ 257,712	\$ 7	\$ 341
Broker payable	2,418,619	-	-
Mortgages	-	1,582	-
Total payables	<u>\$ 2,676,331</u>	<u>\$ 1,589</u>	<u>\$ 341</u>

Payables reported for the SAIF Corporation (SAIF) at December 31, 2004, and the Oregon Health and Science University (OHSU) at June 30, 2005, were as follows (in thousands):

	SAIF	OHSU
Discretely presented component units:		
General accounts	\$ 18,082	\$ 127,772
Contracts	-	716
Reinsurance	2,895	-
Broker payable	1,163	-
Premium taxes	12,573	-
Total payables	<u>\$ 34,713</u>	<u>\$ 128,488</u>

4. JOINT VENTURE

The Multi-State Lottery Association (MUSL) was established in 1987 by a joint venture agreement. MUSL members include: the Arizona Lottery, Connecticut Lottery Corporation, Colorado Lottery, District of Columbia Lottery and Charitable Games Control Board, Delaware State Lottery, Hoosier Lottery, Idaho Lottery, Iowa Lottery, Kansas Lottery, Kentucky Lottery Corporation, Louisiana Lottery Corporation, Maine Lottery, Minnesota State Lottery, Missouri Lottery, Montana Lottery, Nebraska Lottery, New Hampshire Sweepstakes Commission, New Mexico Lottery Authority, North Dakota Lottery, Oregon Lottery, Pennsylvania Lottery, Rhode Island Lottery, South Carolina Education Lottery, South Dakota Lottery, Tennessee Education Lottery, Vermont Lottery, U.S. Virgin Islands Lottery, West Virginia Lottery, and the Wisconsin Lottery.

MUSL is governed by a Board of Directors, on which each member lottery is represented. The Board's responsibilities to administer multi-state lottery games are performed by a Product Group, advisory committees, or panels staffed by officers and independent contractors as appointed by the Board. Each member lottery pays an allocated share of MUSL's operating expenses. The Oregon Lottery's share of MUSL's operating expenses for the fiscal year ended June 30, 2005 was \$89,772.

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The Board and Product Group determine a percentage of gross MUSL game sales that are aggregated in a common prize pool. The revenues derived by each member lottery, that are not allocated to the common prize pool and MUSL's operating expenses, will be the revenue of that member lottery. Upon termination of the MUSL's existence, if such termination should occur, the member lottery would receive any proceeds determined available for distribution by the Board. As of June 30, 2005, the Oregon Lottery had \$2.2 million on deposit with the MUSL for payment of the Oregon Lottery's share of MUSL prize reserve and annual operating expenses.

Complete separate financial statements for MUSL may be obtained from the Multi-State Lottery Association, Attention: Chuck Strutt, 4400 NW Urbandale Drive, Urbandale, Iowa, 50322-7919.

5. CAPITAL ASSETS

A. Primary Government.

Capital Asset Activity. Capital asset activity for the primary government for the year ended June 30, 2005, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,573,326	\$ 31,033	\$ 1,012	\$ 1,603,347
Construction in Progress	817,197	602,763	75,296	1,344,664
Works of Art and Historical Treasures	610	45	-	655
Total capital assets not being depreciated	<u>2,391,133</u>	<u>633,841</u>	<u>76,308</u>	<u>2,948,666</u>
<i>Capital assets being depreciated:</i>				
Buildings, Property and Equipment	1,966,221	113,228	38,876	2,040,573
Infrastructure	13,922,816	371,774	419,318	13,875,272
Total capital assets being depreciated	<u>15,889,037</u>	<u>485,002</u>	<u>458,194</u>	<u>15,915,845</u>
Less accumulated depreciation for:				
Buildings, Property and Equipment	766,924	82,861	25,920	823,865
Infrastructure	7,051,003	598,933	16,889	7,633,047
Total accumulated depreciation	<u>7,817,927</u>	<u>681,794</u>	<u>42,809</u>	<u>8,456,912</u>
Total capital assets being depreciated, net	<u>8,071,110</u>	<u>(196,792)</u>	<u>415,385</u>	<u>7,458,933</u>
Governmental activities capital assets, net	<u>\$ 10,462,243</u>	<u>\$ 437,049</u>	<u>\$ 491,693</u>	<u>\$ 10,407,599</u>

The beginning balance has been restated to \$10,462,243 to reflect a prior period adjustment of \$5,951.

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	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 55,945	\$ 37,412	\$ -	\$ 93,357
Construction in Progress	144,608	208,216	142,156	210,668
Works of Art and Historical Treasures	58,355	962	337	58,980
Total capital assets not being depreciated	<u>258,908</u>	<u>246,590</u>	<u>142,493</u>	<u>363,005</u>
<i>Capital assets being depreciated:</i>				
Buildings, Property and Equipment	2,026,892	173,342	40,095	2,160,139
Infrastructure	48,665	3,560	817	51,408
Total capital assets being depreciated	<u>2,075,557</u>	<u>176,902</u>	<u>40,912</u>	<u>2,211,547</u>
Less accumulated depreciation for:				
Buildings, Property and Equipment	1,000,932	85,121	19,548	1,066,505
Infrastructure	31,727	2,285	-	34,012
Total accumulated depreciation	<u>1,032,659</u>	<u>87,406</u>	<u>19,548</u>	<u>1,100,517</u>
Total capital assets being depreciated, net	<u>1,042,898</u>	<u>89,496</u>	<u>21,364</u>	<u>1,111,030</u>
Business-type activities capital assets, net	<u>\$ 1,301,806</u>	<u>\$ 336,086</u>	<u>\$ 163,857</u>	<u>\$ 1,474,035</u>

The beginning balance has been restated to \$1,301,806 to reflect a prior period adjustment of \$334.

	Beginning Balance	Increases	Decreases	Ending Balance
Fiduciary fund activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,639	\$ 3,784	\$ 4,465	\$ 958
Works of Art and Historical Treasures	25	-	25	-
Total capital assets not being depreciated	<u>1,664</u>	<u>3,784</u>	<u>4,490</u>	<u>958</u>
<i>Capital assets being depreciated:</i>				
Buildings, Property and Equipment	19,716	185	1,007	18,894
Infrastructure	9,226	-	9,226	-
Total capital assets being depreciated	<u>28,942</u>	<u>185</u>	<u>10,233</u>	<u>18,894</u>
Less accumulated depreciation for:				
Buildings, Property and Equipment	4,290	162	(204)	4,656
Infrastructure	6,850	439	7,289	-
Total accumulated depreciation	<u>11,140</u>	<u>601</u>	<u>7,085</u>	<u>4,656</u>
Total capital assets being depreciated, net	<u>17,802</u>	<u>(416)</u>	<u>3,148</u>	<u>14,238</u>
Fiduciary fund activities capital assets, net	<u>\$ 19,466</u>	<u>\$ 3,368</u>	<u>\$ 7,638</u>	<u>\$ 15,196</u>

The beginning balance has been restated to \$19,466 to reflect a prior period adjustment of \$5.

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Depreciation Expense. Depreciation expense was charged to functions of the primary government as follows (in thousands):

Governmental activities:

Education	\$ 725
Human Resources	1,981
Public Safety	26,774
Economic and Community Development	1,043
Natural Resources	28,089
Transportation	600,089
Consumer and Business Services	477
Administration	3,306
Legislative	598
Judicial	773
Subtotal	<u>663,855</u>
Internal Service Funds	<u>17,939</u>
Total depreciation expense - governmental activities	<u>\$ 681,794</u>

Business-type activities:

Housing and Community Services	\$ 87
Veterans' Loan	359
Lottery Operations	6,918
University System	75,950
Other Business-type Activities	4,092
Total depreciation expense - business-type activities	<u>\$ 87,406</u>

Fiduciary fund activities:

Pension Trust	\$ 601
Total depreciation expense - fiduciary activities	<u>\$ 601</u>

Construction Commitments. The State has active construction projects as of June 30, 2005, which will be funded either through general fund appropriation, federal grants, lottery resources, or other funding sources as noted in the schedule below. At year end, the State's construction commitments with contractors are as follows (in thousands):

Project	Spent-to-Date	Remaining Commitment	Remaining Commitment Source of Funds			
			General	Federal	Lottery	Other
Emergency coordination facility	\$ 7,865	\$ 43,808	\$ -	\$ 39,992	\$ -	\$ 3,816
Public safety training facility	35,823	38,311	-	-	-	38,311
Military facilities	15,795	5,343	611	3,321	-	1,411
Forestry headquarters building	8,261	6,345	-	-	-	6,345
State Fair facilities	9,793	73	-	73	-	-
State Park facilities	3,479	1,744	-	84	976	684
Prison construction and upgrades	15,091	12,605	-	-	-	12,605
University building construction and upgrades	710,487	521,318	7,623	-	4,971	508,724
Road and bridge construction	1,096,076	1,085,000	-	692,000	-	393,000
Upgrade and maintenance of various facilities	42,093	13,091	-	1,854	-	11,237
Total	<u>\$ 1,944,763</u>	<u>\$ 1,727,638</u>	<u>\$ 8,234</u>	<u>\$ 737,324</u>	<u>\$ 5,947</u>	<u>\$ 976,133</u>

Collections Not Capitalized. Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets include highway maintenance equipment displayed at various district and regional offices; printing equipment displayed at the Salem Print Plant; historic documents displayed at the Oregon State Archives; a museum of military artifacts at Camp Withycombe in Clackamas, Oregon; a collection of historic buildings, furniture, paintings, and ancestral artifacts displayed at various state

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parks; artwork on display at the Oregon Economic and Community Development Department; and a collection of art work portraying various Oregon locals displayed at the Oregon Liquor Control Commission headquarters. They have not been capitalized because they meet all of the conditions that qualify them as collections that are not required to be capitalized. These conditions are:

1. The collections are held for public exhibition or education in the furtherance of public service, not held for financial gain;
2. The collections are protected, kept unencumbered, cared for, and preserved; and
3. The collections are subject to state agency policy that requires the proceeds from sales of collection items to be used to acquire other items for the collections.

B. Discretely Presented Component Units.

Activity for SAIF Corporation for the year ended December 31, 2004, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated:</i>				
Land	\$ 2,922	\$ -	\$ -	\$ 2,922
Total capital assets not being depreciated	2,922	-	-	2,922
<i>Capital assets being depreciated:</i>				
Buildings, Property and Equipment	47,732	1,777	3,087	46,422
Total capital assets being depreciated	47,732	1,777	3,087	46,422
Less accumulated depreciation for:				
Buildings, Property and Equipment	27,024	2,260	2,425	26,859
Total accumulated depreciation	27,024	2,260	2,425	26,859
Total capital assets being depreciated, net	20,708	(483)	662	19,563
SAIF Corporation capital assets, net	\$ 23,630	\$ (483)	\$ 662	\$ 22,485

Activity for the Oregon Health and Science University (OHSU) for the year ended June 30, 2005, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated:</i>				
Land	\$ 49,041	\$ 5	\$ -	\$ 49,046
Construction in Progress	105,766	153,072	28,804	230,034
Total capital assets not being depreciated	154,807	153,077	28,804	279,080
<i>Capital assets being depreciated:</i>				
Buildings, Property and Equipment	1,123,944	74,692	22,871	1,175,765
Total capital assets being depreciated	1,123,944	74,692	22,871	1,175,765
Less accumulated depreciation for:				
Buildings, Property and Equipment	513,925	65,684	17,058	562,551
Total accumulated depreciation	513,925	65,684	17,058	562,551
Total capital assets being depreciated, net	610,019	9,008	5,813	613,214
OHSU capital assets, net	\$ 764,826	\$ 162,085	\$ 34,617	\$ 892,294

6. LEASES

A. Operating Leases. Operating leases are rental agreements where the payments are chargeable as rent and recorded as services and supplies expenditures. Should the Legislature disallow the necessary funding for particular leases, all lease agreements contain termination clauses that provide for cancellation of the lease as of the end of a fiscal year. Lease obligations decrease each year because of lease expirations. It is expected these leases will be replaced with leases that have higher rental rates due to inflation. Rental costs for such leases for the year ended June 30, 2005, for the primary government, were \$72.5 million and for the component units were \$11.7 million.

The following schedule summarizes the future minimum lease payments as of June 30, 2005 (in thousands):

Year Ending June 30,	Primary Government	Component Units
2006	\$ 67,732	\$ 10,465
2007	56,560	14,557
2008	49,737	12,562
2009	30,398	12,006
2010	22,886	10,765
2011-2015	38,332	36,258
2016-2020	4,672	21,429
2021-2025	278	3,709
2026-2030	137	-
2031-2035	41	-
2036-2040	41	-
2041-2045	41	-
2046-2050	39	-
Total future minimum lease payments	<u>\$ 270,894</u>	<u>\$ 121,751</u>

B. Capital Leases. Capital leases are treated similar to purchases on contract. The property is capitalized at the present value when the lease is incurred and a corresponding liability is recorded. The liability for capital leases of property is included in the accompanying financial statements. Should the Legislature disallow the necessary funding for particular leases, all lease agreements contain termination clauses that provide for cancellation of the lease as of the end of a fiscal year.

The assets acquired through capital leases are as follows (in thousands):

Asset Class	Governmental Activities	Business-type Activities	Component Units
Building, property and equipment	\$ 3,981	\$ 1,560	\$ 8,504
Less accumulated depreciation	(88)	(591)	(6,309)
Total	<u>\$ 3,893</u>	<u>\$ 969</u>	<u>\$ 2,195</u>

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The following schedule summarizes the future minimum lease payments and net present value of these minimum lease payments as of June 30, 2005 (in thousands):

Year Ending June 30,	Governmental Activities	Business-type Activities	Component Units
2006	\$ 692	\$ 294	\$ 999
2007	692	287	999
2008	686	127	999
2009	684	70	999
2010	686	1	949
2011-2015	1,369	-	497
Total future minimum lease payments	4,809	779	5,442
Less amounts representing interest	(855)	(68)	(1,292)
Present value of minimum lease payments	<u>\$ 3,954</u>	<u>\$ 711</u>	<u>\$ 4,150</u>

C. Lease Receivables. The State receives income from operating leases on land, property, and equipment that is leased to non-state entities. Rental income received was \$6.3 million for the year ended June 30, 2005 on assets valued at over \$37.2 million, net of \$16.2 million in accumulated depreciation. Minimum future lease revenue for non-cancelable operating leases at June 30, 2005 was (in thousands):

Year Ending June 30,	Primary Government
2006	\$ 5,609
2007	4,342
2008	3,681
2009	3,418
2010	2,741
2011-2015	7,911
2016-2020	3,087
2021-2025	2,837
2026-2030	2,295
2031-2035	586
2036-2040	586
2041-2045	398
2046-2050	143
Total future minimum lease revenue	<u>\$ 37,634</u>

7. DONOR-RESTRICTED ENDOWMENTS

Oregon University System

Oregon Revised Statute 351.130 provides the Oregon University System (OUS) with the authority to use interest income, dividends, or profits of endowments specifically for the higher education institution receiving the gift. Any donee restrictions must also be abided. Current OUS Board policy is to annually distribute, for spending purposes, 4.0 percent of the five-year moving average of the market value of the endowment fund and to maintain the purchasing power of the funds as nearly as prudent investment permits. Securities may be sold to provide for the income needs, however, the original corpus of endowments may not be spent. For the year ended June 30, 2005, the net amount of appreciation available for authorization for expenditure was \$16.2 million. The amount of net appreciation is reported in the University System Fund either as part of nonexpendable net assets restricted for donor purposes, or as part of expendable net assets restricted for donor purposes, depending on the terms of the donation.

Oregon Health and Science University

Oregon Revised Statutes 128.320, 128.325, and 128.340 provide the Oregon Health and Science University (OHSU) with the authority to use the net appreciation of restricted endowments as established by the donee. Current OHSU Board policy is to allow distributions of 5.0 percent of the three-year moving average of the market value of the endowment pool. For the year ended June 30, 2005, the net amount of appreciation

available for authorization for expenditure was \$51.3 million. The amount of net appreciation is reported as part of expendable net assets restricted for education.

8. SHORT-TERM DEBT

During the year, the State issued tax anticipation notes to manage the temporary cash flow deficits that resulted when the timing of required expenditures did not coincide with the timing of the collection of taxes and other revenues. The proceeds were deposited to the general fund and were used to pay authorized expenditures of the 2003-2005 biennium. The tax anticipation notes were repaid by the end of the fiscal year.

Short-term debt activity for the year ended June 30, 2005, was as follows (in thousands):

Governmental activities:	Beginning Balance	Issued	Repaid	Ending Balance
Tax anticipation notes	\$ 750,906	\$ 800,577	\$ 1,551,483	\$ -

9. LONG-TERM LIABILITIES

A. General Obligation Bonds. The State issues general obligation bonds to provide funds for a variety of projects as authorized by the Oregon Constitution. General obligation bonds are secured by a pledge of the full faith, credit, and taxing power of the State.

Specific provisions of the Oregon Constitution authorize general obligation debt to be issued for governmental activities. Article XI-G provides authorization to finance buildings and projects for community colleges. Debt service requirements for community colleges are financed through an appropriation from the General Fund. Obligations issued for highway construction pursuant to article XI, section 7, are fully self-supporting. Article XI-H authorizes the financing of pollution abatement and control facilities as well as pollution control and disposal activities. Facilities acquired under the pollution control program are required to conservatively appear to be at least 70 percent self-supporting and self-liquidating from revenues, gifts, federal grants, assessments, user charges, and other fees. Article XI-L provides authorization to finance capital costs of the Oregon Health and Science University. Article XI-O provides authorization to finance pension liabilities through the issuance of general obligation bonds.

The Oregon Constitution also authorizes general obligation debt to be used for business-type activities. Article XI-A authorized the creation of the Oregon War Veterans' Fund to finance farm and home loans for eligible veterans. Financing of multi-family housing for elderly and disabled persons is authorized in article XI-I (2). Article XI-J provides authorization to finance loans for the development of small-scale local energy projects. Issuance of general obligation bonds to finance higher education building projects is authorized in article XI-F (1). The preceding bonds of business-type activities are fully self-supporting. Article XI-G authorizes financing of higher education facilities and institution activities. Debt service requirements for these higher education obligations are financed through an appropriation from the General Fund. Financing of loans for water development projects is authorized in article XI-I (1). Certain provisions of the Water Resources general obligation bond indenture conflict with State statutes. Upon the advice of the Attorney General, the method of handling investment interest is in compliance with the statutes rather than the bond indenture.

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The following schedule shows the debt service requirements for general obligation bonds as of June 30, 2005 (in thousands):

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal ¹	Interest
2006	\$ 10,906	\$ 129,529	\$ 113,270	\$ 89,332
2007	13,404	129,120	111,381	85,034
2008	18,265	128,609	110,074	79,083
2009	24,340	127,898	84,986	73,629
2010	30,580	126,891	44,201	70,336
2011-2015	272,120	606,059	224,266	325,769
2016-2020	539,975	508,804	601,717	247,716
2021-2025	921,475	315,081	244,634	132,347
2026-2030	499,305	44,873	215,065	69,099
2031-2035	-	-	122,840	27,143
2036-2040	-	-	52,685	8,646
2041-2045	-	-	13,905	1,151
Total	\$ 2,330,370	\$ 2,116,864	\$ 1,939,024	\$ 1,209,285

¹ Includes a total of \$430.0 million of bonds with a variable interest rate based on the weekly rate determination of the Remarketing Agent, not to exceed 12.0%. The interest rate at the end of the year was 2.3% for \$370.0 million, 2.4% for 30.0 million and 2.5% for \$30.0 million of bonds.

B. Revenue Bonds. Authority for the State to issue revenue bonds is granted in the Oregon Revised Statutes (ORS). Revenue bonds are secured by a pledge of revenues derived from the operation of a program funded by the issuance of these obligations. The resulting bond obligations are not general obligations of the State.

The State is authorized in ORS 286.560 through 286.580 and 348.716 to issue revenue bonds that are supported by unobligated net lottery proceeds. To date, these lottery revenue bonds have been issued for infrastructure improvements, state parks, expansion and refurbishment of school facilities, light rail transportation, improvement of state fair facilities, and economic development in rural and distressed communities. Lottery revenue bonds have been issued for both governmental and business-type activities.

Highway user tax bonds, authorized by ORS 367.615, are issued by the Department of Transportation for governmental activities to build and maintain public roads. Debt service payments for these bonds are funded by highway user taxes.

ORS 565.095 authorizes the issuance of revenue bonds for capital construction and improvements for the State Fair and Exposition Center. Revenues from state fair activities support these bonds. The Housing and Community Services Department is authorized by ORS 456.645 to issue revenue bonds for financing single-family mortgage loans and multi-family housing projects. Mortgage payments and fees as well as rental revenues support these bonds. The Economic and Community Development Department is authorized in ORS 285B.467 to 285B.479 to issue revenue bonds for financing infrastructure improvement projects through the Special Public Works Fund and is authorized in ORS 285B.572 to 285B.578 to issue revenue bonds for financing water projects through the Water Fund. Loan repayments support the bonds for both of these activities. All of these bonds for business-type activities are self-supporting.

The Public Employees Retirement System guarantees the bonds reported in the Pension Trust Fund. In 1992, PERS entered into an agreement to guarantee \$50.0 million in Pamcorp taxable revenue bonds. The company ceased operations in October 1993. The Pension Trust Fund has been making payments since October 1994.

Authority is granted in ORS 353.340 for the Oregon Health and Science University (OHSU), a discretely presented component unit of the State, to issue revenue bonds for the construction and refurbishment of facilities or the acquisition of equipment in accordance with ORS 288.805 to 288.945. These revenue bonds are payable from the revenues of OHSU.

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The following schedule shows the debt service requirements for revenue bonds as of June 30, 2005 (in thousands):

Year Ending June 30,	Governmental Activities		Business-type Activities		Pension Trust Fund		Discretely Presented Component Units	
	Principal	Interest	Principal ^{1,2,3,4}	Interest	Principal	Interest	Principal ⁵	Interest
2006	\$ 58,967	\$ 51,102	\$ 512,524	\$ 75,138	\$ 1,100	\$ 3,897	\$ 5,395	\$ 21,662
2007	61,079	48,690	38,797	59,743	1,200	3,805	5,555	21,449
2008	64,474	46,140	40,116	58,358	1,300	3,704	8,810	21,176
2009	66,339	43,365	40,847	56,877	1,400	3,596	9,267	21,674
2010	61,846	40,344	81,434	54,086	1,500	3,479	9,696	21,579
2011-2015	399,313	236,951	197,325	238,471	9,800	15,145	60,637	103,933
2016-2020	335,921	58,284	207,593	190,038	14,900	9,908	64,980	118,659
2021-2025	26,309	3,966	229,185	134,224	12,100	1,877	101,935	90,381
2026-2030	7,725	1,004	240,800	71,815	-	-	152,230	43,191
2031-2035	-	-	150,880	22,261	-	-	110,060	7,958
2036-2040	-	-	19,320	6,326	-	-	-	-
2041-2045	-	-	14,760	1,793	-	-	-	-
2046-2050	-	-	1,260	38	-	-	-	-
Total	\$ 1,081,973	\$ 529,846	\$ 1,774,841	\$ 969,168	\$ 43,300	\$ 45,411	\$ 528,565	\$ 471,662

¹ Includes bonds with a variable interest rate based on the one-month London InterBank Offered Rate (LIBOR) plus 0.4% not to exceed 11.0% for \$4.6 million and not to exceed 11.5% for \$5.5 million. The interest rate at the end of the year for those bonds was 3.5%.

² Includes bonds with a variable interest rate based on the weekly rate determination of the Remarketing Agent, not to exceed 12.0% for \$70.5 million. The interest rate at the end of the year was 2.5%.

³ Includes \$38.6 million of bonds with a variable rate of interest adjusted monthly based on the Bond Market Association (BMA) rate index plus 0.8%, not to exceed the one-month LIBOR rate plus 0.2%, or fall below 95% of the one-month LIBOR rate. The interest rate at the end of the year was 3.1%.

⁴ Includes bonds with a variable interest rate based on the weekly rate determination of the Remarketing Agent, not to exceed 12.0% of \$15.0 million. The interest rate at the end of the year was 2.4%.

⁵ Includes \$46.1 million of bonds with a variable rate of interest adjusted every 35 days, with a rate at the end of the year of 2.5%. Also, includes \$54.0 million of bonds with a variable rate of interest adjusted every 35 days, with a rate at the end of the year of 2.8%. In addition, includes \$50.0 million of bonds with a variable rate of interest adjusted every 35 days, with a rate at the end of the year of 2.6%.

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C. Certificates of Participation. ORS 283.085 to 283.092 authorizes the State to enter into financing agreements through the issuance of certificates of participation. The State has issued certificates of participation to provide funds for the acquisition of computer systems, the acquisition of telecommunication systems, and for the acquisition, construction, or remodeling of State facilities. Certificates of participation have been issued for both governmental and business-type activities.

The following schedule shows the debt service requirements for certificates of participation as of June 30, 2005 (in thousands):

Year Ending June 30,	Governmental Activities		Business-type Activities		Pension Trust Fund	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 45,341	\$ 42,062	\$ 3,359	\$ 800	\$ 2,300	\$ 561
2007	46,540	40,164	2,545	685	2,365	495
2008	49,761	38,214	3,159	591	2,440	415
2009	48,306	36,168	2,104	485	2,520	334
2010	49,887	33,963	2,193	390	470	239
2011-2015	228,293	135,164	6,552	884	2,765	796
2016-2020	210,172	78,529	198	5	1,315	104
2021-2025	148,380	33,187	-	-	-	-
2026-2030	55,155	6,460	-	-	-	-
Total	\$ 881,835	\$ 443,911	\$ 20,110	\$ 3,840	\$ 14,175	\$ 2,944

D. General Appropriation Bonds. During the 2003 legislative session, Senate Bill 856 authorized the State to issue general appropriation bonds. The State has issued general appropriation bonds for general government activities.

The following schedule shows the debt service requirements for general appropriation bonds as of June 30, 2005 (in thousands):

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2006	\$ 23,600	\$ 19,151
2007	25,625	18,319
2008	27,950	17,123
2009	52,210	15,188
2010	56,340	12,518
2011-2015	223,740	19,958
Total	\$ 409,465	\$ 102,257

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E. Changes in Long-Term Liabilities. The following schedule summarizes the changes in long-term liabilities for governmental activities for the year ended June 30, 2005 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds/certificates payable:					
General obligation bonds	\$ 2,341,905	\$ 6,000	\$ 17,535	\$ 2,330,370	\$ 10,906
Revenue bonds	761,574	481,700	161,301	1,081,973	58,967
Certificates of participation	777,544	185,539	81,248	881,835	45,341
General appropriation bonds	431,560	-	22,095	409,465	23,600
Less deferred amounts:					
For issuance discounts	(1,109)	(189)	(379)	(919)	-
For issuance premiums	78,313	23,909	9,574	92,648	-
On refunding	(29,429)	(7,835)	(7,445)	(29,819)	-
Total bonds/certificates payable	4,360,358	689,124	283,929	4,765,553	138,814
Other liabilities:					
Obligations under capital lease	47	4,794	887	3,954	490
Claims and judgments	1,183,303	149,512	219,817	1,112,998	132,920
Compensated absences	107,399	34,009	28,523	112,885	79,019
Arbitrage rebate	1,152	22	605	569	-
Contracts, mortgages and notes	1,199	82,678	1,041	82,836	82,325
Total other liabilities	1,293,100	271,015	250,873	1,313,242	294,754
Total governmental activity long-term liabilities	\$ 5,653,458	\$ 960,139	\$ 534,802	\$ 6,078,795	\$ 433,568

Internal service funds predominantly serve the governmental funds; thus, long-term liabilities for them are included as part of the totals for governmental activities. The claims and judgments liability will generally be liquidated through the Employment Services Fund and the Central Services Fund, an internal service fund. The arbitrage rebate liability will generally be liquidated through the Revenue Bond Fund and the remainder by other governmental funds and internal service funds. The liability for contracts, mortgages, and notes will generally be liquidated through internal service funds.

The following schedule summarizes the changes in long-term liabilities for business-type activities for the year ended June 30, 2005 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds/certificates payable:					
General obligation bonds	\$ 1,954,061	\$ 271,205	\$ 286,242	\$ 1,939,024	\$ 113,306
Revenue bonds	1,660,340	789,575	675,074	1,774,841	512,524
Certificates of participation	17,916	4,860	2,666	20,110	3,359
Less deferred amounts:					
For issuance discounts	(5,119)	(279)	(1,286)	(4,112)	-
For issuance premiums	21,975	10,358	1,597	30,736	-
On refunding	(17,600)	(4,259)	(1,555)	(20,304)	-
Accreted interest	71,080	9,863	8,209	72,734	-
Total bonds/certificates payable	3,702,653	1,081,323	970,947	3,813,029	629,189
Other liabilities:					
Obligations under capital lease	527	899	715	711	255
Compensated absences	41,097	5,400	3,495	43,002	37,604
Lottery prize awards	108,344	42,576	12,873	138,047	28,767
Arbitrage rebate	1,192	78	510	760	360
Contracts, mortgages and notes	6,454	3,174	4,683	4,945	1,556
Trust funds	31,531	533,283	544,383	20,432	19,852
Total other liabilities	189,145	585,410	566,659	207,897	88,394
Total business-type activity long-term liabilities	\$ 3,891,798	\$ 1,666,733	\$ 1,537,606	\$ 4,020,926	\$ 717,583

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The following schedule summarizes the changes in long-term liabilities for fiduciary fund activities for the year ended June 30, 2005 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Fiduciary fund activities:					
Bonds/certificates payable:					
Revenue bonds	\$ 44,300	\$ -	\$ 1,000	\$ 43,300	\$ 1,100
Certificates of participation	16,450	-	2,275	14,175	2,300
Less deferred amounts:					
For issuance premiums	404	-	42	362	-
On refunding	(317)	-	(29)	(288)	-
Total bonds/certificates payable	60,837	-	3,288	57,549	3,400
Other liabilities:					
Contracts, mortgages and notes	628	1,058	104	1,582	-
Total other liabilities	628	1,058	104	1,582	-
Total fiduciary fund activity long-term liabilities	\$ 61,465	\$ 1,058	\$ 3,392	\$ 59,131	\$ 3,400

The following schedule summarizes the changes in long-term liabilities for the SAIF Corporation for the year ended December 31, 2004, and for the Oregon Health and Science University for the year ended June 30, 2005 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Discretely presented component units:					
Bonds/certificates payable:					
Revenue bonds	\$ 543,490	\$ -	\$ 14,925	\$ 528,565	\$ 5,395
Less deferred amounts:					
For issuance discounts	(4,859)	-	(279)	(4,580)	-
For issuance premiums	1,127	-	50	1,077	-
Accrued interest	16,136	2,455	-	18,591	-
Total bonds/certificates payable - OHSU	555,894	2,455	14,696	543,653	5,395
Other liabilities:					
Obligations under capital lease	4,693	59	602	4,150	602
Claims and judgments	2,364,212	485,735	274,246	2,575,701	202,011
Contracts, mortgages and notes	46,628	2,150	48,062	716	-
Total other liabilities - SAIF and OHSU	2,415,533	487,944	322,910	2,580,567	202,613
Total SAIF and OHSU long-term liabilities	\$ 2,971,427	\$ 490,399	\$ 337,606	\$ 3,124,220	\$ 208,008

F. Demand Bonds

Department of Veterans' Affairs Series 73

Included in long-term debt at June 30, 2005, is \$370.0 million of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, Series 73 E, F, G, and H. The bonds are general obligations of the State and are payable from revenues and reserves of the Veterans' Loan Program. The bondholder may tender these bonds on specified dates at a price equal to principal plus accrued interest.

The Department of Veterans' Affairs Remarketing Agents (J.P. Morgan Securities Inc. and Morgan Stanley) are authorized to use their best efforts to sell the repurchased bonds at face value by adjusting the interest rate on a weekly basis. The interest rate borne by each series of bonds will be determined by the designated Remarketing Agent for such bonds.

In the event the bonds cannot be remarketed, they will be purchased as specified by the Standby Bond Purchase Agreement (SBPA). Under the SBPA, J.P. Morgan Chase Bank will commit to purchase any Series 73 E and G unremarketed bonds, and Bayerische Landesbank will commit to purchase any Series 73 F and H unremarketed bonds, in each case subject to certain conditions set forth in the SBPA.

No tender advances or draws have been necessary to purchase any unremarketed bonds under the SBPA. Therefore, no tender advances or draws are outstanding as of June 30, 2005. If a tender advance did occur, it would accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus ½ of 1 percent, whichever is higher). If the tender advance is in default, interest would accrue at the bank's base rate plus 1 percent. Interest on tender advances must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off in approximately two years. Tender advances could be paid off earlier than two years if the Department of Veterans' Affairs elected to do so. If repayment of any tender advances does not occur within the specified timeframes contained in the SBPA, a default would have occurred.

Each bank's present purchase commitment consists of the payment of the purchase price equal to the principal of and up to 40 days of accrued interest calculated at a rate of 14 percent per annum, if any, on the bonds of the applicable series tendered for purchase and not remarketed on the purchase date. The purchase commitment of each bank may be reduced from time to time upon occurrence of certain events specified in the SBPA. As of June 30, 2005, the Department of Veterans' Affairs is required to pay a yearly commitment fee, payable quarterly in arrears, at a rate of 0.15 percent per annum, applied to the purchase commitment.

The present purchase commitments by the banks will remain in effect to the earlier of (a) June 30, 2007 for J.P. Morgan Chase Bank and November 30, 2015 for Bayerische Landesbank, unless extended at the option of the bank; (b) the conversion of all outstanding bonds of a given series to either a variable rate or a fixed rate; (c) the date on which no bonds of a given series are outstanding; (d) the date on which the commitment with respect to a particular series has been terminated in accordance with the SBPA; or (e) upon the occurrence of an event of default. However Bayerische Landesbank does have the option to terminate its purchase commitment obligations, at its sole discretion, as of June 30, 2007.

Department of Veterans' Affairs Series 83 and Series 84

Also included in long-term debt at June 30, 2005, is \$60.0 million of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, Series 83 and Series 84. The bonds are general obligations of the State and are payable from revenues and reserves of the Veterans' Loan Program. The bondholder may tender these bonds on specified dates at a price equal to principal plus accrued interest.

The Department of Veterans' Affairs Remarketing Agent (Bear, Stearns and Company, Inc.) is authorized to use its best efforts to sell the repurchased bonds at face value by adjusting the interest rate on a weekly basis. The interest rate borne by each series of bonds will be determined by the designated Remarketing Agent for such bonds.

In the event the bonds cannot be remarketed, they will be purchased as specified by the Standby Bond Purchase Agreement (SBPA). Under the SBPA, Dexia Credit Local will commit to purchase any Series 83 and 84 unremarketed bonds, subject to certain conditions set forth in the SBPA.

No tender advances or draws have been necessary to purchase any unremarketed bonds under the SBPA. Therefore, no tender advances or draws are outstanding as of June 30, 2005. If a tender advance did occur, it would accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus ½ of 1 percent, whichever is higher) for the time period up to 91 days; at the bank's base rate plus 1 percent for the time period covering 92 days up to the day before the end of the purchase commitment period; and at the bank's base rate plus 2.0 percent for the time period thereafter. If the tender advance is in default, interest would accrue at the bank's base rate plus 2.5 percent. Interest on tender advances must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off at the earliest of (a) the date the applicable bonds are paid in full; (b) the conversion date of all or a portion of the applicable bonds to a fixed rate or indexed rate; or (c) the effective date of delivery of a substitute alternative liquidity facility. If repayment of any tender advances does not occur within the specified timeframes contained in the SBPA, a default would have occurred.

The bank's present purchase commitment consists of the payment of the purchase price equal to the principal of and up to 34 days of accrued interest calculated at a rate of 12 percent per annum, if any, on the bonds of the applicable series tendered for purchase and not remarketed on the purchase date. The purchase commitment of the bank may be reduced from time to time upon occurrence of certain events specified in the SBPA. As of June 30, 2005, the Department of Veterans' Affairs is required to pay a yearly commitment fee, payable quarterly in arrears, at a rate of 0.125 percent per annum, applied to the purchase commitment.

The present purchase commitment by the bank will remain in effect to the earlier of (a) June 28, 2010, unless extended at the option of the bank; (b) the date on which all of the applicable bonds are no longer outstanding; (c) the business day prior to the conversion of all or a portion of the applicable bonds to a fixed or indexed interest rate; (d) 30 days following receipt from the bank of a notice to terminate its purchase commitment arising from an event of default; (e) the business day prior to the delivery of a substitute alternative liquidity facility; (f) the date on which the purchase commitment with respect to the applicable bonds has been terminated in accordance with the SBPA; or (g) upon the occurrence of an event of default.

G. No-Commitment Debt. No-commitment debt refers to debt issued to finance public purpose expenditures intended for beneficial ownership by private entities. Such debt bears the name of the State but is secured solely by the credit of the private entity and usually is serviced and administered by a trustee independent of the State. The State has no obligation for payment of this debt. Accordingly, this debt is not reported in the accompanying financial statements.

The following schedule shows no-commitment debt as of June 30, 2005 (in thousands):

Primary Government

Economic and Community Development Department	\$	683,935
Housing and Community Services Department		98,116
Oregon Facilities Authority		776,090
Total Primary Government		1,558,141

Discretely Presented Component Units

Oregon Health and Science University		115,400
Total No-Commitment Debt	\$	1,673,541

H. Debt Refundings. Occasionally, the State issues new long-term debt to extinguish the obligation of previously issued bonds or certificates of participation in order to take advantage of lower interest rates. In instances of advanced refunding, the money from the sale of new debt is placed in an irrevocable trust to provide for all future debt service payments on the old debt. The amount of these issuances has provided funds to pay the interest and principal when due on the refunded debt to and including the dates irrevocably fixed for redemption and to pay the principal amounts of the old debt to be redeemed on such irrevocable redemption dates. The trust account assets and liabilities for the defeased debt are not included in the accompanying financial statements.

The following provides a brief description of the current/advance refunding issues that occurred between July 1, 2004, and June 30, 2005:

On April 22, 2004, the Department of Energy issued \$17.3 million in 2004 Series A, B and C General Obligation Bonds with an average interest rate of 2.4 percent. These bonds refunded \$18.2 million of previously issued general obligation bonds with an average interest rate of 5.8 percent on July 1, 2004. The current refunding was undertaken to reduce the total debt service payments by \$2.5 million and resulted in an economic gain of \$2.1 million.

On July 5, 2004, the Department of Transportation issued \$75.6 million in 2004 Series B Highway User Tax Revenue Bonds with an average interest rate of 4.4 percent. These bonds refunded \$75.3 million of previously issued revenue bonds with an average interest rate of 5.4 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 16 years by \$3.5 million and resulted in an economic gain of \$2.5 million.

On November 2, 2004, the Department of Administrative Services issued \$29.5 million in 2004 Series C Certificates of Participation with an average interest rate of 3.4 percent. These certificates of participation were issued to refund \$27.5 million of outstanding certificates with an average interest rate of 5.6 percent for the Department of Administrative Services, the Department of Corrections, and the Employment Department. The advance refunding was undertaken to reduce the total debt service payments by \$1.3 million and resulted in an economic gain of \$1.3 million.

On January 18, 2005, the Department of Transportation issued \$26.2 million in 2005 Series B Highway User Tax Revenue Bonds with an average interest rate of 4.3 percent. These bonds refunded \$25.8 million of previously issued revenue bonds with an average interest rate of 4.8 percent. The advance

refunding was undertaken to reduce the total debt service payments over the next 16 years by \$1.4 million and resulted in an economic gain of \$1.1 million.

On February 23, 2005, the Housing and Community Services Department issued \$46.4 million in 2005 Series A Multiple Purpose Bonds with an average interest rate of 3.2 percent. These bonds refunded \$46.4 million of previously issued revenue bonds with an average interest rate of 6.3 percent. The current refunding was undertaken to reduce the total debt service payments over the next 19 years by \$6.7 million and resulted in an economic gain of \$4.2 million.

On March 24, 2005, the Oregon University System issued \$49.2 million in General Obligation Bonds with an average interest rate of 4.8 percent. These bonds refunded \$48.4 million of previously issued general obligation bonds with an average interest rate of 5.2 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 25 years by \$2.6 million and resulted in an economic gain of \$2.1 million.

I. Defeased Debt. The following schedule summarizes the amount of bonds and certificates of participation outstanding that are considered defeased as of June 30, 2005 (in thousands):

Governmental Activities

Department of Administrative Services	\$ 14,720
Economic and Community Development Department	32,999
Department of Corrections	437,175
Oregon Youth Authority	20,030
Employment Department	645
Department of Education	84,100
Department of Fish and Wildlife	355
Department of Transportation	102,063
Total Governmental Activities	<u>692,087</u>

Business-type Activities

Economic and Community Development Department	475
Oregon University System	179,092
State Fair and Exposition Center	4,061
Water Resources Department	9,585
Total Business-type Activities	<u>193,213</u>

Pension Trust Fund

Public Employees Retirement System	5,725
Total Defeased Bonds and Certificates of Participation	<u>\$ 891,025</u>

J. Arbitrage Rebate Liability. The Tax Reform Act of 1986 placed restrictions on the nonpurpose investment earnings from the proceeds of qualified tax-exempt bonds issued after August 15, 1986. Specifically, the nonpurpose investment earnings on these bonds are limited to the yield on each individual bond issue (based on the initial offering price to the public). Nonpurpose investment earnings in excess of the bond yield limitations are subject to rebate to the federal government.

The following schedule identifies outstanding arbitrage rebate liabilities as of June 30, 2005 (in thousands):

<u>Governmental Activities</u>	
Economic and Community Development Department	\$ 49
Department of Environmental Quality	1
Department of Education	455
Parks and Recreation Department	64
Total Governmental Activities	<u>569</u>
 <u>Business-type Activities</u>	
Department of Veterans' Affairs	402
Department of Energy	5
Oregon University System	130
State Fair and Exposition Center	4
Housing and Community Services Department	219
Total Business-type Activities	<u>760</u>
Total Arbitrage Rebate Liability	<u>\$ 1,329</u>

State of Oregon
Notes to the Financial Statements

10. INTERFUND TRANSACTIONS

Interfund balances reported in the fund financial statements as of June 30, 2005 consisted of the following (in thousands):

Due From Other Funds	Due to Other Funds											Total
	Health and Social Services	Public Transportation	Environmental Management	Common School	Nonmajor Governmental Funds	University System	Nonmajor Enterprise Funds	Fiduciary Funds	All Others			
General	\$ -	\$ 46,318	\$ 130	\$ 311	\$ -	\$ 965	\$ 22	\$ -	\$ -	\$ 641	\$ 48,387	
Health and Social Services	41,363	-	-	499	18	5,516	125	51	-	-	47,572	
Public Transportation	-	171	-	14,484	-	1,010	-	60	-	-	15,725	
Environmental Management	90	-	228	-	66	4,170	59	24	-	35	4,672	
Common School	-	-	-	3,405	-	-	-	-	-	-	3,405	
Nonmajor Governmental Funds	22,648	6,616	366	16,226	-	89,264	3,316	5	-	1,117	139,558	
Housing and Community Services	-	-	-	-	-	70	-	-	-	-	70	
Lottery Operations	-	-	-	-	-	106,974	-	-	-	-	106,974	
Unemployment Compensation	-	-	-	-	-	4,885	-	-	-	-	4,885	
University System	-	-	-	20	-	-	-	-	-	-	20	
Nonmajor Enterprise Funds	8,989	603	-	-	-	1,190	-	-	-	494	11,276	
Internal Service Funds	2	-	-	-	-	45	-	1	-	3	51	
Fiduciary Funds	-	-	-	-	3	-	-	-	1,960	-	1,963	
Total	\$ 73,092	\$ 53,708	\$ 724	\$ 34,945	\$ 87	\$ 214,089	\$ 3,522	\$ 141	\$ 1,960	\$ 2,290	\$ 384,558	

Advances to Other Funds

Advances From Other Funds	Public Transportation						Common School			Unemployment Compensation		Nonmajor Enterprise Funds		Internal Service Funds		Total
	General	General	General	General	General	General	Common School	Common School	Unemployment Compensation	Unemployment Compensation	Nonmajor Enterprise Funds	Nonmajor Enterprise Funds	Internal Service Funds	Internal Service Funds		
General	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,255	\$ 753	\$ 2,008		
Environmental Management	-	-	-	-	-	300	-	-	-	-	-	-	1	301		
Nonmajor Governmental Funds	-	40,598	-	-	-	84	1,108	-	-	108	-	-	-	41,898		
University System	-	-	-	-	-	-	-	-	-	14,640	-	-	-	14,640		
Nonmajor Enterprise Funds	-	-	5,000	-	-	-	-	-	-	1,520	-	-	51	6,571		
Internal Service Funds	-	-	-	-	-	-	-	-	-	402	-	-	-	402		
Total	\$ 40,598	\$ 5,000	\$ 384	\$ 1,108	\$ 17,925	\$ 805	\$ 65,820									

Interfund balances result from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures/expenses occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Advances to and from other funds are not expected to be repaid within one year.

**State of Oregon
Notes to the Financial Statements**

Interfund transfers reported in the fund financial statements as of June 30, 2005 consisted of the following (in thousands):

	Transfers to Other Funds											Total
	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Nonmajor Governmental Funds	Unemployment Compensation	University System	Nonmajor Enterprise Funds	Fiduciary Funds	Internal Service Funds	
Transfers From Other Funds												
General	\$ -	\$ -	\$ 129	\$ 9,741	\$ -	\$ 6,881	\$ -	\$ 327,105	\$ 45,887	\$ -	\$ 59	\$ 389,802
Health and Social Services	79,554	-	230	12,133	65	113,933	-	6,757	87,051	-	281	300,004
Environmental Management	20,438	-	232	-	19,162	42,601	-	449	24	-	214	83,120
Public Transportation	321	4,673	-	30,006	-	56,790	-	-	60	-	-	91,850
Common School	231	-	-	6,085	-	-	-	-	-	-	-	6,316
Nonmajor Governmental Funds	102,285	62,884	1,441	65,511	-	403,514	6,656	8,924	20,333	523	1,577	673,648
Housing and Community Services	427	70	-	-	-	850	-	-	-	-	-	1,347
Lottery Operations	-	-	-	-	-	407,166	-	-	-	-	-	407,166
Unemployment Compensation	-	-	-	-	-	24,563	-	-	-	-	-	24,563
University System	14,000	-	-	105	-	-	-	-	-	-	-	14,105
Nonmajor Enterprise Funds	65,994	6,590	-	198	-	19,739	-	1	-	-	187	92,709
Internal Service Funds	11,289	-	-	217	-	6,871	-	-	60	-	4	18,441
Total	\$ 294,539	\$ 74,217	\$ 2,032	\$ 123,996	\$ 19,227	\$ 1,082,908	\$ 6,656	\$ 343,236	\$ 153,415	\$ 523	\$ 2,322	\$ 2,103,071

	Transfers From Other Funds	Transfers To Other Funds
Amount per table above	\$ 2,103,071	\$ 2,103,071
Transfer of capital assets from Other Internal Service Fund to general governmental capital assets	-	3
Transfers to permanent funds reported as contributions to permanent fund principal	-	11,453
Transfers not current financial resources in governmental funds	-	(96,405)
Total transfers to/from	\$ 2,103,071	\$ 2,018,122

In the fund financial statements, total transfers to other funds of \$2,018,122 thousand are less than total transfers from other funds of \$2,103,071 thousand because of the treatment of transfers of capital assets from proprietary funds to the general government, the treatment of transfers to permanent funds, and the treatment of governmental funds transfers not meeting the availability criteria.

Capital assets of the Other Internal Service Fund, with a book value of \$3 thousand, were transferred to capital assets related to governmental funds. No amounts were reported in the governmental funds as the amount did not involve the transfer of financial resources. The Other Internal Service Fund did report a transfer out for the capital resources provided.

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The transfer of proceeds of \$11,453 thousand from the sale of the Dammasch State Hospital from the State Hospitals Fund was recorded as contributions to permanent funds. Because the financial resources transferred to the permanent fund are required to be maintained in perpetuity, those resources are reported as contributions to permanent fund principal.

Legislation passed during the 2003 legislative session required various funds to transfer excess financial resources to the General Fund. The financial resources were identified as of June 30, 2003, and were required to be transferred by January 1, 2005. Thus, those financial resources were deferred in the General Fund as of June 30, 2004. Those financial resources now meet the criteria for revenue recognition and are reported as resources this fiscal year. The General Fund is reporting transfers in from various funds as follows: Environmental Management Fund, \$15,503 thousand; Health and Social Services Fund, \$636 thousand; Public Transportation Fund, \$321 thousand; nonmajor governmental funds, \$53,916 thousand; Housing and Community Services Fund, \$427 thousand; University System Fund, \$14,000 thousand; other nonmajor enterprise funds, \$793 thousand; and internal service funds, \$10,809 thousand, totaling \$96,405 thousand.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service or capital construction from the funds collecting the receipts to the appropriate funds, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

In the year ended June 30, 2005, there were no significant individual transfers that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer, other than those legislatively required as noted above.

11. SEGMENT INFORMATION

The Oregon State Fair and Exposition Center (OSFEC) issued revenue bonds to finance certain capital construction and renovation projects prior to the 1987 Oregon State Fair. These bonds were refinanced in August 1996 in order to obtain a lower interest rate for the years remaining on the issue. Revenues from activities conducted at the OSFEC secure the OSFEC bonds.

Sections 285B.410 through 285B.482 of the Oregon Revised Statutes (ORS) create the Special Public Works Fund and authorize the Oregon Economic and Community Development Department (OECDD) to issue revenue bonds to finance loans to municipalities for infrastructure projects. ORS 285B.560 through 285B.599 establish the Water Fund and authorize OECDD to issue revenue bonds to finance loans to municipalities for safe drinking water projects and waste water system improvement projects. Loan repayments are pledged to repay the outstanding bonds.

The Housing and Community Services Department is authorized by ORS 456.645 to issue revenue bonds to finance single-family mortgage loans and multi-family housing projects. Financing of multi-family housing for elderly and disabled persons is authorized in article XI-I (2) of the Oregon Constitution. Mortgage payments and fees as well as rental revenues support these bonds.

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Summary financial information for the Oregon State Fair and Exposition Center, the Special Public Works Fund, the Water Fund and the various funds that account for the bond activity with pledged revenues of the Housing and Community Services Department for the year ended June 30, 2005 (in thousands) is as follows:

Condensed balance sheet	OSFEC	Special Public Works Fund	Water Fund	Housing Finance Revenue Bonds
Assets:				
Other current assets	\$ -	\$ 124,604	\$ 37,701	\$ 1,360
Advances to other funds	1,464	-	100	-
Capital assets	36,948	-	-	-
Accumulated depreciation	(13,130)	-	-	-
Other noncurrent assets	2,554	187,233	89,701	23,029
Total assets	\$ 27,836	\$ 311,837	\$ 127,502	\$ 24,389
Liabilities:				
Other current liabilities	\$ 2,661	\$ 29,117	\$ 5,437	\$ 1,192
Advances from other funds	47	-	-	-
Other noncurrent liabilities	17,474	115,594	62,616	4,485
Total liabilities	20,182	144,711	68,053	5,677
Net assets:				
Invested in capital assets, net of related debt	5,186	-	-	-
Restricted	-	2,980	654	18,712
Unrestricted	2,468	164,146	58,795	-
Total net assets	7,654	167,126	59,449	18,712
Total liabilities and net assets	\$ 27,836	\$ 311,837	\$ 127,502	\$ 24,389

Condensed statement of revenues, expenses, and changes in fund net assets	OSFEC	Special Public Works Fund	Water Fund	Housing Finance Revenue Bonds
Loan interest income	\$ -	\$ 9,117	\$ 4,319	\$ -
Other operating revenue	5,151	2,362	728	1,230
Depreciation and amortization	(976)	-	-	-
Other operating expenses	(9,051)	(9,946)	(4,397)	(386)
Operating income (loss)	(4,876)	1,533	650	844
Transfers from other funds	23,249	19,969	-	28
Transfers to other funds	(22,053)	-	-	(3,320)
Change in net assets	(3,680)	21,502	650	(2,448)
Beginning net assets (as restated)	11,334	145,624	58,799	21,160
Ending net assets	\$ 7,654	\$ 167,126	\$ 59,449	\$ 18,712

Condensed statement of cash flows	OSFEC	Special Public Works Fund	Water Fund	Housing Finance Revenue Bonds
Net cash provided (used) by:				
Operating activities	\$ (3,599)	\$ (5,118)	\$ (11,524)	\$ 3,536
Noncapital financing activities	2,970	6,400	(2,793)	(4,681)
Capital and related financing activities	(3,788)	-	-	-
Investing activities	412	2,340	2,057	961
Net increase (decrease)	(4,005)	3,622	(12,260)	(184)
Beginning cash and cash equivalents (as restated)	5,542	101,809	50,078	392
Ending cash and cash equivalents	\$ 1,537	\$ 105,431	\$ 37,818	\$ 208

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Condensed balance sheet	Mortgage Revenue Bonds	Homeowner Revenue Bonds	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Assets:					
Other current assets	\$ 527,778	\$ 99	\$ 7,304	\$ 5,753	\$ 22,397
Capital assets	-	-	-	-	82
Accumulated depreciation	-	-	-	-	(68)
Other noncurrent assets	849,785	38,703	166,469	52,896	258,952
Total assets	\$ 1,377,563	\$ 38,802	\$ 173,773	\$ 58,649	\$ 281,363
Liabilities:					
Due to other funds	\$ 179	\$ -	\$ -	\$ -	\$ -
Other current liabilities	522,458	108	6,240	5,507	21,010
Other noncurrent liabilities	806,809	38,585	156,195	41,098	210,594
Total liabilities	1,329,446	38,693	162,435	46,605	231,604
Net assets:					
Invested in capital assets, net of related debt	-	-	-	-	14
Restricted	48,117	109	11,338	12,044	49,745
Total net assets	48,117	109	11,338	12,044	49,759
Total liabilities and net assets	\$ 1,377,563	\$ 38,802	\$ 173,773	\$ 58,649	\$ 281,363

Condensed statement of revenues, expenses, and changes in fund net assets	Mortgage Revenue Bonds	Homeowner Revenue Bonds	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Loan interest income	\$ -	\$ -	\$ -	\$ -	\$ 15,112
Other operating revenue	55,627	188	10,977	2,320	6,098
Depreciation and amortization	-	-	-	-	(210)
Other operating expenses	(55,796)	(201)	(8,470)	(790)	(13,626)
Operating income (loss)	(169)	(13)	2,507	1,530	7,374
Transfers from other funds	2,135	122	765	57,026	5,065
Transfers to other funds	(2,500)	-	-	(46,512)	(5,343)
Change in net assets	(534)	109	3,272	12,044	7,096
Beginning net assets (as restated)	48,651	-	8,066	-	42,663
Ending net assets	\$ 48,117	\$ 109	\$ 11,338	\$ 12,044	\$ 49,759

Condensed statement of cash flows	Mortgage Revenue Bonds	Homeowner Revenue Bonds	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Net cash provided (used) by:					
Operating activities	\$ (35,804)	\$ (9)	\$ (8,428)	\$ 3,480	\$ 25,668
Noncapital financing activities	15,261	38,506	10,849	11,593	(35,781)
Investing activities	28,800	(38,397)	(3,413)	(14,186)	2,444
Net increase (decrease)	8,257	100	(992)	887	(7,669)
Beginning cash and cash equivalents (as restated)	18,800	-	1,540	-	50,865
Ending cash and cash equivalents	\$ 27,057	\$ 100	\$ 548	\$ 887	\$ 43,196

12. EMPLOYEE RETIREMENT PLANS

A. Plan Descriptions. The Public Employees Retirement System (PERS) provides defined benefit and defined contribution retirement plans for units of State government, school districts, community colleges, and political subdivisions of the State. The Public Employees Retirement Board (Board), under the guidelines of Chapters 238 and 238A of the Oregon Revised Statutes, administers PERS, and it provides retirement benefits and cost-of-living adjustments as well as disability, postemployment healthcare, and death benefits to plan members and beneficiaries.

PERS is a single pension plan that features both a cost-sharing multiple-employer pension plan and an agent multiple-employer pension plan. All plan assets may legally be used to pay benefits to any of the plan members or beneficiaries for which the assets were accumulated. Participation in the PERS cost-sharing multiple-employer plan is mandatory for units of State government, community colleges, and school districts. PERS is an agent multiple-employer plan for political subdivisions that have not elected to join the State and Local Government Rate Pool. Participation by most political subdivisions is optional, but irrevocable if elected. The State has no obligation to contribute, and it does not contribute, to the agent multiple-employer pension plan. At June 30, 2005, PERS had 890 employer members consisting of:

State Agencies	132
Community Colleges	17
School Districts	244
Political Subdivisions	<u>497</u>
	<u>890</u>

The PERS defined benefit and defined contribution retirement plans are reported in a pension trust fund of the State primary government. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Fiscal Services Division, Public Employees Retirement System, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Effective July 1, 1996, the Oregon Health and Science University (OHSU) established the University Pension Plan (UPP). The UPP is a defined contribution plan that is available to employees as an alternative to PERS. Employees become fully vested in employer contributions over a four-year period.

The 1995 Oregon Legislature enacted legislation authorizing the Oregon University System (OUS) to offer a defined contribution retirement plan as an alternative to PERS. Beginning April 1, 1996, the Optional Retirement Plan (ORP) became available to OUS unclassified faculty and staff who were eligible for PERS. In addition to PERS and ORP, the OUS offers a variety of retirement options including the Teacher's Insurance and Annuity Association and College Retirement Equities Fund, the Federal Civil Service Retirement System, and the Federal Employees Retirement System.

B. Summary of Significant Accounting Policies. The financial statements of PERS are prepared using the accrual basis of accounting. Plan member contributions and employer member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan investments are reported at fair value. The fair value of debt and equity securities is determined by the custodial agent, using recognized pricing services. Mortgage loans on real estate and state agency loans are stated at the amortized unpaid principal balance. Fair values of investments in real estate are based upon valuations provided by investment managers and advisors retained by the Oregon State Treasury. Investments that do not have an established market are represented at estimated fair value.

C. Funding Policies. The PERS funding policy provides for plan monthly employer contributions at actuarially determined rates. These contributions, coupled with employee contributions, are intended to accumulate sufficient assets to pay retirement benefits when due. Plan member contributions are established by State statute; the Board, based on the required actuarially determined rate, establishes State employer contributions.

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The following schedule summarizes the required State employee contributions and the required State employer contributions, shown as a percentage of covered salary, for the PERS multiple-employer plans, as of July 1, 2004:

	238/238A	238	238A
	Employee Rate	Employer Rate	Employer Rate
State Agencies	6.0%	4.71%	8.44%
Community Colleges	6.0%	10.24%	8.44%
Judiciary	7.0%	19.39%	8.44%
School Districts	6.0%	11.11%	8.44%
Political Subdivisions	6.0%	10.60%	8.44%

The State 238 and 238A combined employer contributions for the years ended June 30, 2005, 2004, and 2003 were approximately \$107.6 million, \$2,132.0 million, and \$195.1 million respectively. Fiscal year 2005 contributions, fiscal year 2004 contributions less \$2.0 billion for reduction of the State's unfunded actuarial liability, and fiscal year 2003 contributions were equal to the annual required contributions required for each year. The \$2.0 billion contribution in fiscal year 2004 resulted in a net pension asset that will be amortized using the level dollar closed method over 22 years and assumed interest rate of 8.0 percent. The employer pension cost of \$143.6 million for fiscal year 2005 includes \$36.0 million of amortization of the net pension asset.

The OHSU Board of Directors determines contribution levels for the UPP. Employer contributions to the plan are 6.0% of salary and employee contributions are an additional 6.0%. Currently OHSU is funding employee contributions. The OHSU employer contributions to the UPP for the years ended June 30, 2005, 2004, and 2003 were approximately \$8.4 million, \$7.5 million, and \$5.9 million respectively, and were equal to the employee contributions for each year.

Under the ORP Tier One, Tier Two and Tier Three, the employee contribution rate is 6.0% and is paid by OUS. The employer contribution rate for the ORP Tier One and Tier Two is 11.31% and for Tier Three is 8.04% as of June 30, 2005. The OUS employer contribution to the ORP for the years ended June 30, 2005, 2004, and 2003 was approximately \$16.6 million, \$12.7 million, and \$11.8 million respectively. The OUS employee contribution to the ORP for the years ended June 30, 2005, 2004, and 2003 was approximately \$8.9 million, \$8.4 million, and \$7.5 million respectively.

13. OTHER POSTEMPLOYMENT BENEFITS

Under Oregon Revised Statute 238.410, the Public Employees Retirement Board (Board), acting through the Public Employees Retirement System (PERS) may contract for medical and hospital insurance on behalf of retired members. Members and their dependents are eligible for PERS health care coverage if the member is receiving a retirement allowance or benefit under the PERS. A surviving spouse or dependent of a PERS retiree is eligible to participate if the surviving spouse or dependent was covered under the health plan at the time of the retiree's death.

Oregon Revised Statute 238.420 established the Retirement Health Insurance Account (RHIA) and authorized the payment of up to \$60 toward the monthly cost of health insurance for eligible PERS members. To qualify, the member must: (1) have eight years or more qualifying service in the PERS system at the time of retirement, or receive a disability allowance as if the member had eight years or more of creditable service in the PERS system, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who had been eligible to receive the contribution is eligible to receive the subsidy if the individual is receiving a retirement benefit or allowance from PERS, or the individual was insured at the time the member died and the member retired before May 1, 1991.

All PERS employers currently contribute 0.64 percent of covered payroll to fund the RHIA. This contribution is included in the employer contribution rates discussed in Note 12. The employer contribution rate covers the normal cost payment and an amount to amortize the unfunded actuarial accrued liability over a period commencing on the actuarial valuation date and ending on December 31, 2027. The employers' aggregate

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actual contribution for the year ended June 30, 2005, totaled approximately \$37.3 million. The number of active plan RHIA participants totaled 35,360 for the year ended June 30, 2005. Based on the December 31, 2003 valuation, the actuarial accrued liability for the RHIA was \$522.5 million and the unfunded actuarial accrued liability was \$405.4 million.

Oregon Revised Statute 238.415 established the Retirement Health Insurance Premium Account (RHIPA) and requires the Board on or before January 1 of each year to calculate the average difference between the health insurance premiums paid by retired State employees under contracts entered into by the Board and health insurance premiums paid by State employees who are not retired. ORS 238.415 authorizes payment of this average difference to qualified retired State employees. Retired State employees are qualified to receive this benefit if they had eight or more years of qualifying service in PERS at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage. A surviving spouse or dependent of a deceased retired State employee is eligible to receive the subsidy if he or she is receiving a retirement benefit or allowance from PERS or was insured at the time the member died and the member retired on or after September 29, 1991.

For State agencies, the actuarial valuation as of December 31, 2003, includes 0.16 percent of PERS covered salaries to fund the RHIPA. This rate went into effect July 1, 2004. State employer contributions for the year ended June 30, 2005, totaled approximately \$2.3 million. The number of active plan RHIPA participants totaled 902 for the year ended June 30, 2005. Based on the December 31, 2003 valuation, the actuarial accrued liability for the RHIPA was \$25.0 million and the unfunded actuarial accrued liability was \$21.0 million.

The postemployment retirement health care benefit obligation, including both RHIA and RHIPA, was determined as part of the actuarial valuation prepared by the PERS consulting actuary at December 31, 2003 using the entry age method. Employers' contributions are advance-funded on an actuarially determined basis for both programs. Significant assumptions used in the actuarial update include an 8.0 percent per annum rate of return on the investment of present and future assets, projected salary increases of 4.0 percent, cost of living increases of 2.0 percent, and a health cost inflation adjustment graded from 8.0 percent in 2005 to 5.0 percent in 2011, at the rate of 0.5 percent per year. The RHIA plan uses an inflation assumption of 3.0 percent. However, the RHIPA plan does not use an inflation assumption because statute sets the payment amount and does not adjust for increases in health care costs. The actuarial value of plan assets for both RHIA and RHIPA is equal to the fair market value of assets on the valuation date, less a reserve equal to a pro-rata portion of the investment gains or losses over the four-year period ending on the evaluation date.

14. DEFERRED COMPENSATION PLANS

A. *Deferred Compensation Fund.* ORS 243.411 established the Deferred Compensation Fund. ORS 243.400 to 243.507 established and provided for PERS to administer the Deferred Compensation funds with the Oregon Savings Growth Plan (State Plan). The State Plan is a benefit available to eligible State employees. To participate, an employee enters into an individual agreement with the State deferring current earnings to be paid at a future date. The Board, as trustee of the assets, contracts with Citistreet, a joint venture between Citigroup and State Street Bank and Trust Company, to maintain participant records. The Oregon State Treasury, as custodian of the assets, also contracts with State Street Bank and Trust Company to provide financial services. Activity of the State Plan is accounted for in a pension trust fund. As of June 30, 2005, the fair value of investments was \$742.4 million.

B. *SAIF Corporation Deferred Compensation Plan.* SAIF Corporation administers a deferred compensation plan that is available to SAIF employees (SAIF Plan). Employees may enter into an individual agreement with SAIF Corporation deferring current earnings to be paid at a future date. The SAIF Plan assets are held in a custodial account or an annuity contract by the plan provider for the exclusive benefit of the participants or their beneficiaries. The plan is administered in compliance with Internal Revenue Code Section 457(g). The plan assets and the corresponding liability are not reported in the SAIF Corporation balance sheet at December 31, 2004.

Participants in both the State Plan and the SAIF Plan are not required to pay federal or State income taxes on the deferred earnings until those earnings are received. Participants or their beneficiaries cannot receive the funds until at least one of the following circumstances is met: termination due to death; disability; resignation;

retirement; unforeseeable emergency; or by requesting a de minimus distribution from inactive accounts valued less than \$5,000. Payments to participants may be made over a period not to exceed the life expectancy of the participant and/or alternate payee. Employees of education institutions may participate in both the State Plan and 403(b) tax-deferred annuity programs.

The State and SAIF Corporation have no liability for losses under these deferred compensation plans; but, they do have the duty of due care that would be required of an ordinary prudent investor.

15. RISK FINANCING

A. Property, Liability, and Workers' Compensation Coverages for State Government. The State Services Division of the Department of Administrative Services administers the State's property and liability insurance programs. The division believes it is economical to manage the State's risks internally. The division minimizes purchases of commercial insurance for most risks of loss. The division sets aside assets for actuarially forecasted losses in the Insurance Fund. It is an internal service fund established under Chapter 278 of the Oregon Revised Statutes. The Insurance Fund services claims for these risks:

- Direct physical loss or damage to State property
- Tort liability claims brought against the State, its officers, employees, or agents
- Inmate injury
- Workers' compensation
- Employee dishonesty
- Faithful performance bonds for key positions as required by law and additional positions as determined by agency policy

The fund is backed by commercial policies, such as 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 commercial insurance coverage for each of the past three fiscal years.

All State agencies, commissions and boards participate in the fund. The division allocates the cost of claims and claims administration by charging an assessment to each State entity, based on its share of losses. Statewide risk charges are based on independent biennial actuarial forecasts and division expenses, less any available fund balance from the prior biennium.

The division purchases workers' compensation insurance for the State from SAIF Corporation. The Insurance Fund reimburses SAIF Corporation for claim costs and service fees. The division purchases retrospective paid loss plans that have cash flow and investment earnings advantages. The plans are ten years in length. The accumulated claim loss liability for the plans was approximately \$37 million as of June 30, 2005. Independent actuaries determine biennial loss forecasts.

The division reevaluates claim liabilities periodically, considering recently settled claims, the frequency of claims, and other economic and social factors. Liabilities include an amount for claims and legal expenses that have been incurred but not reported. The estimation process is not exact since actual claim liabilities depend on inflation and changes in legal doctrines and damage awards. The division discounts claim liabilities at annual rates of two to seven percent. Contracted actuaries estimate claims and allocated and unallocated expenses, including legal expenses, which are incurred but not reported. They use the last 15 to 20 years of State claims data and the projected numbers of employees, payroll, vehicles, and other property. They forecast ultimate losses by line of coverage.

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The changes in the Insurance Fund balances of aggregate claim liabilities for the years ended June 30, 2005 and 2004 (in thousands) are:

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claim Payments	Ending Balance
2005	\$ 78,180	\$ 41,269	\$ (31,314)	\$ 88,135
2004	71,234	39,164	(32,218)	78,180

The June 30, 2005 balance of claim liabilities is reported as claims and judgments payable in the Central Services Fund.

B. SAIF Corporation Workers' Compensation Insurance. The Legislature created SAIF Corporation to transact workers' compensation insurance and reinsurance business. SAIF Corporation is an independent public corporation, a component unit of the State, and the largest workers' compensation insurer in the State.

The financial activity for SAIF Corporation is discretely presented in the financial statements. The liability for claims and claim adjustment expenses is generally based on experience. This includes provision for reported claims, claims incurred but not reported, and claims that are currently closed but which experience indicates will be reopened. SAIF Corporation discounts certain indemnity claim reserves to their present value at a rate of 3.5 percent.

C. Supplemental Workers' Compensation Insurance. The Department of Consumer and Business Services operates several supplemental workers' compensation benefit programs. These are accounted for as special revenue funds. The primary program is the Retroactive Program, established by Oregon Revised Statute 656.506. It provides increased insurance benefits to claimants or their beneficiaries when current payment requirements exceed benefits in effect at the time of injury.

The Department of Consumer and Business Services determines the funding of supplemental workers' compensation insurance programs through cash flow projections based on historical data and economic forecasts. Employer work hour assessments, contributions by employees, workers' compensation insurance premium assessments, investment, and interest earnings pay for the programs.

The changes in the balances of aggregate claim liabilities for supplemental workers' compensation insurance for the years ended June 30, 2005 and 2004 (in thousands) are:

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claim Payments	Ending Balance
2005	\$ 1,105,123	\$ 91,310	\$ (171,570)	\$ 1,024,863
2004	1,056,519	51,334	(2,730)	1,105,123

Long-term liabilities were actuarially computed as of June 30, 2005, using the discounted cost valuation method. The discount rate for the Retroactive Program is 6.0 percent. This liability is reported as part of claims and judgments payable in the government-wide Statement of Net Assets.

16. DISCOUNTS AND ALLOWANCES IN PROPRIETARY FUNDS

Proprietary fund revenues, including discretely presented component units, are reported net of discounts and allowances in the accompanying financial statements. The following schedule summarizes discounts and allowances in proprietary funds for the year ended June 30, 2005 (in thousands):

Primary Government

Proprietary Funds	Type of Revenue	Amount
Lottery Operations	Sales	\$ 2,123
Unemployment Compensation	Assessments	(1,036)
Unemployment Compensation	Fines and forfeitures	(603)
University System	Charges for services	28,047
Nonmajor Enterprise Funds	Charges for services	73,210
Nonmajor Enterprise Funds	Sales	4,389
Nonmajor Enterprise Funds	Other	(3)
Internal Service Funds	Other	(53)
Internal Service Funds	Charges for services	(5)
Total primary government		<u>\$ 106,069</u>

Discretely Presented Component Units

Component Units	Type of Revenue	Amount
SAIF Corporation	Charges for services	\$ 346
Oregon Health and Science University	Charges for services	76,281
Oregon Health and Science University	Gifts, grants and contracts	(283)
Total SAIF and Oregon Health and Science University		<u>\$ 76,344</u>

17. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments over \$10 million are included in total prior period adjustments in the accompanying financial statements:

Primary Government. A prior period adjustment of \$34.3 million was made to correct the balances of capital assets that were incorrectly reported in prior years. A prior period adjustment of \$8.7 million was made to restate beginning net assets as a result of correcting the fund classification for activity formerly reported in the Private Purpose Trust Fund, Common School Fund. In addition, a prior period adjustment of \$2.0 billion was made to increase beginning net assets to correctly report a negative net pension obligation (asset) that resulted from the issuance of pension obligation bonds in the prior fiscal year. The \$2.0 billion was contributed to the State's pension plan with the Public Employees Retirement System last fiscal year in excess of the annual required contribution and should have been capitalized in the Statement of Net Assets rather than being reported as an expense in the Statement of Activities.

Governmental Funds

Health and Social Services Fund. Beginning fund balance was restated by \$22.8 million for revenue that should have been recognized last year.

Common School Fund. An adjustment of \$659.3 million was made to restate beginning fund balance as a result of correcting the fund classification for activity formerly reported in the Private Purpose Trust Fund, Common School Fund.

Fiduciary Funds

Common School Fund. A prior period adjustment of \$666.6 million was made to restate beginning net assets to reflect the correction of the fund classification of the Common School Fund from a Private Purpose Trust Fund to a Special Revenue Fund, with capital assets being reported in the government-wide Statement of Net Assets.

18. COMMITMENTS

The State has made commitments that are to be funded with general funds, federal funds, lottery funds, or other fund resources. These commitments may take the form of grants, loans, or contracts for services. Commitments in effect as of June 30, 2005, and the anticipated sources of funding, are summarized in the following table (in thousands):

Purpose	General Funds	Federal Funds	Lottery Funds	Other Funds	Total
Community services contracts	\$ 327,252	\$ 381,345	\$ 2,781	\$ 7,606	\$ 718,984
Indigent defense contracts	31,979	-	-	-	31,979
Personal services contracts	6,993	24,829	963	11,639	44,424
Grant and loan commitments	6,625	251,287	22,147	231,968	512,027
School funding commitments	32,387	-	-	788	33,175
Equipment purchases	-	-	30,670	-	30,670
Total	<u>\$ 405,236</u>	<u>\$ 657,461</u>	<u>\$ 56,561</u>	<u>\$ 252,001</u>	<u>\$ 1,371,259</u>

19. CONTINGENCIES

A. *Litigation.* The State is involved in certain legal proceedings that, if decided against the State, may require significant future expenditures or may impair future revenue sources. A significant legal claim pending against the State involves several trucking associations that have filed a complaint against the Department of Transportation alleging that the State's weight-mile tax system is unconstitutional. Part of the remedy sought is a refund of weight-mile taxes paid since January 1, 2000. A trial court ruled in December 2001 that the tax is lawful. On appeal, the Oregon Court of Appeals issued a decision in April 2004 holding that the flat fee option violates the commerce clause of the U.S. Constitution. However, in December 2005, the Oregon Supreme Court reversed the Court of Appeals decision, upholding the constitutionality of the tax. The time period for the plaintiff to petition the Oregon Supreme Court for reconsideration or to file an appeal to the U.S. Supreme Court has not expired. If the tax is finally determined to be unlawful, the State may be required to refund up to approximately \$179.0 million. However, the State intends to continue to vigorously defend the weight-mile tax structure and believes it has strong arguments to reduce or avoid any potential liability.

Other significant legal claims pending against the State challenge the legislative changes that were enacted to the Public Employees Retirement System (PERS) during the 2003 legislative session. In July 2003, the PERS legislation was challenged in the federal district court and the Oregon Supreme Court. These claims allege that the PERS-covered employees' contractual rights were violated. In August 2004, a federal district court upheld the legislation as lawful under the U.S. Constitution; however, an appeal is pending before the Ninth Circuit Court of Appeals. In March 2005, the Oregon Supreme Court ruled that Tier One members must continue to receive the assumed annual interest rate on their existing accounts and cost of living adjustments for current retirees could not be suspended. All other challenges to the 2003 PERS legislation were rejected; however, several other cases remain pending in the Oregon circuit courts and may be governed by this decision.

The 2003 PERS legislation also included a statutory remedy to a prior case that was brought on behalf of certain local government employers challenging previous actions by the Public Employees Retirement Board (PERB), *City of Eugene v. State of Oregon*. In that case, the trial court ruled that PERB had credited too much in 1999 earnings to member accounts and had not properly funded reserves, leading to certain retirees receiving excess benefits. The 2003 PERS legislation suspended cost of living increases to retirees until excess benefit payments were offset and provided that any excess amounts paid were to be classified as administrative expenses that may be charged against future earnings of non-retired members' accounts. Some public employees filed an appeal in the *City of Eugene* case. After the trial court's judgment, the appeals, and the 2003 legislation, the PERB and various public employers entered into a settlement agreement in which the PERB agreed to comply with the trial court's judgment, as modified by the terms of the 2003 PERS legislation. In August 2005, the Oregon Supreme Court issued a ruling dismissing appeals as moot due to the 2003 PERS legislation, court decisions, and the settlement agreement.

State of Oregon
Notes to the Financial Statements

The State currently anticipates that the amount state agencies must pay into the PERS fund may increase as a result of the March 2005 Oregon Supreme Court ruling. However, this amount may be further increased, or decreased, depending on a variety of factors, including investment performance of the PERS fund, the use of reserves, and the outcome of pending court cases. In the federal case, if the Ninth Circuit reverses the trial court, those portions of the 2003 PERS legislation that were upheld by the Oregon Supreme Court under the Oregon Constitution could be overturned under the U.S. Constitution. The State believes, however, that there are strong arguments for upholding the trial court's decision in the federal case. The PERB decided at its September 2005 meeting to implement the City of Eugene decision by recovering amounts overpaid to retirees due to over crediting of earnings in 1999. The methodology for recovery has not been determined. The State does not expect any increase in employer contribution rates that may be imposed by the PERB to take effect before the 2007-2009 biennium.

B. Debt Guarantees. Article XI-K of the Oregon Constitution authorizes the State to guarantee the general obligation bonded debt of Oregon school districts, community colleges, and education service districts. The Article authorizes the issuance of state general obligation bonds to satisfy the guarantee. Short-term borrowing from eligible state funds may also satisfy the guarantee. Ultimate responsibility for debt service payments remains the responsibility of the respective district, and the Treasurer will seek recovery if payments are made on behalf of any district. As of June 30, 2005, a total of \$1.8 billion in bonds was outstanding and guaranteed under these provisions.

C. Unemployment Benefits. State employees who qualify are entitled to benefit payments during periods of unemployment. Each state agency is required to reimburse the Employment Department for benefit payments made to former employees. There appears to be no practical method of estimating the amount of future benefit payments, which may be made to former employees for wage credits earned prior to fiscal year end. Consequently, this potential obligation is not reported in the accompanying financial statements. Expenditures relating to these benefits for the year ended June 30, 2005, totaled approximately \$9.7 million.

D. Federal Issues. The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the State. Institutions of higher education and other state agencies are required to comply with various federal regulations issued by the Office of Management and Budget, if such agencies are recipients of federal grants, contracts, or other sponsored agreements. Certain state agencies may not be in total compliance with these regulations. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements.

20. SUBSEQUENT EVENTS

A. Bond Issues. The following schedule summarizes bond issues that have occurred since July 1, 2005 (in thousands):

General Obligation Bonds

Department of Energy	\$ 5,970
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Revenue Bonds

Housing and Community Services Department	\$ 64,855
Department of Administrative Services	14,615

B. Bond Calls. The following schedule summarizes bond calls that have occurred since July 1, 2005 (in thousands):

General Obligation Bonds

Department of Veterans' Affairs	\$ 13,195
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Revenue Bonds

Housing and Community Services Department	\$ 61,135
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State of Oregon
Notes to the Financial Statements

C. Certificate of Participation Issue. On October 20, 2005, the Department of Administrative Services issued \$139.5 million of certificates of participation, 2005 Series B. The proceeds will primarily be used to finance five projects: the construction of a new prison facility in Madras for the Department of Corrections; the second phase of a building that is being modified to be used as a laboratory by the Department of Human Services and the Department of Environmental Quality; the second phase of a program to finance hardware, software, and transition costs of setting up a consolidated data center facility for the Department of Administrative Services; upgrade of software and hardware to enhance the security of the State's computer network; and the purchase of replacement vehicles for the State motor pool.

D. Tax Anticipation Note Issue. On November 2, 2005, the State issued \$148.1 million of full faith and credit Tax Anticipation Notes, 2005 Series A. The proceeds of these notes will be used to meet seasonal cash needs of the State and for cash management purposes within the 2005-2007 biennium.

E. Refundings. On August 1, 2005, the Housing and Community Services Department issued \$14.8 million of Series A and \$24.4 million of Series B bonds to refund prior bonds. On August 16, 2005, the Department of Environmental Quality issued \$13.6 million of Series A pollution control refunding bonds. The State will use the proceeds to refund \$13.1 million of Series 1995A, Series 1998A, and Series 2000B. On October 20, 2005, the Department of Administrative Services issued \$19.9 million of 2005 Series C refunding certificates of participation. The State will use these proceeds to refund \$18.8 million of 1997 Series B and 1998 Series A certificates of participation.

F. Debt Guarantees. Under Article XI-K of the Oregon Constitution, \$25.5 million in bonds for various school districts were issued and guaranteed following the fiscal year ended June 30, 2005 as noted below (in thousands). Debt service payments remain the ultimate responsibility of the respective district.

Tillamook County School District 101	\$ 11,540
Columbia County School District No. 6J Refunding	5,755
Coos County School District No. 8 Refunding	2,820
Yamhill County School District No.4J Refunding	5,380

21. VIOLATIONS OF FINANCE RELATED LEGAL PROVISIONS

During the year ended June 30, 2005, General Fund expenditures of the Department of Human Services (department) exceeded appropriations for the 2003-05 biennium legislatively approved budget by \$86.6 million. In order to exceed the General Fund budgetary authority, the department circumvented budgetary controls in the accounting system by moving General Fund expenditures to the Health and Social Services Fund and recording additional expenditures against the General Fund appropriation that became available as a result of moving the \$86.6 million of expenditures. This is in violation of Article IX, Section 4 of the Oregon Constitution and Oregon Revised Statute 291.238. As of June 30, 2005, the department had moved \$40.6 million of expenditures back to the General Fund; the remaining \$46.0 million is reflected as an interfund payable in the General Fund in the accompanying financial statements.

The actions that have been taken to address these violations are as follows: In October 2005, the department requested and received authorization from the Legislative Emergency Board to transfer General Fund budgetary authority of \$34.3 million from their Health Services program cluster to their Department-wide Support Services cluster and their Seniors and People with Disabilities cluster, in the amount of \$18.9 million and \$15.4 million respectively. The department used the additional budgetary authority granted by the Emergency Board, plus \$6.2 million of available General Fund appropriation in other programs within the department, to move \$40.5 million of General Fund expenditures back to the General Fund. The remaining \$5.5 million of expenditures will be moved back to the General Fund before the close of the lapse period for the 2003-05 biennium.

Subsequent to June 30, 2005, the department moved an additional \$5.5 million of General Fund expenditures to the Health and Social Services Fund and recorded additional expenditures against the General Fund appropriation that became available. The additional \$5.5 million of expenditures will be moved back to the General Fund before the close of the lapse period for the 2003-05 biennium.

State of Oregon
Notes to the Financial Statements

In addition, the Department of Human Services (department) incurred General Fund expenditures of \$98.1 thousand during the biennium that exceeded its legislatively approved budget for the 2003-05 biennium. This is in violation of Article IX, Section 4 of the Oregon Constitution and Oregon Revised Statute 291.238. These expenditures were paid from the department's 2005-07 General Fund appropriation with the intent to move the expenditures back to the 2003-05 biennium as appropriation becomes available for use.

During the year ended June 30, 2005, the State Board of Parole and Post-Prison Supervision (board) incurred General Fund obligations in excess of appropriations for the 2003-05 biennium in the amount of \$42.0 thousand. These are in violation of Article IX, Section 4 of the Oregon Constitution and Oregon Revised Statute 291.238. In the eighth quarter of the biennium, the Department of Justice performed on average 73.4 percent more work for the board than in the first seven quarters. This resulted in expenditures that were not forecasted, causing the board to exceed its 2003-05 budget. The board is seeking additional appropriation authority for the 2005-07 budget to pay these expenditures. Furthermore, the board is meeting with the Department of Justice to review their planned work and billing process for the board in order to discuss this situation and examine possible solutions to ensure this does not happen in the future.

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Required Supplementary Information

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Budgeted Appropriated Funds

The State accounts for budgetary activities based on the source of monies used to pay expenditures. Separate appropriated funds are established for each funding source.

General Fund

This fund accounts for expenditures made with general fund revenue. General fund revenue consists largely of personal and corporate income taxes.

Federal Funds

This fund accounts for budgeted expenditures made with federal revenue.

Lottery Funds

This fund accounts for expenditures made with lottery funds. These funds are earned by the State Lottery, and transferred to the Economic Development Fund at the Department of Administrative Services for disbursement to agencies where the funds are expended.

Other Funds

This fund accounts for budgeted expenditures other than those funded by general, federal and lottery funds.

State of Oregon

**Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Budgetary (Non-GAAP) Basis -
All Budgeted Appropriated Funds
For the Biennium Ended June 30, 2005
(In Thousands)**

General Fund					
	2003-2005 Original Budget	2003-2005 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
Revenues:					
Personal Income Taxes	\$ 9,395,349	\$ 8,842,317	\$ 4,142,886	\$ 4,698,994	\$ (437)
Corporate Income Taxes	539,737	550,487	317,506	323,276	90,295
Tobacco Taxes	110,482	112,297	49,392	55,204	(7,701)
Motor Fuels Taxes	-	-	-	-	-
Weight-Mile Taxes	-	-	-	-	-
Employer-Employee Taxes	-	-	-	-	-
Vehicle Registration Taxes	-	-	-	-	-
Other Taxes	218,812	244,457	130,626	113,173	(658)
Licenses and Fees	42,312	46,108	20,841	26,622	1,355
Federal	-	-	-	-	-
Charges for Services	6,000	6,700	3,327	2,955	(418)
Fines and Forfeitures	1,445	1,445	5,546	2,302	6,403
Rents and Royalties	-	-	-	-	-
Investment Income	22,500	14,500	8,206	39,517	33,223
Sales	22,387	22,387	2,193	2,366	(17,828)
Donations and Grants	-	-	2	20	22
Pension Bond Debt Service Assessments	-	-	-	-	-
Other	3,690	704	6,867	18,050	24,213
Total Revenues	10,362,714	9,841,402	4,687,392	5,282,479	128,469
Expenditures:					
Education	6,200,339	5,921,268	3,303,543	2,571,205	(46,520)
Human Resources	2,460,675	2,364,151	1,288,905	910,966	(164,280)
Public Safety	1,240,654	1,237,085	616,023	593,608	(27,454)
Economic and Community Development	18,073	18,687	8,088	9,186	(1,413)
Natural Resources	111,721	118,786	52,149	60,133	(6,504)
Transportation	3,915	3,915	3,915	-	-
Consumer and Business Services	10,935	11,047	5,392	5,488	(167)
Administration	127,578	147,881	73,969	69,863	(4,049)
Legislative	56,619	59,312	23,611	29,211	(6,490)
Judicial	412,166	403,719	260,845	139,939	(2,935)
Total Expenditures	10,642,675	10,285,851	5,636,440	4,389,599	(259,812)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(279,961)	(444,449)	(949,048)	892,880	388,281
Other Financing Sources (Uses):					
Transfers from Other Funds	1,054,706	1,013,341	448,597	557,042	(7,702)
Transfers to Other Funds	(678,947)	(671,432)	(346,041)	(391,054)	(65,663)
Long-term Debt Issued	-	-	-	-	-
Debt Issuance Premium	-	-	-	-	-
Debt Issuance Discount	-	-	-	-	-
Loan Proceeds	-	-	-	-	-
Gain(Loss) on Disposition of Assets	-	-	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 95,798	\$ (102,540)	(846,492)	1,058,868	\$ 314,916
Budgetary Fund Balances - Beginning			139,612	(591,844)	
Prior Period Adjustments			-	(786)	
Budgetary Fund Balances - Beginning - As Restated			139,612	(592,630)	
Prior Biennium Transactions			115,036	(178)	
Budgetary Fund Balances - Ending			\$ (591,844)	\$ 466,060	

State of Oregon

Federal Funds					Lottery Funds				
2003-2005 Original Budget	2003-2005 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)	2003-2005 Original Budget	2003-2005 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	210	210	-	-	-	9	9
7,196,332	7,270,824	2,859,307	3,354,622	(1,056,895)	-	-	-	-	-
-	-	454	1,138	1,592	-	-	1	3	4
-	-	170	23	193	-	-	-	-	-
-	-	503	460	963	-	-	-	-	-
-	-	235	430	665	11,353	11,353	7,174	4,364	185
-	-	280	494	774	-	-	-	-	-
-	-	221	96	317	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	70,147	78,481	148,628	-	-	10	29,488	29,498
<u>7,196,332</u>	<u>7,270,824</u>	<u>2,931,317</u>	<u>3,435,954</u>	<u>(903,553)</u>	<u>11,353</u>	<u>11,353</u>	<u>7,185</u>	<u>33,864</u>	<u>29,696</u>
811,944	827,247	316,963	369,660	(140,624)	516,620	516,620	159,537	355,827	(1,256)
4,937,805	4,976,616	2,225,042	2,521,658	(229,916)	5,600	5,600	2,737	2,774	(89)
413,412	481,758	150,446	215,142	(116,170)	5,567	5,612	2,440	3,070	(102)
394,902	414,547	173,353	208,340	(32,854)	94,173	94,760	36,612	48,316	(9,832)
226,447	252,398	106,548	86,421	(59,429)	109,001	109,266	46,967	39,805	(22,494)
69,297	69,330	19,755	25,862	(23,713)	21,146	21,146	10,195	10,708	(243)
1,652	1,672	672	760	(240)	-	-	-	-	-
11,550	15,216	7,654	5,996	(1,566)	4,763	4,768	2,356	2,367	(45)
-	-	-	-	-	-	-	-	-	-
2,333	2,341	576	757	(1,008)	-	-	-	-	-
<u>6,869,342</u>	<u>7,041,125</u>	<u>3,001,009</u>	<u>3,434,596</u>	<u>(605,520)</u>	<u>756,870</u>	<u>757,772</u>	<u>260,844</u>	<u>462,867</u>	<u>(34,061)</u>
326,990	229,699	(69,692)	1,358	(298,033)	(745,517)	(746,419)	(253,659)	(429,003)	63,757
2,859	2,859	148,363	50,463	195,967	1,591,826	1,591,826	524,613	727,204	(340,009)
(337,248)	(337,248)	(24,831)	(74,085)	238,332	(946,437)	(946,437)	(122,547)	(300,276)	523,614
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<u>\$ (7,399)</u>	<u>\$ (104,690)</u>	53,840	(22,264)	<u>\$ 136,266</u>	<u>\$ (100,128)</u>	<u>\$ (101,030)</u>	148,407	(2,075)	<u>\$ 247,362</u>
		(4,334)	43,769				(166,592)	(31,839)	
		-	91				-	192	
		(4,334)	43,860				(166,592)	(31,647)	
		(5,737)	308				(13,654)	(5,141)	
		<u>\$ 43,769</u>	<u>\$ 21,904</u>				<u>\$ (31,839)</u>	<u>\$ (38,863)</u>	

(continued on next page)

State of Oregon

**Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - Budgetary (Non-GAAP) Basis -
All Budgeted Appropriated Funds
For the Biennium Ended June 30, 2005
(In Thousands)**

(continued from previous page)

	Other Funds				
	2003-2005 Original Budget	2003-2005 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
Revenues:					
Personal Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Income Taxes	-	-	-	-	-
Tobacco Taxes	443,284	443,284	169,979	190,910	(82,395)
Motor Fuels Taxes	830,213	830,213	370,395	406,852	(52,966)
Weight-Mile Taxes	431,876	431,876	182,841	257,566	8,531
Employer-Employee Taxes	382,509	382,509	-	-	(382,509)
Vehicle Registration Taxes	-	-	145,648	204,828	350,476
Other Taxes	305,337	316,586	105,471	224,970	13,855
Licenses and Fees	958,650	954,942	230,990	285,402	(438,550)
Federal	696,617	869,278	313,071	375,144	(181,063)
Charges for Services	1,725,673	1,669,644	662,992	732,649	(274,003)
Fines and Forfeitures	174,291	174,291	24,947	43,110	(106,234)
Rents and Royalties	89,783	89,783	37,873	50,557	(1,353)
Investment Income	356,130	356,130	26,683	35,716	(293,731)
Sales	366,834	367,285	137,084	153,329	(76,872)
Donations and Grants	175,471	175,574	6,051	6,456	(163,067)
Pension Bond Debt Service Assessments	-	-	10,903	132,568	143,471
Other	1,053,755	1,078,475	479,143	396,556	(202,776)
Total Revenues	7,990,423	8,139,870	2,904,071	3,496,613	(1,739,186)
Expenditures:					
Education	1,705,986	1,743,521	639,048	676,555	(427,918)
Human Resources	1,145,492	1,194,405	381,167	691,166	(122,072)
Public Safety	338,474	353,921	144,434	178,231	(31,256)
Economic and Community Development	276,778	279,415	107,125	116,425	(55,865)
Natural Resources	574,762	614,217	256,228	259,886	(98,103)
Transportation	1,981,057	2,530,817	862,987	1,410,809	(257,021)
Consumer and Business Services	260,432	263,951	119,026	121,627	(23,298)
Administration	761,248	841,085	304,388	410,746	(125,951)
Legislative	3,310	3,320	1,314	1,521	(485)
Judicial	31,482	34,491	10,175	14,758	(9,558)
Total Expenditures	7,079,021	7,859,143	2,825,892	3,881,724	(1,151,527)
Excess (Deficiency) of Revenues Over (Under) Expenditures	911,402	280,727	78,179	(385,111)	(587,659)
Other Financing Sources (Uses):					
Transfers from Other Funds	3,844,083	3,875,082	1,654,128	1,913,312	(307,642)
Transfers to Other Funds	(5,545,957)	(5,611,235)	(3,786,612)	(2,076,552)	(251,929)
Long-term Debt Issued	769,641	1,149,065	2,211,238	390,681	1,452,854
Debt Issuance Premium	-	-	19,096	10,786	29,882
Debt Issuance Discount	-	-	-	(24)	(24)
Loan Proceeds	-	-	-	82,300	82,300
Gain(Loss) on Disposition of Assets	-	-	1,157	13,159	14,316
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ (20,831)	\$ (306,361)	177,186	(51,449)	\$ 432,098
Budgetary Fund Balances - Beginning			2,630,235	2,785,999	
Prior Period Adjustments			(10,302)	210	
Budgetary Fund Balances - Beginning - As Restated			2,619,933	2,786,209	
Prior Biennium Transactions			(11,120)	21,639	
Budgetary Fund Balances - Ending			\$ 2,785,999	\$ 2,756,399	

State of Oregon

Total All Budgeted Appropriated Funds

2003-2005 Original Budget	2003-2005 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
\$ 9,395,349	\$ 8,842,317	\$ 4,142,886	\$ 4,698,994	\$ (437)
539,737	550,487	317,506	323,276	90,295
553,766	555,581	219,371	246,114	(90,096)
830,213	830,213	370,395	406,852	(52,966)
431,876	431,876	182,841	257,566	8,531
382,509	382,509	-	-	(382,509)
-	-	145,648	204,828	350,476
524,149	561,043	236,097	338,143	13,197
1,000,962	1,001,050	251,831	312,243	(436,976)
7,892,949	8,140,102	3,172,378	3,729,766	(1,237,958)
1,731,673	1,676,344	666,774	736,745	(272,825)
175,736	175,736	30,663	45,435	(99,638)
89,783	89,783	38,376	51,017	(390)
389,983	381,983	42,298	80,027	(259,658)
389,221	389,672	139,557	156,189	(93,926)
175,471	175,574	6,274	6,572	(162,728)
-	-	10,903	132,568	143,471
1,057,445	1,079,179	556,167	522,575	(437)
<u>25,560,822</u>	<u>25,263,449</u>	<u>10,529,965</u>	<u>12,248,910</u>	<u>(2,484,574)</u>
9,234,889	9,008,656	4,419,091	3,973,247	(616,318)
8,549,572	8,540,772	3,897,851	4,126,564	(516,357)
1,998,107	2,078,376	913,343	990,051	(174,982)
783,926	807,409	325,178	382,267	(99,964)
1,021,931	1,094,667	461,892	446,245	(186,530)
2,075,415	2,625,208	896,852	1,447,379	(280,977)
273,019	276,670	125,090	127,875	(23,705)
905,139	1,008,950	388,367	488,972	(131,611)
59,929	62,632	24,925	30,732	(6,975)
445,981	440,551	271,596	155,454	(13,501)
<u>25,347,908</u>	<u>25,943,891</u>	<u>11,724,185</u>	<u>12,168,786</u>	<u>(2,050,920)</u>
212,914	(680,442)	(1,194,220)	80,124	(433,654)
6,493,474	6,483,108	2,775,701	3,248,021	(459,386)
(7,508,589)	(7,566,352)	(4,280,031)	(2,841,967)	444,354
769,641	1,149,065	2,211,238	390,681	1,452,854
-	-	19,096	10,786	29,882
-	-	-	(24)	(24)
-	-	-	82,300	82,300
-	-	1,157	13,159	14,316
<u>\$ (32,560)</u>	<u>\$ (614,621)</u>	<u>(467,059)</u>	<u>983,080</u>	<u>\$ 1,130,642</u>
		2,598,921	2,206,085	
		(10,302)	(293)	
		2,588,619	2,205,792	
		84,525	16,628	
		<u>\$ 2,206,085</u>	<u>\$ 3,205,500</u>	

1. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The State's budget is approved on a biennial basis, where the biennium begins July 1 and ends June 30 of each odd-numbered year. The Governor is required to submit budget recommendations to the Legislature no later than December 1 preceding the biennium. The Governor establishes priorities for the State based on function (i.e., Education, Human Resources, etc.) and the budget is summarized by these functions. Expenditures are budgeted based on the following revenue sources: General, Federal, Lottery, and Other.

The regular Legislative session begins in January of each odd-numbered year and lasts approximately six months. The budget is adopted by the Legislature's passage of separate appropriation bills and by the Governor's approval of those bills. The resulting approved appropriation bills become the appropriated budget for the State. Appropriation bills include one or more appropriations (budgeted expenditure items) which may be at the agency, program, or activity level. The Oregon Constitution requires the budget to be in balance at the end of each biennium. Because of this provision, the State may not budget a deficit and is required to alleviate any revenue shortfalls within each biennium.

Also included in the Governor's budget recommendations are legally authorized, nonappropriated budget items that are not legislatively limited by an appropriation bill. These nonlimited funds include other funds, federal funds, and other funds debt service. Spending plans for nonbudgeted financial activities, which are not included in the Governor's budget recommendations, are also established by agencies for certain expenditures to enhance fiscal control. These nonbudgeted items include federal funds and other funds.

During the interim period when the Legislature is not in session, the Legislative Emergency Board is authorized to amend the legally adopted budget. It authorizes and allocates all changes in funding and takes other actions to meet emergency needs when the Legislature is not in session. Emergency Board approval is required to authorize the transfer of expenditure authority between appropriations. Management can reallocate within an appropriation without Emergency Board approval.

The State does not budget by the prescribed fund types of Generally Accepted Accounting Principles (GAAP). Appropriations may be at the agency, program, or activity level. Accordingly, the legal level of budgetary control is at one of these various levels depending on the Legislature's view of the activity. The Relational Statewide Accounting and Reporting System (R*STARS) controls expenditures by budgeted expenditure item as established in approved appropriation bills. Each item on an approved appropriation bill is assigned an appropriation number. Expenditures may not exceed appropriations. In R*STARS, appropriated funds are tied to one or more appropriation numbers to ensure that appropriated expenditure amounts are not exceeded.

The accompanying "Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds" is not presented at the legal level of budgetary control. Such a presentation would be extremely cumbersome. To demonstrate compliance with the legal level of budgetary control, the State has prepared a separate report for the 2003-2005 biennium as of June 30, 2005. A copy of this report is available at the State Controller's Division, 155 Cottage Street NE U50, Salem, Oregon 97301-3969.

Although the accompanying "Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds" is not reporting expenditures in excess of budgeted expenditures at the appropriated fund level, refer to Note 21, Violations of Finance Related Legal Provisions, in the notes to the basic financial statements.

Expenditures are monitored through the use of quarterly allotments. Allotments are required for appropriated and nonappropriated items and are used to establish spending limits. These spending limits are monitored by the Budget and Management Division of the Department of Administrative Services and are controlled by R*STARS. Encumbrance accounting is used for additional budgetary control. Encumbrances represent commitments related to unperformed contracts for goods or services. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance. Under GAAP reporting, encumbrances outstanding at year end expected to be honored in the following year are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

State of Oregon
Notes to Required Supplementary Information

Unexpended appropriations at the end of each biennium are available for subsequent expenditure to the extent that liabilities have been incurred at June 30, provided payment of liabilities is made during the succeeding six month period of July 1 through December 31. Any remaining unexpended appropriations lapse December 31 following the end of the biennium, except for appropriations related to capital construction.

Agencies are required to provide estimates of expected revenues for program revenue and segregated revenue categories. General fund revenues consist primarily of general taxes and other receipts that are paid into the general fund and are then available for appropriation by the Legislature. Revenues not recorded in the general fund consist of function specific revenues, which are credited by law to an appropriation to finance a specified program and segregated revenues that are paid into separate identifiable funds.

Budgets are prepared on the cash basis utilizing encumbrance accounting. The original budget amounts reported for revenues in the accompanying "Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds" represent original estimates, while budgeted expenditures represent the first complete appropriated budget adopted by the Legislature. The final budget amounts reported for revenues represent revised estimates, while the final budget amounts reported for expenditures represent the original budget modified by legally authorized legislative and executive changes as well as Emergency Board actions taken during the year.

The major differences between Budgetary (Non-GAAP) basis and GAAP basis are:

1. Encumbrances are recorded as expenditures for budgetary purposes when purchase orders are issued.
2. Revenues are recognized when received in cash (budgetary) as opposed to when they are susceptible to accrual (GAAP).
3. Expenditures are recognized when paid in cash or encumbered (budgetary) as opposed to when the liability is incurred (GAAP).
4. Nonappropriated and nonbudgeted funds are not included in the budgetary schedule.
5. Timing differences occur because of a six-month lapse period between June 30 and December 31 of each odd-numbered year.

These different accounting principles may result in basis, perspective, entity, and timing differences in the excess (deficiency) of revenues and other sources of financial resources over (under) expenditures and other uses of financial resources. A reconciliation of these differences is presented in the notes to required supplementary information (Note 2).

R*STARS establishes the following budgeted appropriated funds to account for the State's budgetary activities: General Fund, Federal Funds, Lottery Funds, and Other Funds.

State of Oregon
Notes to Required Supplementary Information

2. BUDGETARY BASIS TO GAAP BASIS RECONCILIATION

The accompanying "Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budgetary (Non-GAAP Basis) - All Budgeted Appropriated Funds" presents comparisons of the legally approved budget (more fully described in Note 1) with actual data on a budgetary basis.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A reconciliation of the resulting differences in excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses for the year ended June 30, 2005 is presented below. Governmental funds are reconciled to the net change in fund balances. Proprietary funds and fiduciary fund types are reconciled to the change in net assets.

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (in thousands)									
Budgetary Balances Classified into GAAP Fund Structure									
GAAP Fund	Budgetary General Fund	Budgeted Federal Funds	Budgeted Lottery Funds	Budgeted Other Funds	Total Budgeted Funds	Timing Differences	Basis Differences	Non- Budgeted Funds	GAAP Balances
General	1,058,868	-	-	-	1,058,868	(104,014)	(241,697)	(62,411)	650,746
Health & Social Services	-	14,017	328	(79,597)	(65,252)	(4,597)	(47,739)	(12,519)	(130,107)
Public Transportation	-	(58)	-	(83,964)	(84,022)	-	(27,856)	(2,387)	(114,265)
Environmental Management	-	17,076	5,322	6,341	28,739	(46,470)	16,563	26,991	25,823
Common School	-	-	-	-	-	-	89,148	(40,730)	48,418
Nonmajor Governmental	-	(53,299)	(7,905)	9,602	(51,602)	(131,527)	197,248	(125,376)	(111,257)
Housing & Community Services	-	-	-	738	738	-	830	5,272	6,840
Veterans' Loan	-	-	-	(6,904)	(6,904)	(8)	113	(74)	(6,873)
Lottery Operations	-	-	-	-	-	-	-	42,649	42,649
Unemployment Compensation	-	-	-	-	-	-	-	278,764	278,764
University System	-	-	-	55,916	55,916	(80,479)	24,563	26,714	26,714
Nonmajor Proprietary	-	-	180	10,114	10,294	(2,966)	(18,781)	34,326	22,873
Internal Service	-	-	-	59,303	59,303	(15,049)	22,309	(58,823)	7,740
Pension Trust	-	-	-	(35,399)	(35,399)	(373)	7,872	4,609,757	4,581,857
Private Purpose Trust	-	-	-	12,401	12,401	(112)	(5,832)	(8,909)	(2,452)
Investment Trust	-	-	-	-	-	-	-	100,101	100,101
Totals (Memo Only)	1,058,868	(22,264)	(2,075)	(51,449)	983,080	(385,595)	16,741	4,813,345	5,427,571



Combining Fund Financial Statements

Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources, other than for major capital projects, that finance specified activities as required by law or administrative regulations.

Agricultural Resources Fund

This fund accounts for programs related to the promotion, inspection, and regulation of the State's agricultural industry. Funding for these programs comes from licenses and fees, charges for services, and federal grants.

Business Development Fund

This fund is used to account for programs that expand existing businesses as well as attract and promote new businesses. Employer and employee taxes, federal grants, and revenue bond proceeds are the main funding sources for these programs.

Community Protection Fund

This fund accounts for a variety of activities that help to ensure the safety of the State's citizens and their property through the courts, police, military, and correctional facilities. The main funding sources for these programs are federal grants, fines, and state court fees.

Consumer Protection Fund

This fund is used to account for programs that regulate existing businesses and license various professionals and organizations. Funding is generated mainly from public utilities taxes and business license fees.

Educational Support Fund

This fund is used to account for programs that provide students with opportunities to develop their academic abilities to the fullest from early childhood into postgraduate research, not including activities accounted for in the Common School Fund. The principal funding sources for these programs come from federal grants, charges for services, and transfers from other funds.

Employment Services Fund

This fund accounts for programs that provide workers with a safe and secure workplace. Funding for these employment related programs comes from federal grants, employer and employee taxes, and other taxes.

Nutritional Support Fund

This fund accounts for programs to improve the diets of low-income households and school children. Federal grants are the main source of revenue for these programs.

Residential Assistance Fund

This fund accounts for programs that help to meet the housing and energy needs of low-income Oregonians. Major funding comes from federal grants, senior citizen property tax repayments, and public utilities taxes.

Other Special Revenue Funds

This fund accounts for a variety of small programs that are funded mainly by federal grants and charges for services.

Debt Service Funds

Debt Service Funds account for the accumulation of resources for the payment of interest and principal on long-term obligations.

Revenue Bond Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term revenue bonds not reported in proprietary funds. The portion of these bonds not self-supporting is funded by a legislative appropriation.

Certificates of Participation Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on certificates of participation not reported in proprietary funds. Debt service requirements are funded by a legislative appropriation.

General Obligation Bond Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term general obligation bonds not reported in the general fund or in proprietary funds. The issuance of general obligation debt is authorized in the Oregon constitution. The portion of these bonds not self-supporting is funded by a legislative appropriation.

General Appropriation Bond Fund

This fund accounts for the accumulation of resources for the payment of principal and interest on long-term general appropriation bonds not reported in the general fund or in proprietary funds. The issuance of general appropriation bonds was authorized by the Oregon Legislature. Debt service requirements are funded by a legislative appropriation.

Capital Projects Fund

The capital projects fund is used to account for financial resources, other than general funds, segregated for the construction or acquisition of major capital facilities.

Permanent Fund

The permanent fund is used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the State's programs. The interest income provides funding for programs such as the upkeep on fish hatcheries, scholarship funds for injured workers, special library book purchases, and homes for the developmentally disabled.

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005
(In Thousands)**

	Special Revenue Funds		
	Agricultural Resources	Business Development	Community Protection
ASSETS			
Cash and Cash Equivalents	\$ 15,637	\$ 52,773	\$ 113,298
Investments	-	2,109	297
Cash and Securities Held in Trust	-	-	-
Securities Lending Cash Collateral	-	-	23,802
Accounts and Interest Receivable (net)	1,827	1,403	26,848
Taxes Receivable	-	5,700	-
Due from Other Funds	393	106,990	8,691
Due from Component Units	-	-	-
Due from Other Governments	-	-	-
Inventories	216	19	257
Prepaid Items	45	-	-
Net Contracts, Notes and Other Receivables	-	347	129,771
Loans Receivable	-	11	-
Total Assets	\$ 18,118	\$ 169,352	\$ 302,964
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts and Interest Payable	\$ 748	\$ 2,290	\$ 13,883
Obligations Under Securities Lending	-	-	23,802
Due to Other Funds	43	102,292	21,469
Due to Other Governments	-	1,023	2,391
Matured Bonds/COPS and Coupons Payable	-	-	-
Advances from Other Funds	-	84	-
Trust Funds Payable	742	-	740
Deferred Revenue	28	5,892	135,904
Contracts, Mortgages and Notes Payable	-	-	-
Total Liabilities	1,561	111,581	198,189
Fund Balances:			
Reserved for Inventories	216	19	257
Reserved for Loans Receivable	-	11	-
Reserved for Other Long-term Receivables	-	-	-
Reserved for Prepaid Items	45	-	-
Reserved for Debt Service	-	-	-
Reserved for Permanent Fund Principal	-	-	-
Reserved for Claims and Judgments Payable	-	-	-
Reserved for Revolving Accounts	26	-	83
Unreserved, Undesignated	16,270	57,741	104,435
Total Fund Balances	16,557	57,771	104,775
Total Liabilities and Fund Balances	\$ 18,118	\$ 169,352	\$ 302,964

Special Revenue Funds

Consumer Protection	Educational Support	Employment Services	Nutritional Support	Residential Assistance	Other
\$ 93,271	\$ 67,349	\$ 78,160	\$ 946	\$ 51,240	\$ 20,375
-	6,664	176,896	-	15,879	2,220
1,975	-	-	-	-	-
20,725	-	53,462	4	4,357	104
1,805	55,235	55,271	9,047	6,910	692
5,824	3,516	-	-	-	-
1,664	19,931	5,227	-	87	3,923
-	-	5,326	-	-	-
-	28	-	-	-	-
117	-	3,484	173	99	427
85	268	292	-	-	-
1,956	7	13,883	-	91	-
-	13	-	-	96,524	-
\$ 127,422	\$ 153,011	\$ 392,001	\$ 10,170	\$ 175,187	\$ 27,741
\$ 2,575	\$ 87,024	\$ 30,748	\$ 34	\$ 3,712	\$ 1,644
20,725	-	53,462	4	4,357	104
9,235	262	5,603	-	181	61
5,269	2,274	-	4,962	4,132	24
-	-	-	-	-	-
-	-	1,108	-	40,598	-
2,030	36	206	-	-	318
1,968	3,535	13,926	363	971	6,521
-	-	-	-	-	-
41,802	93,131	105,053	5,363	53,951	8,672
117	-	3,484	173	99	427
-	13	-	-	96,524	-
-	-	-	-	-	-
85	268	292	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	155,236	-	-	-
8	3	102	-	-	-
85,410	59,596	127,834	4,634	24,613	18,642
85,620	59,880	286,948	4,807	121,236	19,069
\$ 127,422	\$ 153,011	\$ 392,001	\$ 10,170	\$ 175,187	\$ 27,741

(continued on next page)

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005
(In Thousands)
(continued from previous page)

	Debt Service Funds			
	Revenue Bond	Certificates of Participation	General Obligation Bond	General Appropriation Bond
ASSETS				
Cash and Cash Equivalents	\$ 11,285	\$ 4,397	\$ 22,788	\$ 16
Investments	60,868	1,353	11,478	-
Cash and Securities Held in Trust	-	-	-	-
Securities Lending Cash Collateral	-	-	-	-
Accounts and Interest Receivable (net)	1	300	170	-
Taxes Receivable	-	-	-	-
Due from Other Funds	62,588	167	-	-
Due from Component Units	-	-	-	-
Due from Other Governments	-	-	-	-
Inventories	-	-	-	-
Prepaid Items	-	-	-	-
Net Contracts, Notes and Other Receivables	-	-	-	-
Loans Receivable	-	-	-	-
Total Assets	\$ 134,742	\$ 6,217	\$ 34,436	\$ 16
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts and Interest Payable	\$ -	\$ 2	\$ -	\$ -
Obligations Under Securities Lending	-	-	-	-
Due to Other Funds	-	167	-	-
Due to Other Governments	-	-	-	-
Matured Bonds/COPS and Coupons Payable	-	-	5	-
Advances from Other Funds	-	108	-	-
Trust Funds Payable	-	-	-	-
Deferred Revenue	-	-	-	-
Contracts, Mortgages and Notes Payable	-	-	-	-
Total Liabilities	-	277	5	-
Fund Balances:				
Reserved for Inventories	-	-	-	-
Reserved for Loans Receivable	-	-	-	-
Reserved for Other Long-term Receivables	-	-	-	-
Reserved for Prepaid Items	-	-	-	-
Reserved for Debt Service	134,742	5,940	34,431	16
Reserved for Permanent Fund Principal	-	-	-	-
Reserved for Claims and Judgments Payable	-	-	-	-
Reserved for Revolving Accounts	-	-	-	-
Unreserved, Undesignated	-	-	-	-
Total Fund Balances	134,742	5,940	34,431	16
Total Liabilities and Fund Balances	\$ 134,742	\$ 6,217	\$ 34,436	\$ 16

<u>Capital Projects Fund</u>	<u>Permanent Fund</u>	
<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
\$ 7,644	\$ 27,153	\$ 566,332
60,023	-	337,787
-	-	1,975
-	-	102,454
1,037	1	160,547
-	-	15,040
4,428	-	214,089
-	-	5,326
-	-	28
-	-	4,792
-	-	690
129	-	146,184
-	-	96,548
<u>\$ 73,261</u>	<u>\$ 27,154</u>	<u>\$ 1,651,792</u>
\$ 7,907	\$ 84	\$ 150,651
-	-	102,454
245	-	139,558
-	-	20,075
-	-	5
-	-	41,898
1	-	4,073
144	-	169,252
430	-	430
<u>8,727</u>	<u>84</u>	<u>628,396</u>
-	-	4,792
-	-	96,548
129	-	129
-	-	690
-	-	175,129
-	21,321	21,321
-	-	155,236
-	-	222
64,405	5,749	569,329
<u>64,534</u>	<u>27,070</u>	<u>1,023,396</u>
<u>\$ 73,261</u>	<u>\$ 27,154</u>	<u>\$ 1,651,792</u>

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005
(In Thousands)**

	Special Revenue Funds		
	Agricultural Resources	Business Development	Community Protection
Revenues:			
Employer-Employee Taxes	\$ -	\$ 177,351	\$ -
Other Taxes	-	17,589	-
Licenses and Fees	14,979	1,807	64,635
Federal	4,340	15,570	150,820
Charges for Services	6,297	528	20,961
Fines and Forfeitures	24	17	56,425
Rents and Royalties	-	-	1,715
Investment Income	312	2,172	1,195
Sales	5	1,692	4,196
Donations and Grants	15	4,012	777
Contributions to Permanent Funds	-	-	-
Pension Bond Debt Service Assessments	-	-	-
Other	619	1,799	35,140
Total Revenues	26,591	222,537	335,864
Expenditures:			
Current:			
Education	-	-	-
Human Resources	-	-	2,152
Public Safety	-	2,014	343,552
Economic and Community Development	-	76,014	-
Natural Resources	31,588	233	-
Transportation	-	-	7,311
Consumer and Business Services	-	344	-
Administration	-	201,797	12,219
Legislative	-	-	-
Judicial	-	-	42,495
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	-	-	-
Interest	-	8	5
Other Debt Service	-	664	955
Total Expenditures	31,588	281,074	408,689
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,997)	(58,537)	(72,825)
Other Financing Sources (Uses):			
Transfers from Other Funds	3,550	410,575	81,345
Transfers to Other Funds	(253)	(451,288)	(60,836)
Long-Term Debt Issued	-	56,834	3,436
Debt Issuance Premium	-	-	-
Debt Issuance Discount	-	-	-
Refunded Debt Issued	-	-	-
Refunded Debt Payment to Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	3,297	16,121	23,945
Net Change in Fund Balances	(1,700)	(42,416)	(48,880)
Fund Balances - Beginning	18,297	100,179	150,508
Prior Period Adjustments	(53)	5	3,143
Fund Balances - Beginning - As Restated	18,244	100,184	153,651
Change in Reserve for Inventories	13	3	4
Fund Balances - Ending	\$ 16,557	\$ 57,771	\$ 104,775

State of Oregon

Special Revenue Funds

Consumer Protection	Educational Support	Employment Services	Nutritional Support	Residential Assistance	Other
\$ -	\$ -	\$ 86,870	\$ -	\$ -	\$ -
83,008	566	49,722	-	26,493	-
70,698	338	1,361	-	480	-
593	399,743	202,578	598,789	103,819	7,777
980	6,422	16,165	1,846	1,388	12,403
1,026	-	3,244	-	103	-
-	51	-	-	-	759
2,003	(133)	23,788	17	8,434	436
62	240	165	29	1	873
5	4,404	671	104	61	438
-	-	-	-	-	-
-	-	-	-	-	-
622	4,804	1,572	15,004	206	1,107
158,997	416,435	386,136	615,789	140,985	23,793
1,917	733,430	52,913	116,021	-	-
-	-	-	495,555	-	-
-	-	-	-	-	-
-	-	127,802	1,048	129,503	1,868
2,360	-	-	-	346	-
-	-	-	-	-	-
128,350	-	142,506	-	4,783	-
34,002	38,853	672	-	154	51,442
-	-	-	-	-	1,857
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	17,317	-
-	-	1	-	1	74
166,629	772,283	323,894	612,624	152,104	55,241
(7,632)	(355,848)	62,242	3,165	(11,119)	(31,448)
21,865	288,198	24,857	1	4,998	32,831
(16,541)	(4,323)	(74,384)	(53)	(6,272)	(1,615)
-	-	-	-	-	1,100
-	-	-	-	-	36
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
5,324	283,875	(49,527)	(52)	(1,274)	32,352
(2,308)	(71,973)	12,715	3,113	(12,393)	904
88,212	131,863	274,413	1,606	133,399	20,573
(294)	-	-	-	233	(2,132)
87,918	131,863	274,413	1,606	133,632	18,441
10	(10)	(180)	88	(3)	(276)
\$ 85,620	\$ 59,880	\$ 286,948	\$ 4,807	\$ 121,236	\$ 19,069

(continued on next page)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005
(In Thousands)
(continued from previous page)

	Debt Service Funds			
	Revenue Bond	Certificates of Participation	General Obligation Bond	General Appropriation Bond
Revenues:				
Employer-Employee Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	-	-	-
Licenses and Fees	-	-	-	-
Federal	-	181	-	-
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Rents and Royalties	-	-	-	-
Investment Income	3,437	77	1,288	81
Sales	-	-	-	-
Donations and Grants	-	-	-	-
Contributions to Permanent Funds	-	-	-	-
Pension Bond Debt Service Assessments	-	-	121,895	-
Other	-	441	-	-
Total Revenues	3,437	699	123,183	81
Expenditures:				
Current:				
Education	-	-	-	-
Human Resources	-	-	-	-
Public Safety	-	-	-	-
Economic and Community Development	-	-	-	-
Natural Resources	-	-	-	-
Transportation	-	-	-	-
Consumer and Business Services	-	-	-	-
Administration	-	-	-	-
Legislative	-	-	-	-
Judicial	-	-	-	-
Capital Improvements and Capital Construction	-	-	-	-
Debt Service:				
Principal	60,216	2,324	14,960	22,095
Interest	48,517	2,892	128,654	19,723
Other Debt Service	-	214	5	-
Total Expenditures	108,733	5,430	143,619	41,818
Excess (Deficiency) of Revenues Over (Under) Expenditures	(105,296)	(4,731)	(20,436)	(41,737)
Other Financing Sources (Uses):				
Transfers from Other Funds	118,288	7,160	14,984	41,728
Transfers to Other Funds	(439)	-	-	-
Long-Term Debt Issued	101,810	1,807	-	-
Debt Issuance Premium	6,972	762	-	-
Debt Issuance Discount	-	(3)	-	-
Refunded Debt Issued	-	21,625	-	-
Refunded Debt Payment to Escrow Agent	(108,218)	(22,171)	-	-
Total Other Financing Sources (Uses)	118,413	9,180	14,984	41,728
Net Change in Fund Balances	13,117	4,449	(5,452)	(9)
Fund Balances - Beginning	121,632	1,015	39,883	25
Prior Period Adjustments	(7)	476	-	-
Fund Balances - Beginning - As Restated	121,625	1,491	39,883	25
Change in Reserve for Inventories	-	-	-	-
Fund Balances - Ending	\$ 134,742	\$ 5,940	\$ 34,431	\$ 16

<u>Capital Projects Fund</u>	<u>Permanent Fund</u>	
<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
\$ -	\$ -	\$ 264,221
-	-	177,378
-	-	154,298
7,971	-	1,492,181
-	-	66,990
-	-	60,839
1	-	2,526
852	3,241	47,200
12	-	7,275
50	21	10,558
-	11,453	11,453
-	-	121,895
46	42	61,402
<u>8,932</u>	<u>14,757</u>	<u>2,478,216</u>
-	1	904,282
-	4,053	501,760
-	-	345,566
-	-	336,235
-	123	34,650
-	-	7,311
-	2	275,985
-	-	339,139
-	-	1,857
-	-	42,495
83,784	-	83,784
-	-	99,595
-	-	217,116
-	-	1,914
<u>83,784</u>	<u>4,179</u>	<u>3,191,689</u>
(74,852)	10,578	(713,473)
31,752	776	1,082,908
(4,978)	-	(620,982)
72,597	-	237,584
3,703	-	11,473
-	-	(3)
-	-	21,625
-	-	(130,389)
<u>103,074</u>	<u>776</u>	<u>602,216</u>
<u>28,222</u>	<u>11,354</u>	<u>(111,257)</u>
<u>39,756</u>	<u>15,716</u>	<u>1,137,077</u>
<u>(3,444)</u>	<u>-</u>	<u>(2,073)</u>
<u>36,312</u>	<u>15,716</u>	<u>1,135,004</u>
-	-	(351)
<u>\$ 64,534</u>	<u>\$ 27,070</u>	<u>\$ 1,023,396</u>

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Nonmajor Enterprise Funds

Enterprise Funds account for goods and services provided to the general public on a continuous basis, either when all or most of the cost involved in operating the enterprise is intended to be financed from user charges, or when periodic measurement of the results of operations is appropriate for management control or accountability.

Energy Loan Fund

This fund accounts for activities to provide low-interest loans for renewable energy resource and energy conservation projects. Funding is from the issuance of bonds that are repaid from the interest and principal payments on loans.

Water Resources Fund

This fund accounts for activities to provide low-interest loans for irrigation, drainage, and water systems projects for small municipalities. Capital for this fund is provided from general obligation bonds that are repaid by borrowers.

Business Development Fund

This fund accounts for resources used to finance land, buildings, machinery, and permanent working capital for eligible activities including those determined to diversify an economic base.

Special Public Works Fund

This fund accounts for loans and grants to local governments for construction of infrastructure required to support needed public services. The Special Public Works Fund is financed through lottery resources, the sale of revenue bonds, loan repayments, and interest earnings.

State Hospitals Fund

This fund accounts for the operations of State hospitals and State operated residential group homes that provide treatment services for specific citizens as well as training and care for developmentally disabled persons. Clinical programs include the adult psychiatric program, the child and adolescent treatment program, the forensic and correctional treatment program, and the geropsychiatric treatment and medical service program.

Liquor Control Fund

This fund accounts for the operation of the Oregon Liquor Control Commission that regulates the sale and use of alcoholic beverages and promotes responsible alcohol use.

Veterans' Home Fund

This fund accounts for activities of the Oregon Veterans' Home, which provides skilled nursing and Alzheimer's disease care to some of Oregon's most vulnerable veterans.

Water Fund

This fund accounts for loans and grants to municipalities to improve compliance with federal and State of Oregon water quality standards. The Water Fund is financed through lottery resources, the sale of revenue bonds, loan repayments, and interest earnings.

Other Enterprise Funds

This fund is used to account for the sale of goods and services to other than governmental entities through activities not specifically accounted for in another enterprise fund. This includes programs within the following state agencies: the Department of Administrative Services, Legislative Administration Committee, the Judicial Department, the Oregon Facilities Authority, the State Fair and Exposition Center, the Oregon State Treasury, the Department of Corrections, Oregon Corrections Enterprises, the Department of Forestry, the Department of Transportation, and the Oregon Economic and Community Development Department.

**Combining Balance Sheet
Nonmajor Enterprise Funds
June 30, 2005
(In Thousands)**

	Energy Loan	Water Resources	Business Development
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ -	\$ 3,023	\$ 11,371
Cash and Cash Equivalents - Restricted	71	58	-
Investments	-	-	-
Securities Lending Cash Collateral	-	-	-
Accounts and Interest Receivable (net)	3,260	5	67
Due from Other Funds	-	-	-
Inventories	-	-	-
Prepaid Items	-	-	-
Total Current Assets	3,331	3,086	11,438
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	37,432	-	-
Investments - Restricted	-	-	-
Deferred Charges	393	-	-
Advances to Other Funds	17,825	-	-
Net Contracts, Notes and Other Receivables	-	-	-
Loans Receivable	84,834	571	15,718
Capital Assets:			
Land	-	-	-
Buildings, Property and Equipment	264	-	-
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Historical Treasures	-	-	-
Less Accumulated Depreciation and Amortization	(31)	-	-
Total Noncurrent Assets	140,717	571	15,718
Total Assets	\$ 144,048	\$ 3,657	\$ 27,156
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts and Interest Payable	\$ 2,270	\$ 6	\$ 7
Obligations Under Securities Lending	-	-	-
Due to Other Funds	-	-	2
Due to Other Governments	-	-	-
Matured Bonds/COPS and Coupons Payable	71	58	-
Obligations Under Capital Lease	-	-	-
Bonds/COPS Payable	14,970	190	-
Trust Funds Payable	3,241	-	-
Deferred Revenue	201	-	-
Compensated Absences Payable	39	-	5
Total Current Liabilities	20,792	254	14
Noncurrent Liabilities:			
Bonds/COPS Payable	104,781	1,204	-
Obligations Under Capital Lease	-	-	-
Compensated Absences Payable	17	-	2
Arbitrage Rebate Payable	5	-	-
Trust Funds Payable	-	-	-
Advances from Other Funds	-	-	-
Total Noncurrent Liabilities	104,803	1,204	2
Total Liabilities	125,595	1,458	16
Net Assets:			
Invested in Capital Assets, Net of Related Debt	234	-	-
Restricted for Debt Service	18,219	2,199	-
Restricted for Transportation	-	-	-
Unrestricted	-	-	27,140
Total Net Assets	18,453	2,199	27,140
Total Liabilities and Net Assets	\$ 144,048	\$ 3,657	\$ 27,156

State of Oregon

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
\$ 100,791	\$ 7,762	\$ 18,970	\$ 1,414	\$ 35,438	\$ 35,069	\$ 213,838
-	-	-	-	-	-	129
-	4	-	-	-	-	4
18,830	-	-	248	-	-	19,078
4,983	4,576	49	818	2,263	4,404	20,425
-	-	-	5	-	136	141
-	658	14,582	-	-	10,794	26,034
-	263	39	1	-	215	518
124,604	13,263	33,640	2,486	37,701	50,618	280,167
4,640	-	-	-	2,380	7,935	52,387
3,096	-	-	-	1,032	2,113	6,241
1,625	-	-	-	824	148	2,990
-	-	-	-	100	-	17,925
-	9,469	-	3	-	-	9,472
177,872	-	-	-	85,465	85,109	449,569
-	41	59	600	-	3,385	4,085
-	37,049	12,827	12,555	-	56,626	119,321
-	1,283	-	-	-	15,975	17,258
-	880	-	-	-	557	1,437
-	-	-	40	-	-	40
-	(13,657)	(6,594)	(2,449)	-	(28,733)	(51,464)
187,233	35,065	6,292	10,749	89,801	143,115	629,261
\$ 311,837	\$ 48,328	\$ 39,932	\$ 13,235	\$ 127,502	\$ 193,733	\$ 909,428
\$ 2,992	\$ 3,864	\$ 12,060	\$ 873	\$ 1,608	\$ 2,607	\$ 26,287
18,830	-	-	248	-	-	19,078
-	4,238	6,542	494	-	-	11,276
369	-	-	-	78	-	447
-	-	-	-	-	-	129
-	-	-	-	-	11	11
5,910	-	-	-	2,995	2,055	26,120
966	-	-	-	742	68	5,017
-	-	651	-	-	1,702	2,554
50	4,123	540	3	14	532	5,306
29,117	12,225	19,793	1,618	5,437	6,975	96,225
115,377	-	-	-	62,225	28,225	311,812
-	-	-	-	-	6	6
22	1,767	231	1	6	228	2,274
-	-	-	-	-	4	9
195	-	-	-	385	-	580
-	514	-	-	-	6,057	6,571
115,594	2,281	231	1	62,616	34,520	321,252
144,711	14,506	20,024	1,619	68,053	41,495	417,477
-	25,595	6,292	10,746	-	16,735	59,602
2,980	-	-	-	654	-	24,052
-	-	-	-	-	22,697	22,697
164,146	8,227	13,616	870	58,795	112,806	385,600
167,126	33,822	19,908	11,616	59,449	152,238	491,951
\$ 311,837	\$ 48,328	\$ 39,932	\$ 13,235	\$ 127,502	\$ 193,733	\$ 909,428

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2005
(In Thousands)

	Energy Loan	Water Resources	Business Development
Operating Revenues:			
Licenses and Fees	\$ 93	\$ -	\$ 1
Charges for Services	343	1	64
Fines and Forfeitures	26	-	-
Rents and Royalties	-	-	-
Sales	-	-	-
Loan Interest Income	6,177	54	911
Investment Income	716	63	248
Other	22	-	7
Total Operating Revenues	7,377	118	1,231
Operating Expenses:			
Salaries and Wages	698	73	267
Services and Supplies	517	23	131
Cost of Goods Sold	-	-	-
Distributions to Other Governments	-	-	-
Special Payments	-	-	1
Bond and COP Interest	5,175	113	-
Other Debt Service	81	-	-
Depreciation and Amortization	31	-	-
Bad Debt Expense	-	-	243
Total Operating Expenses	6,502	209	642
Operating Income (Loss)	875	(91)	589
Nonoperating Revenues (Expenses):			
Other Taxes	-	-	-
Gain (Loss) on Disposition of Assets	-	-	-
Loan Interest Expense	-	-	-
Total Nonoperating Revenues (Expenses)	-	-	-
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	875	(91)	589
Capital Contributions	-	-	-
Transfers from Other Funds	-	-	77
Transfers to Other Funds	-	-	(400)
Change in Net Assets	875	(91)	266
Net Assets - Beginning	17,578	2,290	26,624
Prior Period Adjustments	-	-	250
Net Assets - Beginning - As Restated	17,578	2,290	26,874
Net Assets - Ending	\$ 18,453	\$ 2,199	\$ 27,140

State of Oregon

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
\$ -	\$ -	\$ 3,373	\$ -	\$ -	\$ -	\$ 3,467
-	39,043	-	8,680	-	17,642	65,773
-	3	366	-	-	15	410
-	102	-	-	-	1,640	1,742
-	817	309,367	-	-	20,544	330,728
9,117	-	-	-	4,319	2,697	23,275
2,358	-	-	24	728	230	4,367
4	214	201	3	-	3,161	3,612
11,479	40,179	313,307	8,707	5,047	45,929	433,374
980	127,445	12,536	512	316	16,851	159,678
928	30,219	34,909	7,809	176	10,535	85,247
-	-	154,321	-	-	13,114	167,435
1,659	-	34,929	-	647	420	37,655
-	4,242	217	-	-	-	4,460
6,222	-	-	-	3,184	1,397	16,091
157	-	-	-	74	7	319
-	696	695	287	-	2,383	4,092
-	-	-	5	-	1	249
9,946	162,602	237,607	8,613	4,397	44,708	475,226
1,533	(122,423)	75,700	94	650	1,221	(41,852)
-	-	13,964	-	-	-	13,964
-	-	4	-	-	(90)	(86)
-	(48)	-	-	-	(72)	(120)
-	(48)	13,968	-	-	(162)	13,758
1,533	(122,471)	89,668	94	650	1,059	(28,094)
-	-	-	7	-	914	921
19,969	120,509	-	71	-	12,789	153,415
-	(11,773)	(88,374)	-	-	(2,822)	(103,369)
21,502	(13,735)	1,294	172	650	11,940	22,873
145,624	47,557	18,614	11,444	58,799	139,389	467,919
-	-	-	-	-	909	1,159
145,624	47,557	18,614	11,444	58,799	140,298	469,078
\$ 167,126	\$ 33,822	\$ 19,908	\$ 11,616	\$ 59,449	\$ 152,238	\$ 491,951

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2005
(In Thousands)

	Energy Loan	Water Resources	Business Development
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 511	\$ 1	\$ 64
Receipts from Other Funds For Services	-	-	-
Loan Principal Repayments	12,116	108	3,051
Loan Interest Received	5,756	54	894
Payments to Employees for Services	(691)	(72)	(280)
Payments to Suppliers	(595)	(14)	(25)
Payments to Other Funds for Services	(125)	(9)	(115)
Loans Made	(10,163)	-	(4,176)
Distributions to Other Governments	-	-	-
Other Receipts (Payments)	117	-	10
Net Cash Provided (Used) in Operating Activities	<u>6,926</u>	<u>68</u>	<u>(577)</u>
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bond/COP Sales	8,867	-	-
Principal Payments on Bonds/COPS	(44,675)	(264)	-
Interest Payments on Bonds/COPS	(6,091)	(106)	-
Bond/COP Issuance Costs	-	-	-
Advances Received	-	-	-
Repayments on Advances Received	-	-	-
Interest Payments on Advances	-	-	-
Taxes and Assessments Received	-	-	-
Transfers from Other Funds	-	-	78
Transfers to Other Funds	-	-	(417)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>(41,899)</u>	<u>(370)</u>	<u>(339)</u>
Cash Flows from Capital and Related Financing Activities:			
Principal Payments on Bonds/COPS	-	-	-
Interest Payments on Bonds/COPS	-	-	-
Interest Payments on Loans	-	-	-
Acquisition of Capital Assets	(22)	-	-
Payments on Capital Leases	-	-	-
Proceeds from Disposition of Capital Assets	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(22)</u>	<u>-</u>	<u>-</u>
Cash Flows from Investing Activities:			
Purchases of Investments	-	-	-
Proceeds from Sales and Maturities of Investments	-	-	-
Interest on Investments and Cash Balances	721	63	248
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided (Used) in Investing Activities	<u>721</u>	<u>63</u>	<u>248</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(34,274)</u>	<u>(239)</u>	<u>(668)</u>
Cash and Cash Equivalents - Beginning	71,777	3,320	11,789
Prior Period Adjustments Restating Beginning Cash Balances	-	-	250
Cash and Cash Equivalents - Ending	<u>\$ 37,503</u>	<u>\$ 3,081</u>	<u>\$ 11,371</u>

State of Oregon

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
\$ -	\$ 37,681	\$ 313,018	\$ 8,520	\$ -	\$ 40,354	\$ 400,149
-	25	-	-	-	-	25
11,600	-	-	-	6,997	2,718	36,590
8,925	-	-	-	4,322	1,772	21,723
(970)	(126,922)	(12,501)	(129)	(300)	(16,829)	(158,694)
(231)	(23,716)	(194,553)	(7,784)	(174)	(24,743)	(251,835)
(289)	(5,392)	(2,429)	(14)	(90)	(1,027)	(9,490)
(22,749)	-	-	-	(20,590)	(23,356)	(81,034)
(1,677)	-	(34,604)	-	(764)	(418)	(37,463)
273	227	(12)	3	(925)	3,997	3,690
(5,118)	(118,097)	68,919	596	(11,524)	(17,532)	(76,339)
6,370	-	-	-	3,320	-	18,557
(13,485)	-	-	-	(2,825)	-	(61,249)
(6,196)	-	-	-	(3,164)	-	(15,557)
(166)	-	-	-	(84)	-	(250)
-	-	-	-	-	5,000	5,000
-	(391)	-	-	-	(384)	(775)
-	(48)	-	-	-	-	(48)
-	-	13,963	-	-	-	13,963
19,969	109,852	-	71	-	21,097	151,067
(92)	(6,692)	(88,476)	-	(40)	(7,768)	(103,485)
6,400	102,721	(74,513)	71	(2,793)	17,945	7,223
-	-	-	-	-	(3,493)	(3,493)
-	-	-	-	-	(1,467)	(1,467)
-	-	-	-	-	(72)	(72)
-	(1,179)	(569)	-	-	(1,247)	(3,017)
-	-	-	-	-	(10)	(10)
-	12,256	4	-	-	-	12,260
-	11,077	(565)	-	-	(6,289)	4,201
(3,074)	-	-	-	(2,549)	(2,113)	(7,736)
3,542	-	-	-	3,886	2,116	9,544
1,850	-	-	20	720	1,270	4,892
487	-	-	4	-	-	491
(465)	-	-	(4)	-	-	(469)
2,340	-	-	20	2,057	1,273	6,722
3,622	(4,299)	(6,159)	687	(12,260)	(4,603)	(58,193)
101,809	12,061	25,129	727	50,078	47,607	324,297
-	-	-	-	-	-	250
\$ 105,431	\$ 7,762	\$ 18,970	\$ 1,414	\$ 37,818	\$ 43,004	\$ 266,354

(continued on next page)

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2005
(In Thousands)
(continued from previous page)

	Energy Loan	Water Resources	Business Development
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income (Loss)	\$ 875	\$ (91)	\$ 589
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	31	-	-
Amortization of Bond/COP Issuance Costs	81	-	-
Amortization of Bond/COP Premium and Discount	98	8	-
Amortization of Deferred Charges	23	-	-
Bad Debt Expense	-	-	243
Interest Income Reported as Operating Revenue	(716)	(63)	(248)
Investment Expense Reported as Operating Expense	-	-	-
Interest Payments Reported as Operating Expense	6,091	105	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	(344)	-	(17)
Due from Other Funds	-	-	(12)
Inventories	-	-	-
Prepaid Items	-	-	-
Deferred Charges	20	-	-
Advances to Other Funds	2,804	-	-
Loans Receivable	(850)	108	(1,126)
Net Contracts, Notes and Other Receivables	-	-	-
Accounts and Interest Payable	(1,072)	1	(8)
Due to Other Funds	-	-	14
Due to Other Governments	-	-	-
Trust Funds Payable	(96)	-	-
Deferred Revenue	(27)	-	-
Compensated Absences Payable	8	-	(12)
Total Adjustments	6,051	159	(1,166)
Net Cash Provided (Used) by Operating Activities	\$ 6,926	\$ 68	\$ (577)
Noncash Investing and Capital and Related Financing Activities:			
Net Change in Fair Value of Investments	\$ -	\$ -	\$ -
Capital Assets Transferred from Governmental Funds	-	-	-
Capital Assets Contributed	-	-	-
Foreclosed Property	-	-	23
Total Noncash Investing and Capital and Related Financing Activities	\$ -	\$ -	\$ 23

State of Oregon

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
\$ 1,533	\$ (122,423)	\$ 75,700	\$ 94	\$ 650	\$ 1,221	\$ (41,852)
-	696	695	287	-	2,383	4,092
118	-	-	-	56	-	255
20	-	-	-	6	(159)	(27)
39	-	-	-	18	252	332
-	-	-	5	-	1	249
(2,358)	-	-	(24)	(728)	(230)	(4,367)
465	-	-	4	-	-	469
6,201	-	-	-	3,179	1,426	17,002
(193)	(2,242)	11	(152)	2	(590)	(3,525)
-	-	-	(6)	-	7	(11)
-	(60)	(1,443)	-	-	(1,147)	(2,650)
-	(36)	92	-	-	(100)	(44)
-	-	-	-	-	-	20
-	-	-	-	-	-	2,804
(11,129)	-	-	-	(13,593)	(20,638)	(47,228)
-	-	-	(10)	-	-	(10)
(38)	1,497	(6,065)	(85)	8	(1,352)	(7,114)
-	4,238	-	494	-	(2)	4,744
(52)	-	-	-	(117)	9	(160)
270	4	-	-	(1,012)	625	(209)
-	-	(99)	-	-	709	583
6	229	28	(11)	7	53	308
(6,651)	4,326	(6,781)	502	(12,174)	(18,753)	(34,487)
\$ (5,118)	\$ (118,097)	\$ 68,919	\$ 596	\$ (11,524)	\$ (17,532)	\$ (76,339)
\$ 22	\$ -	\$ -	\$ -	\$ 7	\$ -	\$ 29
-	-	-	-	-	623	623
-	-	-	7	-	291	298
-	-	-	-	-	-	23
\$ 22	\$ -	\$ -	\$ 7	\$ 7	\$ 914	\$ 973

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Internal Service Funds

Internal Service Funds account for goods and services provided by state agencies or departments to other state agencies or departments and to other governmental units on a cost-reimbursement basis.

Central Services Fund

This fund accounts for activities to provide various services to state agencies. These services include accounting, budgeting, personnel, mail and shuttle, purchasing, printing, copy center, data center, property development, telecommunications, motor pool, and an insurance fund.

Legal Services Fund

This fund accounts for activities of the Department of Justice Attorney General's office to represent and advise the State's elected and appointed officials, agencies, boards, and commissions.

Banking Services Fund

This fund accounts for activities of the Oregon State Treasury to provide banking, investment, and debt management services to state agencies.

Audit Services Fund

This fund accounts for activities of the Secretary of State, Audits Division, to provide independent auditing services to state agencies.

Forestry Services Fund

This fund accounts for activities of the Department of Forestry to operate an equipment and maintenance pool that provides transportation, heavy equipment, and aircraft support for operating programs and other state agencies.

Other Internal Service Funds

This fund accounts for the sale of goods and services to other governmental units through activities not specifically accounted for in another internal service fund.

**Combining Balance Sheet
Internal Service Funds
June 30, 2005
(In Thousands)**

	Central Services	Legal Services
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 195,398	\$ 9,522
Investments	52,685	-
Securities Lending Cash Collateral	43,273	-
Accounts and Interest Receivable (net)	52,007	4,442
Due from Other Funds	25	1,645
Inventories	1,112	178
Total Current Assets	344,500	15,787
Noncurrent Assets:		
Cash and Cash Equivalents - Restricted	3,444	-
Investments - Restricted	27,607	-
Deferred Charges	651	-
Advances to Other Funds	804	-
Net Contracts, Notes and Other Receivables	-	-
Capital Assets:		
Land	10,903	-
Buildings, Property and Equipment	348,497	1,820
Construction in Progress	27,666	499
Infrastructure	1,122	-
Works of Art and Historical Treasures	141	-
Less Accumulated Depreciation and Amortization	(147,226)	(1,534)
Total Noncurrent Assets	273,609	785
Total Assets	\$ 618,109	\$ 16,572
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts and Interest Payable	\$ 21,397	\$ 811
Obligations Under Securities Lending	43,273	-
Due to Other Funds	-	13
Bonds/COPS Payable	11,601	-
Trust Funds Payable	180,414	7
Deferred Revenue	1,947	138
Compensated Absences Payable	1,534	1,718
Total Current Liabilities	260,166	2,687
Noncurrent Liabilities:		
Bonds/COPS Payable	159,482	-
Claims and Judgments Payable	88,135	-
Compensated Absences Payable	657	736
Contracts, Mortgages and Notes Payable	11	-
Advances from Other Funds	402	-
Total Noncurrent Liabilities	248,687	736
Total Liabilities	508,853	3,423
Net Assets:		
Invested in Capital Assets, Net of Related Debt	99,002	785
Unrestricted	10,254	12,364
Total Net Assets	109,256	13,149
Total Liabilities and Net Assets	\$ 618,109	\$ 16,572

State of Oregon

Banking Services	Audit Services	Forestry Services	Other	Total
\$ 4,218	\$ 1,488	\$ 3,328	\$ 4,382	\$ 218,336
-	-	-	-	52,685
-	-	-	-	43,273
1,448	276	73	219	58,465
-	-	15	43	1,728
13	-	198	8	1,509
<u>5,679</u>	<u>1,764</u>	<u>3,614</u>	<u>4,652</u>	<u>375,996</u>
-	-	-	-	3,444
-	-	-	-	27,607
-	-	-	-	651
-	-	1	-	805
-	-	-	27	27
-	-	-	-	10,903
1,710	181	17,660	4,305	374,173
-	-	5	-	28,170
-	-	-	-	1,122
-	-	-	-	141
<u>(1,651)</u>	<u>(158)</u>	<u>(12,224)</u>	<u>(2,371)</u>	<u>(165,164)</u>
59	23	5,442	1,961	281,879
<u>\$ 5,738</u>	<u>\$ 1,787</u>	<u>\$ 9,056</u>	<u>\$ 6,613</u>	<u>\$ 657,875</u>
\$ 314	\$ 317	\$ 259	\$ 189	\$ 23,287
-	-	-	-	43,273
-	-	1	37	51
-	-	-	-	11,601
-	-	-	1	180,422
-	-	-	-	2,085
278	146	85	157	3,918
<u>592</u>	<u>463</u>	<u>345</u>	<u>384</u>	<u>264,637</u>
-	-	-	-	159,482
-	-	-	-	88,135
120	63	37	5	1,618
-	-	-	-	11
-	-	-	-	402
<u>120</u>	<u>63</u>	<u>37</u>	<u>5</u>	<u>249,648</u>
<u>712</u>	<u>526</u>	<u>382</u>	<u>389</u>	<u>514,285</u>
59	23	5,442	1,934	107,245
4,967	1,238	3,232	4,290	36,345
<u>5,026</u>	<u>1,261</u>	<u>8,674</u>	<u>6,224</u>	<u>143,590</u>
<u>\$ 5,738</u>	<u>\$ 1,787</u>	<u>\$ 9,056</u>	<u>\$ 6,613</u>	<u>\$ 657,875</u>

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2005
(In Thousands)

	Central Services	Legal Services
Operating Revenues:		
Charges for Services	\$ 150,265	\$ 43,224
Rents and Royalties	30,108	19
Sales	12,293	91
Other	6,625	15
Total Operating Revenues	199,291	43,349
Operating Expenses:		
Salaries and Wages	37,524	37,884
Services and Supplies	124,649	4,218
Cost of Goods Sold	18,579	-
Bond and COP Interest	6,491	-
Other Debt Service	21	-
Depreciation and Amortization	15,841	140
Bad Debt Expense	-	3
Total Operating Expenses	203,105	42,245
Operating Income (Loss)	(3,814)	1,104
Nonoperating Revenues (Expenses):		
Investment Income	4,704	2
Gain (Loss) on Disposition of Assets	176	-
Loan Interest Income	49	-
Loan Interest Expense	(26)	-
Total Nonoperating Revenues (Expenses)	4,903	2
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	1,089	1,106
Capital Contributions	7,162	-
Transfers from Other Funds	1,665	-
Transfers to Other Funds	(5,194)	-
Change in Net Assets	4,722	1,106
Net Assets - Beginning	104,517	12,043
Prior Period Adjustments	17	-
Net Assets - Beginning - As Restated	104,534	12,043
Net Assets - Ending	\$ 109,256	\$ 13,149

State of Oregon

Banking Services	Audit Services	Forestry Services	Other	Total
\$ 12,977	\$ 7,619	\$ 3,184	\$ 536	\$ 217,805
-	-	1,897	-	32,024
-	-	218	-	12,602
-	-	4	1,874	8,518
12,977	7,619	5,303	2,410	270,949
6,218	4,409	1,563	425	88,023
4,893	1,892	2,422	994	139,068
-	-	-	-	18,579
-	-	-	-	6,491
-	-	-	-	21
57	10	1,528	363	17,939
-	-	-	-	3
11,168	6,311	5,513	1,782	270,124
1,809	1,308	(210)	628	825
-	-	-	-	4,706
-	-	174	(33)	317
-	-	-	-	49
-	-	-	-	(26)
-	-	174	(33)	5,046
1,809	1,308	(36)	595	5,871
-	-	-	20	7,182
-	389	214	54	2,322
-	(1,908)	(317)	(216)	(7,635)
1,809	(211)	(139)	453	7,740
3,217	1,472	8,815	5,771	135,835
-	-	(2)	-	15
3,217	1,472	8,813	5,771	135,850
\$ 5,026	\$ 1,261	\$ 8,674	\$ 6,224	\$ 143,590

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2005
(In Thousands)

	Central Services	Legal Services
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 17,779	\$ 5,477
Receipts from Other Funds for Services	168,938	34,973
Payments to Employees for Services	(40,337)	(37,567)
Payments to Suppliers	(120,320)	(1,144)
Payments to Other Funds for Services	(139)	(2,277)
Claims Paid	(7,360)	-
Other Receipts (Payments)	23,429	(247)
Net Cash Provided (Used) in Operating Activities	41,990	(785)
Cash Flows from Noncapital Financing Activities:		
Transfers from Other Funds	1,661	-
Transfers to Other Funds	(13,514)	(2,293)
Net Cash Provided (Used) in Noncapital Financing Activities	(11,853)	(2,293)
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Bond/COP Sales	65,600	-
Principal Payments on Bonds/COPS	(13,642)	-
Interest Payments on Bonds/COPS	(5,946)	-
Bond/COP Issuance Costs	(696)	-
Repayments on Advances Made	33	-
Repayments on Advances Received	(24)	-
Interest Payments on Advances	49	-
Principal Payments on Loans	(99)	-
Interest Payments on Loans	(26)	-
Acquisition of Capital Assets	(39,828)	(538)
Proceeds from Disposition of Capital Assets	684	-
Net Cash Provided (Used) in Capital and Related Financing Activities	6,105	(538)
Cash Flows from Investing Activities:		
Purchases of Investments	(30,912)	-
Proceeds from Sales and Maturities of Investments	26,394	-
Interest on Investments and Cash Balances	5,469	-
Interest Income from Securities Lending	269	-
Interest Expense from Securities Lending	(269)	-
Net Cash Provided (Used) in Investing Activities	951	-
Net Increase (Decrease) in Cash and Cash Equivalents	37,193	(3,616)
Cash and Cash Equivalents - Beginning	161,649	13,138
Cash and Cash Equivalents - Ending	\$ 198,842	\$ 9,522

State of Oregon

Banking Services	Audit Services	Forestry Services	Other	Total
\$ -	\$ -	\$ -	\$ -	23,256
13,012	7,570	5,453	2,407	232,353
(6,214)	(4,416)	(1,576)	(277)	(90,387)
(4,752)	(1,300)	(2,142)	(719)	(130,377)
-	(477)	(211)	(169)	(3,273)
-	-	-	-	(7,360)
-	-	-	-	23,182
2,046	1,377	1,524	1,242	47,394
3,806	389	199	647	6,702
(3,806)	(1,908)	(461)	(790)	(22,772)
-	(1,519)	(262)	(143)	(16,070)
-	-	-	-	65,600
-	-	-	-	(13,642)
-	-	-	-	(5,946)
-	-	-	-	(696)
-	-	2	-	35
-	-	-	-	(24)
-	-	-	-	49
-	-	-	-	(99)
-	-	-	-	(26)
(86)	(3)	(1,586)	(341)	(42,382)
-	-	219	93	996
(86)	(3)	(1,365)	(248)	3,865
-	-	-	-	(30,912)
-	-	-	-	26,394
-	-	-	-	5,469
-	-	-	-	269
-	-	-	-	(269)
-	-	-	-	951
1,960	(145)	(103)	851	36,140
2,258	1,633	3,431	3,531	185,640
\$ 4,218	\$ 1,488	\$ 3,328	\$ 4,382	\$ 221,780

(continued on next page)

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2005
(In Thousands)
(continued from previous page)

	Central Services	Legal Services
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating Income (Loss)	\$ (3,814)	\$ 1,104
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	15,841	140
Amortization of Bond/COP Premium and Discount	192	-
Amortization of Deferred Charges	21	-
Bad Debt Expense	-	3
Interest Payments Reported as Operating Expense	5,947	-
Bond/COP Issuance Costs Reported as Operating Expense	696	-
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	14,225	(963)
Due from Other Funds	(20)	(992)
Inventories	77	398
Prepaid Items	258	-
Deferred Charges	(654)	-
Net Contracts, Notes and Other Receivables	-	28
Accounts and Interest Payable	6,438	333
Due to Other Funds	-	30
Trust Funds Payable	9,182	36
Deferred Revenue	(15,446)	(1,120)
Claims and Judgments Payable	9,955	-
Contracts, Mortgages and Notes Payable	(729)	-
Compensated Absences Payable	(179)	218
Total Adjustments	45,804	(1,889)
Net Cash Provided (Used) by Operating Activities	\$ 41,990	\$ (785)
Noncash Investing and Capital and Related Financing Activities:		
Net Change in Fair Value of Investments	\$ (806)	\$ -
Capital Assets Transferred from Governmental Funds	7,161	-
Capital Assets Transferred to Governmental Funds	(59)	-
Total Noncash Investing and Capital and Related Financing Activities	\$ 6,296	\$ -

State of Oregon

Banking Services	Audit Services	Forestry Services	Other	Total
\$ 1,809	\$ 1,308	\$ (210)	\$ 628	\$ 825
57	10	1,528	363	17,939
-	-	-	-	192
-	-	-	-	21
-	-	-	-	3
-	-	-	-	5,947
-	-	-	-	696
22	(52)	7	(3)	13,236
-	-	144	1	(867)
(2)	-	131	-	604
12	-	-	10	280
-	-	-	-	(654)
-	-	-	-	28
122	135	54	95	7,177
-	-	(134)	1	(103)
-	-	-	-	9,218
-	-	-	-	(16,566)
-	-	-	-	9,955
-	-	-	-	(729)
26	(24)	4	147	192
237	69	1,734	614	46,569
\$ 2,046	\$ 1,377	\$ 1,524	\$ 1,242	\$ 47,394
\$ -	\$ -	\$ -	\$ -	\$ (806)
-	-	-	20	7,181
-	-	-	-	(59)
\$ -	\$ -	\$ -	\$ 20	\$ 6,316

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Fiduciary Funds – Combining Pension Trust and Private Purpose Trust

Pension Trust Funds

Pension Trust Funds account for the transactions, assets, liabilities, and net assets held in trust for public employees by the Public Employees Retirement System for the payment of retirement, disability, postemployment healthcare, and death benefits to members of the retirement system.

Public Employees Defined Benefit Pension Fund

This fund accounts for the activities of the defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. The plan is administered by the Public Employees Retirement Board under Oregon Revised Statutes, Chapter 238 and Internal Revenue Code Section 401(a).

Individual Account Program Defined Contribution Pension Fund

This fund accounts for the activities of the defined contribution portion of the Oregon Public Service Retirement Plan (OPSRP). Beginning January 1, 2004, PERS member contributions, account earnings and losses, as well as administrative costs of the plan are reflected in this fund. The OPSRP is administered by the Public Employees Retirement System.

Oregon Public Service Retirement Plan Defined Benefit Pension Fund

This fund accounts for the activities of the defined benefit pension program of the OPSRP. Public employees hired on or after August 29, 2003 as well as inactive PERS members who return to employment following a six-month or greater break in service participate in the OPSRP pension program. The OPSRP is administered by the Public Employees Retirement System.

Postemployment Healthcare Fund

This fund accounts for the transactions, assets, liabilities, and net assets related to medical and hospital insurance coverage contracted on behalf of retired members of the Public Employees Retirement System.

Deferred Compensation Fund

This fund accounts for the activities of the Deferred Compensation Program, an Internal Revenue Code Section 457 compensation plan, offered to employees of the State and administered by the Public Employees Retirement System.

Private Purpose Trust Funds

Private Purpose Trust Funds account for all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.

Common School Fund

The activity formerly reported in this fund is now reported in a Special Revenue Fund. The Common School Fund is not a fiduciary fund because the assets of the fund are owned by the State, with the exception of some escheat property which is now reported in a Special Revenue Fund.

Other Private Purpose Trust Funds

This fund accounts for the principal and income of a variety of activities, the largest of which is a conservator trust arrangement. The Department of Veterans' Affairs acts as conservator of estates for veterans, survivors, and children of veterans who the court has determined are unable to manage their own financial affairs.

Combining Statement of Fiduciary Net Assets
Pension Trust Funds
June 30, 2005
(In Thousands)

	Public Employees Defined Benefit Pension	Individual Account Program Defined Contribution Pension
ASSETS		
Cash and Cash Equivalents	\$ 2,846,198	\$ 62,999
Receivables:		
Employer Contributions	14,203	-
Employee Contributions	-	14,221
Interest and Dividends	149,370	1,743
Investment Sales	1,054,519	12,250
From Other Funds	1,899	-
Total Receivables	1,219,991	28,214
Investments:		
Fixed Income	13,833,890	161,198
Equity	26,853,521	304,222
Real Estate	2,862,481	33,824
Alternative Equity	4,240,233	50,317
Restricted Investment Contracts	-	499
Total Investments	47,790,125	550,060
Securities Lending Cash Collateral	5,506,030	69,684
Inventories	5	-
Prepaid Items	1,611	10
Capital Assets (net of \$4,288 accumulated depreciation):		
Land	944	-
Buildings, Property and Equipment	7,256	768
Total Assets	57,372,160	711,735
LIABILITIES		
Accounts and Interest Payable	2,632,113	30,109
Obligations Under Securities Lending	5,506,030	69,684
Due to Other Funds	61	1,152
Trust Funds Payable	121,007	-
Bonds/COPS Payable	49,527	892
Total Liabilities	8,308,738	101,837
NET ASSETS		
Held in Trust for:		
Employees' Pension Benefits	49,063,422	609,898
Employees' Postemployment Healthcare Benefits	-	-
Individuals, Organizations and Other Governments	-	-
Total Net Assets	\$ 49,063,422	\$ 609,898

State of Oregon

Oregon Public Service Retirement Plan				
Defined Benefit Pension	Postemployment Healthcare	Deferred Compensation	Total	
\$ 5,920	\$ 16,462	\$ 1,239	\$	2,932,818
1,917	1,664	-		17,784
-	-	-		14,221
63	502	-		151,678
442	3,529	50		1,070,790
-	61	-		1,960
<u>2,422</u>	<u>5,756</u>	<u>50</u>		<u>1,256,433</u>
5,811	46,436	278,150		14,325,485
10,968	87,636	464,210		27,720,557
1,219	9,743	-		2,907,267
1,814	14,495	-		4,306,859
3,992	-	-		4,491
<u>23,804</u>	<u>158,310</u>	<u>742,360</u>		<u>49,264,659</u>
3,156	19,798	219		5,598,887
-	-	-		5
82	-	-		1,703
-	-	-		944
6,214	-	-		14,238
<u>41,598</u>	<u>200,326</u>	<u>743,868</u>		<u>59,069,687</u>
5,898	8,209	2		2,676,331
3,156	19,798	219		5,598,887
524	115	108		1,960
-	-	329		121,336
7,130	-	-		57,549
<u>16,708</u>	<u>28,122</u>	<u>658</u>		<u>8,456,063</u>
24,890	-	-		49,698,210
-	172,204	-		172,204
-	-	743,210		743,210
<u>\$ 24,890</u>	<u>\$ 172,204</u>	<u>\$ 743,210</u>	<u>\$</u>	<u>\$ 50,613,624</u>

**Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2005
(In Thousands)**

	Public Employees Defined Benefit Pension	Individual Account Program Defined Contribution Pension
ADDITIONS		
Contributions:		
Employer	\$ 785,754	\$ -
Employee	9,590	362,894
Other Sources	23,587	-
Total Contributions	<u>818,931</u>	<u>362,894</u>
Investment Income:		
Net Appreciation in Fair Value of Investments	4,465,890	36,188
Interest, Dividends and Other Investment Income	1,529,649	12,818
Total Investment Income	<u>5,995,539</u>	<u>49,006</u>
Less Investment Expense	<u>310,377</u>	<u>2,593</u>
Net Investment Income	<u>5,685,162</u>	<u>46,413</u>
Other Income	<u>328</u>	<u>5,556</u>
Total Additions	<u>6,504,421</u>	<u>414,863</u>
DEDUCTIONS		
Pension Benefits	2,353,829	1,235
Death Benefits	10,572	-
Contributions Refunded	60,242	-
Healthcare Premium Subsidies	-	-
Retiree Health Care Expense	-	-
Administrative Expenses	<u>27,744</u>	<u>5,243</u>
Total Deductions	<u>2,452,387</u>	<u>6,478</u>
Change in Net Assets Held in Trust For:		
Employees' Pension Benefits	4,052,034	408,385
Employees' Postemployment Healthcare Benefits	-	-
Individuals, Organizations and Other Governments	-	-
Net Assets - Beginning	<u>45,011,388</u>	<u>201,513</u>
Net Assets - Ending	<u>\$ 49,063,422</u>	<u>\$ 609,898</u>

State of Oregon

Oregon Public Service Retirement Plan				
Defined Benefit Pension	Postemployment Healthcare	Deferred Compensation	Total	
\$ 30,054	\$ 39,653	\$ -	\$ 855,461	
-	85,791	56,542	514,817	
-	-	-	23,587	
30,054	125,444	56,542	1,393,865	
881	13,846	41,834	4,558,639	
466	5,063	12,851	1,560,847	
1,347	18,909	54,685	6,119,486	
77	990	1,862	315,899	
1,270	17,919	52,823	5,803,587	
-	22	683	6,589	
31,324	143,385	110,048	7,204,041	
-	-	39,406	2,394,470	
-	-	-	10,572	
-	-	-	60,242	
-	27,205	-	27,205	
-	86,457	-	86,457	
6,939	2,608	704	43,238	
6,939	116,270	40,110	2,622,184	
24,385	-	-	4,484,804	
-	27,115	-	27,115	
-	-	69,938	69,938	
505	145,089	673,272	46,031,767	
\$ 24,890	\$ 172,204	\$ 743,210	\$ 50,613,624	

**Combining Statement of Fiduciary Net Assets
Private Purpose Trust Funds
June 30, 2005
(In Thousands)**

	Common School	Other	Total
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 28,399	\$ 28,399
Receivables:			
Accounts	-	143	143
Total Receivables	-	143	143
Investments:			
Fixed Income	-	731	731
Equity	-	1,224	1,224
Total Investments	-	1,955	1,955
Cash and Securities Held in Trust	-	97	97
Securities Lending Cash Collateral	-	4,094	4,094
Conservatorship and Custodial Assets	-	3,789	3,789
Loans Receivable	-	136	136
Capital Assets:			
Land	-	14	14
Total Assets	-	38,627	38,627
LIABILITIES			
Accounts and Interest Payable	-	7	7
Obligations Under Securities Lending	-	4,094	4,094
Due to Other Funds	-	3	3
Trust Funds Payable	-	1,417	1,417
Contracts, Mortgages and Notes Payable	-	1,582	1,582
Total Liabilities	-	7,103	7,103
NET ASSETS			
Held in Trust for:			
Individuals, Organizations and Other Governments	-	31,524	31,524
Total Net Assets	\$ -	\$ 31,524	\$ 31,524

**Combining Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Funds
For the Year Ended June 30, 2005
(In Thousands)**

	Common School	Other	Total
ADDITIONS			
Investment Income:			
Interest, Dividends and Other Investment Income	\$ -	\$ 363	\$ 363
Total Investment Income	-	363	363
Less Investment Expense	-	115	115
Net Investment Income	-	248	248
Gifts, Grants and Contracts	-	420	420
Other Income	-	12,470	12,470
Transfers from Other Funds	-	523	523
Total Additions	-	13,661	13,661
DEDUCTIONS			
Administrative Expenses	-	9,715	9,715
Payments in Accordance with Trust Agreements	-	6,398	6,398
Total Deductions	-	16,113	16,113
Change in Net Assets Held in Trust For:			
Individuals, Organizations and Other Governments	-	(2,452)	(2,452)
Net Assets - Beginning	666,625	36,118	702,743
Prior Period Adjustments	(666,625)	(2,142)	(668,767)
Net Assets - Beginning - As Restated	-	33,976	33,976
Net Assets - Ending	\$ -	\$ 31,524	\$ 31,524

Agency Fund

The Agency Fund accounts for assets held by the State as an agent for other governmental units, organizations, or individuals. For example, the Department of Consumer and Business Services holds deposits and investments to secure the faithful performance by insurers of insurance company obligations, including claims due to policyholders. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not measure the results of operations.

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2005

(In Thousands)

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
ASSETS				
Cash and Cash Equivalents	\$ 96,053	\$ 2,059,454	\$ 2,040,556	\$ 114,951
Investments	21,618	7	14,750	6,875
Cash and Securities Held in Trust	1,370,034	568,348	484,002	1,454,380
Accounts and Interest Receivable	7,171	1,056	72	8,155
Net Contracts, Notes and Other Receivables	97,329	243,822	290,767	50,384
Conservatorship and Custodial Assets	45	-	6	39
Receivership Assets	95,625	3	4,531	91,097
Total Assets	\$ 1,687,875	\$ 2,872,690	\$ 2,834,684	\$ 1,725,881
LIABILITIES				
Accounts and Interest Payable	\$ 10	\$ 103,916	\$ 103,585	\$ 341
Due to Other Governments	2,393	409	-	2,802
Trust Funds Payable	1,685,472	2,233,125	2,195,859	1,722,738
Total Liabilities	\$ 1,687,875	\$ 2,337,450	\$ 2,299,444	\$ 1,725,881



Statistical Section

Schedule 1

GENERAL GOVERNMENTAL¹
REVENUES BY SOURCE, EXPENDITURES BY FUNCTION,
AND OTHER FINANCING SOURCES AND USES

Last Ten Fiscal Years
(In Thousands)

	2005	2004	2003	2002
Revenues by Source:				
Taxes	\$ 6,817,329	\$ 6,303,389	\$ 5,836,554	\$ 5,728,923
Licenses and Fees	369,626	312,609	286,619	275,439
Federal	4,608,759	4,233,648	4,160,747	3,767,499
Charges for Services	223,109	214,485	234,459	232,711
Fines and Forfeitures	68,399	116,191	91,349	81,899
Rents and Royalties	20,226	7,244	6,015	6,331
Investment Income	205,808	76,594	98,185	90,423
Sales	125,399	111,905	110,945	112,287
Donations and Grants	13,447	12,409	138,599	116,152
Contributions to Permanent Funds	11,453	4,701	-	-
Tobacco Settlement Proceeds	73,142	72,065	85,255	86,524
Pension Bond Debt Service Assessments	121,895	21,579	-	-
Other	275,937	288,622	244,775	280,478
Total Revenues	\$ 12,934,529	\$ 11,775,441	\$ 11,293,502	\$ 10,778,666
Expenditures by Function:				
Education	\$ 3,203,813	\$ 3,484,917	\$ 2,900,408	\$ 3,347,415
Human Resources	4,665,643	4,269,562	4,347,675	4,402,681
Public Safety	905,510	842,487	783,712	778,997
Economic and Community Development	341,807	298,654	319,732	281,481
Natural Resources	573,781	484,410	508,367	460,214
Transportation	1,767,779	1,266,474	1,184,102	1,016,600
Consumer and Business Services	362,765	338,971	325,140	323,653
Administration	587,665	663,545	652,000	511,415
Legislative	30,688	25,181	29,637	26,718
Judicial	250,438	239,157	204,908	231,580
Capital Outlay	83,784	32,576	63,726	81,681
Debt Service	402,293	260,970	207,754	122,537
Total Expenditures	\$ 13,175,966	\$ 12,206,904	\$ 11,527,161	\$ 11,584,972
Other Financing Sources (Uses):				
Transfers from Other Funds	\$ 1,596,919	\$ 1,292,842	\$ 1,691,017	\$ 3,300,534
Transfers to Other Funds	(1,474,364)	(3,413,477)	(1,670,815)	(3,438,615)
Net Debt Proceeds	484,301	2,224,414	702,297	292,304
Leases Incurred	3,939	-	107	7
Other	-	-	-	-
Total Other Financing Sources (Uses)	\$ 610,795	\$ 103,779	\$ 722,606	\$ 154,230

¹ Includes all governmental funds (general, special revenue, debt service, capital projects, and permanent funds)

State of Oregon

	2001	2000	1999	1998	1997	1996
\$	5,901,345	\$ 6,110,160	\$ 5,579,519	\$ 5,095,593	\$ 4,452,085	\$ 4,707,049
	333,358	352,353	310,615	291,703	257,618	275,104
	3,383,853	3,137,946	3,017,941	2,732,897	2,737,138	2,622,274
	222,600	207,162	223,287	173,043	177,224	137,721
	90,661	85,654	69,966	53,369	36,751	43,535
	7,671	8,091	7,133	6,832	6,792	8,690
	175,939	128,160	123,171	137,219	145,776	115,703
	75,377	94,287	67,671	59,049	87,690	64,556
	106,476	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	261,158	310,110	267,347	223,013	229,486	256,765
\$	10,558,438	\$ 10,433,923	\$ 9,666,650	\$ 8,772,718	\$ 8,130,560	\$ 8,231,397
\$	3,183,306	\$ 3,123,368	\$ 2,630,392	\$ 2,817,786	\$ 2,304,252	\$ 2,308,948
	3,926,443	3,576,521	3,341,097	2,893,283	2,826,898	2,844,028
	762,298	688,629	652,760	570,219	533,181	436,165
	275,564	219,565	217,494	205,662	246,847	249,818
	431,932	402,735	369,058	311,007	327,784	281,263
	1,081,340	1,072,694	1,121,734	1,081,604	1,026,580	945,036
	271,885	253,353	233,475	227,828	222,988	204,753
	447,809	471,360	591,200	444,912	532,906	438,883
	31,993	24,697	26,950	18,897	22,545	17,092
	212,879	204,536	182,930	174,052	163,949	151,152
	121,422	90,396	276,511	168,103	179,275	64,044
	73,506	49,876	79,228	94,428	77,723	65,756
\$	10,820,377	\$ 10,177,730	\$ 9,722,829	\$ 9,007,781	\$ 8,464,928	\$ 8,006,938
\$	2,624,217	\$ 2,407,598	\$ 1,298,357	\$ 1,400,321	\$ 1,632,170	\$ 1,923,004
	(2,746,653)	(2,578,061)	(1,359,677)	(1,496,440)	(1,625,033)	(1,942,027)
	142,329	358,726	179,413	77,806	193,086	269,696
	-	854	1,519	382	25	604
	-	-	-	-	123	19
\$	19,893	\$ 189,117	\$ 119,612	\$ (17,931)	\$ 200,371	\$ 251,296

Schedule 2

NET GENERAL OBLIGATION DEBT PER CAPITA

Last Ten Fiscal Years
(In Thousands)

Fiscal Year	Total General Obligation Debt ⁴	Less Debt Payable from Enterprise Revenues ¹	Less Debt Service Fund ²	Net General Obligation Debt	Population ³	Net General Obligation Debt Per Capita
1996	\$ 3,745,104	\$ 3,298,026	\$ -	\$ 447,078	3,247	\$ 138
1997	3,336,916	2,889,375	-	447,541	3,304	135
1998	2,997,606	2,522,815	-	474,791	3,352	142
1999	2,479,010	1,987,907	60,184	430,919	3,394	127
2000	2,429,380	1,855,860	10,497	563,023	3,437	164
2001	2,282,942	1,730,676	6,391	545,875	3,472	157
2002	2,386,884	2,318,169	4,431	64,284	3,505	18
2003	2,312,788	2,149,558	2,720	160,510	3,540	45
2004	4,364,485	2,016,631	39,883	2,307,971	3,579	645
2005	4,345,105	2,009,092	34,431	2,301,582	3,627	635

¹ Beginning in 2002, includes debt of Oregon University System, reported in an enterprise fund in accordance with the new reporting model (formerly reported in college and university funds).

² Amount available for repayment of general obligation bonds; data prior to FY 1999 is not available.

³ Source: Oregon Department of Administrative Services, Office of Economic Analysis; based on census 2000 data.

⁴ In 2004, \$2 billion of pension general obligation bonds were issued.

Schedule 3

LEGAL DEBT MARGIN

As of June 30, 2005

	Legal Debt Limit ^{1,2}	Amount Outstanding ³	Debt Margin
General Obligation Bonds			
Oregon University System	\$ 4,953,730,780	\$ 869,106,275 ⁴	\$ 4,084,624,505
Pollution Control	260,000,000	43,632,071	216,367,929
Pension Obligation Bonds	3,302,487,187	2,083,960,000	1,218,527,187
Veterans' Welfare	26,419,897,496	801,493,726	25,618,403,770
Alternate Energy	1,651,243,593	119,751,143	1,531,492,450
Water Resources	4,953,730,780	1,394,112	4,952,336,668
State Highway	3,302,487,187	-	3,302,487,187
Elderly and Disabled Housing	1,651,243,593	220,021,403	1,431,222,190
Oregon Opportunity Bonds	1,651,243,593	205,746,585	1,445,497,008
General Purpose	50,000	-	50,000
Oregon School Bond Guarantee	1,651,243,593	-	1,651,243,593
Public Education Buildings Seismic Refit	660,497,437	-	660,497,437
Emergency Service Buildings Seismic Refit	660,497,437	-	660,497,437
State Power Development	4,953,730,780	-	4,953,730,780
Forest Rehabilitation ⁵	619,216,348	-	619,216,348
Total General Obligation Bonds	<u>\$ 56,691,299,804</u>	<u>\$ 4,345,105,315</u>	<u>\$ 52,346,194,489</u>
Revenue Bonds⁶			
Highway User Tax	\$ 2,228,000,000	\$ 591,992,490	\$ 1,636,007,510
Economic Development Bond Bank	400,000,000	186,507,489	213,492,511
Single & Multi-Family Housing Programs	2,000,000,000	1,547,829,491	452,170,509
State Fair & Exposition Center	10,000,000	-	10,000,000
Transportation Infrastructure Bank	200,000,000	-	200,000,000
Public Employees Retirement System	- ⁷	43,300,000	- ⁷
Oregon Health and Science University	- ⁸	543,653,000	- ⁸
Lottery Revenue Bonds ⁹	- ¹⁰	550,911,661	- ¹⁰
Total Revenue Bonds	<u>\$ 4,838,000,000</u>	<u>\$ 3,464,194,131</u>	<u>\$ 2,511,670,530</u>
Appropriation Bonds			
Department of Administrative Services	\$ - ¹¹	\$ 440,372,135	\$ - ¹¹
Total Appropriation Bonds	<u>\$ -¹¹</u>	<u>\$ 440,372,135</u>	<u>\$ -¹¹</u>

¹ Oregon State Treasury, Debt Management Division.

² Based on the January 1, 2004 True Cash Value (TCV) of \$330,248,718,696.

³ Excludes refunded and defeased bonds.

⁴ Includes \$2,675,000 of Community College Workforce Development outstanding bonds.

⁵ Issuance of Forest Rehabilitation bonds is limited by statute to \$750,000 per year.

⁶ Revenue bonds schedule does not crossfoot as some columns are not applicable to all items.

⁷ Debt was assumed by Public Employees Retirement System as a guarantor; debt limit and debt margin are not applicable.

⁸ The Uniform Revenue Bond Act authorizes Oregon Health and Science University to issue revenue bonds, but does not establish a specific legal debt limit amount.

⁹ Consolidated total for all lottery-backed revenue bonds.

¹⁰ The legal debt limit for lottery revenue bonds is based on the requirement that unobligated net lottery proceeds be at least 400 percent of the maximum annual debt service on outstanding bonds, including the estimated debt service on any proposed new bonds.

¹¹ The authorization to issue appropriation bonds allowed for an issuance that would raise net proceeds of not more than \$450 million. Since the authorization was not stated in terms of a maximum debt limit, the legal debt limit and debt margin are not applicable.

Schedule 4

**REVENUE BOND COVERAGE
LOTTERY REVENUE BONDS**

**Last Ten Fiscal Years
(In Thousands)**

Fiscal Year	Revenues	Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1996	\$ 695,121	\$ 415,743	\$ 279,378	\$ 4,420	\$ 5,577	\$ 9,997	27.95
1997	721,992	429,629	292,363	4,640	5,356	9,996	29.25
1998	716,336	427,938	288,398	4,875	5,124	9,999	28.84
1999	726,693	430,139	296,554	5,670	5,955	11,625	25.51
2000	761,913	456,855	305,058	13,190	17,459	30,649	9.95
2001	794,787	473,729	321,058	16,535	21,775	38,310	8.38
2002	820,646	489,470	331,176	27,295	23,441	50,736	6.53
2003	860,767	511,310	349,457	27,860	21,391	49,251	7.10
2004	883,446	502,100	381,346	36,410	26,718	63,128	6.04
2005	944,466	511,528	432,938	44,715	26,769	71,484	6.06

Note: The State also has revenue bonds that are primarily paid using loan repayments. Schedules for these bonds are not presented because an association of net revenues with debt service requirements is not meaningful.

Schedule 5

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
FOR GENERAL OBLIGATION BONDED DEBT¹
TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES**

Last Ten Fiscal Years
(In Thousands)

Fiscal Year	Principal	Interest^{2, 4}	Total Debt Service	Total General Governmental Expenditures³	Ratio of Debt Service to General Governmental Expenditures
1996	\$ 20,335	\$ 7,199	\$ 27,534	\$ 8,006,938	0.34%
1997	22,485	6,429	28,914	8,464,928	0.34%
1998	18,250	5,504	23,754	9,007,781	0.26%
1999	17,035	4,872	21,907	9,722,829	0.23%
2000	10,800	4,066	14,866	10,177,730	0.15%
2001	9,800	4,286	14,086	10,820,377	0.13%
2002	9,130	3,840	12,970	11,584,972	0.11%
2003	7,870	5,392	13,262	11,527,161	0.12%
2004	13,470	79,044	92,514	12,206,904	0.76%
2005	17,535	129,942	147,477	13,175,966	1.12%

¹ Excludes general obligation bonds reported in enterprise funds.

² Excludes bond issuance costs.

³ Includes all governmental funds (general, special revenue, debt service, capital projects, and permanent funds).

⁴ In 2004, \$2 billion of pension general obligation bonds were issued and interest payments began.

Schedule 6

OREGON'S TEN LARGEST PRIVATE EMPLOYERS

As of April 2002

Firm Name	Primary Industry	Average Number of Employees
The Kroger Company (Fred Meyer)	Department store	13,300
Providence Health System	Integrated health system	12,800
Intel Corporation	Semiconductors and related devices	12,000
Safeway Stores, Inc.	Grocery store	11,500
Oregon Health and Science University	Hospital, medical and surgical	10,100
Legacy Emanuel Hospital & Health	Hospital, medical and surgical	7,200
Wal Mart Stores, Inc.	Department store	7,200
Kaiser Permanente	Offices and clinics of doctors of medicine	7,100
Hewlett-Packard Company	Semiconductors and related devices	5,200
Roseburg Forest Products Company	Plywood and veneer, softwood	4,600

Source: Oregon Economic and Community Development Department

Schedule 7

**COMPARATIVE POPULATION GROWTH
OREGON AND UNITED STATES**

Last Ten Fiscal Years
(In Thousands)

Year	Oregon ¹	Percent Change	United States ²	Percent Change
1995	3,184	2.02%	266,278	1.20%
1996	3,247	1.98%	269,394	1.17%
1997	3,304	1.76%	272,647	1.21%
1998	3,352	1.45%	275,854	1.18%
1999	3,394	1.25%	279,040	1.15%
2000	3,437	1.27%	282,125	1.11%
2001	3,472	1.02%	284,797	0.95%
2002	3,505	0.95%	288,369	1.25%
2003	3,542	1.06%	290,810	0.85%
2004	3,583	1.16%	293,655	0.98%

Sources:

¹ Oregon Department of Administrative Services, Office of Economic Analysis; based on 2000 census data.

² U.S. Bureau of Census; based on 2000 census data.

Schedule 8

COMPARATIVE PER CAPITA INCOME

Last Ten Calendar Years

Year	Oregon ¹	Percent Change	United ² States	Percent Change	Oregon as Percent of United States
1995	\$ 22,362	5.6%	\$ 23,255	4.1%	96.2%
1996	23,270	4.1%	24,270	4.4%	95.9%
1997	24,385	4.8%	25,412	4.7%	96.0%
1998	25,446	4.4%	26,893	5.8%	94.6%
1999	26,248	3.2%	27,880	3.7%	94.1%
2000	27,760	5.8%	29,770	6.8%	93.3%
2001	28,175	1.5%	30,472	2.4%	92.5%
2002	28,668	1.7%	30,832	1.2%	93.0%
2003	28,953	1.0%	31,459	2.0%	92.0%
2004	30,071	3.9%	32,937	4.7%	91.3%

Sources:

¹ Calculated based on population figures from the Oregon Department of Administrative Services, Office of Economic Analysis and personal income figures from the U.S. Bureau of Economic Analysis.

² Calculated based on population figures from the U.S. Bureau of Census and personal income figures from the U.S. Bureau of Economic Analysis.

Schedule 9

COMPARATIVE EMPLOYMENT AND UNEMPLOYMENT RATES

Last Ten Calendar Years
(Annual Averages, In Thousands)

Year	Civilian Labor Force		Unemployment		Unemployment Rate		Oregon Rate as Percent of United States Rate
	Oregon ¹	United States ²	Oregon ¹	United States ²	Oregon ¹	United States ²	
1995	1,653	132,304	80	7,404	4.8%	5.6%	86%
1996	1,718	133,943	102	7,236	5.9%	5.4%	109%
1997	1,728	136,297	101	6,739	5.8%	4.9%	118%
1998	1,765	137,673	99	6,210	5.6%	4.5%	124%
1999	1,761	139,368	100	5,880	5.7%	4.2%	136%
2000	1,803	140,863	88	5,655	4.9%	4.0%	123%
2001	1,794	141,815	114	6,742	6.4%	4.8%	133%
2002	1,834	144,863	138	8,378	7.5%	5.8%	129%
2003	1,859	146,510	152	8,774	8.2%	6.0%	137%
2004	1,871	147,401	132	8,149	7.1%	5.5%	129%

Sources:

¹ Oregon Employment Department

² U.S. Bureau of Labor Statistics

Schedule 10

OREGON EXPORTS TO THE WORLD
By Industry Classification

Last Ten Calendar Years
(In Millions)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
High Technology	\$ 5,597	\$ 5,596	\$ 5,741	\$ 4,911	\$ 7,517	\$ 6,588	\$ 5,397	\$ 5,110	\$ 4,731	\$ 4,294
Wood Products	700	600	567	573	785	712	795	1,195	1,215	1,404
Transportation	1,353	1,116	966	617	894	1,176	699	491	371	358
Other Manufacturing	821	768	684	665	924	672	524	472	443	348
Metals	430	325	311	329	383	370	483	468	348	347
Plastics and Rubber Products	115	79	80	53	63	84	68	77	78	75
Printing and Publishing	38	37	31	40	31	26	32	33	33	29
Agriculture	1,832	1,574	1,520	1,482	1,543	1,559	1,667	2,025	2,356	2,375
Fishery	55	34	35	34	32	26	20	27	31	40
Other Non-Manufacturing	231	227	152	198	276	232	157	171	168	168
Total Exports to the World	\$ 11,172	\$ 10,356	\$ 10,087	\$ 8,902	\$ 12,448	\$ 11,445	\$ 9,842	\$ 10,069	\$ 9,774	\$ 9,438

Source: Oregon Department of Administrative Services, Office of Economic Analysis

Schedule 11

MISCELLANEOUS STATISTICS

Date Entered Union ¹	1859
Form of Government	Representative form of Government with three Branches: Executive, Legislative and Judicial
Land Area:	
Square Miles ¹	96,002
Inland Water Area (square miles) ¹	1,129
Coastline (miles) ¹	296
Population ²	3,582,600
Miles of State Highway ³	8,000
Higher Education:	
Community Colleges:	
Number of Campuses ¹	17
Number of Students ⁵	330,595
State Universities:	
Number of Campuses ¹	7
Number of Regular Term Students ⁶	110,046
Recreation:	
Number of State Parks ¹	240
Area of State Parks (acres) ⁴	101,010
Area of State Forests (acres) ⁷	780,000

Sources:

- ¹ Oregon Blue Book 2005-2006
- ² Oregon Department of Administrative Services, Office of Economic Analysis
- ³ Oregon Department of Transportation
- ⁴ Oregon Parks and Recreation Department
- ⁵ Oregon Department of Community Colleges and Workforce Development
- ⁶ Institutional Research Services, Oregon University System 2004-05
- ⁷ Oregon Department of Forestry

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