

# Oregon

## **Comprehensive Annual Financial Report**



**For the Fiscal Year Ended June 30, 2007**



# **Oregon**

## **Comprehensive Annual Financial Report**

### **For the Fiscal Year Ended June 30, 2007**



**Theodore R. Kulongoski**  
**Governor**

**Kris Kautz, Interim Director**  
**Department of Administrative Services**

**John J. Radford, Administrator**  
**State Controller's Division**

**Report Prepared by:**

**Statewide Accounting and Reporting Services**  
**State Controller's Division, Department of Administrative Services**

**Jean Gabriel, CPA, Manager**  
**Jeanne Bock, CPA**  
**Angela Creasey**  
**Christina Maples**  
**John McIntyre, CPA**  
**Jane Moreland**  
**Scott Smyth**  
**Aaron Wallace**  
**Karen Williams**

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For The Year Ended June 30, 2007**

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# **Introductory Section**

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# Oregon

Theodore R. Kulongoski, Governor

## Department of Administrative Services

State Controller's Division  
155 Cottage Street NE, U50  
Salem, OR 97301-3969  
(503) 378-3156  
FAX (503) 378-3514

December 21, 2007

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, 2007. 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, 2007. 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 2007 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, 2008.

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 services, 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 90 state agencies. Although legally separate, the Home Care Commission functions, in essence, as a program of the State; therefore, it has been included as an integral part of the State's financial statements. In addition to the primary government, three entities are reported 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 slightly more than 1.9 million of the three states' 23.5 million workers in August 2007. Oregon's largest metro area is the Portland-Vancouver-Beaverton metropolitan statistical area. The Portland area has the sixth largest number of workers 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 combination of high net in-migration and 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 percent, much worse than in neighboring states. From late 2003 to mid-2006, Oregon gained jobs at roughly 3 percent per year. Then growth slowed markedly. From September 2006 to September 2007, Oregon's employment grew by less than 1 percent.

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 remained above the rates in neighboring states. The nation and Oregon went into a recession after the burst of the information technology bubble. 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. Oregon had the nation's highest or second-highest state unemployment rate for 39 of the 40 months from May 2001 to August 2004. Rapid job growth from late 2003 to mid-2006 pulled the unemployment rate down to under 5.5 percent by early 2006; it remained between 5.0 and 5.5 percent through late 2007.

Oregon's major foreign export-related industries include computers and electronic products, transportation equipment, machinery, and agricultural crops. Oregon also ships large values of wood, food, nursery, machinery, plastic, and paper products to domestic markets and serves foreign and domestic tourists. Oregon's annual employment growth is expected to be 1.3 percent in 2007 and 2008, 1.9 percent in 2009, 1.8 percent in 2010, and 1.4 percent in later years. The state is projected to outpace the nation's growth rate from 2008 to 2013. Job growth is expected to be fastest in professional and business services, leisure and hospitality, and health care. Other nonmanufacturing sectors will post robust job gains as the state's population increases faster than the nation's. Manufacturing is projected to decline slightly. Overall, employment should grow slightly faster than population during the 2007 through 2013 time period, so Oregon may continue to have a low 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 4.2 percent). This relative decline results from a shift in allocation of total expenditures for other program areas such as human services, public safety, and debt service expenditures. The general governmental expenditures related to human services have increased as programs to serve needy Oregonians have expanded; the percentage of total expenditures is 2.6 percent higher than it was ten years ago.

During this same ten-year period, tax revenues, while increasing in amount, have actually decreased as a percentage of total revenue (a ten-year decrease of 7.3 percent). The reason for this relative decline is the

relative increase in general governmental expenditures related to services that are supported more by federal revenues than by taxes (e.g., human services). As a percentage of total revenue, federal revenues are 3.8 percent higher than they were ten years ago, reflecting an increased participation in federal assistance programs which benefits Oregon's citizens.

### ***Long-term Financial Planning***

The 2007-09 biennial budget includes substantial increases in highway construction programs, reflecting a significant investment in Oregon's transportation infrastructure. For example, \$400 million of other funds is budgeted for bridge construction and \$56.3 million was approved for a one-time distribution to counties out of the State share of State Highway Funds for county road maintenance and improvement. The 2007-09 biennial budget also authorized the sale of \$250 million of lottery bonds for the Southeast Portland Light Rail Project.

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 2007-09 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.

The capital construction projects funded by the 2007-09 budget include a project to begin replacement of the current Oregon State Hospital with two new facilities. For this project, \$89 million is budgeted for land acquisition, design and planning, infrastructure, site improvements, and design of systems needed for the operation of these mental health facilities. In addition, capital construction and deferred maintenance projects for the Oregon University System total \$561.3 million, with an additional \$80.1 million in similar projects for local community colleges.

State law provides that if actual General Fund revenues at the close of the Legislative session exceed forecasted revenues by two percent or more, the excess revenues are refunded to taxpayers. Excess revenues collected during the 2005-07 biennium will result in personal income tax refunds of \$1.1 billion during the 2007-09 biennium. While the beginning balance for the 2007-09 biennium is projected in the September 2007 General Fund revenue forecast to be \$1.4 billion, only \$358.2 million will be available after the personal income tax refunds are paid.

The September 2007 revenue forecast projects \$14,157.7 million of General Fund revenues for the 2007-09 biennium. Including the estimated remaining \$358.2 million of resources from the prior biennium, total available General Fund resources are projected to be \$14,515.9 million for the 2007-09 biennium. Given anticipated expenditures and transfers to the Oregon Rainy Day Fund of \$14,331.3 million, the projected General Fund ending balance for the 2007-09 biennium is \$184.6 million. General Fund revenues are forecasted to increase by 11.3 percent in the 2009-11 biennium and 11.8 percent in the 2011-13 biennium.

### ***Relevant Financial Policies***

During the 2007 legislative session, the Legislature established the Oregon Rainy Day Fund to begin setting aside resources that could be used to assist the State during difficult economic times. Resources in the Oregon Rainy Day Fund can be appropriated by the Legislature only when certain criteria related to economic or revenue conditions have been met. Based on requirements in the law that established this fund, \$319.3 million was transferred from the General Fund to the Oregon Rainy Day Fund in September of 2007.

### ***Major Initiatives***

The State is making significant capital investments in transportation infrastructure and higher education infrastructure, as noted above in Long-term Financial Planning. These investments position Oregon's economy to grow in the long run.

During the 2007-09 biennium, the State will invest an additional \$1.3 billion in the education program area. State funding for pre-kindergarten, K-12, community colleges and higher education will increase over 18 percent from the previous biennium. The total General Fund and Lottery Funds budget for education is \$8.2 billion.

Another 2007-09 initiative includes incentives and investment to increase the production and use of renewable energy and alternative fuels. This is expected to produce long-term environmental and economic benefits and establish Oregon as a national leader in this arena. The initiative includes funding to develop commercial wave energy as well as funding for a new research center, BioEconomy and Sustainable Technologies Institute, to support bio-fuels and bio-products research. It also funds several incentives to stimulate renewable energy production and use, including biomass and bio-fuels.

### ***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, 2006. This was the fifteenth 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 Office of the State Treasurer, and the staff of the Secretary of State Audits Division.

Respectfully submitted,



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, 2006

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.



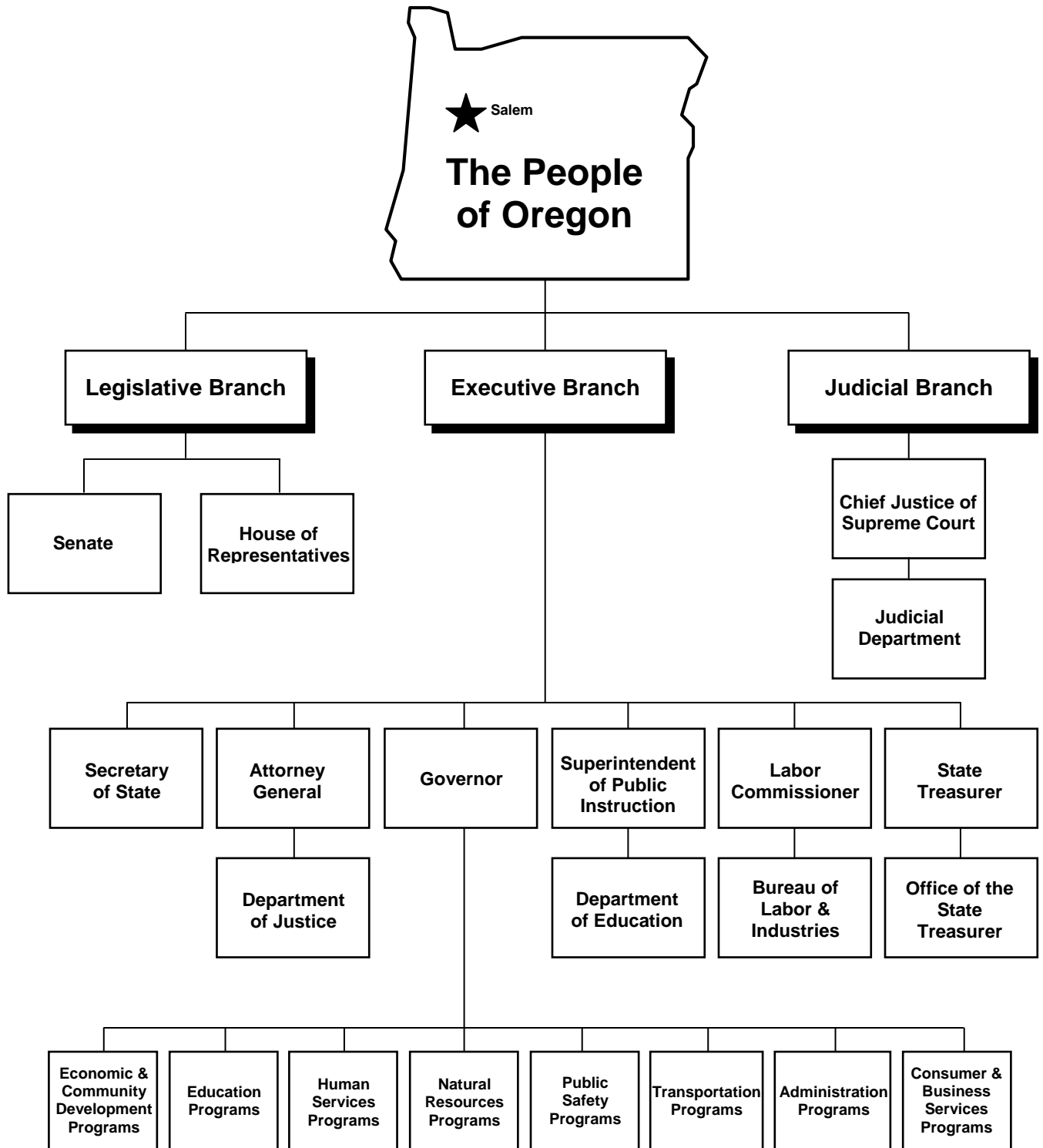
*Charles S. Cox*

President

*Jeffrey R. Emery*

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

**Jeff Merkley**, Speaker of the House of Representatives

### JUDICIAL

**Paul J. DeMuniz**, Chief Justice of the Supreme Court

***“To Serve Our Public Well”***

*Mission of Oregon State Service*



# **Financial Section**

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**Office of the Secretary of State**

Bill Bradbury  
Secretary of State

Jean Straight  
Deputy Secretary of State



**Audits Division**

Charles A. Hibner, CPA  
Director

255 Capitol St. NE, Suite 500  
Salem, OR 97310

(503) 986-2255

fax (503) 378-6767

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, 2007, 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 37 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. The financial statements of the Oregon University System Foundations, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. 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.



In our opinion, based on our audit and the reports of 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, 2007, 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, Statewide Single Audit 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, the budgetary comparison information on pages 109 through 116, and the schedule of funding progress on page 117 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 21, 2007

# 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, 2007. 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 \$15.3 billion (net assets). Of this amount, \$1.7 billion is unrestricted net assets, while \$4.1 billion is restricted for specific uses.
- The State's total net assets increased by \$236.1 million as a result of the year's operations. The net assets for governmental activities decreased by 1.1 percent of total governmental activities net assets, while the net assets for business-type activities increased by 8.9 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 \$4.9 billion. Of this amount, 78.9 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 \$113.6 million.
- The State's total debt outstanding for bonds and certificates of participation increased by \$639.2 million (7.1 percent) during the fiscal year. New issues of debt for transportation infrastructure projects, construction of new higher education facilities and improvement of existing facilities, as well as debt issued for construction and expansion of correctional facilities 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). In addition, the Home Care Commission is reported as part of the primary government since it functions, in essence, as a program of the State, even though it is legally separate from the State.

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-one individual governmental funds. Information is presented separately in the governmental fund financial statements for the six 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 private purpose trust fund, the investment trust fund, the agency fund, and aggregated data for the State's pension and other employee benefit trust funds. Individual fund data for each of the pension and other employee benefit 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 discretely presented 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 53–105 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 107, which contains budget-to-actual comparison schedules for all of the State's budgeted appropriated funds as well as accompanying notes to the RSI. This section also includes a Schedule of Funding Progress and accompanying notes for the Retiree Health Insurance Premium Account, a defined benefit single-employer other postemployment benefit plan in which the State participates.

The combining financial statements referred to earlier are presented immediately following the required supplementary information beginning on page 119 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 information regarding financial trends, revenue capacity, and debt capacity, as well as demographic, economic, and operating information is presented immediately following the combining statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net assets.** The State's *combined* net assets for fiscal year 2007 were approximately \$15.3 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 (26.8 percent) represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets is \$1.7 billion.

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 11,819.7	\$ 9,043.6	\$ 7,750.6	\$ 6,943.5	\$ 19,570.3	\$ 15,987.1
Capital assets	10,553.2	10,456.1	1,596.6	1,522.7	12,149.8	11,978.8
<b>Total assets</b>	<b>22,372.9</b>	<b>19,499.7</b>	<b>9,347.2</b>	<b>8,466.2</b>	<b>31,720.1</b>	<b>27,965.9</b>
Long-term liabilities	6,693.1	6,192.3	3,761.1	3,670.9	10,454.2	9,863.2
Other liabilities	4,806.6	2,268.2	1,190.1	758.8	5,996.7	3,027.0
<b>Total liabilities</b>	<b>11,499.7</b>	<b>8,460.5</b>	<b>4,951.2</b>	<b>4,429.7</b>	<b>16,450.9</b>	<b>12,890.2</b>
Net assets:						
Invested in capital assets, net of related debt	8,696.8	8,901.6	756.8	594.2	9,453.6	9,495.8
Restricted	1,098.8	1,021.0	2,998.2	2,857.6	4,097.0	3,878.6
Unrestricted	1,077.6	1,116.6	641.0	584.7	1,718.6	1,701.3
<b>Total net assets</b>	<b>\$ 10,873.2</b>	<b>\$ 11,039.2</b>	<b>\$ 4,396.0</b>	<b>\$ 4,036.5</b>	<b>\$ 15,269.2</b>	<b>\$ 15,075.7</b>

**Changes in net assets.** The State's *combined* change in net assets associated with current year operations for fiscal year 2007 was an increase of \$236.1 million as shown in Table 2. Net assets of governmental activities decreased by 1.1 percent of total governmental activities net assets, while net assets of business-type activities increased by 8.9 percent of total business-type activities net assets.

Total ending net assets of governmental activities for fiscal year 2007 are \$10.9 billion, down slightly from \$11.0 billion in the prior fiscal year. The decrease in governmental activities net assets was primarily due to recognition of a liability for the personal income tax kicker, which resulted in reducing personal income tax revenue by \$1.1 billion. Due to the magnitude of this reduction in revenue, it more than offset the increases in net assets associated with the operations of other governmental activities for the year.

For business-type activities, ending net assets are \$4.4 billion, up from \$4.0 billion in the prior fiscal year. 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 unemployment benefits during the fiscal year. The results of the University System Fund further contributed to this increase in net assets, due to higher investment income and a larger transfer from the general fund than the prior fiscal year.

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 1,329.0	\$ 1,337.7	\$ 3,365.0	\$ 3,253.5	\$ 4,694.0	\$ 4,591.2
Operating grants & contributions	5,097.0	4,952.8	892.0	804.0	5,989.0	5,756.8
Capital grants & contributions	21.7	15.0	-	-	21.7	15.0
General revenues:						
Personal income taxes	4,486.1	5,404.0	-	-	4,486.1	5,404.0
Corporate income taxes	518.3	443.4	-	-	518.3	443.4
Other taxes	1,734.9	1,979.7	15.2	14.9	1,750.1	1,994.6
Unrestricted investment earnings	90.2	37.9	-	-	90.2	37.9
<b>Total revenues</b>	<b>13,277.2</b>	<b>14,170.5</b>	<b>4,272.2</b>	<b>4,072.4</b>	<b>17,549.4</b>	<b>18,242.9</b>
<b>Expenses:</b>						
Education	3,761.8	3,622.1	-	-	3,761.8	3,622.1
Human services	4,814.9	4,873.6	-	-	4,814.9	4,873.6
Public safety	1,023.2	1,008.3	-	-	1,023.2	1,008.3
Economic & community development	335.1	311.7	-	-	335.1	311.7
Natural resources	580.8	541.1	-	-	580.8	541.1
Transportation	1,709.8	1,598.4	-	-	1,709.8	1,598.4
Consumer and business services	340.3	394.9	-	-	340.3	394.9
Administration	467.9	640.5	-	-	467.9	640.5
Legislative	36.7	29.6	-	-	36.7	29.6
Judicial	286.5	271.7	-	-	286.5	271.7
Interest on long-term debt	265.1	242.7	-	-	265.1	242.7
Housing and community services	-	-	98.7	93.3	98.7	93.3
Veterans' loan	-	-	53.3	49.7	53.3	49.7
Lottery operations	-	-	564.1	525.3	564.1	525.3
Unemployment compensation	-	-	547.0	535.2	547.0	535.2
University system	-	-	1,893.2	1,858.3	1,893.2	1,858.3
State hospitals	-	-	184.5	166.8	184.5	166.8
Liquor control	-	-	284.3	263.7	284.3	263.7
Other business-type activities	-	-	76.9	76.8	76.9	76.8
<b>Total expenses</b>	<b>13,622.1</b>	<b>13,534.6</b>	<b>3,702.0</b>	<b>3,569.1</b>	<b>17,324.1</b>	<b>17,103.7</b>
Increase (decrease) before contributions, special and extraordinary items, and transfers	(344.9)	635.9	570.2	503.3	225.3	1,139.2
Contributions to permanent funds	4.2	-	-	-	4.2	-
Capital contributions	2.9	1.5	3.6	0.8	6.5	2.3
Additions to permanent endowments	-	-	0.1	2.6	0.1	2.6
Transfers	214.6	124.3	(214.6)	(124.3)	-	-
<b>Increase (decrease) in net assets</b>	<b>(123.2)</b>	<b>761.7</b>	<b>359.3</b>	<b>382.4</b>	<b>236.1</b>	<b>1,144.1</b>
Net assets – beginning	11,039.2	10,212.2	4,036.5	3,683.0	15,075.7	13,895.2
Prior period adjustments	(42.8)	65.3	0.2	(28.9)	(42.6)	36.4
Net assets – beginning – as restated	10,996.4	10,277.5	4,036.7	3,654.1	15,033.1	13,931.6
<b>Net assets – ending</b>	<b>\$10,873.2</b>	<b>\$11,039.2</b>	<b>\$ 4,396.0</b>	<b>\$ 4,036.5</b>	<b>\$ 15,269.2</b>	<b>\$15,075.7</b>

Figure 1 below illustrates fiscal year 2007 revenues of the State as a whole, by source. Approximately 34.1 percent of total revenue comes from other entities and governments in the form of operating grants and contributions (e.g., federal revenues). An additional 28.5 percent comes from personal and corporate income taxes and 26.7 percent comes from charges for services provided.

**Figure 1**  
**State of Oregon's Revenue by Source**  
**For the Year Ended June 30, 2007**

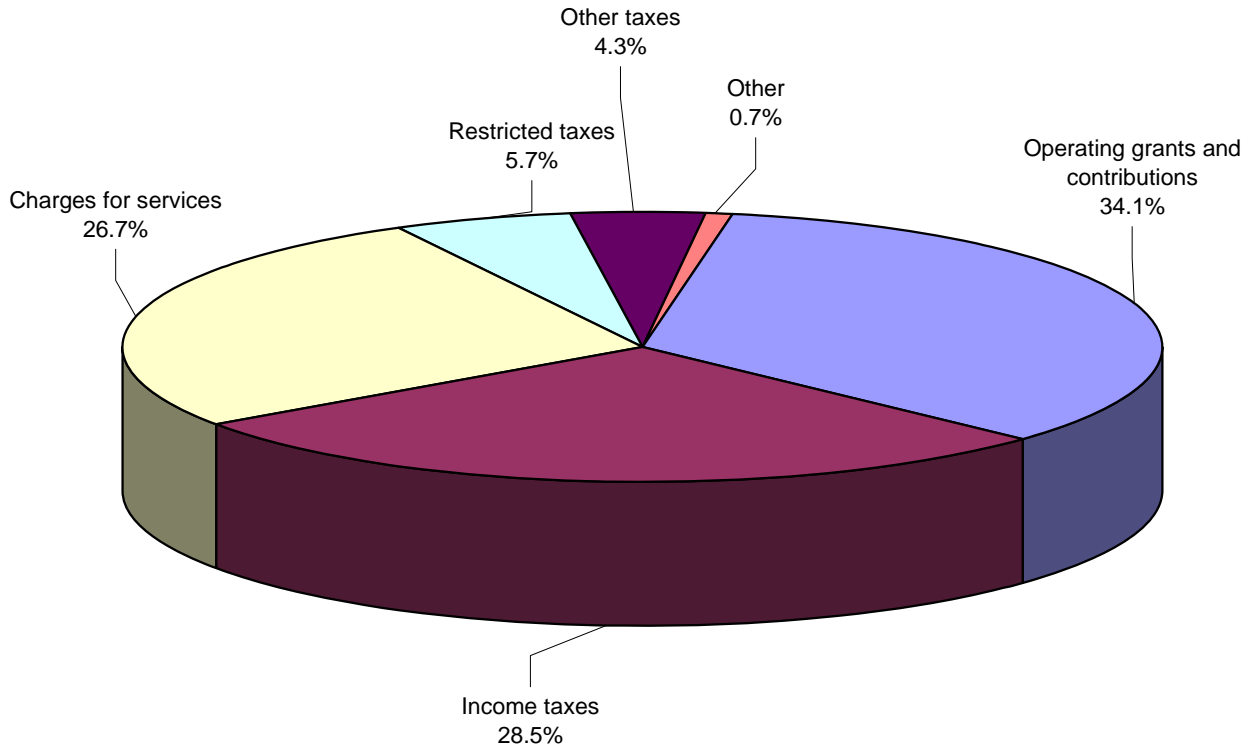
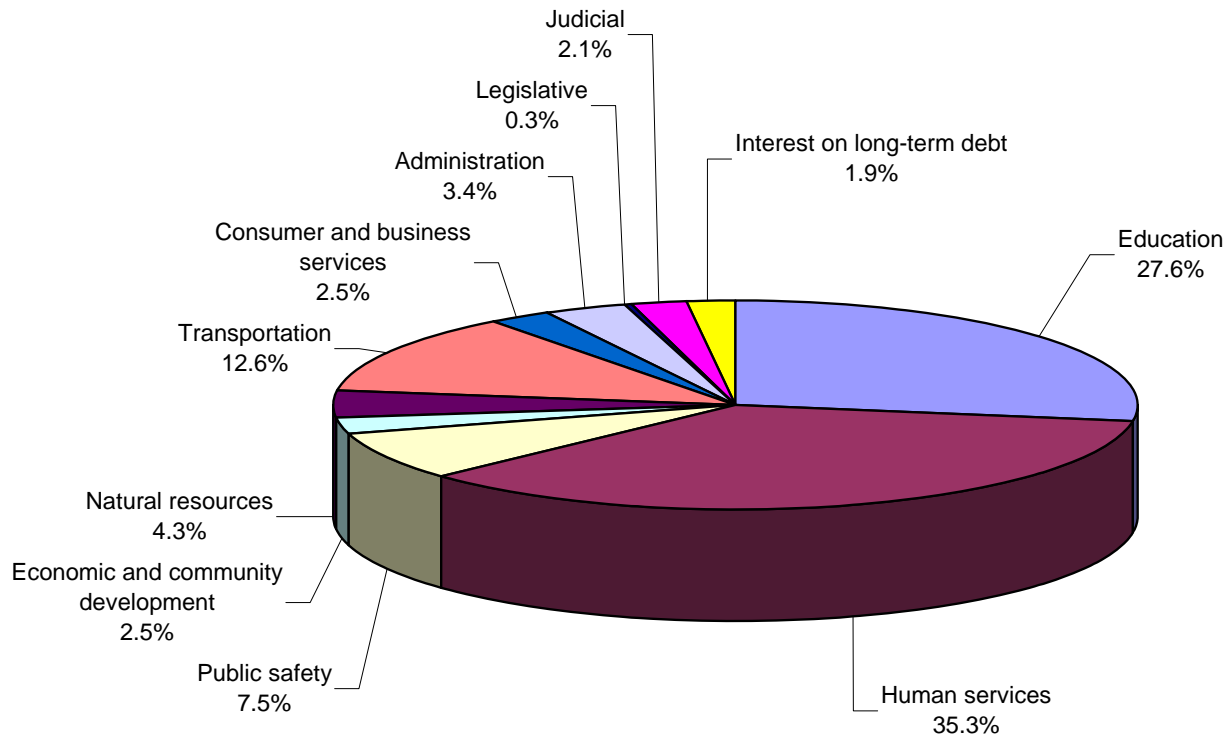


Figure 2 below shows the percentages of total governmental activity expenses for each function of the State. The largest portion of expenses is for human services to provide for Oregon's citizens in need of assistance at 35.3 percent, with elementary and secondary education the second largest at 27.6 percent of total governmental activity expenses.

**Figure 2**  
**State of Oregon's Governmental Expenses by Function**  
**For the Year Ended June 30, 2007**



**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 2007, approximately 78.9 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 2007, the State's governmental funds reported combined ending fund balances of \$4.9 billion, an increase of \$440.0 million in comparison with the prior year. This increase in fund balances is primarily attributed to the net results of operations in the General Fund and the Public Transportation 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 2007 was \$113.6 million, while total fund balance was \$183.9 million. During the fiscal year, spending and obligation of commitments outpaced the accumulation of spendable financial resources, decreasing the total fund balance of the general fund by \$638.6 million. Revenues



decreased by \$775.4 million from the prior fiscal year, largely due to the \$1.1 billion reduction of personal income taxes revenue that resulted from recognition of the kicker liability owed to personal income taxpayers at the end of the fiscal year. This greatly contributed to the decrease in total fund balance of the General Fund.

The decrease in fund balance of the General Fund was offset by increases in fund balances of several other governmental funds. In the Public Transportation Fund, proceeds from the issuance of long-term debt contributed to an increase in fund balance; this reflects a planned effort to increase the State's investment in public infrastructure projects. Strong investment earnings contributed to an increase in fund balance of the Common School Fund. Transfers from the General Fund resulted in an increase in fund balance of the Oregon Rainy Day Fund, a newly established fund intended to accumulate resources that could be used to assist the State during difficult economic times. Transfers from other funds contributed to an increase in fund balance of the Educational Support Fund, a nonmajor governmental fund. The majority of these transfers were from the Business Development 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 \$10.8 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 increased by 5.6 percent, primarily due to strong investment earnings. Net assets of the Lottery Operations Fund increased by 7.4 percent, as sales revenues and investment income were greater than expenses and transfers to other funds. In the Unemployment Compensation Fund, employee-employer assessments and other income exceeded distribution of benefits during the fiscal year. The activity of the University System Fund also resulted in an increase in net assets, due to higher investment income and a larger transfer from the general fund than the prior fiscal year.

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 and Other Employee Benefit 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 \$9.5 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 2005-07 biennium, final budgeted expenditures for the General Fund increased by \$152.5 million from original budgeted expenditures reflected in the Legislatively Adopted Budget. This increase was made to provide funding for additional expenditures mainly in the program areas of education, human services, and public safety. Forecasted revenues increased by \$1,062.7 million from the original budgeted revenues. This increase was primarily due to higher than originally forecasted corporate and personal income tax revenue projections.

Actual revenue and other financing sources exceeded actual expenditures and other financing uses by \$708.6 million for the 2005-07 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. Through House Bill 2707, the Legislature directed that a significant portion of excess corporate income taxes be transferred from the General Fund into the Oregon Rainy Day Fund to begin setting aside resources that could be used to assist the State during difficult economic times. 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, 2007.

## 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, did not change during the fiscal year.

Debt outstanding for the years ended June 30, 2007 and 2006 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, the majority of new general obligation bonds were issued to finance acquisition and construction of new higher education facilities as well as improvement of existing facilities. The majority of new certificates of participation were issued to finance the remaining costs of constructing a medium-security correctional facility in Madras, Oregon, along with expansion of the women's prison at the Coffee Creek facility. 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, 2007 and 2006**  
**(dollars in millions)**

	2007	2006	2007 Over (Under) 2006	
			Amount	Percent
General Obligation Bonds	\$ 4,400.1	\$ 4,313.5	\$ 86.6	2.0%
Revenue Bonds	3,770.4	3,194.9	575.5	18.0%
Certificates of Participation	1,131.3	1,124.9	6.4	0.6%
General Appropriation Bonds	383.7	413.0	(29.3)	(7.1)%
<b>Total</b>	<b>\$ 9,685.5</b>	<b>\$ 9,046.3</b>	<b>\$ 639.2</b>	<b>7.1%</b>

## CAPITAL ASSETS

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2007, is \$12.1 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 \$170.9 million, or 1.4 percent.

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 1,663.5	\$ 1,678.5	\$ 89.9	\$ 84.1	\$ 1,753.4	\$ 1,762.6
Buildings, property and equipment	1,391.9	1,283.1	1,336.1	1,287.9	2,728.0	2,571.0
Construction in progress	2,433.8	1,790.6	94.9	76.4	2,528.7	1,867.0
Infrastructure	5,063.1	5,703.3	16.4	15.6	5,079.5	5,718.9
Works of art and historical treasures	0.9	0.6	59.3	58.7	60.2	59.3
<b>Total</b>	<b>\$ 10,553.2</b>	<b>\$ 10,456.1</b>	<b>\$ 1,596.6</b>	<b>\$ 1,522.7</b>	<b>\$ 12,149.8</b>	<b>\$ 11,978.8</b>

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

- The State spent nearly \$586.9 million on 737 highway and bridge construction projects.
- Nearly \$14.2 million was spent on capital equipment used to maintain highways and bridges, such as road graders, bulldozers, and similar vehicles.
- Commitments of \$1.0 billion 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 as of October 2007 was 5.5 percent; the national rate as of October 2007 was 4.7 percent.
- Employment growth in the second quarter of 2007 was 1.4 percent. This marks the sixteenth consecutive quarter of job growth. However, job gains have been slowing since the first quarter of 2006, a slowdown that has been expected after three years of strong job growth in Oregon.
- The September 2007 General Fund revenue forecast indicates revenues are projected to increase by 2.7 percent from the 2005-07 biennium to the 2007-09 biennium, taking into consideration the reduction of 2007-09 revenues that resulted from the personal income tax kicker of \$1.1 billion.
- Subsequent to June 30, 2007, the State issued \$795.0 million of tax anticipation notes to meet seasonal cash needs during the 2007-09 biennium.

These factors will likely have an impact on the State's financial position and/or the budget for the 2009-11 biennium.

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# **Basic Financial Statements**

**Statement of Net Assets**  
**June 30, 2007**  
(In Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 3,341,295	\$ 2,739,005	\$ 6,080,300	\$ 127,060
Cash and Cash Equivalents - Restricted	230	19,019	19,249	37,278
Investments	1,605,358	206,783	1,812,141	3,701,629
Investments - Restricted	-	144,843	144,843	-
Securities Lending Cash Collateral	2,051,885	654,671	2,706,556	648,185
Accounts and Interest Receivable (net)	529,552	386,405	915,957	437,833
Taxes Receivable	399,915	-	399,915	-
Pledges Receivable	-	-	-	42,983
Internal Balances	213,689	(213,689)	-	-
Due from Component Units	1,904	2,776	4,680	-
Due from Other Governments	-	8,316	8,316	-
Due from Primary Government	-	-	-	5,290
Inventories	77,697	34,556	112,253	16,132
Prepaid Items	2,244	13,400	15,644	13,970
Foreclosed and Deeded Property	-	306	306	-
<b>Total Current Assets</b>	<b>8,223,769</b>	<b>3,996,391</b>	<b>12,220,160</b>	<b>5,030,360</b>
<b>Noncurrent Assets:</b>				
Cash and Cash Equivalents - Restricted	577,128	870,074	1,447,202	-
Investments	-	100,059	100,059	422,427
Investments - Restricted	147,663	663,792	811,455	1,407,774
Cash and Securities Held in Trust	22,770	-	22,770	-
Taxes Receivable	324,191	-	324,191	-
Deferred Charges	24,056	17,536	41,592	8,608
Interfund Loans	(2,060)	2,060	-	-
Advances to Component Units	-	29,627	29,627	-
Net Contracts, Notes and Other Receivables	151,453	76,063	227,516	-
Loans Receivable	467,596	1,995,005	2,462,601	-
Pledges Receivable	-	-	-	89,635
Net Pension Asset	1,883,100	-	1,883,100	-
<b>Capital Assets:</b>				
Land	1,663,529	89,866	1,753,395	68,163
Buildings, Property and Equipment	2,364,358	2,538,292	4,902,650	1,687,959
Construction in Progress	2,433,828	94,883	2,528,711	72,301
Infrastructure	13,587,253	54,456	13,641,709	-
Works of Art and Historical Treasures	940	59,276	60,216	1,040
Less Accumulated Depreciation and Amortization	(9,496,710)	(1,240,179)	(10,736,889)	(692,207)
<b>Total Noncurrent Assets</b>	<b>14,149,095</b>	<b>5,350,810</b>	<b>19,499,905</b>	<b>3,065,700</b>
<b>Total Assets</b>	<b>22,372,864</b>	<b>9,347,201</b>	<b>31,720,065</b>	<b>8,096,060</b>

(continued on next page)

**Statement of Net Assets**

**June 30, 2007**

**(In Thousands)**

(continued from previous page)

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts and Interest Payable	\$ 1,815,750	\$ 182,365	\$ 1,998,115	\$ 150,972
Reserve for Loss and Loss Adjustment Expense	-	-	-	218,910
Obligations Under Securities Lending	2,051,885	654,671	2,706,556	648,185
Due to Component Units	5,180	-	5,180	-
Due to Other Governments	140,567	4,190	144,757	14,126
Due to Primary Government	-	-	-	14,134
Matured Bonds/COPS and Coupons Payable	45	7,718	7,763	-
Obligations Under Capital Lease	533	188	721	562
Bonds/COPS Payable	201,622	149,681	351,303	9,160
Claims and Judgments Payable	121,700	1	121,701	22,767
Trust Funds Payable	323,533	18,532	342,065	13,376
Unearned Revenue	30,770	83,507	114,277	174,780
Lottery Prize Awards Payable	-	39,588	39,588	-
Compensated Absences Payable	90,417	46,550	136,967	43,392
Arbitrage Rebate Payable	773	190	963	-
Contracts, Mortgages and Notes Payable	23,805	2,906	26,711	1,726
<b>Total Current Liabilities</b>	<b>4,806,580</b>	<b>1,190,087</b>	<b>5,996,667</b>	<b>1,312,090</b>
<b>Noncurrent Liabilities:</b>				
Bonds/COPS Payable	5,705,027	3,619,647	9,324,674	572,448
Obligations Under Capital Lease	2,416	147	2,563	5,063
Obligations Under Life Income Agreements	-	-	-	109,627
Advances from Primary Government	-	-	-	29,627
Reserve for Loss and Loss Adjustment Expense	-	-	-	2,467,491
Claims and Judgments Payable	937,718	-	937,718	57,017
Trust Funds Payable	-	418	418	-
Lottery Prize Awards Payable	-	97,515	97,515	-
Compensated Absences Payable	44,534	5,407	49,941	-
Arbitrage Rebate Payable	1,502	5,257	6,759	-
Contracts, Mortgages and Notes Payable	1,891	32,746	34,637	36,548
<b>Total Noncurrent Liabilities</b>	<b>6,693,088</b>	<b>3,761,137</b>	<b>10,454,225</b>	<b>3,277,821</b>
<b>Total Liabilities</b>	<b>11,499,668</b>	<b>4,951,224</b>	<b>16,450,892</b>	<b>4,589,911</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	8,696,793	756,814	9,453,607	540,373
<b>Expendable Restricted Net Assets:</b>				
Restricted for Unemployment Compensation	-	2,246,909	2,246,909	-
Restricted for Residential Assistance	139,921	1,741	141,662	-
Restricted for Higher Education	-	185,558	185,558	-
Restricted for Debt Service	-	259,926	259,926	-
Restricted for Capital Construction	288	80,109	80,397	-
Restricted for Workers' Compensation	17	-	17	831,053
Restricted for Education	863,166	-	863,166	896,174
Restricted for Natural Resource Programs	31,702	-	31,702	-
Restricted for Health Services	32,701	-	32,701	-
Restricted for Public Safety	3,139	-	3,139	-
Restricted for Lottery Projects	-	83,030	83,030	-
Restricted for War Veterans' Programs	-	123,589	123,589	-
<b>Nonexpendable Restricted Net Assets:</b>				
Restricted for Donor Purposes	-	17,333	17,333	552,176
Restricted for Education	875	-	875	112,568
Restricted for Residential Assistance	23,258	-	23,258	-
Restricted for Natural Resource Programs	3,500	-	3,500	-
Restricted for Workers' Compensation	250	-	250	-
Unrestricted	1,077,586	640,968	1,718,554	573,805
<b>Total Net Assets</b>	<b>\$ 10,873,196</b>	<b>\$ 4,395,977</b>	<b>\$ 15,269,173</b>	<b>\$ 3,506,149</b>

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, 2007**  
(In Thousands)

Functions/Programs	<u>Program Revenues</u>				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
Governmental Activities:					
Education	\$ 3,761,800	\$ 6,482	\$ 592,110	\$ 19,279	\$ (3,143,929)
Human Services	4,814,964	215,222	3,015,076	-	(1,584,666)
Public Safety	1,023,202	48,170	152,750	2,367	(819,915)
Economic and Community Development	335,103	24,571	274,346	-	(36,186)
Natural Resources	580,778	325,638	309,674	-	54,534
Transportation	1,709,786	104,830	439,109	72	(1,165,775)
Consumer and Business Services	340,266	239,561	37,381	-	(63,324)
Administration	467,931	230,328	274,999	-	37,396
Legislative	36,660	1,776	48	-	(34,836)
Judicial	286,460	132,447	1,514	-	(152,499)
Interest on Long-term Debt	265,100	-	-	-	(265,100)
<b>Total Governmental Activities</b>	<b>13,622,050</b>	<b>1,329,025</b>	<b>5,097,007</b>	<b>21,718</b>	<b>(7,174,300)</b>
Business-type Activities:					
Housing and Community Services	98,683	72,113	37,368	-	10,798
Veterans' Loan	53,279	22,406	37,676	-	6,803
Lottery Operations	564,110	1,203,821	24,392	-	664,103
Unemployment Compensation	546,970	676,838	119,847	-	249,715
University System	1,893,227	887,183	660,337	-	(345,707)
State Hospitals	184,513	46,631	12	-	(137,870)
Liquor Control	284,298	379,741	-	-	95,443
Other Business-type Activities	76,911	76,252	12,366	-	11,707
<b>Total Business-type Activities</b>	<b>3,701,991</b>	<b>3,364,985</b>	<b>891,998</b>	<b>-</b>	<b>554,992</b>
<b>Total Primary Government</b>	<b>\$ 17,324,041</b>	<b>\$ 4,694,010</b>	<b>\$ 5,989,005</b>	<b>\$ 21,718</b>	<b>\$ (6,619,308)</b>
<b>Component Units:</b>					
SAIF Corporation	\$ 501,032	\$ 463,503	\$ 208,242	\$ -	\$ 170,713
Oregon Health and Science University	1,414,745	923,863	612,369	18,504	139,991
Oregon University System Foundations	161,721	11,873	312,048	342	162,542
<b>Total Component Units</b>	<b>\$ 2,077,498</b>	<b>\$ 1,399,239</b>	<b>\$ 1,132,659</b>	<b>\$ 18,846</b>	<b>\$ 473,246</b>

(continued on next page)



**Statement of Activities**  
**For the Year Ended June 30, 2007**  
**(In Thousands)**  
 (continued from previous page)

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>	
Changes in Net Assets:				
Net (Expense) Revenue	\$ (7,174,300)	\$ 554,992	\$ (6,619,308)	\$ 473,246
General Revenues:				
Taxes:				
Personal Income Taxes	4,486,068	-	4,486,068	-
Corporate Income Taxes	518,260	-	518,260	-
Tobacco Taxes	276,419	-	276,419	-
Healthcare Provider Taxes	128,199	-	128,199	-
Inheritance and Gift Taxes	81,068	-	81,068	-
Public Utilities Taxes	84,455	-	84,455	-
Insurance Premium Taxes	55,463	-	55,463	-
Other Taxes	106,101	15,203	121,304	-
Restricted for Transportation Purposes:				
Motor Fuels Taxes	416,792	-	416,792	-
Weight Mile Taxes	256,000	-	256,000	-
Vehicle Registration Taxes	205,205	-	205,205	-
Restricted for Workers' Compensation and Workplace Safety Programs:				
Workers' Compensation Insurance Taxes	47,745	-	47,745	-
Employer-employee Taxes	77,504	-	77,504	-
Total Taxes	<u>6,739,279</u>	<u>15,203</u>	<u>6,754,482</u>	<u>-</u>
Unrestricted Investment Earnings	90,210	-	90,210	-
Contributions to Permanent Funds	4,192	-	4,192	-
Capital Contributions	2,853	3,615	6,468	-
Additions to Permanent Endowments	-	70	70	-
Transfers - Internal Activities	<u>214,557</u>	<u>(214,557)</u>	<u>-</u>	<u>-</u>
Total General Revenues, Contributions, Special Items, Extraordinary Items, and Transfers	<u>7,051,091</u>	<u>(195,669)</u>	<u>6,855,422</u>	<u>-</u>
Change in Net Assets	<u>(123,209)</u>	<u>359,323</u>	<u>236,114</u>	<u>473,246</u>
Net Assets - Beginning	11,039,206	4,036,479	15,075,685	3,032,903
Prior Period Adjustments	(42,801)	175	(42,626)	-
Net Assets - Beginning - As Restated	<u>10,996,405</u>	<u>4,036,654</u>	<u>15,033,059</u>	<u>3,032,903</u>
<b>Net Assets - Ending</b>	<u>\$ 10,873,196</u>	<u>\$ 4,395,977</u>	<u>\$ 15,269,173</u>	<u>\$ 3,506,149</u>

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

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**  
(In Thousands)

	General	Health and Social Services	Public Transportation
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,341,963	\$ 290,094	\$ 830,781
Investments	-	9,845	104,459
Cash and Securities Held in Trust	-	-	18,839
Securities Lending Cash Collateral	601,407	484,526	340,120
Accounts and Interest Receivable (net)	11,638	181,521	73,813
Taxes Receivable	638,469	17,283	55,135
Due from Other Funds	88,517	16,475	1,745
Due from Component Units	-	-	-
Inventories	28,419	1,919	21,823
Prepaid Items	1,297	-	-
Advances to Other Funds	40,598	-	-
Net Contracts, Notes and Other Receivables	15,096	3,895	2,530
Loans Receivable	-	139	15,322
<b>Total Assets</b>	<b>\$ 2,767,404</b>	<b>\$ 1,005,697</b>	<b>\$ 1,464,567</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts and Interest Payable	\$ 1,228,486	\$ 120,924	\$ 121,354
Obligations Under Securities Lending	601,407	484,526	340,120
Due to Other Funds	329,244	64,475	13,598
Due to Component Units	-	5,180	-
Due to Other Governments	5,996	12,318	54,426
Matured Bonds/COPs and Coupons Payable	45	-	-
Advances from Other Funds	1,329	-	54
Trust Funds Payable	6,123	8,971	18,865
Deferred Revenue	410,878	10,210	14,604
Contracts, Mortgages and Notes Payable	-	22,000	162
<b>Total Liabilities</b>	<b>2,583,508</b>	<b>728,604</b>	<b>563,183</b>
Fund Balances:			
Reserved for Inventories	28,419	1,919	21,823
Reserved for Loans Receivable	-	139	15,322
Reserved for Other Long-term Receivables	-	1,532	-
Reserved for Advances to Other Funds	40,598	-	-
Reserved for Prepaid Items	1,297	-	-
Reserved for Debt Service	-	-	-
Reserved for Permanent Fund Principal	-	-	-
Reserved for Claims and Judgments Payable	-	-	-
Reserved for Revolving Accounts	3	227	40
Unreserved, Undesignated	113,579	273,276	864,199
Unreserved, Undesignated, Reported in:			
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Permanent Funds	-	-	-
<b>Total Fund Balances</b>	<b>183,896</b>	<b>277,093</b>	<b>901,384</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,767,404</b>	<b>\$ 1,005,697</b>	<b>\$ 1,464,567</b>

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

**State of Oregon**

Environmental Management	Common School	Oregon Rainy Day	Other	Total
\$ 321,058	\$ 45,592	\$ -	\$ 981,248	\$ 3,810,736
230	1,184,146	-	377,514	1,676,194
859	682	-	2,390	22,770
141,638	46,246	-	374,357	1,988,294
38,226	22,057	-	168,409	495,664
-	-	-	13,219	724,106
38,810	117	319,288	330,500	795,452
-	-	-	1,904	1,904
18,692	23	-	5,529	76,405
19	-	-	478	1,794
-	351	-	-	40,949
3,774	32	-	123,116	148,443
352,302	1,666	-	98,166	467,595
<b>\$ 915,608</b>	<b>\$ 1,300,912</b>	<b>\$ 319,288</b>	<b>\$ 2,476,830</b>	<b>\$ 10,250,306</b>
\$ 28,751	\$ 83,800	\$ -	\$ 146,152	\$ 1,729,467
141,638	46,246	-	374,357	1,988,294
2,700	1,581	-	167,676	579,274
-	-	-	-	5,180
21,909	-	-	45,920	140,569
-	-	-	-	45
300	-	-	41,757	43,440
2,655	259,854	-	3,923	300,391
9,286	-	-	144,374	589,352
513	-	-	663	23,338
<b>207,752</b>	<b>391,481</b>	<b>-</b>	<b>924,822</b>	<b>5,399,350</b>
18,692	23	-	5,529	76,405
352,302	1,666	-	98,166	467,595
282	32	-	703	2,549
-	351	-	-	40,949
19	-	-	478	1,794
-	-	-	206,904	206,904
-	-	-	27,883	27,883
-	-	-	199,133	199,133
368	-	-	231	869
336,193	907,359	319,288	-	2,813,894
-	-	-	958,360	958,360
-	-	-	47,930	47,930
-	-	-	6,691	6,691
<b>707,856</b>	<b>909,431</b>	<b>319,288</b>	<b>1,552,008</b>	<b>4,850,956</b>
<b>\$ 915,608</b>	<b>\$ 1,300,912</b>	<b>\$ 319,288</b>	<b>\$ 2,476,830</b>	<b>\$ 10,250,306</b>

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**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2007**  
(In Thousands)

**Total fund balances of governmental funds** \$ 4,850,956

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	1,652,640	
Buildings, property and equipment	1,900,581	
Construction in progress	2,362,354	
Infrastructure	13,586,617	
Works of art and historical treasures	799	
Accumulated depreciation and amortization	<u>(9,302,342)</u>	
Total capital assets		10,200,649

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) 1,883,100

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. 558,600

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. 194,018

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. 23,006

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	(5,686,367)	
Accrued interest on bonds and COPS	(56,213)	
Claims and judgments	(955,610)	
Compensated absences	(127,611)	
Obligations under capital leases	(2,949)	
Income tax refunds	(4,643)	
Arbitrage rebate	(2,052)	
Contracts, mortgages and notes payable	<u>(1,688)</u>	
Total long-term liabilities		<u>(6,837,133)</u>

**Net assets of governmental activities** \$ 10,873,196

**State of Oregon**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2007  
(In Thousands)**

	General	Health and Social Services	Public Transportation
<b>Revenues:</b>			
Personal Income Taxes	\$ 4,519,183	\$ -	\$ -
Corporate Income Taxes	518,276	-	-
Tobacco Taxes	61,248	214,784	-
Healthcare Provider Taxes	-	128,199	-
Inheritance and Gift Taxes	81,068	-	-
Public Utilities Taxes	-	-	-
Insurance Premium Taxes	55,463	-	-
Motor Fuels Taxes	-	-	416,300
Weight-Mile Taxes	-	-	256,903
Vehicle Registration Taxes	-	-	205,205
Employer-Employee Taxes	-	-	-
Workers' Compensation Insurance Taxes	-	-	-
Other Taxes	1,266	68,656	1,528
Licenses and Fees	34,985	89,217	42,735
Federal	-	2,514,752	505,642
Charges for Services	3,364	101,460	46,413
Fines and Forfeitures	6,240	861	3,884
Rents and Royalties	-	734	5,458
Investment Income	90,210	17,062	40,889
Sales	655	4,176	10,293
Donations and Grants	33	2,219	1
Contributions to Permanent Funds	-	-	-
Tobacco Settlement Proceeds	-	70,281	-
Pension Bond Debt Service Assessments	-	-	-
Other	16,350	183,450	3,406
<b>Total Revenues</b>	<b>5,388,341</b>	<b>3,395,851</b>	<b>1,538,657</b>
<b>Expenditures:</b>			
Current:			
Education	2,817,219	-	-
Human Services	1,217,943	3,087,728	-
Public Safety	724,989	-	-
Economic and Community Development	7,835	-	-
Natural Resources	58,736	-	-
Transportation	4,145	11,140	1,631,708
Consumer and Business Services	5,957	126,174	-
Administration	118,879	24,050	124,427
Legislative	33,902	-	-
Judicial	241,000	1,080	-
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	35,503	-	-
Interest	37,939	7	224
Other Debt Service	48	6	3,429
<b>Total Expenditures</b>	<b>5,304,095</b>	<b>3,250,185</b>	<b>1,759,788</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	84,246	145,666	(221,131)
<b>Other Financing Sources (Uses):</b>			
Transfers from Other Funds	119,395	81,726	909
Transfers to Other Funds	(847,152)	(179,403)	(116,909)
Insurance Recoveries	2,317	-	663
Long-term Debt Issued	-	628	655,120
Debt Issuance Premium	-	7	10,007
Refunded Debt Issued	-	-	-
Refunded Debt Payment to Escrow Agent	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(725,440)</b>	<b>(97,042)</b>	<b>549,790</b>
Net Change in Fund Balances	(641,194)	48,624	328,659
Fund Balances - Beginning	822,449	216,866	571,479
Prior Period Adjustments	(223)	11,522	-
Fund Balances - Beginning - As Restated	822,226	228,388	571,479
Change in Reserve for Inventories	2,864	81	1,246
<b>Fund Balances - Ending</b>	<b>\$ 183,896</b>	<b>\$ 277,093</b>	<b>\$ 901,384</b>

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

**State of Oregon**

Environmental Management	Common School	Oregon Rainy Day	Other	Total
\$ -	\$ -	\$ -	\$ -	\$ 4,519,183
-	-	-	-	518,276
-	-	-	-	276,032
-	-	-	-	128,199
-	-	-	-	81,068
-	-	-	84,455	84,455
-	-	-	-	55,463
-	-	-	-	416,300
-	-	-	-	256,903
-	-	-	-	205,205
-	-	-	78,898	78,898
-	-	-	47,745	47,745
18,374	-	-	25,742	115,566
106,691	732	-	132,684	407,044
108,986	-	-	1,540,973	4,670,353
24,733	134	-	72,965	249,069
622	50	-	90,057	101,714
2,212	3,686	-	3,002	15,092
29,864	165,149	-	94,984	438,158
107,241	340	-	5,103	127,808
821	5	-	30,446	33,525
-	-	-	4,192	4,192
-	-	-	-	70,281
-	-	-	120,139	120,139
25,502	23,397	-	76,783	328,888
425,046	193,493	-	2,408,168	13,349,556
-	-	-	945,650	3,762,869
-	-	-	519,926	4,825,597
-	-	-	291,739	1,016,728
-	-	-	325,229	333,064
496,067	11,011	-	37,881	603,695
-	-	-	9,196	1,656,189
-	-	-	291,937	424,068
4	-	-	169,573	436,933
-	-	-	1,809	35,711
-	-	-	46,365	288,445
-	-	-	123,885	123,885
-	-	-	100,791	136,294
-	-	-	221,816	259,986
17	-	-	2,088	5,588
496,088	11,011	-	3,087,885	13,909,052
(71,042)	182,482	-	(679,717)	(559,496)
162,952	12,718	319,288	1,515,193	2,212,181
(39,278)	(77,434)	-	(737,800)	(1,997,976)
467	-	-	271	3,718
628	-	-	106,328	762,704
7	-	-	13,799	23,820
-	-	-	200,745	200,745
-	-	-	(210,383)	(210,383)
124,776	(64,716)	319,288	888,153	994,809
53,734	117,766	319,288	208,436	435,313
653,634	791,660	-	1,354,905	4,410,993
(441)	5	-	(11,738)	(875)
653,193	791,665	-	1,343,167	4,410,118
929	-	-	405	5,525
\$ 707,856	\$ 909,431	\$ 319,288	\$ 1,552,008	\$ 4,850,956

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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, 2007  
(In Thousands)**

<b>Net change in fund balances of total governmental funds</b>	\$	435,313
<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		839,615
Depreciation expense		<u>(606,646)</u>
Excess of capital outlays over depreciation		232,969
The net effect of sales, transfers, impairments, and donations of capital assets is a decrease to net assets.		(128,626)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Assets.		(987,269)
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.		346,676
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.		(6,786)
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.		4,417
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.		91,334
Investment income related to rebatable arbitrage does not provide current financial resources and is not reported as revenue in the funds.		(911)
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.		(71,484)
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.		5,525
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.		<u>(44,367)</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u><u>(123,209)</u></u></b>

**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2007**  
(In Thousands)

**Business-type Activities - Enterprise Funds**

	<b>Housing and Community Services</b>	<b>Veterans' Loan</b>	<b>Lottery Operations</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 7,013	\$ 82,905	\$ 300,545
Cash and Cash Equivalents - Restricted	11,415	4,200	-
Investments	-	-	14,061
Investments - Restricted	49,769	95,074	-
Securities Lending Cash Collateral	25,836	171,314	144,209
Accounts and Interest Receivable (net)	7,361	2,911	24,895
Due from Other Funds	13	74	-
Due from Component Units	-	-	-
Due from Other Governments	-	-	-
Inventories	-	-	2,318
Prepaid Items	-	40	1,337
Foreclosed and Deeded Property	306	-	-
<b>Total Current Assets</b>	<b>101,713</b>	<b>356,518</b>	<b>487,365</b>
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	59,015	402,709	2,395
Investments	-	2,544	97,515
Investments - Restricted	528,721	30,074	-
Deferred Charges	12,098	1,847	-
Advances to Other Funds	-	-	-
Advances to Component Units	-	-	-
Net Contracts, Notes and Other Receivables	-	123	-
Loans Receivable	1,159,044	285,448	-
Capital Assets:			
Land	-	-	-
Buildings, Property and Equipment	349	9,564	150,611
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Historical Treasures	-	85	-
Less Accumulated Depreciation and Amortization	(326)	(5,269)	(53,936)
<b>Total Noncurrent Assets</b>	<b>1,758,901</b>	<b>727,125</b>	<b>196,585</b>
<b>Total Assets</b>	<b>\$ 1,860,614</b>	<b>\$ 1,083,643</b>	<b>\$ 683,950</b>

State of Oregon

<b>Business-type Activities - Enterprise Funds</b>					<b>Governmental Activities Internal Service Funds</b>
<b>Unemployment Compensation</b>	<b>University System</b>	<b>Other</b>	<b>Total</b>		
\$ 1,879,263	\$ 284,419	\$ 184,860	\$ 2,739,005	\$	106,349
-	3,324	80	19,019	-	-
192,718	-	4	206,783	63,917	-
-	-	-	144,843	-	-
26,341	240,871	46,100	654,671	63,593	-
169,882	164,059	17,278	386,386	33,093	-
100	4,068	136	4,391	1,544	-
-	2,776	-	2,776	-	-
8,316	-	-	8,316	-	-
-	6,594	25,644	34,556	1,292	-
-	11,541	482	13,400	451	-
-	-	-	306	-	-
<b>2,276,620</b>	<b>717,652</b>	<b>274,584</b>	<b>4,214,452</b>	<b>270,239</b>	<b>-</b>
-	334,181	71,774	870,074	1,567	-
-	-	-	100,059	-	-
-	100,876	4,121	663,792	12,910	-
-	-	3,591	17,536	1,050	-
1,108	-	15,128	16,236	781	-
-	29,627	-	29,627	-	-
11,369	64,557	14	76,063	3,011	-
-	-	550,513	1,995,005	-	-
-	84,408	5,458	89,866	10,889	-
-	2,265,996	111,772	2,538,292	463,775	-
-	94,883	-	94,883	71,475	-
-	53,576	880	54,456	637	-
-	59,151	40	59,276	141	-
-	(1,136,847)	(43,801)	(1,240,179)	(194,367)	-
<b>12,477</b>	<b>1,950,408</b>	<b>719,490</b>	<b>5,364,986</b>	<b>371,869</b>	<b>-</b>
<b>\$ 2,289,097</b>	<b>\$ 2,668,060</b>	<b>\$ 994,074</b>	<b>\$ 9,579,438</b>	<b>\$ 642,108</b>	<b>-</b>

(continued on next page)

**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2007**  
**(In Thousands)**

(continued from previous page)

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Housing and Community Services</b>	<b>Veterans' Loan</b>	<b>Lottery Operations</b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts and Interest Payable	\$ 31,426	\$ 6,691	\$ 13,778
Obligations Under Securities Lending	25,836	171,314	144,209
Due to Other Funds	7	-	206,861
Due to Other Governments	-	-	-
Matured Bonds/COPS and Coupons Payable	115	4,199	-
Obligations Under Capital Lease	-	-	-
Bonds/COPS Payable	30,365	61,380	-
Claims and Judgments Payable	-	1	-
Trust Funds Payable	-	2,109	142
Unearned Revenue	237	-	-
Lottery Prize Awards Payable	-	-	39,588
Compensated Absences Payable	188	288	1,441
Arbitrage Rebate Payable	-	105	-
Contracts, Mortgages and Notes Payable	-	-	-
<b>Total Current Liabilities</b>	<b>88,174</b>	<b>246,087</b>	<b>406,019</b>
Noncurrent Liabilities:			
Bonds/COPS Payable	1,595,829	677,048	-
Obligations Under Capital Lease	-	-	-
Advances from Other Funds	-	-	-
Claims and Judgments Payable	-	-	-
Trust Funds Payable	-	-	-
Lottery Prize Awards Payable	-	-	97,515
Compensated Absences Payable	93	142	710
Arbitrage Rebate Payable	2,691	1,562	-
Contracts, Mortgages and Notes Payable	1,500	30,835	-
<b>Total Noncurrent Liabilities</b>	<b>1,600,113</b>	<b>709,587</b>	<b>98,225</b>
<b>Total Liabilities</b>	<b>1,688,287</b>	<b>955,674</b>	<b>504,244</b>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	22	4,380	96,676
Expendable Restricted Net Assets:			
Restricted for Residential Assistance	1,741	-	-
Restricted for Higher Education	-	-	-
Restricted for Debt Service	161,116	-	-
Restricted for Capital Construction	-	-	-
Nonexpendable Restricted Net Assets:			
Restricted for Donor Purposes	-	-	-
Unrestricted	9,448	123,589	83,030
<b>Total Net Assets</b>	<b>172,327</b>	<b>127,969</b>	<b>179,706</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,860,614</b>	<b>\$ 1,083,643</b>	<b>\$ 683,950</b>

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
\$ 10,408	\$ 92,542	\$ 27,520	\$ 182,365	\$ 25,426
26,341	240,871	46,100	654,671	63,593
1,415	7	12,810	221,100	203
4,024	-	166	4,190	-
-	3,324	80	7,718	-
-	135	53	188	-
-	35,153	22,783	149,681	24,030
-	-	-	1	31,531
-	13,221	3,060	18,532	23,140
-	83,048	222	83,507	18
-	-	-	39,588	-
-	38,612	6,021	46,550	4,918
-	85	-	190	-
-	2,906	-	2,906	670
42,188	509,904	118,815	1,411,187	173,529
-	1,005,532	341,238	3,619,647	196,250
-	97	50	147	-
-	13,864	312	14,176	350
-	-	-	-	72,277
-	-	418	418	-
-	-	-	97,515	-
-	1,559	2,903	5,407	2,422
-	887	117	5,257	223
-	411	-	32,746	-
-	1,022,350	345,038	3,775,313	271,522
42,188	1,532,254	463,853	5,186,500	445,051
-	591,989	63,747	756,814	145,628
-	-	-	1,741	-
-	185,558	-	185,558	-
-	78,608	20,202	259,926	-
-	80,109	-	80,109	-
-	17,333	-	17,333	-
2,246,909	182,209	446,272	3,091,457	51,429
2,246,909	1,135,806	530,221	4,392,938	197,057
\$ 2,289,097	\$ 2,668,060	\$ 994,074	\$ 9,579,438	\$ 642,108

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.

Net assets of business-type activities	3,039
	\$ 4,395,977

**State of Oregon**

**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**  
**(In Thousands)**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Housing and Community Services</b>	<b>Veterans' Loan</b>	<b>Lottery Operations</b>
<b>Operating Revenues:</b>			
Assessments	\$ -	\$ -	\$ -
Licenses and Fees	3,110	194	-
Federal	-	-	-
Charges for Services	1,467	2,985	-
Fines and Forfeitures	-	-	-
Rents and Royalties	-	666	-
Sales	-	1	1,208,072
Loan Interest Income	67,437	18,128	-
Investment Income	37,368	37,676	-
Gifts, Grants and Contracts	-	-	-
Other	20	431	-
Gain (Loss) on Foreclosed Property	80	-	-
Total Operating Revenues	109,482	60,081	1,208,072
<b>Operating Expenses:</b>			
Salaries and Wages	4,952	5,444	30,319
Services and Supplies	7,521	12,729	281,557
Cost of Goods Sold	-	-	-
Distributions to Other Governments	466	-	-
Special Payments	3,537	-	232,569
Bond and COP Interest	80,754	34,582	-
Other Debt Service	1,449	624	-
Depreciation and Amortization	25	157	19,798
Bad Debt Expense	(73)	(545)	-
Total Operating Expenses	98,631	52,991	564,243
Operating Income (Loss)	10,851	7,090	643,829
<b>Nonoperating Revenues (Expenses):</b>			
Investment Income (Loss)	-	-	24,392
Other Taxes	-	-	-
Other Nonoperating Items	-	-	(4,380)
Gain (Loss) on Disposition of Assets	-	-	-
Insurance Recoveries	-	-	129
Loan Interest Income	-	-	-
Loan Interest Expense	(69)	(280)	-
Total Nonoperating Revenues (Expenses)	(69)	(280)	20,141
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	10,782	6,810	663,970
Capital Contributions	-	-	-
Additions to Permanent Endowments	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	-	(6)	(651,538)
Change in Net Assets	10,782	6,804	12,432
Net Assets - Beginning	161,545	121,165	167,274
Prior Period Adjustments	-	-	-
Net Assets - Beginning - As Restated	161,545	121,165	167,274
<b>Net Assets - Ending</b>	\$ 172,327	\$ 127,969	\$ 179,706

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
\$ 662,772	\$ -	\$ -	\$ 662,772	\$ -
-	-	4,033	7,337	-
26,428	516,384	2,962	545,774	-
-	469,939	69,676	544,067	256,018
2,564	-	480	3,044	-
-	-	116	782	37,183
-	313,500	399,934	1,921,507	6,119
-	-	24,025	109,590	-
93,419	-	9,346	177,809	-
-	108,087	-	108,087	-
11,502	27,957	4,314	44,224	5,494
-	-	-	80	-
<u>796,685</u>	<u>1,435,867</u>	<u>514,886</u>	<u>4,125,073</u>	<u>304,814</u>
-	1,086,433	177,511	1,304,659	113,247
2,740	608,159	99,170	1,011,876	128,158
-	-	204,333	204,333	17,889
12,560	-	42,998	56,024	-
529,454	79,412	2,415	847,387	-
-	46,258	14,149	175,743	9,531
-	-	373	2,446	143
-	89,798	3,084	112,862	29,727
2,422	-	1,651	3,455	-
<u>547,176</u>	<u>1,910,060</u>	<u>545,684</u>	<u>3,718,785</u>	<u>298,695</u>
<u>249,509</u>	<u>(474,193)</u>	<u>(30,798)</u>	<u>406,288</u>	<u>6,119</u>
-	35,866	69	60,327	14,409
-	-	15,203	15,203	-
-	74,562	-	70,182	-
-	17,290	5	17,295	850
-	1,224	45	1,398	270
-	-	-	-	46
-	-	(40)	(389)	(21)
<u>-</u>	<u>128,942</u>	<u>15,282</u>	<u>164,016</u>	<u>15,554</u>
249,509	(345,251)	(15,516)	570,304	21,673
-	3,584	31	3,615	840
-	70	-	70	-
6,714	398,233	179,896	584,843	2,117
<u>(31,083)</u>	<u>(118)</u>	<u>(116,655)</u>	<u>(799,400)</u>	<u>(6,476)</u>
<u>225,140</u>	<u>56,518</u>	<u>47,756</u>	<u>359,432</u>	<u>18,154</u>
<u>2,021,769</u>	<u>1,079,288</u>	<u>482,290</u>	<u>4,033,331</u>	<u>169,997</u>
-	-	175	175	8,906
<u>2,021,769</u>	<u>1,079,288</u>	<u>482,465</u>	<u>4,033,506</u>	<u>178,903</u>
<u>\$ 2,246,909</u>	<u>\$ 1,135,806</u>	<u>\$ 530,221</u>	<u>\$ 4,392,938</u>	<u>\$ 197,057</u>

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	(109)
	\$ 359,323

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**  
(In Thousands)

**Business-type Activities — Enterprise Funds**

**Cash Flows from Operating Activities:**

	<b>Housing and Community Services</b>	<b>Veterans' Loan</b>	<b>Lottery Operations</b>
Receipts from Customers	\$ 4,562	\$ 3,673	\$ 1,201,935
Receipts from Other Funds for Services	-	677	-
Loan Principal Repayments	117,787	49,350	-
Loan Interest Received	67,283	18,393	-
Taxes and Assessments Received	-	-	-
Payments to Employees for Services	(4,764)	(5,462)	(29,996)
Payments to Suppliers	(6,048)	(4,461)	(275,205)
Payments to Other Funds for Services	-	(736)	-
Payments to Prize Winners	-	-	(226,324)
Claims Paid	-	-	-
Loans Made	(200,827)	(66,194)	-
Distributions to Other Governments	-	-	-
Other Receipts (Payments)	(3,881)	335	-
Net Cash Provided (Used) in Operating Activities	<u>(25,888)</u>	<u>(4,425)</u>	<u>670,410</u>

**Cash Flows from Noncapital Financing Activities:**

Proceeds from Bond/COP Sales	289,851	58,630	-
Loan Proceeds	-	41,865	-
Principal Payments on Bonds/COPS	(348,874)	(83,268)	-
Principal Payments on Loans	-	(12,030)	-
Interest Payments on Bonds/COPS	(80,884)	(36,677)	-
Interest Payments on Loans	(51)	(280)	-
Bond/COP Issuance Costs	(2,571)	(1,518)	-
Repayments on Advances Received	-	-	-
Interest Payments on Advances	-	-	-
Taxes and Assessments Received	-	-	-
Other Nonoperating Receipts (Payments)	-	-	(39)
Transfers from Other Funds	-	-	-
Transfers to Other Funds	-	-	(604,036)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>(142,529)</u>	<u>(33,278)</u>	<u>(604,075)</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	-	-	-
Interest Payments on Advances	-	-	-
Principal Payments on Loans	-	-	-
Interest Payments on Loans	-	-	-
Acquisition of Capital Assets	(9)	(123)	(46,244)
Payments on Capital Leases	-	-	-
Proceeds from Disposition of Capital Assets	-	-	629
Capital Contributions	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(9)</u>	<u>(123)</u>	<u>(45,615)</u>

**Cash Flows from Investing Activities:**

Purchases of Investments	(390,252)	(531,952)	(3,658)
Proceeds from Sales and Maturities of Investments	530,395	537,423	14,076
Interest on Investments and Cash Balances	31,691	28,528	12,411
Interest Income from Securities Lending	1,447	6,334	5,466
Interest Expense from Securities Lending	(1,427)	(6,266)	(5,352)
Net Cash Provided (Used) in Investing Activities	<u>171,854</u>	<u>34,067</u>	<u>22,943</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>3,428</u>	<u>(3,759)</u>	<u>43,663</u>
Cash and Cash Equivalents - Beginning	74,015	493,573	259,277
Prior Period Adjustments Restating Beginning Cash Balances	-	-	-
<b>Cash and Cash Equivalents - Ending</b>	<u><u>\$ 77,443</u></u>	<u><u>\$ 489,814</u></u>	<u><u>\$ 302,940</u></u>



**State of Oregon**

<b>Business-type Activities — Enterprise Funds</b>				<b>Governmental Activities Internal Service Funds</b>
<b>Unemployment Compensation</b>	<b>University System</b>	<b>Other</b>	<b>Total</b>	
\$ -	\$ 1,367,442	\$ 488,041	\$ 3,065,653	\$ 51,188
-	-	159	836	225,672
-	21,930	41,943	231,010	-
-	-	23,103	108,779	-
694,671	-	-	694,671	-
-	(1,079,686)	(177,811)	(1,297,719)	(116,112)
-	(597,947)	(291,303)	(1,174,964)	(108,599)
-	-	(10,575)	(11,311)	(25,266)
-	-	-	(226,324)	-
(527,216)	-	-	(527,216)	(9,275)
-	(79,413)	(78,324)	(424,758)	-
(12,059)	-	(42,519)	(54,578)	-
37,820	30,766	4,315	69,355	30,376
193,216	(336,908)	(42,971)	453,434	47,984
-	-	87,325	435,806	-
-	-	-	41,865	-
-	-	(34,419)	(466,561)	-
-	-	(43)	(12,073)	-
-	-	(13,133)	(130,694)	-
-	-	(684)	(1,015)	-
-	-	-	(4,089)	-
-	-	(593)	(593)	-
-	-	(26)	(26)	-
-	-	15,180	15,180	-
-	89,409	-	89,370	-
6,748	395,960	169,166	571,874	2,113
(30,069)	-	(115,618)	(749,723)	(6,432)
(23,321)	485,369	107,155	(210,679)	(4,319)
-	124,384	1,141	125,525	8,133
-	(34,021)	(526)	(34,547)	(18,880)
-	(46,248)	(457)	(46,705)	(10,121)
-	-	-	-	(131)
-	-	-	-	60
-	-	-	-	47
-	-	-	-	(27)
-	-	-	-	(21)
-	(132,579)	(10,891)	(189,846)	(75,922)
-	-	(13)	(13)	-
-	40,320	4,932	45,881	1,838
-	-	21	21	-
-	(48,144)	(5,793)	(99,684)	(95,024)
(290,153)	(15,976)	(20,967)	(1,252,958)	(4,558)
318,529	-	19,935	1,420,358	60,561
104,024	28,490	8,392	213,536	10,750
2,777	5,190	1,136	22,350	3,505
(2,740)	(5,102)	(1,124)	(22,011)	(3,460)
132,437	12,602	7,372	381,275	66,798
302,332	112,919	65,763	524,346	15,439
1,576,931	509,005	190,951	3,103,752	92,316
-	-	-	-	161
\$ 1,879,263	\$ 621,924	\$ 256,714	\$ 3,628,098	\$ 107,916

(continued on next page)

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**  
**(In Thousands)**  
(continued from previous page)

	<b>Business-type Activities — Enterprise Funds</b>		
	<b>Housing and Community Services</b>	<b>Veterans' Loan</b>	<b>Lottery Operations</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>			
Operating Income (Loss)	\$ 10,851	\$ 7,090	\$ 643,829
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	26	157	19,798
Amortization of Bond/COP Issuance Costs	843	-	-
Amortization of Bond/COP Premium and Discount	(337)	(5)	-
Amortization of Deferred Charges	906	624	-
Bad Debt Expense	(72)	(545)	-
Interest Income Reported as Operating Revenue	(37,368)	(38,173)	-
Investment Expense Reported as Operating Expense	1,426	6,266	-
Interest Payments Reported as Operating Expense	80,791	34,587	-
Bond/COP Issuance Costs Reported as Operating Expense	-	958	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	(337)	25	(6,137)
Due from Other Funds	-	65	-
Due from Other Governments	-	-	-
Inventories	-	-	345
Prepaid Items	-	(12)	(42)
Foreclosed and Deeded Property	65	-	-
Deferred Charges	-	-	-
Advances to Other Funds	-	-	-
Loans Receivable	(82,766)	(16,886)	-
Net Contracts, Notes and Other Receivables	-	-	-
Accounts and Interest Payable	(167)	300	6,450
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Trust Funds Payable	-	335	(63)
Unearned Revenue	205	-	-
Claims and Judgments Payable	-	-	-
Contracts, Mortgages and Notes Payable	-	784	-
Compensated Absences Payable	46	5	324
Lottery Prize Awards Payable	-	-	5,906
Total Adjustments	(36,739)	(11,515)	26,581
Net Cash Provided (Used) by Operating Activities	\$ (25,888)	\$ (4,425)	\$ 670,410
<b>Noncash Investing and Capital and Related Financing Activities:</b>			
Net Change in Fair Value of Investments	\$ 6,141	\$ 3,599	\$ 6,515
Capital Assets Transferred from Governmental Funds	-	-	-
Capital Leases Entered into During the Year	-	-	-
Capital Assets Transferred to Governmental Funds	-	-	-
Capital Assets Contributed	-	-	-
Foreclosed Property	690	-	-
<b>Total Noncash Investing and Capital and Related Financing Activities</b>	<b>\$ 6,831</b>	<b>\$ 3,599</b>	<b>\$ 6,515</b>

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

**State of Oregon**

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<b>Business-type Activities — Enterprise Funds</b>				<b>Governmental Activities Internal Service Funds</b>
<b>Unemployment Compensation</b>	<b>University System</b>	<b>Other</b>	<b>Total</b>	
\$ 249,509	\$ (474,193)	\$ (30,798)	\$ 406,288	\$ 6,119
-	89,805	3,083	112,869	29,727
-	-	313	1,156	75
-	-	25	(317)	(784)
-	-	83	1,613	222
2,422	-	1,710	3,515	-
(93,324)	-	(8,233)	(177,098)	-
2,740	-	13	10,445	3,460
-	46,258	14,102	175,738	10,162
-	-	-	958	131
30,347	(19,351)	42	4,589	2,542
(96)	-	12,986	12,955	977
(1,042)	-	2	(1,040)	-
-	(381)	1,104	1,068	162
-	1,892	(104)	1,734	474
-	-	-	65	-
-	-	(123)	(123)	(81)
-	-	2,748	2,748	-
-	-	(39,126)	(138,778)	-
938	2,391	(71)	3,258	(17)
1,221	8,169	427	16,400	844
-	-	702	702	(4,749)
501	-	31	532	-
-	(276)	(1,598)	(1,602)	22,457
-	5,658	(38)	5,825	(19,203)
-	-	(957)	(957)	(5,997)
-	3,120	-	3,904	297
-	-	706	1,081	1,166
-	-	-	5,906	-
(56,293)	137,285	(12,173)	47,146	41,865
\$ 193,216	\$ (336,908)	\$ (42,971)	\$ 453,434	\$ 47,984
\$ 2,290	\$ 7,309	\$ (2)	\$ 25,852	\$ 710
-	-	-	-	840
-	175	131	306	-
-	-	-	-	(12)
-	3,584	10	3,594	-
-	-	-	690	-
\$ 2,290	\$ 11,068	\$ 139	\$ 30,442	\$ 1,538

**State of Oregon**

**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2007**  
(In Thousands)

	<b>Pension and Other Employee Benefit Trust</b>	<b>Private Purpose Trust</b>	<b>Investment Trust</b>	<b>Agency</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 3,592,734	\$ 30,915	\$ 3,653,227	\$ 109,766
Investments:				
Fixed Income	18,480,984	459	-	-
Equity	34,732,479	1,013	-	-
Real Estate	4,717,079	-	-	-
Alternative Equity	7,560,175	-	-	-
Restricted Investment Contracts	8	-	-	-
Total Investments	<u>65,490,725</u>	<u>1,472</u>	<u>-</u>	<u>-</u>
Cash and Securities Held in Trust	-	97	-	1,471,272
Securities Lending Cash Collateral	6,422,376	8,470	1,347,836	-
Receivables:				
Employer Contributions	25,399	-	-	-
Plan Member Contributions	13,789	-	-	-
Interest and Dividends	215,908	-	14,913	-
Investment Sales	4,329,038	-	-	-
Accounts	-	1,224	117	7,259
From Other Funds	2,194	-	-	1
Total Receivables	<u>4,586,328</u>	<u>1,224</u>	<u>15,030</u>	<u>7,260</u>
Prepaid Items	12,247	-	-	-
Net Contracts, Notes and Other Receivables	-	56	-	68,363
Conservatorship and Custodial Assets	-	3,665	-	40
Receivership Assets	-	-	-	73,686
Loans Receivable	-	-	22,000	-
Capital Assets (net of accumulated depreciation):				
Land	944	14	-	-
Buildings, Property and Equipment	11,963	-	-	-
<b>Total Assets</b>	<u>80,117,317</u>	<u>45,913</u>	<u>5,038,093</u>	<u>1,730,387</u>
<b>LIABILITIES</b>				
Accounts and Interest Payable	7,599,896	66	13,873	416
Obligations Under Securities Lending	6,422,376	8,470	1,347,836	-
Due to Other Funds	2,194	811	-	-
Due to Other Governments	-	16	-	3,503
Bonds/COPS Payable	9,560	-	-	-
Trust Funds Payable	69,049	1,024	-	1,726,468
Deferred Revenue	4,908	-	-	-
Contracts, Mortgages and Notes Payable	-	1,899	-	-
<b>Total Liabilities</b>	<u>14,107,983</u>	<u>12,286</u>	<u>1,361,709</u>	<u>1,730,387</u>
<b>NET ASSETS</b>				
Held in Trust for:				
Pension Benefits	64,768,639	-	-	-
Other Postemployment Benefits	256,588	-	-	-
Other Employee Benefits	984,107	-	-	-
External Investment Pool Participants	-	-	3,676,384	-
Individuals, Organizations and Other Governments	-	33,627	-	-
<b>Total Net Assets</b>	<u>\$ 66,009,334</u>	<u>\$ 33,627</u>	<u>\$ 3,676,384</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, 2007**  
**(In Thousands)**

	Pension and Other Employee Benefit Trust	Private Purpose Trust	Investment Trust
<b>ADDITIONS</b>			
Contributions:			
Employer	\$ 640,944	\$ -	\$ -
Plan Members	608,319	-	-
Total Contributions	1,249,263	-	-
Investment Income:			
Net Appreciation in Fair Value of Investments	9,515,214	-	-
Interest, Dividends and Other Investment Income	2,161,391	1,658	275,557
Total Investment Income	11,676,605	1,658	275,557
Less Investment Expense	610,293	342	62,331
Net Investment Income	11,066,312	1,316	213,226
Gifts, Grants and Contracts	-	516	-
Income of Individuals in State Care	-	3,511	-
Veterans' Income	-	7,283	-
Other Income	2,928	3,778	-
Share Transactions:			
Participant Contributions	-	-	13,821,616
Participant Withdrawals	-	-	13,385,553
Net Share Transactions	-	-	436,063
Transfers from Other Funds	-	507	-
<b>Total Additions</b>	<b>12,318,503</b>	<b>16,911</b>	<b>649,289</b>
<b>DEDUCTIONS</b>			
Pension Benefits	2,604,871	-	-
Death Benefits	6,097	-	-
Contributions Refunded	41,223	-	-
Healthcare Premium Subsidies	28,934	-	-
Distributions to Participants	-	-	206,812
Retiree Healthcare Expenses	86,598	-	-
Deferred Compensation Benefits	49,835	-	-
Administrative Expenses	46,489	8,412	-
Payments in Accordance with Trust Agreements	-	4,983	-
<b>Total Deductions</b>	<b>2,864,047</b>	<b>13,395</b>	<b>206,812</b>
Change in Net Assets Held in Trust For:			
Pension Benefits	9,253,921	-	-
Other Postemployment Benefits	54,552	-	-
Other Employee Benefits	145,983	-	-
External Investment Pool Participants	-	-	442,477
Individuals, Organizations and Other Governments	-	3,516	-
Net Assets - Beginning	56,554,878	30,111	3,233,907
<b>Net Assets - Ending</b>	<b>\$ 66,009,334</b>	<b>\$ 33,627</b>	<b>\$ 3,676,384</b>

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, 2007  
(In Thousands)**

	SAIF Corporation	Oregon Health and Science University	Oregon University System Foundations	Total
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 53,301	\$ 49,371	\$ 24,388	\$ 127,060
Cash and Cash Equivalents - Restricted	-	-	37,278	37,278
Investments	3,402,120	141,869	157,640	3,701,629
Securities Lending Cash Collateral	648,185	-	-	648,185
Accounts and Interest Receivable (net)	230,663	188,748	18,422	437,833
Due from Primary Government	110	5,180	-	5,290
Pledges Receivable	-	11,409	31,574	42,983
Inventories	68	10,517	5,547	16,132
Prepaid Items	2,006	9,703	2,261	13,970
<b>Total Current Assets</b>	<b>4,336,453</b>	<b>416,797</b>	<b>277,110</b>	<b>5,030,360</b>
Noncurrent Assets:				
Investments	-	422,427	-	422,427
Investments - Restricted	-	405,762	1,002,012	1,407,774
Deferred Charges	-	8,608	-	8,608
Pledges Receivable	-	28,300	61,335	89,635
Capital Assets:				
Land	2,922	59,053	6,188	68,163
Buildings, Property and Equipment	45,926	1,592,075	49,958	1,687,959
Construction in Progress	-	72,301	-	72,301
Works of Art and Historical Treasures	-	-	1,040	1,040
Less Accumulated Depreciation and Amortization	(29,051)	(653,813)	(9,343)	(692,207)
<b>Total Noncurrent Assets</b>	<b>19,797</b>	<b>1,934,713</b>	<b>1,111,190</b>	<b>3,065,700</b>
<b>Total Assets</b>	<b>\$ 4,356,250</b>	<b>\$ 2,351,510</b>	<b>\$ 1,388,300</b>	<b>\$ 8,096,060</b>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities:				
Accounts and Interest Payable	\$ 33,157	\$ 112,770	\$ 5,045	\$ 150,972
Reserve for Loss and Loss Adjustment Expense	218,910	-	-	218,910
Obligations Under Securities Lending	648,185	-	-	648,185
Due to Other Governments	4,066	10,060	-	14,126
Due to Primary Government	9,454	4,417	263	14,134
Obligations Under Capital Lease	-	562	-	562
Bonds/COPS Payable	-	9,160	-	9,160
Claims and Judgments Payable	-	22,767	-	22,767
Contracts, Mortgages and Notes Payable	-	1,623	103	1,726
Trust Funds Payable	-	-	13,376	13,376
Unearned Revenue	120,187	54,255	338	174,780
Compensated Absences Payable	2,703	40,689	-	43,392
<b>Total Current Liabilities</b>	<b>1,036,662</b>	<b>256,303</b>	<b>19,125</b>	<b>1,312,090</b>
Noncurrent Liabilities:				
Bonds/COPS Payable	-	526,528	45,920	572,448
Obligations Under Capital Lease	-	5,063	-	5,063
Obligations Under Life Income Agreements	-	21,798	87,829	109,627
Reserve for Loss and Loss Adjustment Expense	2,467,491	-	-	2,467,491
Claims and Judgments Payable	-	57,017	-	57,017
Contracts, Mortgages and Notes Payable	1,247	30,828	4,473	36,548
Advances from Primary Government	-	29,627	-	29,627
<b>Total Noncurrent Liabilities</b>	<b>2,468,738</b>	<b>670,861</b>	<b>138,222</b>	<b>3,277,821</b>
<b>Total Liabilities</b>	<b>3,505,400</b>	<b>927,164</b>	<b>157,347</b>	<b>4,589,911</b>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	19,797	513,896	6,680	540,373
Expendable Restricted Net Assets:				
Restricted for Workers' Compensation	831,053	-	-	831,053
Restricted for Education	-	287,394	608,780	896,174
Nonexpendable Restricted Net Assets:				
Restricted for Donor Purposes	-	-	552,176	552,176
Restricted for Education	-	112,568	-	112,568
Unrestricted	-	510,488	63,317	573,805
<b>Total Net Assets</b>	<b>850,850</b>	<b>1,424,346</b>	<b>1,230,953</b>	<b>3,506,149</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,356,250</b>	<b>\$ 2,351,510</b>	<b>\$ 1,388,300</b>	<b>\$ 8,096,060</b>

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, 2007  
(In Thousands)**

	SAIF Corporation	Oregon Health and Science University	Oregon University System Foundations
<b>Operating Revenues:</b>			
Charges for Services	\$ -	\$ 836,182	\$ -
Rents and Royalties	-	-	4,650
Sales	-	27,283	-
Premiums Earned (net)	437,984	-	-
Investment Income (net)	208,242	-	146,393
Gifts, Grants and Contracts	-	483,066	165,655
Auxiliary Enterprises (net)	-	11,992	-
Other	25,519	48,406	7,223
Total Operating Revenues	671,745	1,406,929	323,921
<b>Operating Expenses:</b>			
Salaries and Wages	-	769,459	245
Services and Supplies	-	502,227	156,873
Loss and Loss Adjustment Expense	407,854	-	-
Underwriting Expenses	92,322	-	-
Bond and COP Interest	-	28,389	2,247
Depreciation and Amortization	-	78,609	2,356
Bad Debt Expense	-	36,914	-
Other Expenses	856	-	-
Total Operating Expenses	501,032	1,415,598	161,721
Operating Income (Loss)	170,713	(8,669)	162,200
<b>Nonoperating Revenues (Expenses):</b>			
Investment Income	-	92,634	-
Gain (Loss) on Disposition of Assets	-	853	-
State Appropriations	-	36,669	-
Total Nonoperating Revenues (Expenses)	-	130,156	-
Income (Loss) Before Capital Contributions and Transfers	170,713	121,487	162,200
Capital Contributions	-	18,504	833
Transfer to Affiliated Organization	-	-	(491)
Change in Net Assets	170,713	139,991	162,542
Net Assets - Beginning	680,137	1,284,355	1,068,411
<b>Net Assets - Ending</b>	\$ 850,850	\$ 1,424,346	\$ 1,230,953

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



State of Oregon

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Total	Adjustments to Recast	Statement of Activities
\$ 836,182	\$ 563,057	\$ 1,399,239
4,650	(4,650)	-
27,283	(27,283)	-
437,984	(437,984)	-
354,635	(354,635)	-
648,721	483,938	1,132,659
11,992	(11,992)	-
81,148	(81,148)	-
<u>2,402,595</u>	<u>129,303</u>	<u>2,531,898</u>
769,704	-	769,704
659,100	-	659,100
407,854	-	407,854
92,322	-	92,322
30,636	-	30,636
80,965	-	80,965
36,914	-	36,914
856	(853)	3
<u>2,078,351</u>	<u>(853)</u>	<u>2,077,498</u>
<u>324,244</u>	<u>130,156</u>	<u>454,400</u>
92,634	(92,634)	-
853	(853)	-
36,669	(36,669)	-
<u>130,156</u>	<u>(130,156)</u>	<u>-</u>
454,400	-	454,400
19,337	-	19,337
(491)	-	(491)
<u>473,246</u>	<u>-</u>	<u>473,246</u>
<u>3,032,903</u>	<u>-</u>	<u>3,032,903</u>
<u>\$ 3,506,149</u>	<u>\$ -</u>	<u>\$ 3,506,149</u>

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## 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.

### Blended Component Unit

Although legally separate entities, component units that are in substance part of the government's operations are reported as part of the primary government through a blended presentation.

The Home Care Commission (Commission) is a blended component unit of the State of Oregon included within the financial activity of the Department of Human Services. The Commission is an independent public commission consisting of nine members appointed by the Governor and confirmed by the Senate. It is responsible for ensuring the quality of home care services that the Department of Human Services provides for seniors and people with disabilities. The Commission establishes qualifications of home care workers and provides them training opportunities, maintains a statewide registry of home care workers, and provides referrals to the elderly and disabled who need services.

### Discretely Presented Component Units

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. 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, 2006, 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 may be obtained from their respective administrative offices or from the State Controller's Division, 155 Cottage Street NE U50, Salem, Oregon 97301-3969.

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

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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.

**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 with the exception of agency funds, which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Income taxes are recognized as revenue, net of estimated refunds, in the year when the underlying exchange (earning of income) has occurred. 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. Income tax revenue, net of estimated refunds, is recognized in the fiscal year in which the underlying exchange has occurred and it becomes measurable and available. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant eligibility requirements have been met. Revenue items not susceptible to accrual are considered to be measurable and

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

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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, tobacco taxes, healthcare provider taxes, and charges for services.

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 *Oregon Rainy Day Fund* accounts for resources that have been transferred from the General Fund in accordance with state law. These resources, along with investment income generated, can be appropriated by the Legislature only when certain criteria related to economic or revenue conditions have been met.

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

The *Housing and Community Services Fund* accounts for activities that finance multi-family rental housing and single-family mortgages for low to moderate income families. Mortgage loans related to these activities are financed with the proceeds of bonds issued under various bond indentures of trust. Mortgage loan payments and interest earnings on invested bond proceeds are used to pay debt service on the bonds.

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.

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

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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 and Other Employee Benefit 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 and other employee benefit trust funds, investment trust funds or special revenue funds, under which principal and income benefit individuals, private organizations, or other governments.

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 Office of 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. In addition, the defined benefit postemployment healthcare plan administered by the Public Employees Benefit Board is reported within the Agency Fund. 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; however, neither the primary government nor its component units currently apply 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. For the Unemployment Compensation Fund and for those enterprise funds for which the principal activity is lending, investment income is also reported as operating revenue. The primary 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

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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 Office of the State Treasurer in the Oregon Short-term Fund, cash deposits held in demand deposit accounts with custodial banks, 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.
- Agency-specific investments not held in the Oregon Short-term Fund with remaining maturities of up to ninety days are reported at amortized cost.

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 using evaluated bid 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 private equities are reported at values provided by the general partners. Investments in alternative equities representing publicly traded securities are stated at the quoted market price. The underlying general partners follow various valuation policies as described in their limited partnership agreements that range from Income Tax Basis to U.S. GAAP, with some policies being governed by international institutions. The vast majority of the general partners typically value investments at cost until an event occurs that provides an indication of current fair value. This event could be a new round of financing, a change in company financial performance, a market event, market trends, or change in economic conditions. Direct investments in real estate are reported at values provided by investment managers based on periodic appraisals, conducted every two to three years. Investments in real estate partnerships are reported at values provided by general partners. These values are based on discounted cash flows, comparable sales, capitalization rates applied to net operating income, or cost if none of the preceding fit a property's attributes and strategy. Mortgage loans on real estate are stated at the amortized unpaid principal balance.

Derivatives

In accordance with State investment policies, the Office of the State Treasurer invests either directly or through 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.

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Trade receivables consist of revenues earned or accrued in the current period and are shown net of estimated uncollectible amounts. Income tax receivables are reported, net of estimated uncollectible amounts, in the fiscal year when the underlying exchange has occurred.

**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. Infrastructure acquired prior to fiscal years ended after June 30, 1980 is reported. The costs of normal maintenance 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.



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**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 with the Office of the State Treasurer (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. The Treasurer is authorized to use demand deposit accounts and fixed-income investments and also has the authority to direct equity investment transactions, although these transactions are currently directed by external investment managers 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), the Industrial Accident Fund (SAIF Corporation), and not more than 65 percent of the Common School Fund (Department of State Lands). The Deferred Compensation Fund, the Education Stability Fund, the State Board of Higher Education, the Department of Human Services, the Business Development Fund, the Department of Veterans' Affairs, and the Oregon Health and Science University (OHSU) 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 Office of the State Treasurer, 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. The Treasury's direct investments in short-term securities are limited by portfolio rules established by the Oregon Short-Term Fund Board and the Council.

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**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 State does not have a formal policy regarding custodial credit risk for deposits; however, 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 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, 2007, bank balances of \$3.5 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	\$ 3,483,728	\$ 21,605	\$ 3,505,333
Uninsured and collateralized by the pledging bank's trust department but not in the State's name	6,456	-	6,456
Total	\$ 3,490,184	\$ 21,605	\$ 3,511,789

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

- Pension plan investment managers held \$3.3 billion of the State's uncollateralized and uninsured deposits in custodian banks. The monies are backed by the full faith and credit of the custodian bank.
- Bond trustees held \$11.5 million of uncollateralized and uninsured monies. Bond trustees assume responsibility for those funds.
- Fiscal Agents held \$7.7 million of deposits for redemption of the State's bonds and coupons that have matured, but have not yet been redeemed. Of these deposits, \$3.0 million 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. The Council has no formal policy regarding the holding of securities by a custodian or counterparty. No investment holdings of SAIF Corporation or Oregon Health and Science University were exposed to custodial credit risk. As of June 30, 2007, \$1.1 billion of investments for the primary government were exposed to custodial credit risk because the securities were held by a custodial agent and were not registered in the State's name nor insured (in thousands):

Investment Type	Carrying Value
Domestic Equity Securities	\$ 1,065,911
Time Certificates of Deposit	33,050
U.S. Agency Securities	15,541
U.S. Treasury Securities	2,559
Total	\$ 1,117,061

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***B. Investments – Primary Government Excluding the Oregon Public Employees Retirement Fund***

Investments of the primary government (excluding the OPERF) 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 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

Investment policy for fixed income investments under the management of the Treasurer generally limits the time horizon of the portfolio to an average maturity of 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 OPERF) 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.

The following table presents the interest rate risk information for investments of the primary government (excluding the OPERF) using the segmented time distribution method as of June 30, 2007 (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	\$ 61,600	\$ 320,357	\$ 120,162	\$ 74,267	\$ 576,386
U.S. Treasury Strips	4,761	19,387	14,303	3,089	41,540
U.S. Treasury TIPS	-	699	1,486	4,305	6,490
U.S. Agency Securities	3,864,475	1,215,360	83,584	80,294	5,243,713
U.S. Agency Strips	19,652	31,614	15,341	20,471	87,078
U.S. Agency Mortgage Securities	882	-	-	55,934	56,816
International Debt Securities	694	1,258	1,088	2,370	5,410
Commercial Paper	156,912	10,149	-	-	167,061
Corporate Bonds	1,742,149	510,574	53,833	8,739	2,315,295
Municipal Bonds	6,582	105,411	184,303	504,518	800,814
Collateralized Mortgage Obligations	26,829	1,306	388	6,084	34,607
Asset-Backed Securities	8,587	2,002	-	864	11,453
Time Certificates of Deposit	132,626	774	-	-	133,400
Guaranteed Investment Contracts	39,696	350,438	23,626	41,366	455,126
Annuity Contracts	-	-	-	370	370
Mutual Funds – Domestic Fixed Income	-	13,940	170,955	-	184,895
Mutual Funds – International Fixed Income	-	698	11,519	-	12,217
Total Debt Investments	<u>\$ 6,065,445</u>	<u>\$ 2,583,967</u>	<u>\$ 680,588</u>	<u>\$ 802,671</u>	<u>\$ 10,132,671</u>

Included in the schedule above are fixed income mutual funds reported using the duration method instead of average maturity: Domestic, \$36.4 million and International, \$12.2 million. In addition, the schedule above includes \$1.5 billion in interest-rate sensitive securities. The terms and relevant indexes of these interest-rate sensitive securities include the following: 77.4 percent are indexed to the three-month or one-month London Interbank Offered Rate (LIBOR), a coupon multiplier feature. Another 6.6 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 or contain other variable rate features.

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.

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The following table presents the credit quality ratings of investments in debt securities of the primary government (excluding the OPERF) using Standard & Poors ratings as of June 30, 2007 (in thousands):

Credit Quality Ratings (Standard & Poors)	Fair Value
AAA	\$ 6,112,480
AA	1,844,258
A	524,936
BBB	103,286
BB	17,907
B	16,680
CCC	579
C and below	256
Not rated	418,080
Total	<u>\$ 9,038,462</u>

Concentration of Credit Risk

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, 2007, there were three issuers that exceeded 5 percent of the portfolio's investment holdings: \$2.3 billion of Federal Home Loan Mortgage Corporation (21.2 percent), \$2.2 billion of Federal National Mortgage Association (20.2 percent), and \$1.1 billion of Federal Home Loan Bank (9.8 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 OPERF) is invested in an international non-fixed income mutual fund with a fair value of \$23.2 million as of June 30, 2007. The following table presents deposits that are exposed to foreign currency risk as of June 30, 2007 (in thousands):

Foreign Currency Denomination	Deposits (U.S. Dollars)
Eurodollar	\$ 39
Japanese yen	108
New Taiwan dollar	22
Total	<u>\$ 169</u>

Derivatives - Interest Rate Swap

Oregon Housing and Community Services Department (OHCS D) has entered into six separate pay-fixed, receive-variable interest rate swaps to lower borrowing costs compared to fixed-rate bonds. The Multifamily (MF) Series 2004 B swap contains an embedded one-time call option in 2007 on up to 10 percent of the notional amount 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. To manage credit risk, the MF 2004 B swap has a call option where OHCS D has the right to call the swap in whole or in part semi-annually beginning in 2015. The

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Mortgage Revenue Bond (MRB) swaps include options giving OHCS D the right to call the swaps in whole or in part, depending on the exercise date, semi-annually beginning in 2012 (MRB 2004 C and MRB 2004 I swaps) or 2013 (MRB 2006 C and MRB 2006 F swaps). These options provide flexibility to manage the pre-payments of loans and the related bonds. The notional amounts of the swaps match the principal amounts of the associated debt.

The following table lists the terms, fair values, and underlying interest rates of the outstanding swaps as of June 30, 2007 (dollars in thousands):

Series	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date
MF Series 2004 B	\$ 14,950	December 16, 2004	3.89%	64% of LIBOR plus .27%	\$ 534	July 1, 2046
MRB Series 2004 C	15,000	January 24, 2006	4.03%	64% of LIBOR plus .29%	535	July 1, 2034
MRB Series 2004 I	15,000	January 24, 2006	4.01%	64% of LIBOR plus .29%	468	July 1, 2034
MRB Series 2006 C	20,000	February 28, 2006	4.18%	64% of LIBOR plus .29%	364	July 1, 2036
MRB Series 2006 F	20,000	July 18, 2006	4.43%	64% of LIBOR plus .29%	(124)	July 1, 2037
MRB Series 2006 G	16,105	July 18, 2006	3.83%	64% of LIBOR plus .19%	(98)	July 1, 2016
Total	<u>\$ 101,055</u>				<u>\$ 1,679</u>	

Because of interest rate decreases after the swaps were executed, the fair values as of June 30, 2007 are negative for two of the swaps. The other swaps have positive fair values as of June 30, 2007. OHCS D is exposed to credit risk in the amount of the derivative's fair value. The valuations provided are derived from proprietary models based upon well recognized financial principles 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.

OHCS D has entered into swap transactions with three counterparties, Merrill Lynch Capital Services for the Multifamily swap, and Morgan Stanley Capital Services and Bank of America NA for the Mortgage Revenue Bond swaps. All counterparties are rated at least Aa3/A+/AA- by Moody's, Standard & Poors, and Fitch, respectively. Termination payments for the swaps are guaranteed by Merrill Lynch Derivative Products, rated as Aaa/AAA/AAA (as rated by Moody's, Standard & Poors, and Fitch Investor Services). 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 OHCS D. Using rates as of June 30, 2007, 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		Total
	Principal	Interest	Swap (Net)		
2008	\$ 155	\$ 3,803	\$ 362	\$ 4,320	
2009	160	3,825	352	4,337	
2010	165	3,819	362	4,346	
2011	175	3,813	362	4,350	
2012	180	3,806	361	4,347	
2013-2017	1,030	18,917	1,782	21,729	
2018-2022	1,270	18,699	1,783	21,752	
2023-2027	1,555	18,430	1,771	21,756	
2028-2032	40,880	14,889	1,571	57,340	
2033-2037	47,620	5,799	665	54,084	
2038-2042	4,720	952	46	5,718	
2043-2047	3,145	311	14	3,470	
Total	<u>\$ 101,055</u>	<u>\$ 97,063</u>	<u>\$ 9,431</u>	<u>\$ 207,549</u>	

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**C. Investments – Primary Government – Oregon Public Employees Retirement Fund**

**Interest Rate Risk**

The Council establishes policies for the investment of moneys in the OPERF. Investment policy requires that the OPERF debt investment portfolio maintain an average bond duration level of plus or minus 20 percent of the benchmark duration. As of June 30, 2007, the average duration of the debt investment portfolio was 4.96 years, 5.3 percent higher than the benchmark duration of 4.71 years. Included in the schedule below are fixed income mutual funds reported using the duration method instead of average maturity: Domestic \$861.3 million, and International, \$501.2 million. 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, 2007, 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	\$ 2,994	\$ 383,599	\$ (420,047)	\$ 162,530	\$ 129,076
U.S. Agency Mortgage Securities	273,144	31,528	55,033	5,058,966	5,418,671
U.S. Agency Securities	3,482	58,983	51,427	13,750	127,642
U.S. Treasury Securities Strips	-	68,624	-	53,352	121,976
U.S. Treasury Securities TIPS	-	1,409	241,563	102,487	345,459
U.S. Agency Securities Strips	-	-	-	5,719	5,719
International Debt Securities	376,009	493,456	628,712	575,432	2,073,609
Corporate Bonds	433,647	989,144	1,258,181	581,258	3,262,230
Municipal Bonds	4,340	-	-	11,538	15,878
Collateralized Mortgage Obligations	1,007,654	56,883	147,754	899,142	2,111,433
Asset-Backed Securities	279,176	260,227	103,582	90,182	733,167
Futures and Options	(685,587)	895,235	(125,361)	(19,526)	64,761
Mutual Funds – Domestic Fixed Income	57,728	1,790,562	1,222,475	35,334	3,106,099
Mutual Funds – International Fixed Income	-	11,773	771,156	182,334	965,263
Restricted Investment Contracts	7	-	-	-	7
<b>Total Debt Investments</b>	<b>\$ 1,752,594</b>	<b>\$ 5,041,423</b>	<b>\$ 3,934,475</b>	<b>\$ 7,752,498</b>	<b>\$ 18,480,990</b>

**Credit Risk**

Investment policy requires that no more than 30 percent of the debt securities portfolio 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, 2007, the fair value of below grade investments is \$2.5 billion or 13.6 percent of the fixed income securities portfolio, and the weighted average quality rating is AA-. The following table presents the credit quality ratings for debt securities within the OPERF investment portfolio as of June 30, 2007 (in thousands):

Credit Quality Ratings (Standard & Poors)	Fair Value
AAA	\$ 10,222,851
AA	2,337,961
A	878,706
BBB	1,737,235
BB	1,061,356
B	904,529
CCC	104,176
CC	3,349
C	2,504
D	3,432
Not Rated	440,847
<b>Total</b>	<b>\$ 17,696,946</b>

Concentrations of Credit Risk

The Council's investment policy pertaining to OPERF 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, 2007, there was no single issuer for the OPERF that exceeded the above guidelines. However, investments in one issuer, the Federal National Mortgage Association, were \$4.7 billion, or 7.1 percent of plan net assets. No other investments in any one issuer represent 5 percent or more of 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 OPERF portfolio. Policy requires that the asset class 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 OPERF portfolio.

Foreign Currency Risk

Foreign currency risk arises from changes in currency exchange rates. Policy requires that no more than 15 percent of the OPERF debt investment portfolio may be invested in non-dollar denominated securities. As of June 30, 2007, approximately 4.6 percent of the debt investment portfolio was invested in non-dollar denominated securities. Policies for the equity portion of the OPERF portfolio are silent regarding this risk, although investment manager contracts provide guidelines that vary from manager to manager.

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The OPERF's exposure to foreign currency risk as of June 30, 2007 is as follows (in thousands):

<b>Deposits and Investments (U.S. Dollars)</b>				
<b>Foreign Currency Denomination</b>	<b>Deposits</b>	<b>International Equity Securities</b>	<b>International Debt Securities</b>	<b>Total</b>
Argentine peso	\$ 126	\$ -	\$ 19,324	\$ 19,450
Australian dollar	(3,803)	480,709	4,986	481,892
Brazilian real	1,013	138,103	68,277	207,393
Canadian dollar	3,036	416,575	(130,492)	289,119
Chilean peso	174	5,847	-	6,021
Colombian peso	21,777	2,440	1,890	26,107
Czech koruna	-	523	-	523
Danish krone	270	42,573	66,873	109,716
Egyptian pound	(2,875)	19,614	16,278	33,017
Euro	70,323	3,830,041	185,114	4,085,478
Hong Kong dollar	3,768	406,444	-	410,212
Hungarian forint	313	22,186	7,384	29,883
Indonesian rupiah	108	48,835	16,047	64,990
Israeli shekel	166	26,791	-	26,957
Japanese yen	23,289	2,272,819	458,341	2,754,449
Malaysian ringgit	13	30,979	-	30,992
Mexican peso	975	67,010	49,325	117,310
New Russian ruble	(5)	-	-	(5)
New Taiwan dollar	11,102	206,981	-	218,083
New Turkish lira	1,549	144,102	738	146,389
New Zealand dollar	149	24,982	35,703	60,834
Norwegian krone	(1,379)	94,395	-	93,016
Pakistan rupee	1,308	19,159	-	20,467
Peruvian nouveau sol	-	734	-	734
Philippine peso	67	12,176	-	12,243
Polish zloty	1,238	8,667	-	9,905
Pound sterling	21,266	2,263,163	56,127	2,340,556
Singapore dollar	536	218,480	-	219,016
South African rand	1,611	105,533	1,373	108,517
South Korean won	2,383	416,249	-	418,632
Sri Lanka rupee	-	1,938	-	1,938
Swedish krona	631	251,006	-	251,637
Swiss franc	9,334	598,682	-	608,016
Thai baht	409	39,350	-	39,759
Uruguayan peso	465	-	458	923
Venezuelan bolivar	12	-	-	12
Zimbabwe dollar	20	613	-	633
<b>Total</b>	<b>\$ 169,369</b>	<b>\$ 12,217,699</b>	<b>\$ 857,746</b>	<b>\$ 13,244,814</b>

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 Treasury invests either directly or through its outside investment managers on behalf of the Public Employees Retirement System (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. OPERF 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. As of June 30, 2007, OHSU held \$88.7 million of asset backed securities collateralized primarily by auto loans, credit card receivables, and collateralized mortgage obligations. These securities have published market prices which are generally valued based on the cash flows from interest payments on the underlying loans. These factors may increase the interest rate volatility of OHSU's asset backed securities portfolio.

Investment policies of SAIF Corporation (SAIF) are governed by Oregon Revised Statutes and the Council. SAIF's policy for fixed income investments provides that a duration target be used to manage interest rate risk. The policy calls for the portfolio duration to be within 20 percent of the benchmark duration. The benchmark duration as of December 31, 2006 was 7.19 years, with an acceptable range of 5.75 to 8.63 years. As of that date, the fixed income portfolio's duration was 7.14 years. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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 debt investments of OHSU as of June 30, 2007 and SAIF as of December 31, 2006 (in thousands):

Schedule of Interest Rate Risk					
Investment Maturities (in years)					
Investment Type	Less than 1	1 to 5	6 to 10	More than 10	Fair Value
U.S. Treasury Securities	\$ 10,939	\$ 84,367	\$ 66,787	\$ 253,804	\$ 415,897
U.S. Treasury Securities TIPS	-	25,077	14,052	40,488	79,617
U.S. Treasury Securities Strips	55	-	-	68,731	68,786
U.S. Agency Securities	120,548	320,407	142,073	178,480	761,508
Corporate Bonds	50,981	332,487	355,329	512,155	1,250,952
International Debt Securities	13,283	46,801	52,405	175,881	288,370
Asset-Backed Securities	33,736	103,433	16,065	4,636	157,870
Collateralized Mortgage Obligations	22,683	56,854	77,154	37,518	194,209
Commercial Paper	8,148	-	-	-	8,148
Municipal Bonds	-	-	1,381	6,902	8,283
Private Debt Obligation	-	10,589	-	-	10,589
Mutual Funds – Domestic Fixed Income	461	42,555	24,327	33	67,376
Total Debt Investments	\$ 260,834	\$ 1,022,570	\$ 749,573	\$ 1,278,628	\$ 3,311,605

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Credit Risk

OSHU'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 fund require a minimum credit quality rating in Baa/BBB bond investments and a minimum rating of A1-P1 for investments in commercial paper. Issues of state and municipal agencies are prohibited, except under unusual circumstances.

SAIF is required to maintain 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.

The following table presents the credit quality ratings for debt investments of OHSU as of June 30, 2007 and SAIF as of December 31, 2006 (in thousands):

Credit Quality Ratings (Standard & Poors)	Fair Value
AAA	\$ 1,545,977
AA	258,014
A	515,597
BBB	570,801
BB	84,148
B and Lower	66,418
Not Rated	143,797
Total	<u>\$ 3,184,752</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 annuity pool policies place no limit on the amount that may be invested in any one issue.

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 to 10 percent per issuer. More than 5 percent of SAIF's investments are in Federal National Mortgage Association mortgage-backed securities, which comprise \$495.9 million or 14.6 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 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, 2007 (in thousands):

Foreign Currency Denomination	Investments (U.S. Dollars)
Australian dollar	\$ 1,144
Brazilian real	434
Canadian dollar	484
Eurodollar	125
Indonesian rupiah	299
Japanese yen	1,941
Malaysian ringgit	464
Mexican peso	443
New Zealand dollar	443
Polish zloty	705
Singapore dollar	688
South African rand	443
Swedish krona	177
Total	\$ 7,790

Derivatives - Interest Rate Swap

Oregon Health and Science University (OHSU) entered into two interest rate swap agreements with notional amounts of \$45.93 million and \$45.90 million, respectively. The intention of the swaps was to effectively change the variable rate debt to a synthetic fixed rate of 3.34 percent as of the closing date of the bonds.

The notional amounts of the swaps and the principal amounts of the associated debt decline over time and terminate on July 1, 2028 (the final maturity date of the underlying bonds). OHSU is currently making fixed rate interest payments to the counterparty for the two swaps, and receives variable rate payments computed as 62.7 percent of the LIBOR plus .177 percent. The variable rate bonds re-price weekly based upon market conditions.

The aggregated estimated fair value of the interest rate swaps was an asset of \$3.66 million at June 30, 2007. This amount was not reported at fair value on the statement of net assets. The fair value represents the estimated amount that OHSU would receive if the swap agreements were terminated at year end, taking into account current interest rates and the creditworthiness of the underlying counterparty.

OHSU is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2007, the counterparty's credit ratings were Aa2/AA (as rated by Moody's and Standard & Poors, respectively). Additionally, the swap exposes OHSU to basis risk, which is the risk that arises when the relationship between the rates on the variable rate bonds and the swap formula of 62.7 percent of one-month LIBOR plus .177 percent varies from historical norms. If this occurs, swap payments received by OHSU may not fully offset its bond interest payments. As these rates change, the effective synthetic rate on the bonds will change. OHSU or the counterparty may terminate the swaps if the other party fails to perform under the terms of the contract.

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Using rates as of June 30, 2007, 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			
2008	\$ 300	\$ 3,003	\$ (156)	\$ 3,147	
2009	350	2,992	(155)	3,187	
2010	350	2,980	(154)	3,176	
2011	350	2,968	(154)	3,164	
2012	3,500	2,851	(148)	6,203	
2013-2017	15,375	12,496	(648)	27,223	
2018-2022	750	11,616	(602)	11,764	
2023-2027	47,650	6,916	(359)	54,207	
2028-2032	21,650	367	(19)	21,998	
Total	\$ 90,275	\$ 46,189	\$ (2,395)	\$ 134,069	

**E. Repurchase Agreements.** During the fiscal year, external investment managers for the Public Employees Retirement System, SAIF Corporation, and the Common School Fund invested in overnight repurchase agreements. Investments in repurchase agreements made with cash collateral from securities lending transactions had the following fair values at June 30, 2007:

- \$591.4 million, or 12.3 percent of the Oregon Short-Term Investment Fund, the cash collateral pool for all agencies except PERS.
- \$204.9 million, or 3.2 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 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 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, 2006, the fair value of securities on loan and collateral held for SAIF Corporation was \$635.1 million and \$648.2 million

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respectively. The security lending balances on loan, cash collateral received, and investments of cash collateral as of June 30, 2007 of the primary government are presented below (in thousands):

Investment Type	Securities on Loan at Fair Value	Cash Collateral Received	Investments of Cash Collateral at Fair Value
U.S. Treasury and Agency Securities	\$ 5,244,798	\$ 5,319,906	\$ 5,345,330
Domestic Equity Securities	2,414,259	2,431,977	2,440,456
International Equity Securities	2,354,529	1,968,084	1,974,949
Domestic Fixed Income Securities	450,480	484,732	468,706
International Fixed Income Securities	273,125	280,539	281,518
Total	<u>\$ 10,737,191</u>	<u>\$ 10,485,238</u>	<u>\$ 10,510,959</u>

**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, 2007, the primary government had restricted assets of \$1.5 billion in deposits and \$956.3 million in investments. The discretely presented component units had restricted assets of \$37.3 million in deposits and \$1.4 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, 2007, were as follows (in thousands):

	Health and Social						Total	Internal Service
	General	Services	Public Transportation	Environmental Management	Common School	Other		
<b>Governmental activities:</b>								
General accounts	\$ 11,957	\$ 71,047	\$ 5,373	\$ 12,403	\$ 151	\$ 86,285	\$ 187,216	\$ 33,166
Due from federal government	-	113,253	66,779	24,497	-	76,267	280,796	-
Interest	-	-	2,428	2,331	1,153	7,634	13,546	820
Broker receivable	-	-	-	-	20,753	-	20,753	-
Contracts	-	-	1,359	407	32	103	1,901	-
Mortgages	-	3,840	-	-	-	-	3,840	-
Court fines and fees	-	-	-	-	-	228,774	228,774	-
Collection assessments	-	-	-	-	-	175,384	175,384	-
Child support recoveries	-	-	-	-	-	268,092	268,092	-
Workers' compensation recoveries	-	-	-	-	-	48,567	48,567	-
Other	35,751	78	2,375	5,414	-	51,424	95,042	3,028
Gross receivables	<u>47,708</u>	<u>188,218</u>	<u>78,314</u>	<u>45,052</u>	<u>22,089</u>	<u>942,530</u>	<u>1,323,911</u>	<u>37,014</u>
Allowance for uncollectibles	<u>(20,974)</u>	<u>(2,802)</u>	<u>(1,971)</u>	<u>(3,052)</u>	<u>-</u>	<u>(651,005)</u>	<u>(679,804)</u>	<u>(910)</u>
Total receivables, net	<u>\$ 26,734</u>	<u>\$ 185,416</u>	<u>\$ 76,343</u>	<u>\$ 42,000</u>	<u>\$ 22,089</u>	<u>\$ 291,525</u>	<u>\$ 644,107</u>	<u>\$ 36,104</u>

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Receivables reported for business-type activities at June 30, 2007, were as follows (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
<b>Business-type activities:</b>							
General accounts	\$ 29	\$ 158	\$ 25,256	\$ 166,210	\$ 157,163	\$ 6,407	\$ 355,223
Due from federal government	-	-	-	3,219	-	508	3,727
Interest	7,332	2,753	-	2,658	59	11,241	24,043
Broker receivable	-	-	-	-	928	-	928
Notes - long-term	-	123	-	-	-	-	123
Loans	-	-	-	-	18,298	-	18,298
Loans - long-term	-	-	-	-	67,950	-	67,950
Other	-	-	-	19,866	-	3,210	23,076
Gross receivables	7,361	3,034	25,256	191,953	244,398	21,366	493,368
Allowance for uncollectibles	-	-	(361)	(10,702)	(15,782)	(4,074)	(30,919)
Total receivables, net	\$ 7,361	\$ 3,034	\$ 24,895	\$ 181,251	\$ 228,616	\$ 17,292	\$ 462,449

Receivables reported for fiduciary funds at June 30, 2007, were as follows (in thousands):

	Agency	Private Purpose Trust
<b>Fiduciary fund activities:</b>		
Restitution	\$ 272,394	\$ -
Other	-	162
Gross receivables	272,394	162
Allowance for uncollectibles	(204,031)	(106)
Total receivables, net	\$ 68,363	\$ 56

Receivables reported for the SAIF Corporation (SAIF) at December 31, 2006, and the Oregon Health and Science University (OHSU) at June 30, 2007, were as follows (in thousands):

	SAIF	OHSU
<b>Discretely presented component units:</b>		
Patient accounts	\$ -	\$ 210,915
Premiums	188,850	-
Due from federal government	-	24,560
Interest	31,461	2,458
Student loans	-	27,257
Broker receivable	959	-
Other	11,986	10,900
Gross receivables	233,256	276,090
Allowance for uncollectibles	(2,593)	(87,342)
Total receivables, net	\$ 230,663	\$ 188,748

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**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, 2007, were as follows (in thousands):

	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Other	Total	Internal Service
<b>Governmental activities:</b>								
General accounts	\$ 1,228,453	\$ 120,510	\$ 118,386	\$ 28,751	\$ 629	\$ 143,817	\$ 1,640,546	\$ 23,727
Interest	6	414	-	-	-	10	430	1,699
Broker payable	-	-	2,968	-	83,171	2,325	88,464	-
Taxes	27	-	-	-	-	-	27	-
Loans	-	22,000	-	-	-	-	22,000	-
Contracts	-	-	162	513	-	663	1,338	670
Total payables	\$ 1,228,486	\$ 142,924	\$ 121,516	\$ 29,264	\$ 83,800	\$ 146,815	\$ 1,752,805	\$ 26,096

Payables reported for business-type activities at June 30, 2007, were as follows (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
<b>Business-type activities:</b>							
General accounts	\$ 705	\$ 547	\$ 13,778	\$ 10,408	\$ 78,529	\$ 21,061	\$ 125,028
Interest	30,721	6,144	-	-	12,652	6,459	55,976
Broker payable	-	-	-	-	1,361	-	1,361
Loans	1,500	-	-	-	-	-	1,500
Notes	-	30,835	-	-	27	-	30,862
Contracts	-	-	-	-	3,290	-	3,290
Total payables	\$ 32,926	\$ 37,526	\$ 13,778	\$ 10,408	\$ 95,859	\$ 27,520	\$ 218,017

Payables reported for fiduciary funds at June 30, 2007, were as follows (in thousands):

	Pension Trust	Private Purpose Trust	Investment Trust	Agency
<b>Fiduciary fund activities:</b>				
General accounts	\$ 403,401	\$ 66	\$ -	\$ 416
Compensated absences payable	1,134	-	-	-
Broker payable	7,195,361	-	13,873	-
Mortgages	-	1,899	-	-
Total payables	\$ 7,599,896	\$ 1,965	\$ 13,873	\$ 416

Payables reported for the SAIF Corporation (SAIF) at December 31, 2006, and the Oregon Health and Science University (OHSU) at June 30, 2007, were as follows (in thousands):

	SAIF	OHSU
<b>Discretely presented component units:</b>		
General accounts	\$ 23,276	\$ 112,770
Contracts	-	32,451
Reinsurance	10,185	-
Broker payable	2	-
Premium taxes	941	-
Total payables	\$ 34,404	\$ 145,221

## 4. JOINT VENTURE

The Multi-State Lottery Association (MUSL) was established in 1987 by a joint venture agreement. MUSL members include: the Arizona Lottery, Colorado Lottery, Connecticut Lottery Corporation, Delaware State Lottery, District of Columbia Lottery and Charitable Games Control Board, 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 Carolina Education Lottery, North Dakota Lottery, Oklahoma Lottery, Oregon Lottery, Pennsylvania Lottery, Rhode Island Lottery, South Carolina Education Lottery, South Dakota Lottery, Tennessee Education Lottery, U.S. Virgin Islands Lottery, Vermont Lottery, West Virginia Lottery, and the Wisconsin Lottery.

MUSL is governed by a Board on which each member lottery is represented. The Board's responsibilities to administer multi-state lottery games are performed through product groups, advisory committees, or panels staffed by officers and independent contractors as appointed by the Board. Each member lottery contributes amounts necessary to fund the estimated and actual prizes won, reserve prize pools, and the operating expenses of MUSL. The Oregon Lottery's share of the MUSL's operating expenses for the fiscal year ended June 30, 2007 was \$20,000. Upon termination of the existence of MUSL, if such termination should occur, the member lottery would receive any proceeds determined available for distribution by the Board. As of June 30, 2007, the Oregon Lottery had \$2.4 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.

## 5. CAPITAL ASSETS

### A. Primary Government

#### Capital Asset Activity

Capital asset activity for the primary government for the year ended June 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,678,479	\$ 338	\$ 15,288	\$ 1,663,529
Construction in Progress	1,790,632	795,078	151,882	2,433,828
Works of Art and Historical Treasures	626	337	23	940
Total capital assets not being depreciated	3,469,737	795,753	167,193	4,098,297
<i>Capital assets being depreciated:</i>				
Buildings, Property and Equipment	2,188,402	230,526	54,570	2,364,358
Infrastructure	13,828,571	20,225	261,543	13,587,253
Total capital assets being depreciated	16,016,973	250,751	316,113	15,951,611
Less accumulated depreciation for:				
Buildings, Property and Equipment	904,717	103,045	35,265	972,497
Infrastructure	8,126,689	533,328	135,804	8,524,213
Total accumulated depreciation	9,031,406	636,373	171,069	9,496,710
Total capital assets being depreciated, net	6,985,567	(385,622)	145,044	6,454,901
Governmental activities capital assets, net	\$ 10,455,304	\$ 410,131	\$ 312,237	\$ 10,553,198

The beginning balance has been restated to \$10,455,304 to reflect a prior period adjustment of \$828.



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	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 84,105	\$ 7,862	\$ 2,101	\$ 89,866
Construction in Progress	76,420	98,319	79,856	94,883
Works of Art and Historical Treasures	58,676	677	77	59,276
Total capital assets not being depreciated	219,201	106,858	82,034	244,025
<i>Capital assets being depreciated:</i>				
Buildings, Property and Equipment	2,410,370	164,450	36,528	2,538,292
Infrastructure	51,580	2,892	16	54,456
Total capital assets being depreciated	2,461,950	167,342	36,544	2,592,748
Less accumulated depreciation for:				
Buildings, Property and Equipment	1,122,459	110,820	31,137	1,202,142
Infrastructure	36,011	2,042	16	38,037
Total accumulated depreciation	1,158,470	112,862	31,153	1,240,179
Total capital assets being depreciated, net	1,303,480	54,480	5,391	1,352,569
Business-type activities capital assets, net	\$ 1,522,681	\$ 161,338	\$ 87,425	\$ 1,596,594

The beginning balance has been restated to \$1,522,681 to reflect a prior period adjustment of \$21.

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Fiduciary fund activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 958	\$ -	\$ -	\$ 958
Total capital assets not being depreciated	958	-	-	958
<i>Capital assets being depreciated:</i>				
Buildings, Property and Equipment	19,448	82	641	18,889
Total capital assets being depreciated	19,448	82	641	18,889
Less accumulated depreciation for:				
Buildings, Property and Equipment	6,103	1,464	641	6,926
Total accumulated depreciation	6,103	1,464	641	6,926
Total capital assets being depreciated, net	13,345	(1,382)	-	11,963
Fiduciary fund activities capital assets, net	\$ 14,303	\$ (1,382)	\$ -	\$ 12,921

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Depreciation Expense

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

**Governmental activities:**

Education	\$ 285
Human Services	7,623
Public Safety	28,065
Economic and Community Development	980
Natural Resources	14,843
Transportation	548,763
Consumer and Business Services	176
Administration	4,161
Legislative	684
Judicial	1,066
Subtotal	<u>606,646</u>
Internal Service Funds	<u>29,727</u>
Total depreciation expense - governmental activities	<u><u>\$ 636,373</u></u>

**Business-type activities:**

Housing and Community Services	\$ 25
Veterans' Loan	157
Lottery Operations	19,798
University System	89,798
Other Business-type Activities	3,084
Total depreciation expense - business-type activities	<u><u>\$ 112,862</u></u>

**Fiduciary fund activities:**

Pension and Other Employee Benefit Trust	\$ 1,464
Total depreciation expense - fiduciary activities	<u><u>\$ 1,464</u></u>

Construction Commitments

The State has active construction projects as of June 30, 2007, 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	\$ 7,520	\$ 37,125	\$ -	\$ 27,659	\$ -	\$ 9,466
Public safety training facility	76,653	296	-	-	-	296
Military facilities	3,615	6,520	558	5,552	-	410
Forestry headquarters building	61	395	-	-	-	395
State Park facilities	10,291	38	-	-	38	-
Prison construction and upgrades	170,721	34,718	23	-	-	34,695
University building construction and upgrades	306,555	150,687	1,569	-	16,099	133,019
Road and bridge construction	2,105,995	1,011,389	-	403,600	-	607,789
Upgrade and maintenance of various facilities	67,431	6,298	20	883	-	5,395
Total	<u>\$ 2,748,842</u>	<u>\$ 1,247,466</u>	<u>\$ 2,170</u>	<u>\$ 437,694</u>	<u>\$ 16,137</u>	<u>\$ 791,465</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

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historic buildings, furniture, paintings, and ancestral artifacts displayed at various state parks; a collection of wildlife mounts displayed at various Fish and Wildlife locations 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.

**Insurance Recoveries**

In the Statement of Activities, program revenues include insurance recoveries of the applicable functions as follows (in thousands):

**Governmental activities:**

Public Safety	\$ 282
Economic and Community Development	2
Natural Resources	515
Transportation	663
Administration	222
Judicial	2,304
Total insurance recoveries - governmental activities	<u>\$ 3,988</u>

**Business-type activities:**

Lottery Operations	\$ 129
University System	1,224
Other Business-type Activities	45
Total insurance recoveries - business-type activities	<u>\$ 1,398</u>

**B. Discretely Presented Component Units**

Activity for SAIF Corporation for the year ended December 31, 2006, 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	<u>2,922</u>	<u>-</u>	<u>-</u>	<u>2,922</u>
<i>Capital assets being depreciated:</i>				
Buildings, Property and Equipment	45,688	714	476	45,926
Total capital assets being depreciated	<u>45,688</u>	<u>714</u>	<u>476</u>	<u>45,926</u>
Less accumulated depreciation for:				
Buildings, Property and Equipment	27,682	1,788	419	29,051
Total accumulated depreciation	<u>27,682</u>	<u>1,788</u>	<u>419</u>	<u>29,051</u>
Total capital assets being depreciated, net	<u>18,006</u>	<u>(1,074)</u>	<u>57</u>	<u>16,875</u>
SAIF Corporation capital assets, net	<u>\$ 20,928</u>	<u>\$ (1,074)</u>	<u>\$ 57</u>	<u>\$ 19,797</u>

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Activity for the Oregon Health and Science University (OHSU) for the year ended June 30, 2007, was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated:</i>				
Land	\$ 54,594	\$ 7,751	\$ 3,292	\$ 59,053
Construction in Progress	61,522	98,243	87,464	72,301
Total capital assets not being depreciated	<u>116,116</u>	<u>105,994</u>	<u>90,756</u>	<u>131,354</u>
<i>Capital assets being depreciated:</i>				
Buildings, Property and Equipment	1,511,156	158,470	77,551	1,592,075
Total capital assets being depreciated	<u>1,511,156</u>	<u>158,470</u>	<u>77,551</u>	<u>1,592,075</u>
Less accumulated depreciation for:				
Buildings, Property and Equipment	615,283	78,609	40,079	653,813
Total accumulated depreciation	<u>615,283</u>	<u>78,609</u>	<u>40,079</u>	<u>653,813</u>
Total capital assets being depreciated, net	895,873	79,861	37,472	938,262
OHSU capital assets, net	<u>\$ 1,011,989</u>	<u>\$ 185,855</u>	<u>\$ 128,228</u>	<u>\$ 1,069,616</u>

## 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, 2007, for the primary government, were \$85.8 million and for the component units were \$21.1 million.

The following schedule summarizes the future minimum lease payments as of June 30, 2007 (in thousands):

Year Ending June 30,	Primary Government	Component Units
2008	\$ 80,621	\$ 25,617
2009	67,046	25,809
2010	50,110	26,323
2011	41,184	25,490
2012	30,992	25,230
2013-2017	79,379	26,237
2018-2022	17,833	279
2023-2027	5,303	76
2028-2032	45	-
2033-2037	39	-
2038-2042	39	-
2043-2047	39	-
2048-2052	39	-
Total future minimum lease payments	<u>\$ 372,669</u>	<u>\$ 155,061</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.

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

Asset Class	Governmental Activities	Business-type Activities	Component Units
Building, property and equipment	\$ 3,939	\$ 798	\$ 10,501
Less accumulated depreciation	(223)	(388)	(5,644)
Total	<u>\$ 3,716</u>	<u>\$ 410</u>	<u>\$ 4,857</u>

The following schedule summarizes the future minimum lease payments and net present value of these minimum lease payments as of June 30, 2007 (in thousands):

Year Ending June 30,	Governmental Activities	Business-type Activities	Component Units
2008	\$ 685	\$ 198	\$ 953
2009	684	134	960
2010	686	12	917
2011	685	7	417
2012	685	-	273
2013-2017	-	-	3,566
Total future minimum lease payments	<u>3,425</u>	<u>351</u>	<u>7,086</u>
Less amounts representing interest	(476)	(16)	(1,461)
Present value of minimum lease payments	<u>\$ 2,949</u>	<u>\$ 335</u>	<u>\$ 5,625</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 \$8.1 million for the year ended June 30, 2007 on assets valued at over \$23.5 million, net of \$9.2 million in accumulated depreciation. Minimum future lease revenue for non-cancelable operating leases at June 30, 2007 was (in thousands):

Year Ending June 30,	Primary Government
2008	\$ 7,945
2009	6,299
2010	5,471
2011	4,612
2012	4,116
2013-2017	9,794
2018-2022	3,749
2023-2027	3,624
2028-2032	2,927
2033-2037	1,824
2038-2042	929
2043-2047	241
2048-2052	2
Total future minimum lease revenue	<u>\$ 51,533</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

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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, 2007, the net amount of appreciation available for authorization for expenditure was \$22.8 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 4.8 percent of the three-year moving average of the market value of the endowment pool. For the year ended June 30, 2007, the net amount of appreciation available for authorization for expenditure was \$88.9 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 repaid the tax anticipation notes that were issued in the prior year 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 Oregon Department of Veterans' Affairs used a line of credit to help preserve certain refunding opportunities that may be used to finance veterans' housing loans. The revolving line of credit is with Key Bank National Association and interest rates on draws are based on a LIBOR (London InterBank Offered Rate) index or the bank's prime rate.

Short-term debt activity for the year ended June 30, 2007, was as follows (in thousands):

<b>Governmental activities:</b>	Beginning Balance	Issued	Repaid	Ending Balance
Tax anticipation notes	\$ 150,241	\$ -	\$ 150,241	\$ -
<b>Business-type activities:</b>				
Veterans' Affairs line of credit	1,000	41,865	12,030	30,835
Total short-term debt activity	\$ 151,241	\$ 41,865	\$ 162,271	\$ 30,835

## 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.

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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.

The following schedule shows the debt service requirements for general obligation bonds as of June 30, 2007 (in thousands):

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal <sup>1,2</sup>	Interest
2008	\$ 18,125	\$ 129,258	\$ 109,458	\$ 93,577
2009	24,615	128,777	88,940	90,017
2010	30,855	127,772	48,781	86,550
2011	38,000	126,442	50,413	84,817
2012	45,805	124,726	52,131	83,309
2013-2017	367,595	581,132	346,954	379,419
2018-2022	686,365	448,818	565,164	242,455
2023-2027	1,104,775	207,953	287,730	136,588
2028-2032	5,190	2,586	226,560	73,544
2033-2037	6,525	1,225	142,690	31,440
2038-2042	1,520	38	70,035	7,806
2043-2047	-	-	3,530	581
2048-2052	-	-	210	7
<b>Total</b>	<b>\$ 2,329,370</b>	<b>\$ 1,878,727</b>	<b>\$ 1,992,596</b>	<b>\$ 1,310,110</b>

<sup>1</sup> Includes a total of \$430.0 million of bonds with a variable interest rate based on the weekly rate determination of the Remarketing Agent. The interest rate at the end of the fiscal year was 3.75%.

<sup>2</sup> Includes a total of \$89.4 million of bonds with a variable interest rate based on the daily rate determination of the Remarketing Agent. The interest rate at the end of the fiscal year was 3.90%.

**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 state fair facilities. 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

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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.

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.

The following schedule shows the debt service requirements for revenue bonds as of June 30, 2007 (in thousands):

Year ending June 30,	Governmental Activities		Business-type Activities		Discretely Presented Component Units	
	Principal <sup>1</sup>	Interest	Principal <sup>2-5</sup>	Interest	Principal <sup>6</sup>	Interest
2008	\$ 88,621	\$ 106,405	\$ 35,309	\$ 78,878	\$ 9,160	\$ 22,590
2009	91,669	96,110	39,357	78,964	9,617	23,004
2010	88,554	84,357	344,733	75,106	10,046	22,814
2011	90,431	72,147	39,529	59,413	13,935	22,443
2012	94,668	67,938	38,972	57,778	11,396	21,982
2013-2017	479,193	270,053	207,502	262,121	64,518	111,543
2018-2022	400,027	151,681	236,068	210,152	73,713	119,431
2023-2027	329,935	115,369	256,505	148,794	132,925	62,051
2028-2032	352,660	49,420	271,500	77,523	154,975	29,502
2033-2037	52,050	1,171	157,520	24,088	38,465	878
2038-2042	-	-	23,510	5,618	-	-
2043-2047	-	-	10,350	948	-	-
2048-2052	-	-	105	3	-	-
<b>Total</b>	<b>\$ 2,067,808</b>	<b>\$ 1,014,651</b>	<b>\$ 1,660,960</b>	<b>\$ 1,079,386</b>	<b>\$ 518,750</b>	<b>\$ 436,238</b>

<sup>1</sup> Includes a total of \$265.3 million of bonds with a variable interest rate based on the weekly rate determination of the Remarketing Agents. The interest rate at the end of the fiscal year was 3.72% for \$155.3 million, 3.69% for \$55.0 million, and 3.73% for \$55.0 million of bonds.

<sup>2</sup> Includes bonds with a monthly adjusted variable interest rate based on the London Inter Bank Offered Rate (LIBOR) plus 0.4% not to exceed 11.0% for \$2.8 million and not to exceed 11.5% for \$3.7 million. The interest rate at the end of the fiscal year for those bonds was 5.72%.

<sup>3</sup> Includes bonds with a weekly adjusted variable interest rate based on the rate determination of the Remarketing Agent, not to exceed 12.0%. The interest rate at the end of the fiscal year was 3.80% for \$60.5 million, 3.79% for \$64.9 million, and 3.73% for \$16.1 million in bonds.

<sup>4</sup> Includes \$92.1 million of bonds with a monthly adjusted variable rate of interest based on the Bond Market Association (BMA) Index rate plus 0.75%, not to exceed the one month LIBOR rate plus 0.23% or fall below 95% of the one month LIBOR rate. The interest rate at the end of the fiscal year was 5.05%.

<sup>5</sup> Includes \$213.6 million of bonds with a monthly adjusted variable rate of interest based on the BMA Index rate plus 0.80%, not to exceed the one month LIBOR rate plus 0.23% or fall below 95% of the one month LIBOR rate. The interest rate at the end of the fiscal year was 5.05%.

<sup>6</sup> Includes \$146.1 million of bonds with a variable rate of interest adjusted every 35 days based on the auction rate. The rate as of fiscal year end was 3.82% for \$96.1 million and 3.8% for \$50.0 million in bonds.

**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.



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The following schedule shows the debt service requirements for certificates of participation as of June 30, 2007 (in thousands):

Year ending June 30,	Governmental Activities		Business-type Activities		Pension Trust Fund	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 66,926	\$ 51,110	\$ 4,914	\$ 1,361	\$ 2,440	\$ 415
2009	66,571	47,979	4,009	1,110	2,520	334
2010	68,982	44,984	4,178	935	470	239
2011	64,010	41,577	3,265	753	500	214
2012	56,968	38,763	2,747	626	520	188
2013-2017	265,986	154,885	6,804	1,801	3,060	498
2018-2022	226,375	92,044	2,050	974	-	-
2023-2027	163,045	42,400	2,624	406	-	-
2028-2032	83,295	10,625	-	-	-	-
2033-2037	4,141	102	-	-	-	-
Total	<u>\$ 1,066,299</u>	<u>\$ 524,469</u>	<u>\$ 30,591</u>	<u>\$ 7,966</u>	<u>\$ 9,510</u>	<u>\$ 1,888</u>

**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, 2007 (in thousands):

Year ending June 30,	Governmental Activities	
	Principal	Interest
2008	\$ 27,950	\$ 17,123
2009	52,210	15,188
2010	56,340	12,518
2011	60,545	9,623
2012	65,100	6,502
2013-2017	98,095	3,832
Total	<u>\$ 360,240</u>	<u>\$ 64,786</u>

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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, 2007 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Bonds/certificates payable:					
General obligation bonds	\$ 2,316,920	\$ 25,305	\$ 12,855	\$ 2,329,370	\$ 18,125
Revenue bonds	1,436,937	893,460	262,589	2,067,808	88,621
Certificates of participation	1,068,439	52,305	54,445	1,066,299	66,926
General appropriation bonds	385,865	-	25,625	360,240	27,950
Less deferred amounts:					
For issuance discounts	(915)	-	(301)	(614)	-
For issuance premiums	102,234	24,332	14,976	111,590	-
On refunding	(25,821)	(6,179)	(3,956)	(28,044)	-
Total bonds/certificates payable	<u>5,283,659</u>	<u>989,223</u>	<u>366,233</u>	<u>5,906,649</u>	<u>201,622</u>
Other liabilities:					
Obligations under capital lease	3,464	-	515	2,949	533
Claims and judgments	1,159,311	60,221	160,114	1,059,418	121,700
Compensated absences	124,353	14,547	3,949	134,951	90,417
Arbitrage rebate	1,151	1,728	604	2,275	773
Contracts, mortgages and notes	1,805	26,063	2,172	25,696	23,805
Total other liabilities	<u>1,290,084</u>	<u>102,559</u>	<u>167,354</u>	<u>1,225,289</u>	<u>237,228</u>
Total governmental activity long-term liabilities	<u>\$ 6,573,743</u>	<u>\$ 1,091,782</u>	<u>\$ 533,587</u>	<u>\$ 7,131,938</u>	<u>\$ 438,850</u>

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 capital lease obligation is generally liquidated through the General Fund. The claims and judgments liability will generally be liquidated through the Employment Services Fund and the Central Services Fund, an internal service fund. The compensated absences liability will be liquidated through the General, Public Transportation, Health and Social Services, and Environmental Management funds. The arbitrage rebate liability will generally be liquidated through the Revenue Bond Fund and the Capital Projects Fund. The liability for contracts, mortgages, and notes will generally be liquidated through the Health and Social Services and Central Services funds.

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The following schedule summarizes the changes in long-term liabilities for business-type activities for the year ended June 30, 2007 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities:</b>					
Bonds/certificates payable:					
General obligation bonds	\$ 1,917,804	\$ 366,955	\$ 292,163	\$ 1,992,596	\$ 109,458
Revenue bonds	1,685,531	313,450	338,021	1,660,960	35,309
Certificates of participation	22,326	11,330	3,065	30,591	4,914
Less deferred amounts:					
For issuance discounts	(3,888)	-	(709)	(3,179)	-
For issuance premiums	31,567	10,007	5,089	36,485	-
On refunding	(18,101)	(4,001)	(1,659)	(20,443)	-
Accreted interest	73,313	8,656	9,651	72,318	-
Total bonds/certificates payable	<u>3,708,552</u>	<u>706,397</u>	<u>645,621</u>	<u>3,769,328</u>	<u>149,681</u>
Other liabilities:					
Obligations under capital lease	490	259	414	335	188
Claims and judgments	1,315	1	1,315	1	1
Compensated absences	48,226	5,187	1,456	51,957	46,550
Arbitrage rebate	2,116	3,339	8	5,447	190
Contracts, mortgages and notes	2,963	44,863	12,174	35,652	2,906
Lottery prize awards	131,196	362,185	356,278	137,103	39,588
Trust funds	22,685	423,414	427,149	18,950	18,532
Total other liabilities	<u>208,991</u>	<u>839,248</u>	<u>798,794</u>	<u>249,445</u>	<u>107,955</u>
Total business-type activity long-term liabilities	<u>\$ 3,917,543</u>	<u>\$ 1,545,645</u>	<u>\$ 1,444,415</u>	<u>\$ 4,018,773</u>	<u>\$ 257,636</u>

The following schedule summarizes the changes in long-term liabilities for fiduciary fund activities for the year ended June 30, 2007 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Fiduciary fund activities:</b>					
Bonds/certificates payable:					
Revenue bonds	\$ 42,200	\$ -	\$ 42,200	\$ -	\$ -
Certificates of participation	11,875	-	2,365	9,510	2,440
Less deferred amounts:					
For issuance premiums	321	-	42	279	-
On refunding	(259)	-	(30)	(229)	-
Total bonds/certificates payable	<u>54,137</u>	<u>-</u>	<u>44,577</u>	<u>9,560</u>	<u>2,440</u>
Other liabilities:					
Claims and judgments	140	-	140	-	-
Contracts, mortgages and notes	1,763	436	300	1,899	62
Total other liabilities	<u>1,903</u>	<u>436</u>	<u>440</u>	<u>1,899</u>	<u>62</u>
Total fiduciary fund activity long-term liabilities	<u>\$ 56,040</u>	<u>\$ 436</u>	<u>\$ 45,017</u>	<u>\$ 11,459</u>	<u>\$ 2,502</u>

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The following schedule summarizes the changes in long-term liabilities for the SAIF Corporation for the year ended December 31, 2006, and for the Oregon Health and Science University for the year ended June 30, 2007 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Discretely presented component units:</b>					
Bonds/certificates payable:					
Revenue bonds	\$ 524,605	\$ -	\$ 5,855	\$ 518,750	\$ 9,160
Less deferred amounts:					
For issuance discounts	(2,755)	-	(186)	(2,569)	-
For issuance premiums	1,027	-	50	977	-
On refunding	(5,755)	-	(352)	(5,403)	-
Accreted interest	21,188	2,745	-	23,933	-
Total bonds/certificates payable - OHSU	<u>538,310</u>	<u>2,745</u>	<u>5,367</u>	<u>535,688</u>	<u>9,160</u>
Other liabilities:					
Obligations under capital lease	6,124	-	499	5,625	562
Claims and judgments	48,457	32,670	1,343	79,784	22,767
Contracts, mortgages and notes	2,864	32,738	1,904	33,698	1,623
Obligations under life income agreements	19,944	5,883	4,029	21,798	-
Reserve for loss and loss adjustment	2,588,005	407,854	309,458	2,686,401	218,910
Advances from Primary Government	37,048	1,231	6,139	32,140	2,513
Total other liabilities - SAIF and OHSU	<u>2,702,442</u>	<u>480,376</u>	<u>323,372</u>	<u>2,859,446</u>	<u>246,375</u>
Total SAIF and OHSU long-term liabilities	<u>\$ 3,240,752</u>	<u>\$ 483,121</u>	<u>\$ 328,739</u>	<u>\$ 3,395,134</u>	<u>\$ 255,535</u>

**F. Demand Bonds** Included in long-term debt at June 30, 2007 are the following State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds: Series 73 E, F, G, and H (\$370.0 million), Series 83 (\$30.0 million), Series 84 (\$30.0 million), Series 85 (\$49.0 million), Series 86 (\$31.3 million), and Series 87C (\$9.0 million). The bonds are general obligations of the State of Oregon and are payable from revenues and reserves of the Veterans' Loan Program. The bondholders may tender these bonds on specified dates at a price equal to principal plus accrued interest.

The Department of Veterans' Affairs Remarketing Agents for Series 73 (J.P. Morgan Securities Inc. and Morgan Stanley) and for Series 83-87C (Bear, Stearns & Co. Inc.) are authorized to use their best efforts to sell the repurchased bonds at face value by adjusting the interest rate on a daily or weekly basis. The designated Remarketing Agent for such bonds will determine the interest rate borne by each series of bonds.

In the event the bonds cannot be remarketed, they will be purchased as specified by the respective Standby Bond Purchase Agreement (SBPA). Under the SBPA for Series 73, J. P. Morgan Chase Bank will commit to purchase any Series 73 E and G unremarketed bonds, and Bayerische Landesbank Girozentrale (BLG) will commit to purchase any Series 73 F and H unremarketed bonds, in each case subject to certain conditions set forth in the SBPA. Under the SBPA for Series 83-87C, Dexia Credit Local will commit to purchase any 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 either SBPA. Therefore, no tender advances or draws are outstanding as of June 30, 2007. If a tender advance did occur under the Series 73 SBPA, it would accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus ½ of 1.0%, whichever is higher). If the tender advance was in default, interest would accrue at the bank's base rate plus 1.0%. 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 Series 73 SBPA, a default would have occurred.

If a tender advance did occur under the Series 83-87C SBPA, it would accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus ½ of 1.0%, whichever is higher) for the time period up to 91 days; at the bank's base rate plus 1.0% 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% for the time period thereafter. If the tender advance is in default, interest would accrue at the bank's base rate plus 2.5%. Interest on tender

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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 on the earliest to occur 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 Series 83-87C 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, if any, calculated at a rate of 14 percent per annum for Series 73, and up to 34 days of accrued interest, if any, calculated at a rate of 12 percent per annum for Series 83-87C 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, 2007, the Department of Veterans' Affairs is required to pay a yearly commitment fee, which is payable quarterly in arrears, at a rate of 0.08 percent per annum for Series 73. Effective July 1, 2007, the commitment fee for Series 73 will be 0.09 percent per annum. Furthermore, the Department of Veterans' Affairs is required to pay a yearly commitment fee, which is payable quarterly in arrears, at a rate of 0.09 percent per annum for Series 83-87C, applied to the purchase commitment defined above.

The present purchase commitments by the banks for Series 73 will remain in effect to the earlier of (a) June 30, 2010 for J. P. Morgan Chase Bank and November 30, 2015 for BLG (scheduled expiration dates), unless extended at the option of the bank; (b) the conversion of all outstanding bonds of a given series to either a variable rate period ending after the scheduled expiration date or a fixed (or term) 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. However, BLG does have the option to terminate its purchase commitment obligations, at its sole discretion, as of June 30, 2010.

The present purchase commitment by Dexia Credit Local for Series 83-87C will generally remain in effect to the earlier of (a) December 31, 2013 (scheduled termination date), unless extended at the option of the bank; (b) the date in 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 the Department of Veterans' Affairs 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 effective date of 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; and (g) upon the effective date of an occurrence of a special 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, 2007 (in thousands):

<u>Primary Government</u>	
Economic and Community Development Department	\$ 477,383
Oregon Facilities Authority	807,102
Housing and Community Services Department	132,836
Total Primary Government	<u>1,417,321</u>
 <u>Discretely Presented Component Units</u>	
Oregon Health and Science University	115,400
Total No-Commitment Debt	<u>\$ 1,532,721</u>

**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

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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, 2006, and June 30, 2007:

On July 18, 2006, the Housing and Community Services Department issued \$16.1 million in 2006 Series G Mortgage Revenue Bonds with an average interest rate of 3.8 percent. These bonds refunded \$16.1 million of 1993 Series A Mortgage Revenue Bonds with an average interest rate of 5.3 percent. The current refunding was undertaken to reduce the total debt service payments over the next 22 years by \$4.5 million and resulted in an economic gain of \$2.1 million.

On December 19, 2006, the Housing and Community Services Department issued \$3.9 million in 2006 Series A Mortgage Revenue Bonds with an average interest rate of 4.6 percent. These bonds refunded \$3.9 million of 1996 Series A Mortgage Revenue Bonds with an average interest rate of 6.1 percent. The current refunding was undertaken to reduce the total debt service payments over the next 22 years by \$908 thousand and resulted in an economic gain of \$368 thousand.

On April 12, 2007, the Oregon University System issued \$106.8 million in X1-F (1) 2007 Series A General Obligation Bonds with an average interest rate of 4.5 percent. These bonds refunded \$103.3 million of previously issued general obligation bonds with an average interest rate of 5.0 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 29 years by \$7.2 million and resulted in an economic gain of \$4.7 million.

On April 12, 2007, the Oregon University System issued \$30.8 million in XI-G 2007 Series B General Obligation Bonds with an average interest rate of 4.5 percent. These bonds refunded \$30.1 million of previously issued general obligation bonds with an average interest rate of 5.0 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 27 years by \$2.7 million and resulted in an economic gain of \$1.8 million.

On June 7, 2007, the Department of Transportation issued \$200.7 million in 2007 Series C Revenue Bonds with an average interest rate of 4.2 percent. The revenue bonds were issued to refund \$200.9 million of outstanding series 2002A, 2004A, 2005A, and 2006A Revenue Bonds with an average interest rate of 5.1 percent. The advance refunding was undertaken to reduce the total debt service payments over the next 24 years by \$12.1 million and resulted in an economic gain of \$8.3 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, 2007 (in thousands):

<u>Primary Government</u>	
Department of Administrative Services	\$ 8,925
Economic and Community Development Department	33,379
Department of Corrections	131,505
Department of Energy	8,085
Department of Environmental Quality	8,095
Employment Department	645
Oregon University System	279,719
Department of Education	84,100
Department of Forestry	3,965
Department of Parks and Recreation	12,166
Department of Transportation	505,798
Total Defeased Bonds and Certificates of Participation	<u>\$ 1,076,382</u>

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**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, 2007 (in thousands):

<u>Primary Government</u>	
Department of Human Services	\$ 83
Department of Administrative Services	225
Economic and Community Development Department	368
Legislative Administration Committee	10
Department of State Police	3
Department of Veterans' Affairs	1,667
Department of Corrections	513
Department of Energy	114
Department of Environmental Quality	2
Oregon University System	972
Department of Education	964
Parks and Recreation Department	41
Department of Transportation	68
Housing and Community Services Department	<u>2,692</u>
Total Arbitrage Rebate Liability	<u><u>\$ 7,722</u></u>

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## 10. INTERFUND TRANSACTIONS

Interfund balances reported in the fund financial statements as of June 30, 2007 consisted of the following (in thousands):

### Due to Other Funds

<b>Due From Other Funds</b>	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Oregon Rainy Day	Nonmajor Governmental Funds	Veterans' Loan	Unemployment Compensation	University System	Nonmajor Enterprise Funds	Fiduciary Funds	All Others	Total
General	\$ -	\$ 9,236	\$ 52	\$ 308	\$ -	\$ 319,288	\$ 126	\$ -	\$ -	\$ 4	\$ 87	\$ 1	\$ 142	\$ 329,244
Health and Social Services	59,720	-	69	259	31	-	4,275	-	-	72	49	-	-	64,475
Public Transportation	-	230	-	12,512	-	-	856	-	-	-	-	-	-	13,598
Environmental Management	4	-	1,624	-	84	-	963	-	-	25	-	-	-	2,700
Common School	-	-	-	1,581	-	-	-	-	-	-	-	-	-	1,581
Nonmajor Governmental Funds	20,332	6,394	-	23,128	-	-	112,345	-	100	3,967	-	-	1,410	167,676
Housing and Community Services	-	-	-	-	-	-	7	-	-	-	-	-	-	7
Lottery Operations	-	-	-	-	-	-	206,861	-	-	-	-	-	-	206,861
Unemployment Compensation	-	-	-	-	-	-	1,415	-	-	-	-	-	-	1,415
University System	-	-	-	-	-	-	7	-	-	-	-	-	-	7
Nonmajor Enterprise Funds	8,346	615	-	1,022	-	-	2,771	56	-	-	-	-	-	12,810
Internal Service Funds	115	-	-	-	-	-	83	-	-	-	-	-	5	203
Fiduciary Funds	-	-	-	-	2	-	791	18	-	-	-	2,194	-	3,005
<b>Total</b>	<b>\$ 88,517</b>	<b>\$ 16,475</b>	<b>\$ 1,745</b>	<b>\$ 38,810</b>	<b>\$ 117</b>	<b>\$ 319,288</b>	<b>\$ 330,500</b>	<b>\$ 74</b>	<b>\$ 100</b>	<b>\$ 4,068</b>	<b>\$ 136</b>	<b>\$ 2,195</b>	<b>\$ 1,557</b>	<b>\$ 803,582</b>

### Advances to Other Funds

<b>Advances From Other Funds</b>	General	Common School	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds	Total
General	\$ -	\$ -	\$ -	\$ 548	\$ 781	\$ 1,329
Public Transportation	-	-	-	54	-	54
Environmental Management	-	300	-	-	-	300
Nonmajor Governmental Funds	40,598	51	1,108	-	-	41,757
University System	-	-	-	13,864	-	13,864
Nonmajor Enterprise Funds	-	-	-	312	-	312
Internal Service Funds	-	-	-	350	-	350
<b>Total</b>	<b>\$ 40,598</b>	<b>\$ 351</b>	<b>\$ 1,108</b>	<b>\$ 15,128</b>	<b>\$ 781</b>	<b>\$ 57,966</b>

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.



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Interfund transfers reported in the fund financial statements as of June 30, 2007 consisted of the following (in thousands):

**Transfers to Other Funds**

<b>Transfers From Other Funds</b>	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Oregon Rainy Day	Nonmajor Governmental Funds	Unemployment Compensation	University System	Nonmajor Enterprise Funds	Fiduciary Funds	Internal Service Funds	Total
General	\$ -	\$ 5,697	\$ 52	\$ 19,839	\$ -	\$ 319,288	\$ 9,724	\$ -	\$ 381,139	\$ 111,411	\$ -	\$ 2	\$ 847,152
Health and Social Services	399	-	248	9,495	115	-	136,683	-	2,721	29,528	-	214	179,403
Public Transportation	-	4,770	-	31,450	-	-	76,189	-	-	4,500	-	-	116,909
Environmental Management	-	35	21	-	12,603	-	24,376	-	2,040	20	-	183	39,278
Common School	-	-	-	6,114	-	-	71,320	-	-	-	-	-	77,434
Nonmajor Governmental Funds	43,915	63,747	588	95,537	-	-	482,493	6,714	12,333	30,978	507	988	737,800
Veterans' Loan	-	-	-	-	-	-	-	-	-	-	-	6	6
Lottery Operations	-	-	-	-	-	-	651,538	-	-	-	-	-	651,538
Unemployment Compensation	-	-	-	-	-	-	31,083	-	-	-	-	-	31,083
University System	-	-	-	-	-	-	118	-	-	-	-	-	118
Nonmajor Enterprise Funds	75,081	7,470	-	161	-	-	25,592	-	-	3,435	-	724	112,463
Internal Service Funds	-	7	-	356	-	-	6,077	-	-	24	-	-	6,464
<b>Total</b>	<b>\$ 119,395</b>	<b>\$ 81,726</b>	<b>\$ 909</b>	<b>\$ 162,952</b>	<b>\$ 12,718</b>	<b>\$ 319,288</b>	<b>\$ 1,515,193</b>	<b>\$ 6,714</b>	<b>\$ 398,233</b>	<b>\$ 179,896</b>	<b>\$ 507</b>	<b>\$ 2,117</b>	<b>\$ 2,799,648</b>

	<u>Transfers From Other Funds</u>	<u>Transfers To Other Funds</u>
Amount per table above	\$ 2,799,648	\$ 2,799,648
Transfer of capital assets from Central Services Fund to general government	-	12
Transfer to permanent funds reported as contributions to permanent fund principal	-	4,192
<b>Total transfers to/from</b>	<b>\$ 2,799,648</b>	<b>\$ 2,803,852</b>

In the fund financial statements, total transfers to other funds of \$2,803,852 thousand are more than total transfers from other funds of \$2,799,648 thousand due to a transfer of capital assets from the Central Services Fund to the general government and a transfer to permanent funds reported as contributions to permanent fund principal, as described in the above reconciliation.

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.

## 11. SEGMENT INFORMATION

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 (HCSD) 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. The HCSD called all remaining bonds outstanding in the Housing Finance Revenue Bonds program on July 1, 2006.

Summary financial information for 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, 2007 (in thousands) is as follows:

<b>Condensed balance sheet</b>	Special Public Works Fund	Water Fund	Housing Finance Revenue Bonds	Mortgage Revenue Bonds
<b>Assets:</b>				
Other current assets	\$ 127,935	\$ 26,213	\$ -	\$ 46,197
Interfund receivables	-	100	-	-
Other noncurrent assets	272,701	86,588	-	967,307
<b>Total assets</b>	<b>\$ 400,636</b>	<b>\$ 112,901</b>	<b>\$ -</b>	<b>\$ 1,013,504</b>
<b>Liabilities:</b>				
Other current liabilities	\$ 55,713	\$ 4,468	\$ -	\$ 41,809
Interfund payables	1	-	-	89
Other noncurrent liabilities	137,243	51,798	-	906,819
<b>Total liabilities</b>	<b>192,957</b>	<b>56,266</b>	<b>-</b>	<b>948,717</b>
<b>Net assets:</b>				
Restricted	859	491	-	64,787
Unrestricted	206,820	56,144	-	-
<b>Total net assets</b>	<b>207,679</b>	<b>56,635</b>	<b>-</b>	<b>64,787</b>
<b>Total liabilities and net assets</b>	<b>\$ 400,636</b>	<b>\$ 112,901</b>	<b>\$ -</b>	<b>\$ 1,013,504</b>

<b>Condensed statement of revenues, expenses, and changes in fund net assets</b>	Special Public Works Fund	Water Fund	Housing Finance Revenue Bonds	Mortgage Revenue Bonds
Loan interest income	\$ 11,308	\$ 4,000	\$ 262	\$ 41,428
Other operating revenue	3,380	1,382	668	10,244
Other operating expenses	(12,035)	(4,233)	(90)	(48,537)
<b>Operating income (loss)</b>	<b>2,653</b>	<b>1,149</b>	<b>840</b>	<b>3,135</b>
Transfers from other funds	29,796	514	-	12,182
Transfers to other funds	(5,014)	(2,921)	(17,512)	-
<b>Change in net assets</b>	<b>27,435</b>	<b>(1,258)</b>	<b>(16,672)</b>	<b>15,317</b>
Beginning net assets (as restated)	180,244	57,893	16,672	49,470
<b>Ending net assets</b>	<b>\$ 207,679</b>	<b>\$ 56,635</b>	<b>\$ -</b>	<b>\$ 64,787</b>

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<b>Condensed statement of cash flows</b>	Special Public Works Fund	Water Fund	Housing Finance Revenue Bonds	Mortgage Revenue Bonds
Net cash provided (used) by:				
Operating activities	\$ (17,055)	\$ 6,456	\$ 859	\$ (63,909)
Noncapital financing activities	48,283	(13,097)	(17,839)	78,805
Investing activities	1,525	1,868	16,141	(12,526)
Net increase (decrease)	32,753	(4,773)	(839)	2,370
Beginning cash and cash equivalents (as restated)	45,312	30,220	839	17,556
Ending cash and cash equivalents	<u>\$ 78,065</u>	<u>\$ 25,447</u>	<u>\$ -</u>	<u>\$ 19,926</u>

<b>Condensed balance sheet</b>	Homeowner Revenue Bonds	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Assets:				
Other current assets	\$ 1,269	\$ 7,963	\$ 7,315	\$ 28,874
Capital assets	-	-	-	52
Accumulated depreciation	-	-	-	(47)
Other noncurrent assets	307,419	177,126	42,082	245,806
Total assets	<u>\$ 308,688</u>	<u>\$ 185,089</u>	<u>\$ 49,397</u>	<u>\$ 274,685</u>
Liabilities:				
Interfund payables	\$ -	\$ -	\$ -	\$ 160
Other current liabilities	1,269	6,958	7,012	27,739
Other noncurrent liabilities	307,344	163,019	29,254	192,100
Total liabilities	<u>308,613</u>	<u>169,977</u>	<u>36,266</u>	<u>219,999</u>
Net assets:				
Invested in capital assets, net of related debt	-	-	-	5
Restricted	75	15,112	13,131	54,681
Total net assets	<u>75</u>	<u>15,112</u>	<u>13,131</u>	<u>54,686</u>
Total liabilities and net assets	<u>\$ 308,688</u>	<u>\$ 185,089</u>	<u>\$ 49,397</u>	<u>\$ 274,685</u>

<b>Condensed statement of revenues, expenses, and changes in fund net assets</b>	Homeowner Revenue Bonds	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Loan interest income	\$ -	\$ 9,878	\$ 3,395	\$ 12,230
Other operating revenue	19,137	1,297	1,293	5,183
Depreciation and amortization	-	-	-	(6)
Other operating expenses	(19,170)	(9,250)	(1,710)	(13,316)
Operating income (loss)	<u>(33)</u>	<u>1,925</u>	<u>2,978</u>	<u>4,091</u>
Transfers from other funds	5	2,121	-	-
Transfers to other funds	-	(1,676)	(1,822)	(117)
Change in net assets	<u>(28)</u>	<u>2,370</u>	<u>1,156</u>	<u>3,974</u>
Beginning net assets (as restated)	103	12,742	11,975	50,712
Ending net assets	<u>\$ 75</u>	<u>\$ 15,112</u>	<u>\$ 13,131</u>	<u>\$ 54,686</u>

**State of Oregon**  
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<b>Condensed statement of cash flows</b>	Homeowner Revenue Bonds	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Net cash provided (used) by:				
Operating activities	\$ (5)	\$ 5,290	\$ 9,681	\$ 26,570
Noncapital financing activities	(181,671)	(10,504)	(9,250)	(10,596)
Capital and related financing activities	-	-	-	(1)
Investing activities	181,052	4,975	(410)	(16,031)
Net increase (decrease)	(624)	(239)	21	(58)
Beginning cash and cash equivalents (as restated)	1,973	963	652	46,983
Ending cash and cash equivalents	<u>\$ 1,349</u>	<u>\$ 724</u>	<u>\$ 673</u>	<u>\$ 46,925</u>

## 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, 2007, PERS had 873 employer members consisting of:

State Agencies	116
Community Colleges	17
School Districts	257
Political Subdivisions	<u>483</u>
	<u>873</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.

Effective April 1, 1996, the Oregon University System (OUS) established the Optional Retirement Plan (ORP) as an alternative to PERS. The ORP is a defined contribution retirement plan that is available to OUS unclassified faculty and staff who are 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.

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**B. Summary of Significant Accounting Policies.** The financial statements for the PERS pension plans 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 custodial agent determines the fair value of debt and equity securities 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 using evaluated bid 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 private equities are reported at values provided by the general partners. Investments in alternative equities representing publicly traded securities are stated at the quoted market price. The underlying general partners follow various valuation policies as described in their limited partnership agreements that range from Income Tax Basis to U.S. GAAP, with some policies being governed by international institutions. The vast majority of the general partners typically value investments at cost until an event occurs that provides an indication of current fair value. This event could be a new round of financing, a change in company financial performance, a market event, market trends, or change in economic conditions.

Direct investments in real estate are reported at values provided by investment managers based on periodic appraisals, conducted every two or three years. Investments in real estate partnerships are reported at values provided by general partners. These values are based on discounted cash flows, comparable sales, capitalization rates applied to net operating income, or cost if none of the preceding fit a property's attributes and strategy. Mortgage loans on real estate are stated at the amortized unpaid principal balance.

**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.

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, 2006:

	238/238A	238	238A	
	Employee Rate	Employer Rate	Employer Rate	
			General Service	Police and Fire
State Agencies	6.0%	8.69%	8.04%	11.65%
Community Colleges	6.0%	15.73%	8.04%	11.65%
Judiciary	7.0%	23.38%	8.04%	11.65%
School Districts	6.0%	16.97%	8.04%	11.65%
Political Subdivisions	6.0%	14.60%	8.04%	11.65%

The State 238 and 238A combined employer contributions for the primary government for the years ended June 30, 2007, 2006, and 2005 were approximately \$43.3 million, \$66.7 million, and \$92.9 million respectively. The State 238 and 238A combined employer contributions for the discretely presented component units for the years ended June 30, 2007, 2006, and 2005 were approximately \$27.0 million, \$23.8 million, and \$14.7 million respectively. Fiscal year 2007, fiscal year 2006, and fiscal year 2005 contributions were equal to the annual required contributions required for each year for the primary government and the discretely presented component units. Contributions in excess of the annual required contribution in fiscal year 2004 resulted in a net pension asset that is being amortized using the level dollar closed method over 22 years and assumed interest rate of 8.0 percent. The employer pension cost of \$112.3 million for fiscal year 2007 includes \$42.0 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, 2007, 2006, and 2005 were approximately \$11.3 million, \$10.7 million, and \$8.4 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 16.75% and for Tier Three is 8.04% as of June 30, 2007. The OUS employer contribution to the ORP for the years ended June 30, 2007, 2006, and 2005 was approximately \$26.2 million, \$25.3 million, and \$16.6 million respectively. The OUS employee contribution to the ORP for the years ended June 30, 2007, 2006, and 2005 was approximately \$11.2 million, \$10.4 million, and \$8.9 million respectively.

## **13. OTHER POSTEMPLOYMENT BENEFIT PLANS**

### ***A. Public Employees Retirement System***

Plan Description. The Public Employees Retirement Board (Board), as authorized by ORS 238.410, contracts for healthcare insurance coverage on behalf of Public Employees Retirement System (PERS) members. Retirees who are eligible for PERS healthcare coverage pay their own age-adjusted premiums. The PERS administers two separate defined benefit other postemployment benefit (OPEB) plans: the Retirement Health Insurance Account (RHIA) and the Retiree Health Insurance Premium Account (RHIPA).

The RHIA is a cost-sharing multiple-employer OPEB plan in which 873 employers participate. The plan provides, through ORS 238.420, a payment of up to \$60 toward the monthly cost of health insurance for eligible PERS members. To be eligible for the RHIA subsidy, the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health insurance plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991. The number of RHIA plan members was 37,100 as of June 30, 2007.

The RHIPA is a single-employer OPEB plan that provides, through ORS 238.415, payment of 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. Retired state employees are qualified to receive the RHIPA subsidy 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 (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died, and the member retired on or after September 29, 1991. The number of RHIPA plan members was 792 as of June 30, 2007.

The PERS RHIA and RHIPA defined benefit OPEB plans are reported as other employee benefit trust funds 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 Public Employees Retirement System, Fiscal Services Division, 11410 SW 68<sup>th</sup> Parkway, Tigard, Oregon 97223.

Summary of Significant Accounting Policies. The financial statements for the PERS OPEB plans are prepared using the accrual basis of accounting. 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 custodial agent determines the fair value of debt and equity securities 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 using evaluated bid prices. A small percentage of debt securities cannot be priced in this manner, and for these, a similar benchmark

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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 private equities are reported at values provided by the general partners. Investments in alternative equities representing publicly traded securities are stated at the quoted market price. The underlying general partners follow various valuation policies as described in their limited partnership agreements that range from Income Tax Basis to U.S. GAAP, with some policies being governed by international institutions. The vast majority of the general partners typically value investments at cost until an event occurs that provides an indication of current fair value. This event could be a new round of financing, a change in company financial performance, a market event, market trends, or change in economic conditions.

Direct investments in real estate are reported at values provided by investment managers based on periodic appraisals, conducted every two or three years. Investments in real estate partnerships are reported at values provided by general partners. These values are based on discounted cash flows, comparable sales, capitalization rates applied to net operating income, or cost if none of the preceding fit a property's attributes and strategy. Mortgage loans on real estate are stated at the amortized unpaid principal balance.

Contributions. The PERS postemployment healthcare benefit obligation, including both RHIA and RHIPA, was determined as part of the actuarial valuation prepared by the PERS consulting actuary at December 31, 2006 using the projected unit credit cost method. Both of these OPEB plans are advance-funded through employer contributions established on an actuarially determined basis. Significant assumptions used in the actuarial valuation include an 8.0 percent per annum rate of return on the investment of present and future assets, projected payroll growth of 3.75 percent, a 2.0 percent cost of living adjustment, and a healthcare cost inflation adjustment graded from 9.0 percent in 2007 to 5.0 percent in 2013. The RHIPA plan uses an inflation assumption of 2.75 percent. However, the RHIA plan does not use an inflation assumption because statute sets the payment amount and does not adjust for increases in healthcare 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. The amount of net assets available for other postemployment benefits for RHIA and RHIPA at June 30, 2007 is \$248.7 and \$7.9 million respectively.

All PERS employers currently contribute 0.59 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 actual contribution for the year ended June 30, 2007, totaled approximately \$41.2 million which was equal to the actuarial required contribution. Based on the December 31, 2006 valuation, the actuarial accrued liability for the RHIA was \$511.8 million and the unfunded actuarial accrued liability was \$290.4 million.

State agencies currently contribute 0.13 percent of PERS covered salaries to fund the RHIPA. State employer contributions for the year ended June 30, 2007, totaled approximately \$2.4 million which was equal to the actuarial required contribution. Based on the December 31, 2006 valuation, the actuarial accrued liability for the RHIPA was \$23.4 million and the unfunded actuarial accrued liability was \$16.4 million.

***B. Public Employees Benefit Board***

Plan Description. The State participates in a defined benefit postemployment healthcare plan, administered by the Public Employees Benefit Board (PEBB), which offers medical, dental and vision benefits to eligible retired state employees and their beneficiaries. The PEBB Plan is an agent multiple-employer postemployment healthcare plan in which 10 employers participate. Chapter 243 of the Oregon Revised Statutes assigns PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. As the administrator of the PEBB Plan, PEBB has the authority to determine postretirement benefit increases and decreases. The PEBB Plan covers all classes of employees, including general employees, public safety employees, and judges. As of June 30, 2007, PEBB Plan members consist of 46,352 active employees and 3,109 retired employees and beneficiaries receiving benefits.

Summary of Significant Accounting Policies. The PEBB Plan is reported as an agency fund in the Statement of Fiduciary Net Assets, which is prepared using the accrual basis of accounting. Plan receivables for contributions are recognized in the period in which the contributions are due. Plan liabilities for benefits and refunds due to plan members are recognized when due and payable in accordance with the terms of the plan.

Contributions. State employer contributions and the contribution requirements of active employee plan members who are represented by labor unions are established and amended through negotiations during the bargaining process. State employer contributions and the contribution requirements of active employee plan members who are not represented by labor unions are established and amended through a directive issued by authorized individuals for the executive, legislative, and judicial branch of state government. The PEBB establishes annual premiums to be charged for various levels of healthcare coverage. The PEBB Plan funding policy provides for employer contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Active employees do not make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. Administrative costs of the PEBB Plan are financed by up to two percent of employer and plan member contributions. For the year ended June 30, 2007, retired plan members contributed \$29.1 million through their required contributions of an average of \$780.20 per month.

## **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 Office of the State Treasurer, as custodian of the assets, also contracts with State Street Bank and Trust Company to provide financial services. Activity of the State Plan is reported in an other employee benefit trust fund. As of June 30, 2007, the fair value of investments was \$910.9 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(b). The plan assets and the corresponding liability are not reported in the SAIF Corporation balance sheet at December 31, 2006.

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. 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. TERMINATION BENEFITS**

During the year ended June 30, 2007, the Oregon University System provided termination benefits through an early retirement program at Southern Oregon University (SOU). SOU has offered a voluntary tenure relinquishment and early retirement program to tenured faculty who are least 55 years of age since 1998. Faculty who elect this plan relinquish all claims to tenure and receive an annual full-time fixed term contract for up to three years. An option within the plan provides that SOU subsidize health and dental benefits up to a specified dollar amount for up to seven years after the employee's retirement date. As of June 30, 2007, twenty-four retirees were participating in the plan.

An early retirement liability of \$185.8 thousand is included in current Notes, Contracts and Mortgages Payable and an early retirement liability of \$384.5 thousand is included in noncurrent Notes, Contracts and Mortgages Payable in the University System Fund. The liability is calculated using the discounted present value of expected future benefit payments, with a discount rate of six percent.



## 16. 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 \$50 million as of June 30, 2007. 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 four to six percent. Contracted actuaries estimate claims and allocated and unallocated expenses, including legal expenses, which are incurred but not reported. They use the last 20 to 25 years of State claims data and the projected numbers of employees, payroll, vehicles, and other property. They forecast ultimate losses by line of coverage.

The changes in the Insurance Fund balances of aggregate claim liabilities for the years ended June 30, 2007 and 2006 (in thousands) are:

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claim Payments	Ending Balance
2007	\$ 109,139	\$ 37,716	\$ (43,060)	\$ 103,795
2006	88,135	49,116	(28,112)	109,139

The June 30, 2007 balance of claim liabilities is reported as claims and judgments payable in the Central Services Fund.

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**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, 2007 and 2006 (in thousands) are:

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claim Payments	Ending Balance
2007	\$ 1,037,462	\$ 12,888	\$ (94,791)	\$ 955,559
2006	1,024,863	29,632	(17,033)	1,037,462

Long-term liabilities were actuarially computed as of June 30, 2007, 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.

## 17. 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, 2007 (in thousands):

### Primary Government

Proprietary Funds	Type of Revenue	Amount
Lottery Operations	Sales	\$ 1,084
Unemployment Compensation	Assessments	(264)
Unemployment Compensation	Fines and forfeitures	(72)
University System	Charges for services	82,089
Nonmajor Enterprise Funds	Charges for services	89,880
Nonmajor Enterprise Funds	Sales	5,764
Nonmajor Enterprise Funds	Other	(1)
Internal Service Funds	Other	(30)
Internal Service Funds	Charges for services	1
Total primary government		<u>\$ 178,451</u>

### Discretely Presented Component Units

Component Units	Type of Revenue	Amount
SAIF Corporation	Charges for services	\$ 165
Oregon Health and Science University	Charges for services	668,482
Oregon Health and Science University	Gifts, grants and contracts	122
Total SAIF and Oregon Health and Science University		<u>\$ 668,769</u>

## 18. 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 \$20.7 million was made to correct the balance of capital assets that were incorrectly reported in prior years.

### Governmental Funds

*Community Protection Fund.* Beginning fund balance was restated by \$11.1 million for expenses that should have been recognized last year.

*Health and Social Services Fund.* Beginning fund balance was restated by \$11.4 million for revenue that should have been recognized in prior years.

## 19. FUND EQUITY

**A. Net Assets Restricted by Enabling Legislation.** The following schedule summarizes the State's net assets at June 30, 2007 that are restricted by enabling legislation (in thousands). All of these legislative restrictions are in the governmental activities.

	Restricted Net Assets
Expendable Restricted Net Assets Restricted for:	
Residential Assistance	\$ 139,921
Workers' Compensation	17
Education	3,151
Natural Resource Programs	23,773
Health Services	32,701
Public Safety	3,139
Nonexpendable Restricted Net Assets Restricted for:	
Education	875
Residential Assistance	23,258
Natural Resource Programs	3,500
Workers' Compensation	250
Total	<u>\$ 230,585</u>

**B. Reserved for Permanent Fund Principal.** The amount reported as reserved for permanent fund principal in the governmental funds financial statements is higher than the prior fiscal year. However, \$126 thousand of the increase is not supported by contributions to permanent funds in the current fiscal year because this amount should have been reported as contributions to permanent funds in the prior fiscal year. The amount reported as reserved for permanent fund principal should have been \$126 thousand higher in the prior fiscal year. This did not result in reporting a prior period adjustment because beginning fund balance in total is correct.

## 20. 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, 2007, 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	\$ 290,373	\$ 296,862	\$ 4,034	\$ 32,720	\$ 623,989
Grant and loan commitments	18,497	312,351	46,657	275,729	653,234
Personal services contracts	14,382	5,670	41	15,978	36,071
Equipment purchases	13	70	25,645	1,541	27,269
Indigent defense contracts	36,706	-	-	-	36,706
Total	<u>\$ 359,971</u>	<u>\$ 614,953</u>	<u>\$ 76,377</u>	<u>\$ 325,968</u>	<u>\$ 1,377,269</u>

## 21. 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. Several legal claims remain pending in State courts challenging the legislative changes that were enacted to the Public Employees Retirement System (PERS) during the 2003 legislative session. The legislation included a statutory remedy to a case that

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

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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 certain member accounts. The decision was appealed by PERS members. The original parties in the case entered into a settlement agreement in which the PERB agreed to reduce the 1999 earnings credited to certain member regular accounts. In 2005, the Oregon Supreme Court dismissed the appeal of the case as moot due to the 2003 PERS legislation, court decisions, and the settlement agreement. In July 2006, the court vacated the underlying trial court judgment.

The Supreme Court's decision in the *City of Eugene* appeal will affect certain pending cases that challenge PERB's actions taken to address the 1999 over-crediting addressed in the litigation, the City of Eugene settlement, and the PERS legislation. The decision will most directly affect a class action suit filed by certain retirees which challenges PERB's recovery of funds from the 1999 over-crediting. The amount at issue is approximately \$800 million. In June 2007, the Multnomah County Circuit Court issued an opinion in favor of the retirees, ruling that the retirees were not liable for the repayment of any excess benefits and that PERS should treat the overpayments as administrative expenses. The State is in the process of determining its response to the court's decision. A similar issue is pending in another case filed by non-retired participants, whose account balances were lowered to adjust for the 1999 over-crediting. The amount at issue for the non-retirees is also approximately \$800 million.

Other legal claims pending against the State relate to Measure 37, which was approved by Oregon voters in November 2004. This measure entitles certain landowners either (1) to compensation for the decline in market value of their property as a result of certain land use regulations that are enacted or enforced by the State, city, county or Metropolitan Service District; or (2) to have the land use regulations waived as to the owner's use of their property. Measure 37 does not apply to laws that were enacted to prevent nuisances or to protect public health or to laws that are required to comply with federal law. A property owner is not entitled to compensation for land use regulations that were enacted before the property owner's family acquired the property. If claims are not paid within two years after they accrue, Measure 37 releases the owner's use of the property from land use regulations. As of November 2007, the State had received more than 6,800 Measure 37 claims. The State estimates that compensation requested under these claims exceeds \$19 billion. The State has issued Final Orders on approximately 3,370 claims, however more than 3,200 claims remain to be processed. The State continues to receive additional claims for compensation and expects appeals from the denials of claims.

Because Measure 37 changes Oregon statutes and not the State Constitution, the Legislative Assembly has the power to modify Measure 37. In its 2007 session, the Legislative Assembly enacted two bills with respect to Measure 37. House Bill 3546 extended the deadline by which action had to be taken on a claim. House Bill 3540, which was referred to Oregon voters in the 2007 November special election as ballot Measure 49, provides three alternatives to persons who have submitted a claim for compensation under Measure 37. Measure 49 was approved by Oregon voters in the 2007 November special election.

Numerous lawsuits have been filed that assert the State's actions in waiving State laws or denying claims do not comply with Measure 37 or are unlawful or violate the Oregon Constitution for other reasons. The impact of these cases on the interpretation and implementation of Measure 37 is uncertain, as is the amount of claims compensation that may eventually be payable as a result.

On July 5, 2006, the Oregon Court of Appeals decided *Clarke v. Oregon Health Sciences University* (OHSU), a case challenging the constitutionality of parts of the Oregon Tort Claims Act. Under the Act, the State's common law sovereign immunity from suit is lifted and claims may be brought against a public body in Oregon, including the State. The liability of public bodies is capped at \$200,000 for individual claims. The public body may be substituted as a defendant in lieu of individual employees of the public body, limiting recovery for claims against individual employees. In *Clarke*, the plaintiff was severely disabled as a result of the negligence of health professionals employed at OHSU. The alleged damages amount to approximately \$12 million. The Court of Appeals concluded that, based on the amount of damages alleged, the substitution of OHSU for the individual defendants did not provide substantial remedy to the plaintiff and therefore violated Article I, Section 10 of the Oregon Constitution, which provides the right to a remedy to persons who are injured in their person, property or reputation. The impact of the court's ruling in this case on other public bodies is uncertain. OHSU has appealed the case to the Oregon Supreme Court, and oral arguments were held in January 2007.

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**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 Office of the State Treasurer will seek recovery if payments are made on behalf of any district. As of June 30, 2007, a total of \$2.4 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, 2007, totaled approximately \$8.7 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.

## **22. SUBSEQUENT EVENTS**

**A. Long-term Debt Issues.** The following schedule summarizes long-term debt issues, including refundings, that have occurred since July 1, 2007 (in thousands):

<u>General Obligation Bonds</u>	
Department of Veterans' Affairs	\$ 60,015
Oregon University System	39,075
<u>Revenue Bonds</u>	
Housing and Community Services Department	\$ 207,200
Department of Administrative Services	26,285
<u>Certificates of Participation</u>	
Department of Administrative Services	\$ 64,280

**B. Bond Calls.** The following schedule summarizes bond calls that have occurred since July 1, 2007 (in thousands):

<u>General Obligation Bonds</u>	
Department of Veterans' Affairs	\$ 9,785
<u>Revenue Bonds</u>	
Housing and Community Services Department	\$ 108,722

**C. Interest Rate Swaps.** On July 31, 2007, the Housing and Community Services Department (HCSD) entered into an interest rate swap transaction for Mortgage Revenue Bond Series 2007 E. The notional amount of the swap is \$30.0 million, and the termination date is July 1, 2038. HCSD will pay the counterparty (Bear Stearns Financial Products) a fixed rate of 4.39 percent and receive a variable payment of 64 percent of LIBOR plus 29 basis points. On November 20, 2007, the HCSD entered into an interest rate swap transaction for Mortgage Revenue Bond Series 2007 H. The notional amount of the swap is \$30.0 million, and the

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**Notes to the Financial Statements**

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termination date is July 1, 2038. HCSD will pay the counterparty (Merrill Lynch Capital Services) a fixed rate of 4.06 percent and receive a variable payment of 64 percent of LIBOR plus 30 basis points.

**D. Tax Anticipation Notes Issuance.** On August 8, 2007, the State issued \$795.0 million of full faith and credit Tax Anticipation Notes, 2007 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 2007-2009 biennium.

**E. Debt Guarantees.** Under Article XI-K of the Oregon Constitution, \$66.6 million in bonds for school districts were issued and guaranteed following the fiscal year ended June 30, 2007 as noted below (in thousands). Debt service payments remain the ultimate responsibility of the respective district.

Jackson County School District No. 549C	\$ 50,000
Tillamook Bay Community College	9,865
Benton County School District No. 17J	6,755

## **23. PENDING ACCOUNTING CHANGE**

The Governmental Accounting Standards Board has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). The State is actively planning for the implementation of this new standard, which will be implemented for the fiscal year ending June 30, 2008. In addition to the pension and healthcare benefits provided to retired state employees through the Public Employees Retirement System (PERS), the State provides healthcare benefits (medical, vision and dental) through its Public Employees' Benefit Board (PEBB) to approximately 3,100 retirees who do not receive healthcare benefits through PERS and are not yet eligible for Medicare. The PEBB OPEB obligation exists because the State is providing an implicit rate subsidy to retirees for PEBB benefits that are offered to both retirees and active employees. Retirees are grouped with active employees and therefore pay a blended premium rate rather than an age-adjusted rate. Although retirees pay their own premiums, the State is providing an implicit rate subsidy to retirees when it pays the blended premium rate for active employees.

The State's actuary has completed an actuarial valuation for purposes of complying with the OPEB standards. An actuarial accrued liability is the obligation for benefits to be paid in the future that have been earned through the valuation date, based on certain actuarial assumptions and the actuarial cost method. The valuation was prepared using the entry age normal actuarial cost method, an amortization period of 30 years, and an assumed discount rate of 4.5 percent. The State's actuarial accrued liability at the valuation date of July 1, 2006 for postemployment benefits provided through PEBB is an estimated \$309.0 million. The OPEB standards will require this actuarial accrued liability to be disclosed in the notes to the State's financial statements when Statement No. 45 is implemented. For fiscal year 2008, the annual required contribution (ARC) to be recognized as the annual employer OPEB cost for postemployment benefits provided through PEBB is estimated to be \$33.5 million. If the State continues to fund the PEBB OPEB on a pay-as-you-go basis, the liability at the end of fiscal year 2008 that would be recognized in the State's financial statements is estimated to be \$20.0 million.

## **24. CHANGE IN ACCOUNTING PRINCIPLES**

The State implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* in the fiscal year ended June 30, 2007. As of a result of implementing this new standard, the activity formerly reported in the Postemployment Healthcare Fund is now reported in three separate funds: the Retirement Health Insurance Account (RHIA) OPEB Plan Fund, the Retiree Health Insurance Premium Account (RHIPA) OPEB Plan Fund, and the Standard Retiree Health Insurance Account Fund. Therefore, beginning net assets was restated to reflect this change in accounting principles. Beginning net assets of the Postemployment Healthcare Fund was restated to zero by a change in accounting principles of \$207.9 million. Beginning net assets of the Retirement Health Insurance Account (RHIA) OPEB Plan Fund was restated to \$195.7 million, beginning net assets of the Retiree Health Insurance Premium Account (RHIPA) OPEB Plan Fund was restated to \$6.3 million, and beginning net assets of the Standard Retiree Health Insurance Account Fund was restated to \$5.9 million by a change in accounting principles.

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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.

**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, 2007  
(In Thousands)**

	General Fund				
	2005-2007 Original Budget	2005-2007 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
<b>Revenues:</b>					
Personal Income Taxes	\$ 10,124,013	\$ 10,948,876	\$ 5,266,735	\$ 5,595,831	\$ (86,310)
Corporate Income Taxes	499,995	698,463	438,225	405,857	145,619
Tobacco Taxes	104,075	110,872	60,628	60,713	10,469
Motor Fuels Taxes	-	-	-	-	-
Weight-Mile Taxes	-	-	-	-	-
Employer-Employee Taxes	-	-	-	-	-
Vehicle Registration Taxes	-	-	-	-	-
Other Taxes	239,252	247,395	152,755	134,433	39,793
Licenses and Fees	79,257	82,221	30,597	35,123	(16,501)
Federal	-	-	-	-	-
Charges for Services	6,742	6,400	3,371	3,317	288
Fines and Forfeitures	1,337	1,337	2,312	2,644	3,619
Rents and Royalties	-	-	-	-	-
Investment Income	31,750	50,000	32,148	69,167	51,315
Sales	4,424	4,424	2,005	655	(1,764)
Donations and Grants	-	-	51	33	84
Pension Bond Debt Service Assessments	-	-	-	-	-
Other	2,733	6,333	9,622	13,765	17,054
<b>Total Revenues</b>	<b>11,093,578</b>	<b>12,156,321</b>	<b>5,998,449</b>	<b>6,321,538</b>	<b>163,666</b>
<b>Expenditures:</b>					
Education	6,362,958	6,431,798	3,172,612	3,222,083	(37,103)
Human Services	2,605,065	2,782,065	1,480,857	1,276,894	(24,314)
Public Safety	1,488,299	1,535,359	750,565	760,194	(24,600)
Economic and Community Development	21,951	22,681	9,672	11,227	(1,782)
Natural Resources	122,981	143,436	60,544	78,587	(4,305)
Transportation	8,626	8,626	4,500	4,126	-
Consumer and Business Services	11,321	11,708	5,686	5,876	(146)
Administration	164,941	172,591	81,160	87,998	(3,433)
Legislative	255,587	67,089	27,088	35,136	(4,865)
Judicial	447,009	465,850	304,928	155,574	(5,348)
<b>Total Expenditures</b>	<b>11,488,738</b>	<b>11,641,203</b>	<b>5,897,612</b>	<b>5,637,695</b>	<b>(105,896)</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(395,160)	515,118	100,837	683,843	269,562
<b>Other Financing Sources (Uses):</b>					
Transfers from Other Funds	937,554	989,584	488,902	496,417	(4,265)
Transfers to Other Funds	(704,437)	(737,484)	(356,580)	(704,777)	(323,873)
Long-term Debt Issued	-	-	-	-	-
Debt Issuance Premium	-	-	-	-	-
Loan Proceeds	-	-	-	-	-
Gain(Loss) on Disposition of Assets	-	-	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<b>\$ (162,043)</b>	<b>\$ 767,218</b>	233,159	475,483	<b>\$ (58,576)</b>
<b>Budgetary Fund Balances - Beginning</b>			466,060	690,327	
Prior Period Adjustments			(85)	(309)	
Budgetary Fund Balances - Beginning - As Restated			465,975	690,018	
Prior Biennium Transactions			(8,807)	(339)	
<b>Budgetary Fund Balances - Ending</b>			<b>\$ 690,327</b>	<b>\$ 1,165,162</b>	

State of Oregon

Federal Funds					Lottery Funds				
2005-2007 Original Budget	2005-2007 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)	2005-2007 Original Budget	2005-2007 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	247	279	526	-	-	21	-	21
8,766,190	8,831,916	3,252,153	3,416,135	(2,163,628)	-	-	-	-	-
-	-	240	157	397	-	-	-	-	-
-	-	163	257	420	-	-	-	-	-
-	-	450	410	860	-	-	-	-	-
-	-	1,412	1,863	3,275	11,375	11,375	13,800	17,631	20,056
-	-	483	424	907	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	13,208	70,801	61,330	118,923	-	-	71	133	204
<u>8,766,190</u>	<u>8,845,124</u>	<u>3,325,949</u>	<u>3,480,855</u>	<u>(2,038,320)</u>	<u>11,375</u>	<u>11,375</u>	<u>13,892</u>	<u>17,764</u>	<u>20,281</u>
866,549	888,752	376,399	444,419	(67,934)	474,470	516,715	223,551	289,884	(3,280)
5,064,436	5,259,120	2,493,849	2,463,865	(301,406)	9,312	9,312	3,646	5,238	(428)
327,698	335,190	127,524	130,064	(77,602)	6,358	6,568	2,786	3,555	(227)
389,702	400,722	174,774	195,221	(30,727)	107,779	108,914	44,095	53,500	(11,319)
223,077	241,727	94,792	82,729	(64,206)	155,453	165,654	59,811	63,403	(42,440)
75,290	75,644	20,555	27,832	(27,257)	22,162	22,820	11,079	11,741	-
1,771	1,894	822	810	(262)	-	-	-	-	-
9,970	14,602	4,697	6,228	(3,677)	7,290	7,338	3,867	3,287	(184)
-	-	-	-	-	-	-	-	-	-
1,390	1,913	597	822	(494)	-	-	-	-	-
<u>6,959,883</u>	<u>7,219,564</u>	<u>3,294,009</u>	<u>3,351,990</u>	<u>(573,565)</u>	<u>782,824</u>	<u>837,321</u>	<u>348,835</u>	<u>430,608</u>	<u>(57,878)</u>
1,806,307	1,625,560	31,940	128,865	(1,464,755)	(771,449)	(825,946)	(334,943)	(412,844)	78,159
1,280	1,280	8,509	5,535	12,764	2,015,774	2,058,427	804,460	820,001	(433,966)
(336,168)	(336,148)	(60,800)	(54,478)	220,870	(1,117,184)	(1,117,592)	(247,255)	(243,467)	626,870
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
<u>\$ 1,471,419</u>	<u>\$ 1,290,692</u>	(20,351)	79,922	<u>\$ (1,231,121)</u>	<u>\$ 127,141</u>	<u>\$ 114,889</u>	222,262	163,690	<u>\$ 271,063</u>
		21,904	(57,279)				(38,863)	83,592	
		600	(22)				3,352	25	
		22,504	(57,301)				(35,511)	83,617	
		(59,432)	183				(103,159)	(8,017)	
		<u>\$ (57,279)</u>	<u>\$ 22,804</u>				<u>\$ 83,592</u>	<u>\$ 239,290</u>	

(continued on next page)

**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, 2007  
(In Thousands)**

(continued from previous page)

	Other Funds				
	2005-2007 Original Budget	2005-2007 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
<b>Revenues:</b>					
Personal Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Income Taxes	-	-	-	-	-
Tobacco Taxes	369,586	369,586	171,756	207,353	9,523
Motor Fuels Taxes	852,362	852,362	379,779	418,597	(53,986)
Weight-Mile Taxes	454,977	454,977	241,963	260,351	47,337
Employer-Employee Taxes	415,841	415,841	-	-	(415,841)
Vehicle Registration Taxes	-	-	186,415	204,901	391,316
Other Taxes	515,010	515,010	196,147	231,935	(86,928)
Licenses and Fees	1,079,367	1,080,543	274,822	284,094	(521,627)
Federal	570,054	578,308	352,128	364,077	137,897
Charges for Services	1,894,669	1,907,064	780,677	875,937	(250,450)
Fines and Forfeitures	166,018	166,018	75,646	92,162	1,790
Rents and Royalties	90,908	90,908	49,247	50,176	8,515
Investment Income	130,782	130,707	44,588	65,481	(20,638)
Sales	430,059	438,833	163,106	151,144	(124,583)
Donations and Grants	165,007	172,301	12,505	26,869	(132,927)
Pension Bond Debt Service Assessments	-	-	117,596	120,139	237,735
Other	678,777	679,838	218,465	311,805	(149,568)
<b>Total Revenues</b>	<b>7,813,417</b>	<b>7,852,296</b>	<b>3,264,840</b>	<b>3,665,021</b>	<b>(922,435)</b>
<b>Expenditures:</b>					
Education	1,661,168	1,867,111	614,405	705,052	(547,654)
Human Services	1,214,233	1,237,496	469,687	611,360	(156,449)
Public Safety	396,283	413,971	178,831	200,135	(35,005)
Economic and Community Development	267,855	275,013	112,594	127,902	(34,517)
Natural Resources	599,749	685,897	288,021	305,267	(92,609)
Transportation	2,615,185	2,792,942	1,099,091	1,350,594	(343,257)
Consumer and Business Services	267,976	280,716	126,396	133,919	(20,401)
Administration	1,084,648	1,146,728	496,226	552,318	(98,184)
Legislative	5,795	6,839	2,062	2,953	(1,824)
Judicial	24,603	27,673	10,132	12,152	(5,389)
<b>Total Expenditures</b>	<b>8,137,495</b>	<b>8,734,386</b>	<b>3,397,445</b>	<b>4,001,652</b>	<b>(1,335,289)</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(324,078)	(882,090)	(132,605)	(336,631)	412,854
<b>Other Financing Sources (Uses):</b>					
Transfers from Other Funds	3,835,961	3,872,221	1,982,943	2,299,766	410,488
Transfers to Other Funds	(4,725,993)	(4,752,161)	(1,915,276)	(1,999,540)	837,345
Long-term Debt Issued	1,155,396	1,156,365	493,471	778,760	115,866
Debt Issuance Premium	-	-	12,099	10,666	22,765
Loan Proceeds	-	-	500	22,267	22,767
Gain(Loss) on Disposition of Assets	-	-	1,131	1,420	2,551
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ (58,714)</u>	<u>\$ (605,665)</u>	442,263	776,708	<u>\$ 1,824,636</u>
<b>Budgetary Fund Balances - Beginning</b>			2,756,399	3,148,762	
Prior Period Adjustments			(1,770)	10,598	
Budgetary Fund Balances - Beginning - As Restated			<u>2,754,629</u>	<u>3,159,360</u>	
Prior Biennium Transactions			(48,130)	(143,929)	
<b>Budgetary Fund Balances - Ending</b>			<u>\$ 3,148,762</u>	<u>\$ 3,792,139</u>	

**State of Oregon**

**Total All Budgeted Appropriated Funds**

2005-2007 Original Budget	2005-2007 Final Budget	1st Year Actual	2nd Year Actual	Variance Over/ (Under)
\$ 10,124,013	\$ 10,948,876	\$ 5,266,735	\$ 5,595,831	\$ (86,310)
499,995	698,463	438,225	405,857	145,619
473,661	480,458	232,384	268,066	19,992
852,362	852,362	379,779	418,597	(53,986)
454,977	454,977	241,963	260,351	47,337
415,841	415,841	-	-	(415,841)
-	-	186,415	204,901	391,316
754,262	762,405	348,902	366,368	(47,135)
1,158,624	1,162,764	305,687	319,496	(537,581)
9,336,244	9,410,224	3,604,281	3,780,212	(2,025,731)
1,901,411	1,913,464	784,288	879,411	(249,765)
167,355	167,355	78,121	95,063	5,829
90,908	90,908	49,697	50,586	9,375
173,907	192,082	91,948	154,142	54,008
434,483	443,257	165,594	152,223	(125,440)
165,007	172,301	12,556	26,902	(132,843)
-	-	117,596	120,139	237,735
681,510	699,379	298,959	387,033	(13,387)
<b>27,684,560</b>	<b>28,865,116</b>	<b>12,603,130</b>	<b>13,485,178</b>	<b>(2,776,808)</b>
9,365,145	9,704,376	4,386,967	4,661,438	(655,971)
8,893,046	9,287,993	4,448,039	4,357,357	(482,597)
2,218,638	2,291,088	1,059,706	1,093,948	(137,434)
787,287	807,330	341,135	387,850	(78,345)
1,101,260	1,236,714	503,168	529,986	(203,560)
2,721,263	2,900,032	1,135,225	1,394,293	(370,514)
281,068	294,318	132,904	140,605	(20,809)
1,266,849	1,341,259	585,950	649,831	(105,478)
261,382	73,928	29,150	38,089	(6,689)
473,002	495,436	315,657	168,548	(11,231)
<b>27,368,940</b>	<b>28,432,474</b>	<b>12,937,901</b>	<b>13,421,945</b>	<b>(2,072,628)</b>
315,620	432,642	(334,771)	63,233	(704,180)
6,790,569	6,921,512	3,284,814	3,621,719	(14,979)
(6,883,782)	(6,943,385)	(2,579,911)	(3,002,262)	1,361,212
1,155,396	1,156,365	493,471	778,760	115,866
-	-	12,099	10,666	22,765
-	-	500	22,267	22,767
-	-	1,131	1,420	2,551
<b>\$ 1,377,803</b>	<b>\$ 1,567,134</b>	877,333	1,495,803	<b>\$ 806,002</b>
		3,205,500	3,865,402	
		2,097	10,292	
		3,207,597	3,875,694	
		(219,528)	(152,102)	
		<b>\$ 3,865,402</b>	<b>\$ 5,219,395</b>	

## 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 Services, 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 2005-2007 biennium as of June 30, 2007. A copy of this report is available at the State Controller's Division, 155 Cottage Street NE U50, Salem, Oregon 97301-3969.

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.

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.



**State of Oregon**  
**Notes to Required Supplementary Information – Budgetary Schedule**

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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:

- Encumbrances are recorded as expenditures for budgetary purposes when purchase orders are issued.
- Revenues are recognized when received in cash (budgetary) as opposed to when they are susceptible to accrual (GAAP).
- Expenditures are recognized when paid in cash or encumbered (budgetary) as opposed to when the liability is incurred (GAAP).
- Nonappropriated and nonbudgeted funds are not included in the budgetary schedule.
- 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.

## 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, 2007 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)

GAAP Fund	Budgetary Balances Classified into GAAP Fund Structure					Timing Differences	Basis Differences	Non- Budgeted Funds	GAAP Balances
	Budgetary General Fund	Budgeted Federal Funds	Budgeted Lottery Funds	Budgeted Other Funds	Total Budgeted Funds				
General	475,483	-	-	-	475,483	(7,390)	(1,032,007)	(77,280)	(641,194)
Health & Social Services	-	65,982	1,275	(4,929)	62,328	(1,407)	(76,293)	63,996	48,624
Public Transportation	-	168	-	344,752	344,920	-	(24,509)	8,248	328,659
Environmental Management	-	6,481	27,254	48,286	82,021	(32,457)	(320)	4,490	53,734
Common School	-	-	-	30,612	30,612	(98)	158,946	(71,694)	117,766
Oregon Rainy Day	-	-	-	-	-	-	-	319,288	319,288
Nonmajor Governmental	-	7,291	132,608	81,008	220,907	(105,136)	88,022	4,643	208,436
Housing & Community Services	-	-	-	3,266	3,266	-	12	7,504	10,782
Veterans' Loan	-	-	-	(6,601)	(6,601)	(7)	(156)	13,568	6,804
Lottery Operations	-	-	-	-	-	-	-	12,432	12,432
Unemployment Compensation	-	-	-	-	-	-	-	225,140	225,140
University System	-	-	2,553	74,172	76,725	(16,392)	(60,333)	56,518	56,518
Nonmajor Proprietary	-	-	-	(2,793)	(2,793)	(73)	(10,345)	60,967	47,756
Internal Service	-	-	-	(19,022)	(19,022)	(16,833)	47,712	6,297	18,154
Pension and Other									
Employee Benefit Trust	-	-	-	227,957	227,957	(209)	389	9,226,319	9,454,456
Private Purpose Trust	-	-	-	-	-	-	-	3,516	3,516
Investment Trust	-	-	-	-	-	-	-	442,477	442,477
Totals (Memo Only)	475,483	79,922	163,690	776,708	1,495,803	(180,002)	(908,882)	10,306,429	10,713,348

**Required Supplementary Information  
Schedule of Funding Progress  
PERS Other Postemployment Benefits Plan – Retiree Health Insurance Premium Account  
(Dollars in Millions)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2001	\$ 2.9	\$ 29.6	\$ 26.7	9.8%	\$ 1,954.1 <sup>1</sup>	1.4%
12/31/2002	2.9	30.1	27.2	9.6%	1,741.9	1.6%
12/31/2003	4.0	25.0	21.0	16.0%	1,711.9	1.2%
12/31/2004 <sup>2</sup>	5.2	28.2	23.0	18.4%	1,851.4 <sup>3</sup>	1.2%
12/31/2005	6.1	27.0	20.9	22.7%	1,827.0	1.1%
12/31/2006	7.0	23.4	16.4	29.9%	1,946.8	0.8%

**Notes to the Required Supplementary Information – Schedule of Funding Progress**

<sup>1</sup> Effective with the 2001 valuation, Annual Active Member Payroll excludes the member pick-up, if any.

<sup>2</sup> Effective with the 2004 valuation, the cost method was changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value.

<sup>3</sup> Effective with the 2004 valuation, the Oregon Public Service Retirement Plan (OPSRP) payroll was included in the amortization of the UAAL.

The Public Employees Retirement System (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 Public Employees Retirement System, Fiscal Services Division, 11410 SW 68<sup>th</sup> Parkway, Tigard, Oregon 97223.

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# **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. Federal grants, transfers from other funds, 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 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 workers' compensation insurance 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, 2007  
(In Thousands)**

	Special Revenue Funds		
	Agricultural Resources	Business Development	Community Protection
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 20,155	\$ 118,780	\$ 141,055
Investments	-	4,254	1,221
Cash and Securities Held in Trust	-	20	-
Securities Lending Cash Collateral	-	23,625	51,462
Accounts and Interest Receivable (net)	3,555	1,834	61,682
Taxes Receivable	-	4,804	-
Due from Other Funds	529	206,891	9,202
Due from Component Units	-	-	-
Inventories	252	82	380
Prepaid Items	39	-	35
Net Contracts, Notes and Other Receivables	-	1,095	106,850
Loans Receivable	-	775	-
<b>Total Assets</b>	<b>\$ 24,530</b>	<b>\$ 362,160</b>	<b>\$ 371,887</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts and Interest Payable	\$ 1,856	\$ 1,313	\$ 26,095
Obligations Under Securities Lending	-	23,625	51,462
Due to Other Funds	32	129,192	14,567
Due to Other Governments	-	2,325	2,771
Advances from Other Funds	-	51	-
Trust Funds Payable	678	-	21
Deferred Revenue	49	4,344	110,732
Contracts, Mortgages and Notes Payable	-	294	-
<b>Total Liabilities</b>	<b>2,615</b>	<b>161,144</b>	<b>205,648</b>
Fund Balances:			
Reserved for Inventories	252	82	380
Reserved for Loans Receivable	-	775	-
Reserved for Other Long-term Receivables	-	600	-
Reserved for Prepaid Items	39	-	35
Reserved for Debt Service	-	-	-
Reserved for Permanent Fund Principal	-	-	-
Reserved for Claims and Judgments Payable	-	-	-
Reserved for Revolving Accounts	26	-	89
Unreserved, Undesignated	21,598	199,559	165,735
<b>Total Fund Balances</b>	<b>21,915</b>	<b>201,016</b>	<b>166,239</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 24,530</b>	<b>\$ 362,160</b>	<b>\$ 371,887</b>



**State of Oregon**

**Special Revenue Funds**

<b>Consumer Protection</b>	<b>Educational Support</b>	<b>Employment Services</b>	<b>Nutritional Support</b>	<b>Residential Assistance</b>	<b>Other</b>
\$ 120,884	\$ 327,819	\$ 48,572	\$ 6,051	\$ 67,615	\$ 33,218
-	12,185	230,378	-	15,405	1,126
2,370	-	-	-	-	-
89,172	172,923	23,938	-	12,881	356
2,010	10,943	61,288	18,718	6,935	1,096
5,894	2,521	-	-	-	-
330	28,419	1,842	-	491	4,036
-	-	-	-	-	-
45	-	3,820	208	44	698
28	188	184	-	4	-
1,979	6	12,874	7	202	-
-	-	-	-	97,391	-
<b>\$ 222,712</b>	<b>\$ 555,004</b>	<b>\$ 382,896</b>	<b>\$ 24,984</b>	<b>\$ 200,968</b>	<b>\$ 40,530</b>
\$ 7,164	\$ 57,371	\$ 33,937	\$ 11,189	\$ 4,766	\$ 1,294
89,172	172,923	23,938	-	12,881	356
12,778	5,970	4,679	204	45	193
5,310	24,655	-	5,926	4,933	-
-	-	1,108	-	40,598	-
2,947	36	226	-	-	15
1,983	2,384	12,874	107	203	11,602
-	-	-	-	-	-
<b>119,354</b>	<b>263,339</b>	<b>76,762</b>	<b>17,426</b>	<b>63,426</b>	<b>13,460</b>
45	-	3,820	208	44	698
-	-	-	-	97,391	-
-	-	-	-	-	-
28	188	184	-	4	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	199,133	-	-	-
8	6	102	-	-	-
<b>103,277</b>	<b>291,471</b>	<b>102,895</b>	<b>7,350</b>	<b>40,103</b>	<b>26,372</b>
<b>103,358</b>	<b>291,665</b>	<b>306,134</b>	<b>7,558</b>	<b>137,542</b>	<b>27,070</b>
<b>\$ 222,712</b>	<b>\$ 555,004</b>	<b>\$ 382,896</b>	<b>\$ 24,984</b>	<b>\$ 200,968</b>	<b>\$ 40,530</b>

(continued on next page)

**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2007**  
**(In Thousands)**  
 (continued from previous page)

	<b>Debt Service Funds</b>			
	<b>Revenue Bond</b>	<b>Certificates of Participation</b>	<b>General Obligation Bond</b>	<b>General Appropriation Bond</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 21,348	\$ 767	\$ 33,480	\$ 41
Investments	65,198	113	6,016	-
Cash and Securities Held in Trust	-	-	-	-
Securities Lending Cash Collateral	-	-	-	-
Accounts and Interest Receivable (net)	1	-	-	-
Taxes Receivable	-	-	-	-
Due from Other Funds	78,046	-	-	-
Due from Component Units	-	-	1,904	-
Inventories	-	-	-	-
Prepaid Items	-	-	-	-
Net Contracts, Notes and Other Receivables	-	-	-	-
Loans Receivable	-	-	-	-
<b>Total Assets</b>	<b>\$ 164,593</b>	<b>\$ 880</b>	<b>\$ 41,400</b>	<b>\$ 41</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts and Interest Payable	\$ -	\$ 10	\$ -	\$ -
Obligations Under Securities Lending	-	-	-	-
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Advances from Other Funds	-	-	-	-
Trust Funds Payable	-	-	-	-
Deferred Revenue	-	-	-	-
Contracts, Mortgages and Notes Payable	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>10</b>	<b>-</b>	<b>-</b>
Fund Balances:				
Reserved for Inventories	-	-	-	-
Reserved for Loans Receivable	-	-	-	-
Reserved for Other Long-term Receivables	-	-	-	-
Reserved for Prepaid Items	-	-	-	-
Reserved for Debt Service	164,593	870	41,400	41
Reserved for Permanent Fund Principal	-	-	-	-
Reserved for Claims and Judgments Payable	-	-	-	-
Reserved for Revolving Accounts	-	-	-	-
Unreserved, Undesignated	-	-	-	-
<b>Total Fund Balances</b>	<b>164,593</b>	<b>870</b>	<b>41,400</b>	<b>41</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 164,593</b>	<b>\$ 880</b>	<b>\$ 41,400</b>	<b>\$ 41</b>

Capital Projects Fund	Permanent Fund		
Capital Projects	Permanent	Total	
\$ 6,806	\$ 34,657	\$	981,248
41,618	-		377,514
-	-		2,390
-	-		374,357
347	-		168,409
-	-		13,219
714	-		330,500
-	-		1,904
-	-		5,529
-	-		478
103	-		123,116
-	-		98,166
\$ 49,588	\$ 34,657	\$	2,476,830
\$ 1,074	\$ 83	\$	146,152
-	-		374,357
16	-		167,676
-	-		45,920
-	-		41,757
-	-		3,923
96	-		144,374
369	-		663
1,555	83		924,822
-	-		5,529
-	-		98,166
103	-		703
-	-		478
-	-		206,904
-	27,883		27,883
-	-		199,133
-	-		231
47,930	6,691		1,012,981
48,033	34,574		1,552,008
\$ 49,588	\$ 34,657	\$	2,476,830

**State of Oregon**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2007  
(In Thousands)**

	<b>Special Revenue Funds</b>		
	<b>Agricultural Resources</b>	<b>Business Development</b>	<b>Community Protection</b>
<b>Revenues:</b>			
Public Utilities Taxes	\$ -	\$ -	\$ -
Employer-Employee Taxes	-	-	-
Workers' Compensation Insurance Taxes	-	-	-
Other Taxes	-	-	-
Licenses and Fees	15,566	2,264	37,666
Federal	5,441	15,330	155,585
Charges for Services	6,983	446	24,641
Fines and Forfeitures	25	39	78,328
Rents and Royalties	-	-	2,030
Investment Income	896	7,135	3,590
Sales	5	1,858	951
Donations and Grants	3	4,477	556
Contributions to Permanent Funds	-	-	-
Pension Bond Debt Service Assessments	-	-	-
Other	1,639	3,999	46,672
<b>Total Revenues</b>	<b>30,558</b>	<b>35,548</b>	<b>350,019</b>
<b>Expenditures:</b>			
Current:			
Education	-	-	-
Human Services	-	-	1,995
Public Safety	-	1,869	289,870
Economic and Community Development	-	65,361	-
Natural Resources	34,856	259	-
Transportation	-	-	9,158
Consumer and Business Services	-	381	-
Administration	-	25,445	14,673
Legislative	-	-	-
Judicial	-	-	46,365
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	-	-	-
Interest	-	6	12
Other Debt Service	-	385	478
<b>Total Expenditures</b>	<b>34,856</b>	<b>93,706</b>	<b>362,551</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,298)	(58,158)	(12,532)
<b>Other Financing Sources (Uses):</b>			
Transfers from Other Funds	7,329	668,152	85,806
Transfers to Other Funds	(36)	(581,307)	(50,825)
Insurance Recoveries	-	2	269
Long-Term Debt Issued	-	37,603	2,860
Debt Issuance Premium	-	-	44
Refunded Debt Issued	-	-	-
Refunded Debt Payment to Escrow Agent	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>7,293</b>	<b>124,450</b>	<b>38,154</b>
Net Change in Fund Balances	2,995	66,292	25,622
Fund Balances - Beginning	18,679	135,506	151,629
Prior Period Adjustments	212	(819)	(11,018)
Fund Balances - Beginning - As Restated	18,891	134,687	140,611
Change in Reserve for Inventories	29	37	6
<b>Fund Balances - Ending</b>	<b>\$ 21,915</b>	<b>\$ 201,016</b>	<b>\$ 166,239</b>

**State of Oregon**

**Special Revenue Funds**

Consumer Protection	Educational Support	Employment Services	Nutritional Support	Residential Assistance	Other
\$ 63,110	\$ -	\$ -	\$ -	\$ 21,345	\$ -
-	-	78,898	-	-	-
33	-	47,712	-	-	-
22,135	41	-	-	3,566	-
74,580	399	1,723	-	486	-
1,154	433,855	194,803	625,862	100,310	6,194
3,261	3,593	16,548	1,426	1,423	14,644
1,942	-	4,237	-	5,486	-
-	129	-	-	-	786
8,650	18,893	27,921	23	9,689	2,166
79	210	271	-	9	874
-	24,371	606	56	69	275
-	-	-	-	-	-
-	-	-	-	-	-
795	-	1,111	17,794	382	450
<b>175,739</b>	<b>481,491</b>	<b>373,830</b>	<b>645,161</b>	<b>142,765</b>	<b>25,389</b>
2,125	756,980	58,699	127,846	-	-
-	-	-	515,643	-	-
-	-	-	-	-	-
-	-	119,160	869	138,430	1,409
2,270	-	-	-	370	-
38	-	-	-	-	-
141,222	-	146,143	-	4,184	-
26,739	47,126	660	6	22	54,902
-	-	-	-	-	1,809
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	211	1	-	-	193
<b>172,394</b>	<b>804,317</b>	<b>324,663</b>	<b>644,364</b>	<b>143,006</b>	<b>58,313</b>
3,345	(322,826)	49,167	797	(241)	(32,924)
16,497	444,514	31,225	2	8,526	35,089
(14,646)	(9,102)	(73,665)	(1,650)	(1,166)	(3,096)
-	-	-	-	-	-
-	25,305	-	-	-	-
-	580	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<b>1,851</b>	<b>461,297</b>	<b>(42,440)</b>	<b>(1,648)</b>	<b>7,360</b>	<b>31,993</b>
<b>5,196</b>	<b>138,471</b>	<b>6,727</b>	<b>(851)</b>	<b>7,119</b>	<b>(931)</b>
<b>98,239</b>	<b>153,192</b>	<b>299,027</b>	<b>8,319</b>	<b>130,480</b>	<b>28,119</b>
-	2	-	(82)	-	(33)
<b>98,239</b>	<b>153,194</b>	<b>299,027</b>	<b>8,237</b>	<b>130,480</b>	<b>28,086</b>
(77)	-	380	172	(57)	(85)
<b>\$ 103,358</b>	<b>\$ 291,665</b>	<b>\$ 306,134</b>	<b>\$ 7,558</b>	<b>\$ 137,542</b>	<b>\$ 27,070</b>

(continued on next page)

**State of Oregon**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2007  
(In Thousands)  
(continued from previous page)**

	<b>Debt Service Funds</b>			
	<b>Revenue Bond</b>	<b>Certificates of Participation</b>	<b>General Obligation Bond</b>	<b>General Appropriation Bond</b>
<b>Revenues:</b>				
Public Utilities Taxes	\$ -	\$ -	\$ -	\$ -
Employer-Employee Taxes	-	-	-	-
Workers' Compensation Insurance Taxes	-	-	-	-
Other Taxes	-	-	-	-
Licenses and Fees	-	-	-	-
Federal	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeitures	-	-	-	-
Rents and Royalties	-	57	-	-
Investment Income	5,692	378	4,840	279
Sales	-	-	-	-
Donations and Grants	-	-	-	-
Contributions to Permanent Funds	-	-	-	-
Pension Bond Debt Service Assessments	-	-	120,139	-
Other	2,601	-	-	-
<b>Total Revenues</b>	<b>8,293</b>	<b>435</b>	<b>124,979</b>	<b>279</b>
<b>Expenditures:</b>				
Current:				
Education	-	-	-	-
Human Services	-	-	-	-
Public Safety	-	-	-	-
Economic and Community Development	-	-	-	-
Natural Resources	-	-	-	-
Transportation	-	-	-	-
Consumer and Business Services	-	-	-	-
Administration	-	-	-	-
Legislative	-	-	-	-
Judicial	-	-	-	-
Capital Improvements and Capital Construction	-	-	-	-
Debt Service:				
Principal	61,734	2,779	10,653	25,625
Interest	67,399	8,181	127,899	18,319
Other Debt Service	820	-	-	-
<b>Total Expenditures</b>	<b>129,953</b>	<b>10,960</b>	<b>138,552</b>	<b>43,944</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(121,660)	(10,525)	(13,573)	(43,665)
<b>Other Financing Sources (Uses):</b>				
Transfers from Other Funds	147,429	3,997	17,653	43,642
Transfers to Other Funds	-	-	(214)	-
Insurance Recoveries	-	-	-	-
Long-Term Debt Issued	-	-	-	-
Debt Issuance Premium	10,566	-	-	-
Refunded Debt Issued	200,745	-	-	-
Refunded Debt Payment to Escrow Agent	(210,383)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>148,357</b>	<b>3,997</b>	<b>17,439</b>	<b>43,642</b>
Net Change in Fund Balances	26,697	(6,528)	3,866	(23)
Fund Balances - Beginning	137,896	7,398	37,534	64
Prior Period Adjustments	-	-	-	-
Fund Balances - Beginning - As Restated	137,896	7,398	37,534	64
Change in Reserve for Inventories	-	-	-	-
<b>Fund Balances - Ending</b>	<b>\$ 164,593</b>	<b>\$ 870</b>	<b>\$ 41,400</b>	<b>\$ 41</b>

State of Oregon

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Capital Projects Fund	Permanent Fund	
Capital Projects	Permanent	Total
\$ -	\$ -	\$ 84,455
-	-	78,898
-	-	47,745
-	-	25,742
-	-	132,684
2,439	-	1,540,973
-	-	72,965
-	-	90,057
-	-	3,002
3,133	1,699	94,984
846	-	5,103
-	33	30,446
-	4,192	4,192
-	-	120,139
1,283	57	76,783
<u>7,701</u>	<u>5,981</u>	<u>2,408,168</u>
-	-	945,650
-	2,288	519,926
-	-	291,739
-	-	325,229
-	126	37,881
-	-	9,196
-	7	291,937
-	-	169,573
-	-	1,809
-	-	46,365
123,885	-	123,885
-	-	100,791
-	-	221,816
-	-	2,088
<u>123,885</u>	<u>2,421</u>	<u>3,087,885</u>
(116,184)	3,560	(679,717)
4,640	692	1,515,193
(2,093)	-	(737,800)
-	-	271
40,560	-	106,328
2,609	-	13,799
-	-	200,745
-	-	(210,383)
<u>45,716</u>	<u>692</u>	<u>888,153</u>
<u>(70,468)</u>	<u>4,252</u>	<u>208,436</u>
118,501	30,322	1,354,905
-	-	(11,738)
<u>118,501</u>	<u>30,322</u>	<u>1,343,167</u>
-	-	405
<u>\$ 48,033</u>	<u>\$ 34,574</u>	<u>\$ 1,552,008</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 Office of the State Treasurer, the Department of Corrections, Oregon Corrections Enterprises, the Department of Forestry, the Parks and Recreation Department, and the Economic and Community Development Department.

**Combining Balance Sheet  
Nonmajor Enterprise Funds  
June 30, 2007  
(In Thousands)**

	Energy Loan	Water Resources	Business Development
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ -	\$ 1,681	\$ 9,876
Cash and Cash Equivalents - Restricted	-	80	-
Investments	-	-	-
Securities Lending Cash Collateral	-	-	-
Accounts and Interest Receivable (net)	549	7	68
Due from Other Funds	-	-	-
Inventories	-	-	-
Prepaid Items	-	-	-
<b>Total Current Assets</b>	<b>549</b>	<b>1,768</b>	<b>9,944</b>
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	67,671	-	-
Investments - Restricted	-	-	-
Deferred Charges	914	-	-
Advances to Other Funds	15,028	-	-
Net Contracts, Notes and Other Receivables	-	-	-
Loans Receivable	94,017	463	18,445
Capital Assets:			
Land	-	-	-
Buildings, Property and Equipment	264	-	-
Infrastructure	-	-	-
Works of Art and Historical Treasures	-	-	-
Less Accumulated Depreciation and Amortization	(137)	-	-
<b>Total Noncurrent Assets</b>	<b>177,757</b>	<b>463</b>	<b>18,445</b>
<b>Total Assets</b>	<b>\$ 178,306</b>	<b>\$ 2,231</b>	<b>\$ 28,389</b>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts and Interest Payable	\$ 2,370	\$ 8	\$ 19
Obligations Under Securities Lending	-	-	-
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Matured Bonds/COPS and Coupons Payable	-	80	-
Obligations Under Capital Lease	-	-	-
Bonds/COPS Payable	12,240	-	-
Trust Funds Payable	1,853	-	-
Unearned Revenue	151	-	-
Compensated Absences Payable	26	-	11
<b>Total Current Liabilities</b>	<b>16,640</b>	<b>88</b>	<b>30</b>
Noncurrent Liabilities:			
Bonds/COPS Payable	142,559	-	-
Obligations Under Capital Lease	-	-	-
Advances from Other Funds	-	-	-
Trust Funds Payable	-	-	-
Compensated Absences Payable	13	-	6
Arbitrage Rebate Payable	114	-	-
<b>Total Noncurrent Liabilities</b>	<b>142,686</b>	<b>-</b>	<b>6</b>
<b>Total Liabilities</b>	<b>159,326</b>	<b>88</b>	<b>36</b>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	128	-	-
Expendable Restricted Net Assets:			
Restricted for Debt Service	18,852	-	-
Unrestricted	-	2,143	28,353
<b>Total Net Assets</b>	<b>18,980</b>	<b>2,143</b>	<b>28,353</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 178,306</b>	<b>\$ 2,231</b>	<b>\$ 28,389</b>

State of Oregon

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
\$ 75,318	\$ 1,396	\$ 25,219	\$ 1,106	\$ 24,091	\$ 46,173	\$ 184,860
-	-	-	-	-	-	80
-	4	-	-	-	-	4
45,712	-	-	388	-	-	46,100
6,905	783	125	1,158	2,122	5,561	17,278
-	89	-	-	-	47	136
-	848	16,649	-	-	8,147	25,644
-	295	24	-	-	163	482
<b>127,935</b>	<b>3,415</b>	<b>42,017</b>	<b>2,652</b>	<b>26,213</b>	<b>60,091</b>	<b>274,584</b>
2,747	-	-	-	1,356	-	71,774
2,876	867	-	-	377	1	4,121
1,998	9	-	-	670	-	3,591
-	-	-	-	100	-	15,128
-	-	-	14	-	-	14
265,080	-	-	-	84,185	88,323	550,513
-	41	1,432	600	-	3,385	5,458
-	41,475	20,670	12,600	-	36,763	111,772
-	880	-	-	-	-	880
-	-	-	40	-	-	40
-	(14,853)	(7,782)	(3,028)	-	(18,001)	(43,801)
<b>272,701</b>	<b>28,419</b>	<b>14,320</b>	<b>10,226</b>	<b>86,688</b>	<b>110,471</b>	<b>719,490</b>
<b>\$ 400,636</b>	<b>\$ 31,834</b>	<b>\$ 56,337</b>	<b>\$ 12,878</b>	<b>\$ 112,901</b>	<b>\$ 170,562</b>	<b>\$ 994,074</b>
\$ 2,684	\$ 2,643	\$ 15,038	\$ 855	\$ 1,315	\$ 2,588	\$ 27,520
45,712	-	-	388	-	-	46,100
1	611	10,284	56	-	1,858	12,810
-	-	-	-	164	2	166
-	-	-	-	-	-	80
-	9	-	-	-	44	53
6,475	180	-	-	2,870	1,018	22,783
785	-	-	-	102	320	3,060
-	-	64	-	-	7	222
57	4,723	637	3	17	547	6,021
<b>55,714</b>	<b>8,166</b>	<b>26,023</b>	<b>1,302</b>	<b>4,468</b>	<b>6,384</b>	<b>118,815</b>
137,016	829	-	-	51,571	9,263	341,238
-	8	-	-	-	42	50
-	145	-	-	-	167	312
199	-	-	-	219	-	418
28	2,327	313	1	8	207	2,903
-	3	-	-	-	-	117
<b>137,243</b>	<b>3,312</b>	<b>313</b>	<b>1</b>	<b>51,798</b>	<b>9,679</b>	<b>345,038</b>
<b>192,957</b>	<b>11,478</b>	<b>26,336</b>	<b>1,303</b>	<b>56,266</b>	<b>16,063</b>	<b>463,853</b>
-	27,526	14,320	10,212	-	11,561	63,747
859	-	-	-	491	-	20,202
206,820	(7,170)	15,681	1,363	56,144	142,938	446,272
<b>207,679</b>	<b>20,356</b>	<b>30,001</b>	<b>11,575</b>	<b>56,635</b>	<b>154,499</b>	<b>530,221</b>
<b>\$ 400,636</b>	<b>\$ 31,834</b>	<b>\$ 56,337</b>	<b>\$ 12,878</b>	<b>\$ 112,901</b>	<b>\$ 170,562</b>	<b>\$ 994,074</b>

**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2007**  
**(In Thousands)**

	Energy Loan	Water Resources	Business Development
<b>Operating Revenues:</b>			
Licenses and Fees	\$ 437	\$ -	\$ -
Federal	-	-	-
Charges for Services	69	-	49
Fines and Forfeitures	23	-	-
Rents and Royalties	-	-	-
Sales	-	-	-
Loan Interest Income	5,291	33	1,037
Investment Income	2,336	89	523
Other	6	-	2
Total Operating Revenues	<u>8,162</u>	<u>122</u>	<u>1,611</u>
<b>Operating Expenses:</b>			
Salaries and Wages	788	77	286
Services and Supplies	562	12	102
Cost of Goods Sold	-	-	-
Distributions to Other Governments	-	-	-
Special Payments	-	-	-
Bond and COP Interest	5,553	-	-
Other Debt Service	134	-	-
Depreciation and Amortization	53	-	-
Bad Debt Expense	247	-	-
Total Operating Expenses	<u>7,337</u>	<u>89</u>	<u>388</u>
Operating Income (Loss)	<u>825</u>	<u>33</u>	<u>1,223</u>
<b>Nonoperating Revenues (Expenses):</b>			
Investment Income (Loss)	-	-	-
Other Taxes	-	-	-
Gain (Loss) on Disposition of Assets	-	-	-
Insurance Recoveries	-	-	-
Loan Interest Expense	-	-	-
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	825	33	1,223
Capital Contributions	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	-	-	(200)
Change in Net Assets	<u>825</u>	<u>33</u>	<u>1,023</u>
Net Assets - Beginning	18,155	2,110	27,330
Prior Period Adjustments	-	-	-
Net Assets - Beginning - As Restated	<u>18,155</u>	<u>2,110</u>	<u>27,330</u>
<b>Net Assets - Ending</b>	<u>\$ 18,980</u>	<u>\$ 2,143</u>	<u>\$ 28,353</u>

**State of Oregon**

<b>Special Public Works</b>	<b>State Hospitals</b>	<b>Liquor Control</b>	<b>Veterans' Home</b>	<b>Water</b>	<b>Other</b>	<b>Total</b>
\$ -	\$ -	\$ 3,596	\$ -	\$ -	\$ -	\$ 4,033
-	-	-	2,962	-	-	2,962
-	45,474	-	7,262	-	16,822	69,676
-	2	442	-	-	13	480
-	114	-	-	-	2	116
-	701	375,174	-	-	24,059	399,934
11,308	-	-	-	4,000	2,356	24,025
3,284	-	-	-	1,382	1,732	9,346
96	336	490	2	-	3,382	4,314
<b>14,688</b>	<b>46,627</b>	<b>379,702</b>	<b>10,226</b>	<b>5,382</b>	<b>48,366</b>	<b>514,886</b>
1,407	144,848	14,027	99	420	15,559	177,511
1,725	36,764	41,370	10,229	143	8,263	99,170
-	-	187,690	-	-	16,643	204,333
1,882	-	40,222	-	882	12	42,998
-	2,175	240	-	-	-	2,415
5,460	12	-	-	2,706	418	14,149
157	-	-	-	82	-	373
-	699	753	289	-	1,290	3,084
1,404	-	-	-	-	-	1,651
<b>12,035</b>	<b>184,498</b>	<b>284,302</b>	<b>10,617</b>	<b>4,233</b>	<b>42,185</b>	<b>545,684</b>
<b>2,653</b>	<b>(137,871)</b>	<b>95,400</b>	<b>(391)</b>	<b>1,149</b>	<b>6,181</b>	<b>(30,798)</b>
-	12	-	57	-	-	69
-	-	15,203	-	-	-	15,203
-	-	5	-	-	-	5
-	4	39	-	-	2	45
-	(15)	-	-	-	(25)	(40)
-	1	15,247	57	-	(23)	15,282
2,653	(137,870)	110,647	(334)	1,149	6,158	(15,516)
-	-	10	-	-	21	31
29,796	134,568	-	25	514	14,993	179,896
(5,014)	(4,884)	(101,321)	-	(2,921)	(2,315)	(116,655)
<b>27,435</b>	<b>(8,186)</b>	<b>9,336</b>	<b>(309)</b>	<b>(1,258)</b>	<b>18,857</b>	<b>47,756</b>
180,244	28,363	20,665	11,884	57,893	135,646	482,290
-	179	-	-	-	(4)	175
<b>180,244</b>	<b>28,542</b>	<b>20,665</b>	<b>11,884</b>	<b>57,893</b>	<b>135,642</b>	<b>482,465</b>
<b>\$ 207,679</b>	<b>\$ 20,356</b>	<b>\$ 30,001</b>	<b>\$ 11,575</b>	<b>\$ 56,635</b>	<b>\$ 154,499</b>	<b>\$ 530,221</b>

**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2007**  
**(In Thousands)**

	Energy Loan	Water Resources	Business Development
<b>Cash Flows from Operating Activities:</b>			
Receipts from Customers	\$ 680	\$ -	\$ 48
Receipts from Other Funds For Services	-	-	-
Loan Principal Repayments	13,020	74	3,237
Loan Interest Received	5,535	33	1,074
Payments to Employees for Services	(803)	(78)	(283)
Payments to Suppliers	(838)	(3)	(19)
Payments to Other Funds for Services	(144)	(8)	(78)
Loans Made	(24,688)	-	(4,530)
Distributions to Other Governments	-	-	-
Other Receipts (Payments)	24	-	2
Net Cash Provided (Used) in Operating Activities	<u>(7,214)</u>	<u>18</u>	<u>(549)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Proceeds from Bond/COP Sales	51,520	-	-
Principal Payments on Bonds/COPS	(20,575)	6	-
Principal Payments on Loans	-	-	-
Interest Payments on Bonds/COPS	(4,658)	-	-
Interest Payments on Loans	-	-	-
Repayments on Advances Received	-	-	-
Interest Payments on Advances	-	-	-
Taxes and Assessments Received	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	-	-	(200)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>26,287</u>	<u>6</u>	<u>(200)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Proceeds from Bond/COP Sales	-	-	-
Principal Payments on Bonds/COPS	-	-	-
Interest Payments on Bonds/COPS	-	-	-
Acquisition of Capital Assets	-	-	-
Payments on Capital Leases	-	-	-
Proceeds from Disposition of Capital Assets	-	-	-
Capital Contributions	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash Flows from Investing Activities:</b>			
Purchases of Investments	-	-	-
Proceeds from Sales and Maturities of Investments	-	-	-
Interest on Investments and Cash Balances	2,444	87	523
Interest Income from Securities Lending	-	-	-
Interest Expense from Securities Lending	-	-	-
Net Cash Provided (Used) in Investing Activities	<u>2,444</u>	<u>87</u>	<u>523</u>
Net Increase (Decrease) in Cash and Cash Equivalents	21,517	111	(226)
Cash and Cash Equivalents - Beginning	46,154	1,650	10,102
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 67,671</u>	<u>\$ 1,761</u>	<u>\$ 9,876</u>

State of Oregon

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
\$ -	\$ 60,969	\$ 379,178	\$ 7,066	\$ -	\$ 40,100	\$ 488,041
-	10	-	-	-	149	159
12,887	-	-	-	9,345	3,380	41,943
10,305	-	-	-	4,128	2,028	23,103
(1,391)	(145,269)	(13,966)	(98)	(412)	(15,511)	(177,811)
(312)	(31,173)	(228,006)	(9,115)	(237)	(21,600)	(291,303)
(328)	(5,453)	(2,546)	(1,019)	(177)	(822)	(10,575)
(36,089)	-	-	-	(5,746)	(7,271)	(78,324)
(1,992)	-	(39,779)	-	(738)	(10)	(42,519)
(135)	(1,830)	248	2,749	293	2,964	4,315
(17,055)	(122,746)	95,129	(417)	6,456	3,407	(42,971)
35,805	-	-	-	-	-	87,325
(6,055)	-	-	-	(7,795)	-	(34,419)
-	(5)	-	-	-	(38)	(43)
(5,580)	-	-	-	(2,895)	-	(13,133)
(669)	(15)	-	-	-	-	(684)
-	(185)	-	-	-	(408)	(593)
-	-	-	-	-	(26)	(26)
-	-	15,180	-	-	-	15,180
29,796	121,761	-	25	514	17,070	169,166
(5,014)	(4,252)	(100,400)	-	(2,921)	(2,831)	(115,618)
48,283	117,304	(85,220)	25	(13,097)	13,767	107,155
-	1,010	-	-	-	131	1,141
-	-	-	-	-	(526)	(526)
-	-	-	-	-	(457)	(457)
-	(2,683)	(7,837)	(21)	-	(350)	(10,891)
-	(13)	-	-	-	-	(13)
-	4,889	43	-	-	-	4,932
-	-	-	-	-	21	21
-	3,203	(7,794)	(21)	-	(1,181)	(5,793)
(17,263)	(2,015)	-	-	(1,689)	-	(20,967)
16,610	1,148	-	-	2,176	1	19,935
2,166	15	-	44	1,381	1,732	8,392
1,123	-	-	13	-	-	1,136
(1,111)	-	-	(13)	-	-	(1,124)
1,525	(852)	-	44	1,868	1,733	7,372
32,753	(3,091)	2,115	(369)	(4,773)	17,726	65,763
45,312	4,487	23,104	1,475	30,220	28,447	190,951
\$ 78,065	\$ 1,396	\$ 25,219	\$ 1,106	\$ 25,447	\$ 46,173	\$ 256,714

(continued on next page)

**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2007**  
**(In Thousands)**  
(continued from previous page)

	Energy Loan	Water Resources	Business Development
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>			
Operating Income (Loss)	\$ 825	\$ 33	\$ 1,223
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	53	-	-
Amortization of Bond/COP Issuance Costs	134	-	-
Amortization of Bond/COP Premium and Discount	48	-	-
Amortization of Deferred Charges	13	-	-
Bad Debt Expense	247	-	-
Interest Income Reported as Operating Revenue	(2,336)	(87)	(523)
Investment Expense Reported as Operating Expense	-	-	-
Interest Payments Reported as Operating Expense	5,173	-	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	415	(2)	36
Due from Other Funds	-	-	-
Due from Other Governments	-	-	-
Inventories	-	-	-
Prepaid Items	-	-	-
Deferred Charges	(123)	-	-
Advances to Other Funds	2,748	-	-
Loans Receivable	(14,413)	74	(1,293)
Net Contracts, Notes and Other Receivables	-	-	-
Accounts and Interest Payable	301	1	4
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Trust Funds Payable	(262)	-	-
Unearned Revenue	(24)	-	-
Claims and Judgments Payable	-	(1)	-
Compensated Absences Payable	(13)	-	4
Total Adjustments	(8,039)	(15)	(1,772)
Net Cash Provided (Used) by Operating Activities	\$ (7,214)	\$ 18	\$ (549)
<b>Noncash Investing and Capital and Related Financing Activities:</b>			
Net Change in Fair Value of Investments	\$ -	\$ -	\$ -
Capital Leases Entered into During the Year	-	-	-
Capital Assets Contributed	-	-	-
<b>Total Noncash Investing and Capital and Related Financing Activities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>



**State of Oregon**

Special Public Works	State Hospitals	Liquor Control	Veterans' Home	Water	Other	Total
\$ 2,653	\$ (137,871)	\$ 95,400	\$ (391)	\$ 1,149	\$ 6,181	\$ (30,798)
-	698	753	289	-	1,290	3,083
114	-	-	-	65	-	313
19	(1)	-	-	6	(47)	25
42	-	-	-	17	11	83
1,404	-	-	59	-	-	1,710
(2,173)	-	-	-	(1,382)	(1,732)	(8,233)
-	-	-	13	-	-	13
5,578	-	-	-	2,894	457	14,102
(1,003)	1,409	(23)	(399)	127	(518)	42
-	12,685	-	-	-	301	12,986
-	-	-	-	-	2	2
-	(44)	(1,328)	-	-	2,476	1,104
-	(25)	46	1	-	(126)	(104)
-	-	-	-	-	-	(123)
-	-	-	-	-	-	2,748
(23,202)	-	-	-	3,599	(3,891)	(39,126)
-	-	-	(71)	-	-	(71)
(155)	(15)	261	98	(164)	96	427
1	764	-	(63)	-	-	702
(113)	-	-	-	144	-	31
(232)	(1)	-	51	-	(1,154)	(1,598)
-	-	(11)	-	-	(3)	(38)
(6)	(853)	(84)	(7)	(4)	(2)	(957)
18	508	115	3	5	66	706
(19,708)	15,125	(271)	(26)	5,307	(2,774)	(12,173)
\$ (17,055)	\$ (122,746)	\$ 95,129	\$ (417)	\$ 6,456	\$ 3,407	\$ (42,971)
\$ (4)	\$ -	\$ -	\$ -	\$ 2	\$ -	\$ (2)
-	-	-	-	-	131	131
-	-	10	-	-	-	10
\$ (4)	\$ -	\$ 10	\$ -	\$ 2	\$ 131	\$ 139

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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 Office of the State Treasurer 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, 2007  
(In Thousands)**

	<b>Central Services</b>	<b>Legal Services</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 83,682	\$ 9,820
Investments	63,917	-
Securities Lending Cash Collateral	63,593	-
Accounts and Interest Receivable (net)	25,664	4,884
Due from Other Funds	-	1,544
Inventories	941	76
Prepaid Items	451	-
Total Current Assets	238,248	16,324
Noncurrent Assets:		
Cash and Cash Equivalents - Restricted	1,567	-
Investments - Restricted	12,910	-
Deferred Charges	1,050	-
Advances to Other Funds	781	-
Net Contracts, Notes and Other Receivables	2,949	62
Capital Assets:		
Land	10,889	-
Buildings, Property and Equipment	435,987	2,049
Construction in Progress	70,697	738
Infrastructure	637	-
Works of Art and Historical Treasures	141	-
Less Accumulated Depreciation and Amortization	(175,955)	(1,389)
Total Noncurrent Assets	361,653	1,460
<b>Total Assets</b>	<b>\$ 599,901</b>	<b>\$ 17,784</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts and Interest Payable	\$ 22,937	\$ 1,364
Obligations Under Securities Lending	63,593	-
Due to Other Funds	-	173
Bonds/COPS Payable	24,030	-
Claims and Judgments Payable	31,518	13
Trust Funds Payable	23,134	5
Unearned Revenue	-	18
Compensated Absences Payable	2,187	2,106
Contracts, Mortgages and Notes Payable	670	-
Total Current Liabilities	168,069	3,679
Noncurrent Liabilities:		
Bonds/COPS Payable	196,250	-
Claims and Judgments Payable	72,277	-
Compensated Absences Payable	1,077	1,037
Arbitrage Rebate Payable	223	-
Advances from Other Funds	350	-
Total Noncurrent Liabilities	270,177	1,037
Total Liabilities	438,246	4,716
Net Assets:		
Invested in Capital Assets, Net of Related Debt	135,475	1,397
Unrestricted	26,180	11,671
Total Net Assets	161,655	13,068
<b>Total Liabilities and Net Assets</b>	<b>\$ 599,901</b>	<b>\$ 17,784</b>

**State of Oregon**

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	<b>Banking Services</b>		<b>Audit Services</b>		<b>Forestry Services</b>		<b>Other</b>		<b>Total</b>
\$	4,942	\$	1,392	\$	3,000	\$	3,513	\$	106,349
	-		-		-		-		63,917
	-		-		-		-		63,593
	1,314		547		389		295		33,093
	-		-		-		-		1,544
	14		-		253		8		1,292
	-		-		-		-		451
	<u>6,270</u>		<u>1,939</u>		<u>3,642</u>		<u>3,816</u>		<u>270,239</u>
	-		-		-		-		1,567
	-		-		-		-		12,910
	-		-		-		-		1,050
	-		-		-		-		781
	-		-		-		-		3,011
	-		-		-		-		10,889
	1,826		180		19,097		4,636		463,775
	-		-		40		-		71,475
	-		-		-		-		637
	-		-		-		-		141
	<u>(1,773)</u>		<u>(172)</u>		<u>(12,578)</u>		<u>(2,500)</u>		<u>(194,367)</u>
	53		8		6,559		2,136		371,869
\$	<u>6,323</u>	\$	<u>1,947</u>	\$	<u>10,201</u>	\$	<u>5,952</u>	\$	<u>642,108</u>
\$	371	\$	153	\$	528	\$	73	\$	25,426
	-		-		-		-		63,593
	-		-		-		30		203
	-		-		-		-		24,030
	-		-		-		-		31,531
	-		-		-		1		23,140
	-		-		-		-		18
	335		172		103		15		4,918
	-		-		-		-		670
	<u>706</u>		<u>325</u>		<u>631</u>		<u>119</u>		<u>173,529</u>
	-		-		-		-		196,250
	-		-		-		-		72,277
	165		85		51		7		2,422
	-		-		-		-		223
	-		-		-		-		350
	<u>165</u>		<u>85</u>		<u>51</u>		<u>7</u>		<u>271,522</u>
	<u>871</u>		<u>410</u>		<u>682</u>		<u>126</u>		<u>445,051</u>
	53		8		6,559		2,136		145,628
	5,399		1,529		2,960		3,690		51,429
	<u>5,452</u>		<u>1,537</u>		<u>9,519</u>		<u>5,826</u>		<u>197,057</u>
\$	<u>6,323</u>	\$	<u>1,947</u>	\$	<u>10,201</u>	\$	<u>5,952</u>	\$	<u>642,108</u>

**Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2007**  
**(In Thousands)**

	<b>Central Services</b>	<b>Legal Services</b>
<b>Operating Revenues:</b>		
Charges for Services	\$ 182,948	\$ 47,675
Rents and Royalties	35,212	17
Sales	5,877	25
Other	5,400	69
Total Operating Revenues	<u>229,437</u>	<u>47,786</u>
<b>Operating Expenses:</b>		
Salaries and Wages	53,667	45,062
Services and Supplies	115,618	3,268
Cost of Goods Sold	17,889	-
Bond and COP Interest	9,531	-
Other Debt Service	143	-
Depreciation and Amortization	27,559	156
Total Operating Expenses	<u>224,407</u>	<u>48,486</u>
Operating Income (Loss)	<u>5,030</u>	<u>(700)</u>
<b>Nonoperating Revenues (Expenses):</b>		
Investment Income	14,409	-
Gain (Loss) on Disposition of Assets	603	-
Insurance Recoveries	222	-
Loan Interest Income	46	-
Loan Interest Expense	(21)	-
Total Nonoperating Revenues (Expenses)	<u>15,259</u>	<u>-</u>
Income (Loss) Before Contributions, Special Items, Extraordinary Items and Transfers	20,289	(700)
Capital Contributions	840	-
Transfers from Other Funds	1,927	2
Transfers to Other Funds	(4,010)	-
Change in Net Assets	<u>19,046</u>	<u>(698)</u>
Net Assets - Beginning	133,744	13,766
Prior Period Adjustments	8,865	-
Net Assets - Beginning - As Restated	<u>142,609</u>	<u>13,766</u>
<b>Net Assets - Ending</b>	<u>\$ 161,655</u>	<u>\$ 13,068</u>

State of Oregon

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Banking Services	Audit Services	Forestry Services	Other	Total
\$ 11,499	\$ 7,628	\$ 4,435	\$ 1,833	\$ 256,018
-	-	1,954	-	37,183
-	-	217	-	6,119
-	-	9	16	5,494
11,499	7,628	6,615	1,849	304,814
7,464	4,877	1,803	374	113,247
4,108	1,199	2,885	1,080	128,158
-	-	-	-	17,889
-	-	-	-	9,531
-	-	-	-	143
68	7	1,545	392	29,727
11,640	6,083	6,233	1,846	298,695
(141)	1,545	382	3	6,119
-	-	-	-	14,409
-	-	271	(24)	850
-	-	48	-	270
-	-	-	-	46
-	-	-	-	(21)
-	-	319	(24)	15,554
(141)	1,545	701	(21)	21,673
-	-	-	-	840
-	-	185	3	2,117
-	(1,971)	(414)	(81)	(6,476)
(141)	(426)	472	(99)	18,154
5,593	1,963	9,047	5,884	169,997
-	-	-	41	8,906
5,593	1,963	9,047	5,925	178,903
\$ 5,452	\$ 1,537	\$ 9,519	\$ 5,826	\$ 197,057

**Combining Statement of Cash Flows  
Internal Service Funds  
For the Year Ended June 30, 2007  
(In Thousands)**

	<b>Central Services</b>	<b>Legal Services</b>
<b>Cash Flows from Operating Activities:</b>		
Receipts from Customers	\$ 45,839	\$ 5,349
Receipts from Other Funds for Services	156,819	43,242
Payments to Employees for Services	(56,368)	(45,267)
Payments to Suppliers	(100,580)	(507)
Payments to Other Funds for Services	(20,866)	(2,521)
Claims Paid	(9,275)	-
Other Receipts (Payments)	29,145	99
Net Cash Provided (Used) in Operating Activities	44,714	395
<b>Cash Flows from Noncapital Financing Activities:</b>		
Transfers from Other Funds	1,922	2
Transfers to Other Funds	(3,973)	-
Net Cash Provided (Used) in Noncapital Financing Activities	(2,051)	2
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Bond/COP Sales	8,133	-
Principal Payments on Bonds/COPS	(18,880)	-
Interest Payments on Bonds/COPS	(10,121)	-
Bond/COP Issuance Costs	(131)	-
Repayments on Advances Made	60	-
Interest Payments on Advances	47	-
Principal Payments on Loans	(27)	-
Interest Payments on Loans	(21)	-
Acquisition of Capital Assets	(72,645)	(172)
Proceeds from Disposition of Capital Assets	1,400	-
Net Cash Provided (Used) in Capital and Related Financing Activities	(92,185)	(172)
<b>Cash Flows from Investing Activities:</b>		
Purchases of Investments	(4,558)	-
Proceeds from Sales and Maturities of Investments	60,561	-
Interest on Investments and Cash Balances	10,750	-
Interest Income from Securities Lending	3,505	-
Interest Expense from Securities Lending	(3,460)	-
Net Cash Provided (Used) in Investing Activities	66,798	-
Net Increase (Decrease) in Cash and Cash Equivalents	17,276	225
Cash and Cash Equivalents - Beginning	67,876	9,595
Prior Period Adjustments Restating Beginning Cash Balances	97	-
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 85,249</b>	<b>\$ 9,820</b>



State of Oregon

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Banking Services	Audit Services	Forestry Services	Other	Total
\$ -	\$ -	\$ -	\$ -	\$ 51,188
11,488	7,186	6,272	665	225,672
(7,446)	(4,854)	(1,805)	(372)	(116,112)
(3,197)	(851)	(2,628)	(836)	(108,599)
(801)	(508)	(310)	(260)	(25,266)
-	-	-	-	(9,275)
-	-	11	1,121	30,376
44	973	1,540	318	47,984
-	-	186	3	2,113
-	(1,971)	(415)	(73)	(6,432)
-	(1,971)	(229)	(70)	(4,319)
-	-	-	-	8,133
-	-	-	-	(18,880)
-	-	-	-	(10,121)
-	-	-	-	(131)
-	-	-	-	60
-	-	-	-	47
-	-	-	-	(27)
-	-	-	-	(21)
(65)	-	(2,500)	(540)	(75,922)
-	-	357	81	1,838
(65)	-	(2,143)	(459)	(95,024)
-	-	-	-	(4,558)
-	-	-	-	60,561
-	-	-	-	10,750
-	-	-	-	3,505
-	-	-	-	(3,460)
-	-	-	-	66,798
(21)	(998)	(832)	(211)	15,439
4,963	2,390	3,832	3,660	92,316
-	-	-	64	161
\$ 4,942	\$ 1,392	\$ 3,000	\$ 3,513	\$ 107,916

(continued on next page)

**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2007**  
**(In Thousands)**  
(continued from previous page)

	Central Services	Legal Services
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>		
Operating Income (Loss)	\$ 5,030	\$ (700)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	27,559	156
Amortization of Bond Issuance Costs	75	-
Amortization of Bond/COP Premium and Discount	(784)	-
Amortization of Deferred Charges	222	-
Investment Expense Reported as Operating Expense	3,460	-
Interest Payments Reported as Operating Expense	10,162	-
Bond/COP Issuance Costs Reported as Operating Expense	131	-
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable	2,184	1,258
Due from Other Funds	40	937
Inventories	112	74
Prepaid Items	474	-
Deferred Charges	(81)	-
Net Contracts, Notes and Other Receivables	-	(17)
Accounts and Interest Payable	704	184
Due to Other Funds	(4,884)	134
Trust Funds Payable	22,456	1
Unearned Revenue	(17,771)	(1,432)
Claims and Judgments Payable	(5,344)	(608)
Contracts, Mortgages and Notes Payable	297	-
Compensated Absences Payable	672	408
Total Adjustments	39,684	1,095
Net Cash Provided (Used) by Operating Activities	\$ 44,714	\$ 395
<b>Noncash Investing and Capital and Related Financing Activities:</b>		
Net Change in Fair Value of Investments	\$ 710	\$ -
Capital Assets Transferred from Governmental Funds	840	-
Capital Assets Transferred to Governmental Funds	(12)	-
<b>Total Noncash Investing and Capital and Related Financing Activities</b>	\$ 1,538	\$ -

State of Oregon

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Banking Services	Audit Services	Forestry Services	Other	Total
\$ (141)	\$ 1,545	\$ 382	\$ 3	\$ 6,119
68	7	1,545	392	29,727
-	-	-	-	75
-	-	-	-	(784)
-	-	-	-	222
-	-	-	-	3,460
-	-	-	-	10,162
-	-	-	-	131
(61)	(442)	(332)	(65)	2,542
-	-	-	-	977
(1)	-	(23)	-	162
-	-	-	-	474
-	-	-	-	(81)
-	-	-	-	(17)
159	(158)	(29)	(16)	844
-	-	-	1	(4,749)
-	-	-	-	22,457
-	-	-	-	(19,203)
(26)	(12)	(7)	-	(5,997)
-	-	-	-	297
46	33	4	3	1,166
185	(572)	1,158	315	41,865
\$ 44	\$ 973	\$ 1,540	\$ 318	\$ 47,984
\$ -	\$ -	\$ -	\$ -	710
-	-	-	-	840
-	-	-	-	(12)
\$ -	\$ -	\$ -	\$ -	\$ 1,538

## **Fiduciary Funds**

### **Combining Pension and Other Employee Benefit Trust Funds**

#### **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 (PERS) for the payment of retirement, disability, and death benefits to members of the retirement system.

##### Public Employees Defined Benefit Pension Plan 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. This activity includes the defined benefit portion of the Oregon Public Service Retirement Plan (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 plan is administered by the Public Employees Retirement Board under Oregon Revised Statutes, Chapter 238 and section 401(a) of the Internal Revenue Code.

##### Individual Account Program Defined Contribution Pension Plan 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.

#### **Other Employee Benefit Trust Funds**

Other Employee Benefit Trust Funds account for the transactions, assets, liabilities, and net assets held in trust for public employees by the Public Employees Retirement System (PERS) for the payment of postemployment healthcare and deferred compensation benefits to members of the retirement system.

##### Postemployment Healthcare Fund

The activity formerly reported in this fund is now reported in three separate funds: The Retirement Health Insurance Account (RHIA) OPEB Plan Fund, the Retiree Health Insurance Premium Account (RHIPA) OPEB Plan Fund, and the Standard Retiree Health Insurance Account Fund.

##### Retirement Health Insurance Account (RHIA) OPEB Plan Fund

This fund accounts for the activities of the RHIA cost-sharing multiple-employer Other Postemployment Benefit (OPEB) plan administered by PERS for units of state government, political subdivisions, community colleges, and school districts. The RHIA is a defined benefit OPEB plan established pursuant to section 401(h) of the Internal Revenue Code. The plan authorizes a payment of up to \$60 towards the monthly cost of health insurance for eligible PERS members participating in PERS-sponsored health insurance plans. Employer contributions, investment income, healthcare premium subsidy payments, and administrative costs are accounted for within this fund.

##### Retiree Health Insurance Premium Account (RHIPA) OPEB Plan Fund

This fund accounts for the activities of the RHIPA single-employer OPEB plan administered by PERS. The RHIPA is a defined benefit OPEB plan established pursuant to section 401(h) of the Internal Revenue Code. The plan authorizes payment to eligible retired state employees of the average difference between the health insurance premiums paid by retirees, under contracts entered into by the PERS Board, and health insurance premiums paid by state employees who are not retired. Employer contributions, investment income, healthcare premium subsidy payments, and administrative costs are accounted for within this fund.

Standard Retiree Health Insurance Account Fund

This fund accounts for the collection of health insurance premiums from retirees and the payment of health insurance coverage and administrative costs for units of state government, political subdivisions, community colleges, and school districts that participate in PERS-sponsored health insurance plans. Retirees pay the full amount of the premiums, which are established at age-adjusted, experience-rated amounts.

Deferred Compensation Plan Fund

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

**Combining Statement of Fiduciary Net Assets  
Pension and Other Employee Benefit Trust Funds  
June 30, 2007  
(In Thousands)**

	Pension Trust Funds	
	Public Employees	Individual
	Defined Benefit Pension Plan	Account Program Defined Contribution Pension Plan
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 3,365,241	\$ 132,637
Investments:		
Fixed Income	17,620,416	510,951
Equity	33,018,616	951,785
Real Estate	4,562,610	135,821
Alternative Equity	7,311,985	218,227
Restricted Investment Contracts	7	1
Total Investments	62,513,634	1,816,785
Securities Lending Cash Collateral	6,196,820	194,548
Receivables:		
Employer Contributions	23,888	-
Plan Member Contributions	-	13,579
Interest and Dividends	208,853	5,954
Investment Sales	4,212,230	102,593
From Other Funds	844	1,186
Total Receivables	4,445,815	123,312
Prepaid Items	11,852	348
Capital Assets (net of \$6,925 accumulated depreciation):		
Land	944	-
Buildings, Property and Equipment	11,357	606
<b>Total Assets</b>	76,545,663	2,268,236
<b>LIABILITIES</b>		
Accounts and Interest Payable	7,379,206	193,891
Obligations Under Securities Lending	6,196,820	194,548
Due to Other Funds	1,350	737
Bonds/COPS Payable	9,102	458
Trust Funds Payable	67,144	1,905
Deferred Revenue	99	-
<b>Total Liabilities</b>	13,653,721	391,539
<b>NET ASSETS</b>		
Held in Trust for:		
Pension Benefits	62,891,942	1,876,697
Other Postemployment Benefits	-	-
Other Employee Benefits	-	-
<b>Total Net Assets</b>	\$ 62,891,942	\$ 1,876,697

State of Oregon

Other Employee Benefit Trust Funds

Other Postemployment Benefits

Postemployment Healthcare	Retirement Health Insurance Account OPEB Plan	Retiree Health Insurance Premium Account OPEB Plan	Standard Retiree Health Insurance Account	Deferred Compensation Plan	Total	
\$	-	\$ 16,224	\$ 651	\$ 6,666	\$ 71,315	\$ 3,592,734
	-	68,059	2,095	-	279,463	18,480,984
	-	126,779	3,902	-	631,397	34,732,479
	-	18,092	556	-	-	4,717,079
	-	29,068	895	-	-	7,560,175
	-	-	-	-	-	8
	-	241,998	7,448	-	910,860	65,490,725
	-	25,477	844	2,529	2,158	6,422,376
	-	1,428	83	-	-	25,399
	-	-	-	210	-	13,789
	-	793	25	-	283	215,908
	-	13,693	454	-	68	4,329,038
	-	159	5	-	-	2,194
	-	16,073	567	210	351	4,586,328
	-	46	1	-	-	12,247
	-	-	-	-	-	944
	-	-	-	-	-	11,963
	-	299,818	9,511	9,405	984,684	80,117,317
	-	25,603	787	138	271	7,599,896
	-	25,477	844	2,529	2,158	6,422,376
	-	18	12	32	45	2,194
	-	-	-	-	-	9,560
	-	-	-	-	-	69,049
	-	-	-	-	4,809	4,908
	-	51,098	1,643	2,699	7,283	14,107,983
	-	-	-	-	-	64,768,639
	-	248,720	7,868	-	-	256,588
	-	-	-	6,706	977,401	984,107
\$	-	\$ 248,720	\$ 7,868	\$ 6,706	\$ 977,401	\$ 66,009,334

**Combining Statement of Changes in Fiduciary Net Assets  
Pension and Other Employee Benefit Trust Funds  
For the Year Ended June 30, 2007  
(In Thousands)**

	<b>Pension Trust Funds</b>	
	<b>Public Employees Defined Benefit Pension Plan</b>	<b>Individual Account Program Defined Contribution Pension Plan</b>
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 597,372	\$ -
Plan Members	13,681	439,720
Total Contributions	<u>611,053</u>	<u>439,720</u>
Investment Income:		
Net Appreciation in Fair Value of Investments	9,146,516	231,452
Interest, Dividends and Other Investment Income	<u>2,030,927</u>	<u>93,061</u>
Total Investment Income	11,177,443	324,513
Less Investment Expense	<u>589,346</u>	<u>16,300</u>
Net Investment Income	<u>10,588,097</u>	<u>308,213</u>
Other Income	<u>1,027</u>	<u>914</u>
<b>Total Additions</b>	<u>11,200,177</u>	<u>748,847</u>
<b>DEDUCTIONS</b>		
Pension Benefits	2,568,492	36,379
Death Benefits	6,097	-
Contributions Refunded	41,223	-
Healthcare Premium Subsidies	-	-
Retiree Healthcare Expenses	-	-
Deferred Compensation Benefits	-	-
Administrative Expenses	<u>35,620</u>	<u>7,292</u>
<b>Total Deductions</b>	<u>2,651,432</u>	<u>43,671</u>
Change in Net Assets Held in Trust For:		
Pension Benefits	8,548,745	705,176
Other Postemployment Benefits	-	-
Other Employee Benefits	-	-
Net Assets - Beginning	54,343,197	1,171,521
Cumulative Effect of Change in Accounting Principles	-	-
Net Assets - Beginning - As Restated	<u>54,343,197</u>	<u>1,171,521</u>
<b>Net Assets - Ending</b>	<u>\$ 62,891,942</u>	<u>\$ 1,876,697</u>



State of Oregon

**Other Employee Benefit Trust Funds**

Other Postemployment Benefits

Postemployment Healthcare	Retirement Health Insurance Account OPEB Plan	Retiree Health Insurance Premium Account OPEB Plan	Standard Retiree Health Insurance Account	Deferred Compensation Plan	Total
\$ -	\$ 41,172	\$ 2,400	\$ -	\$ -	\$ 640,944
-	-	-	88,765	66,153	608,319
-	41,172	2,400	88,765	66,153	1,249,263
-	33,924	1,057	-	102,265	9,515,214
-	7,882	251	562	28,708	2,161,391
-	41,806	1,308	562	130,973	11,676,605
-	2,270	70	-	2,307	610,293
-	39,536	1,238	562	128,666	11,066,312
-	73	63	6	845	2,928
-	80,781	3,701	89,333	195,664	12,318,503
-	-	-	-	-	2,604,871
-	-	-	-	-	6,097
-	-	-	-	-	41,223
-	26,887	2,047	-	-	28,934
-	-	-	86,598	-	86,598
-	-	-	-	49,835	49,835
-	876	120	1,974	607	46,489
-	27,763	2,167	88,572	50,442	2,864,047
-	-	-	-	-	9,253,921
-	53,018	1,534	-	-	54,552
-	-	-	761	145,222	145,983
207,981	-	-	-	832,179	56,554,878
(207,981)	195,702	6,334	5,945	-	-
-	195,702	6,334	5,945	832,179	56,554,878
\$ -	\$ 248,720	\$ 7,868	\$ 6,706	\$ 977,401	\$ 66,009,334

## 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, 2007  
(In Thousands)**

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 127,902	\$ 2,109,491	\$ 2,127,627	\$ 109,766
Cash and Securities Held in Trust	1,437,414	817,071	783,213	1,471,272
Accounts and Interest Receivable	4,121	3,138	-	7,259
Due from Other Funds	-	1	-	1
Net Contracts, Notes and Other Receivables	65,016	24,230	20,883	68,363
Conservatorship and Custodial Assets	37	3	-	40
Receivership Assets	88,528	1	14,843	73,686
<b>Total Assets</b>	<b>\$ 1,723,018</b>	<b>\$ 2,953,935</b>	<b>\$ 2,946,566</b>	<b>\$ 1,730,387</b>
<b>LIABILITIES</b>				
Accounts and Interest Payable	\$ 493	\$ 207,894	\$ 207,971	\$ 416
Due to Other Governments	3,083	420	-	3,503
Trust Funds Payable	1,719,442	2,201,713	2,194,687	1,726,468
<b>Total Liabilities</b>	<b>\$ 1,723,018</b>	<b>\$ 2,410,027</b>	<b>\$ 2,402,658</b>	<b>\$ 1,730,387</b>



# **Statistical Section**

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## Statistical Section Index

This part of the State of Oregon's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

### Financial Trends

These schedules contain trend information to help the reader understand how the State's financial performance has changed over time.

Schedule 1	Net Assets by Component
Schedule 2	Changes in Net Assets
Schedule 3	Fund Balance – Governmental Funds
Schedule 4	Changes in Fund Balance – Governmental Funds

### Revenue Capacity

These schedules contain information to help the reader assess the State's most significant revenue source, personal income taxes.

Schedule 5	Personal Income by Industry
Schedule 6	Personal Income Tax Rates
Schedule 7	Personal Income Tax Filers and Liability by Income Level

### Debt Capacity

These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.

Schedule 8	Outstanding Debt by Type
Schedule 9	Ratios of General Bonded Debt Outstanding
Schedule 10	Legal Debt Margin Calculation
Schedule 11	Legal Debt Margin Information
Schedule 12	Pledged Revenue

### Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.

Schedule 13	Demographic and Economic Indicators
Schedule 14	Employment by Industry

### Operating Information

These schedules contain operating data to help the reader understand how the information in the State's financial report relates to the services it provides and the activities it performs.

Schedule 15	Government Employees
Schedule 16	Operating Indicators and Capital Asset Information by Function

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement No. 34 in fiscal year 2002; schedules presenting government-wide information include information beginning in that year.

**Schedule 1**  
**NET ASSETS BY COMPONENT**  
 Last Six Fiscal Years (In Thousands)  
 (Accrual basis of accounting)

	2002	2003	2004	2005	2006	2007
<b>Governmental Activities</b>						
Invested in Capital Assets, Net of Related Debt	\$ 10,031,651	\$ 9,928,983	\$ 9,555,705	\$ 9,151,443	\$ 8,901,594	\$ 8,696,793
Restricted	526,189	342,793	334,292	904,848	1,021,026	1,098,817
Unrestricted	(70,371)	131,349	(2,158,668)	155,880	1,116,586	1,077,586
Total Governmental Activities Net Assets	<u>\$ 10,487,469</u>	<u>\$ 10,403,125</u>	<u>\$ 7,731,329</u>	<u>\$ 10,212,171</u>	<u>\$ 11,039,206</u>	<u>\$ 10,873,196</u>
<b>Business-type Activities</b>						
Invested in Capital Assets, Net of Related Debt	\$ 282,782	\$ 579,928	\$ 549,148	\$ 562,325	\$ 594,247	\$ 756,814
Restricted	2,477,458	2,453,241	2,233,534	2,550,548	2,857,577	2,998,195
Unrestricted	539,431	223,601	527,165	570,121	584,655	640,968
Total Business-type Activities Net Assets	<u>\$ 3,299,671</u>	<u>\$ 3,256,770</u>	<u>\$ 3,309,847</u>	<u>\$ 3,682,994</u>	<u>\$ 4,036,479</u>	<u>\$ 4,395,977</u>
<b>Primary Government</b>						
Invested in Capital Assets, Net of Related Debt	\$ 10,314,433	\$ 10,508,911	\$ 10,104,853	\$ 9,713,768	\$ 9,495,841	\$ 9,453,607
Restricted	3,003,647	2,796,034	2,567,826	3,455,396	3,878,603	4,097,012
Unrestricted	469,060	354,950	(1,631,503)	726,001	1,701,241	1,718,554
Total Primary Government Net Assets	<u>\$ 13,787,140</u>	<u>\$ 13,659,895</u>	<u>\$ 11,041,176</u>	<u>\$ 13,895,165</u>	<u>\$ 15,075,685</u>	<u>\$ 15,269,173</u>

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement No. 34 in fiscal year 2002.

**Schedule 2**  
**CHANGES IN NET ASSETS**  
**Last Six Fiscal Years (In Thousands)**  
**(Accrual basis of accounting)**

	2002	2003	2004
<b>Expenses</b>			
Governmental activities:			
Education	\$ 3,363,716	\$ 2,915,016	\$ 3,485,891
Human Services	4,399,183	4,348,175	4,276,235
Public Safety	862,219	842,881	857,643
Economic and Community Development	289,051	328,202	296,497
Natural Resources	494,385	523,941	488,514
Transportation	1,239,599	1,417,844	1,410,741
Consumer and Business Services	319,913	278,486	388,336
Administration	567,717	700,611	2,693,591
Legislative	27,914	30,717	25,480
Judicial	232,185	205,874	239,773
Interest on Long-term Debt	N/A	4,106	164,461
Total governmental activities expenses	<u>11,795,882</u>	<u>11,595,853</u>	<u>14,327,162</u>
Business-type activities:			
Housing and Community Services	94,686	93,326	88,653
Veterans' Loan	79,922	73,663	59,106
Lottery Operations	485,299	505,038	494,628
Unemployment Compensation	1,030,423	1,287,629	1,106,005
University System	1,551,981	1,605,464	1,617,687
State Hospitals	N/A	N/A	N/A
Liquor Control	N/A	N/A	N/A
Other Business-type Activities	409,472	411,495	442,676
Total business-type activities expenses	<u>3,651,783</u>	<u>3,976,615</u>	<u>3,808,755</u>
Total primary government expenses	<u>\$ 15,447,665</u>	<u>\$ 15,572,468</u>	<u>\$ 18,135,917</u>
<b>Program Revenues</b>			
Governmental activities:			
Charges for Services:			
Human Services	\$ 282,692	\$ 196,489	\$ 139,353
Public Safety	46,360	37,561	138,377
Natural Resources	233,344	293,441	252,952
Transportation	113,083	103,888	106,598
Consumer and Business Services	127,581	130,866	152,899
Administration	25,734	72,910	94,970
Judicial	97,782	137,126	78,870
Other governmental activities	38,685	35,716	41,379
Operating Grants and Contributions	4,036,264	4,452,645	4,378,480
Capital Grants and Contributions	9,957	3,414	5,869
Total governmental activities program revenues	<u>5,011,482</u>	<u>5,464,056</u>	<u>5,389,747</u>

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement No. 34 in fiscal year 2002.

**Schedule 2 (continued)**  
**CHANGES IN NET ASSETS**  
**Last Six Fiscal Years (In Thousands)**  
**(Accrual basis of accounting)**

<b>2005</b>	<b>2006</b>	<b>2007</b>
\$ 3,204,580	\$ 3,622,117	\$ 3,761,800
4,675,846	4,873,613	4,814,964
928,483	1,008,285	1,023,202
340,653	311,713	335,103
582,788	541,084	580,778
1,882,649	1,598,419	1,709,786
282,875	394,886	340,266
622,036	640,561	467,931
31,447	29,602	36,660
249,036	271,714	286,460
254,840	242,664	265,100
<b>13,055,233</b>	<b>13,534,658</b>	<b>13,622,050</b>
89,583	93,288	98,683
51,479	49,730	53,279
504,102	525,277	564,110
577,396	535,190	546,970
1,729,107	1,858,254	1,893,227
162,651	166,810	184,513
237,604	263,725	284,298
75,182	76,804	76,911
<b>3,427,104</b>	<b>3,569,078</b>	<b>3,701,991</b>
<b>\$ 16,482,337</b>	<b>\$ 17,103,736</b>	<b>\$ 17,324,041</b>
\$ 221,522	\$ 298,666	\$ 215,222
35,107	70,979	48,170
270,465	284,857	325,638
129,351	108,552	104,830
158,999	202,305	239,561
203,275	214,866	230,328
29,522	130,549	132,447
32,442	26,909	32,829
4,850,141	4,952,825	5,097,007
6,566	14,992	21,718
<b>5,937,390</b>	<b>6,305,500</b>	<b>6,447,750</b>

(continued on next page)

**Schedule 2 (continued)**  
**CHANGES IN NET ASSETS**  
**Last Six Fiscal Years (In Thousands)**  
**(Accrual basis of accounting)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Business-type activities:			
Charges for Services:			
Lottery Operations	\$ 817,490	\$ 853,812	\$ 892,672
Unemployment Compensation	649,892	588,003	726,680
University System	650,248	663,214	735,556
Liquor Control	N/A	N/A	N/A
Other Business-type Activities	522,951	526,603	507,666
Operating Grants and Contributions	848,800	1,196,853	908,594
Capital Grants and Contributions	85,982	-	-
Total business-type activities program revenues	<u>3,575,363</u>	<u>3,828,485</u>	<u>3,771,168</u>
Total primary government program revenues	<u>\$ 8,586,845</u>	<u>\$ 9,292,541</u>	<u>\$ 9,160,915</u>
<b>Net (Expense)/Revenue</b>			
Governmental activities	\$ (6,784,400)	\$ (6,131,797)	\$ (8,937,415)
Business-type activities	(76,420)	(148,130)	(37,587)
Total primary government net expense	<u>\$ (6,860,820)</u>	<u>\$ (6,279,927)</u>	<u>\$ (8,975,002)</u>
<b>General Revenues and Other Changes in Net Assets</b>			
Governmental activities:			
Taxes:			
Personal Income Taxes	\$ 4,096,359	\$ 4,073,262	\$ 4,294,369
Corporate Income Taxes	190,346	220,175	314,510
Tobacco Taxes	175,115	255,482	252,885
Healthcare Provider Taxes	N/A	N/A	N/A
Inheritance and Gift Taxes	N/A	N/A	N/A
Public Utilities Taxes	N/A	N/A	N/A
Insurance Premium Taxes	N/A	N/A	N/A
Other Taxes	356,319	369,614	412,531
Motor Fuels Taxes	397,713	406,736	406,317
Weight Mile Taxes	201,315	213,935	224,078
Vehicle Registration Taxes	113,262	120,711	165,270
Workers' Compensation Insurance Taxes	N/A	N/A	N/A
Employer-employee Taxes	255,279	252,810	249,822
Unrestricted Investment Earnings	17,146	29,737	11,134
Contributions to Permanent Fund	48,638	-	4,701
Capital Contributions	1,475	1,736	389
Transfers	(61,903)	16,428	(44,272)
Total governmental activities	<u>5,791,064</u>	<u>5,960,626</u>	<u>6,291,734</u>
Business-type activities:			
Other Taxes	12,676	13,327	13,666
Capital Contributions	649	658	660
Additions to Permanent Endowments	-	-	-
Special Items	-	-	21,868
Transfers	61,903	(16,428)	44,272
Total business-type activities	<u>75,228</u>	<u>(2,443)</u>	<u>80,466</u>
Total primary government	<u>\$ 5,866,292</u>	<u>\$ 5,958,183</u>	<u>\$ 6,372,200</u>
<b>Change in Net Assets</b>			
Governmental activities	\$ (993,336)	\$ (171,171)	\$ (2,645,681)
Business-type activities	(1,192)	(150,573)	42,879
Total primary government	<u>\$ (994,528)</u>	<u>\$ (321,744)</u>	<u>\$ (2,602,802)</u>



**Schedule 2 (continued)**  
**CHANGES IN NET ASSETS**  
**Last Six Fiscal Years (In Thousands)**  
**(Accrual basis of accounting)**

2005	2006	2007
\$ 938,370	\$ 1,093,196	\$ 1,203,821
783,594	758,350	676,838
799,122	860,042	887,183
313,308	349,454	379,741
210,964	192,481	217,402
770,971	803,972	891,998
-	-	-
<u>3,816,329</u>	<u>4,057,495</u>	<u>4,256,983</u>
<u>\$ 9,753,719</u>	<u>\$ 10,362,995</u>	<u>\$ 10,704,733</u>
\$ (7,117,843)	\$ (7,229,158)	\$ (7,174,300)
389,225	488,417	554,992
<u>\$ (6,728,618)</u>	<u>\$ (6,740,741)</u>	<u>\$ (6,619,308)</u>
\$ 4,746,727	\$ 5,404,020	\$ 4,486,068
211,016	443,425	518,260
255,035	254,836	276,419
N/A	131,371	128,199
N/A	N/A	81,068
N/A	N/A	84,455
N/A	N/A	55,463
503,666	419,786	106,101
407,729	417,916	416,792
253,419	266,221	256,000
204,787	207,581	205,205
N/A	N/A	47,745
266,688	281,974	77,504
44,662	37,934	90,210
11,453	-	4,192
407	1,473	2,853
31,901	124,307	214,557
<u>6,937,490</u>	<u>7,990,844</u>	<u>7,051,091</u>
13,964	14,851	15,203
700	855	3,615
-	2,580	70
-	-	-
<u>(31,901)</u>	<u>(124,307)</u>	<u>(214,557)</u>
<u>(17,237)</u>	<u>(106,021)</u>	<u>(195,669)</u>
<u>\$ 6,920,253</u>	<u>\$ 7,884,823</u>	<u>\$ 6,855,422</u>
\$ (180,353)	\$ 761,686	\$ (123,209)
371,988	382,396	359,323
<u>\$ 191,635</u>	<u>\$ 1,144,082</u>	<u>\$ 236,114</u>

**Schedule 3**  
**FUND BALANCE – GOVERNMENTAL FUNDS**  
 Last Six Fiscal Years (In Thousands)  
 (Modified accrual basis of accounting)

	2002	2003	2004	2005	2006	2007
<b>General Fund</b>						
Reserved	\$ 204,730	\$ 83,063	\$ 157,183	\$ 63,788	\$ 86,253	\$ 70,317
Unreserved	(1,178,320)	19,298	(501,913)	237,769	736,196	113,579
Total general fund	<u>\$ (973,590)</u>	<u>\$ 102,361</u>	<u>\$ (344,730)</u>	<u>\$ 301,557</u>	<u>\$ 822,449</u>	<u>\$ 183,896</u>
<b>All Other Governmental Funds</b>						
Reserved	\$ 1,055,359	\$ 760,307	\$ 799,074	\$ 785,135	\$ 823,590	\$ 953,764
Unreserved, reported in:						
Special revenue funds	1,629,004	1,414,757	1,517,921	1,911,255	2,640,061	3,658,675
Capital projects fund	63,506	32,073	37,305	64,405	118,136	47,930
Permanent fund	28,972	3,875	5,823	5,749	6,757	6,691
Total all other governmental funds	<u>\$ 2,776,841</u>	<u>\$ 2,211,012</u>	<u>\$ 2,360,123</u>	<u>\$ 2,766,544</u>	<u>\$ 3,588,544</u>	<u>\$ 4,667,060</u>

Note: Due to changes in the State's fund structure initiated when GASB Statement No. 34 was implemented, fund balance information is only available beginning in 2002.

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**Schedule 4**  
**CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS**  
**Last Six Fiscal Years (In Thousands)**  
**(Modified accrual basis of accounting)**

	2002	2003	2004
<b>Revenues</b>			
Taxes	\$ 5,728,923	\$ 5,836,554	\$ 6,303,389
Licenses and Fees	275,439	286,619	312,609
Federal	3,767,499	4,160,747	4,233,648
Charges for Services	232,711	234,459	214,485
Fines and Forfeitures	81,899	91,349	116,191
Rents and Royalties	6,331	6,015	7,244
Investment Income	90,423	98,185	76,594
Sales	112,287	110,945	111,905
Donations and Grants	116,152	138,599	12,409
Contributions to Permanent Funds	-	-	4,701
Tobacco Settlement Proceeds	86,524	85,255	72,065
Pension Bond Debt Service Assessments	-	-	21,579
Other	280,478	244,775	288,622
<b>Total Revenues</b>	<b>10,778,666</b>	<b>11,293,502</b>	<b>11,775,441</b>
<b>Expenditures</b>			
Education	3,347,415	2,900,408	3,484,917
Human Services	4,402,681	4,347,675	4,269,562
Public Safety	778,997	783,712	842,487
Economic and Community Development	281,481	319,732	298,654
Natural Resources	460,214	508,367	484,410
Transportation	1,016,600	1,184,102	1,266,474
Consumer and Business Services	323,653	325,140	338,971
Administration	511,415	652,000	663,545
Legislative	26,718	29,637	25,181
Judicial	231,580	204,908	239,157
Capital Improvements/Construction	81,681	63,726	32,576
Debt Service:			
Principal	58,859	88,379	85,736
Interest	60,041	113,765	164,461
Other Debt Service	3,637	5,610	10,773
<b>Total Expenditures</b>	<b>11,584,972</b>	<b>11,527,161</b>	<b>12,206,904</b>
Excess of Revenues Over (Under) Expenditures	(806,306)	(233,659)	(431,463)
<b>Other Financing Sources (Uses)</b>			
Transfers from Other Funds	3,300,534	1,691,017	1,292,842
Transfers to Other Funds	(3,438,615)	(1,670,815)	(3,413,477)
Insurance Recoveries	-	-	-
Debt Issued	302,638	704,710	2,241,043
Refunded Debt Issued	260,435	60,130	127,577
Leases Incurred	7	107	-
Payment to Escrow Agent	(270,769)	(62,543)	(144,206)
Contributions to Permanent Funds	48,638	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>202,868</b>	<b>722,606</b>	<b>103,779</b>
<b>Net Change in Fund Balances</b>	<b>\$ (603,438)</b>	<b>\$ 488,947</b>	<b>\$ (327,684)</b>
Debt service as a percentage of noncapital expenditures	1.10%	1.89%	2.24%

Note: Due to changes in the State's fund structure initiated when GASB Statement No. 34 was implemented, changes in fund balance information is only available beginning in 2002.

**Schedule 4 (continued)**  
**CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS**  
**Last Six Fiscal Years (In Thousands)**  
**(Modified accrual basis of accounting)**

	2005	2006	2007
\$	6,817,329	\$ 7,839,265	\$ 6,783,293
	369,626	389,766	407,044
	4,608,759	4,661,448	4,670,353
	223,109	228,606	249,069
	68,399	89,559	101,714
	20,226	16,387	15,092
	205,808	253,152	438,158
	125,399	128,945	127,808
	13,447	20,637	33,525
	11,453	-	4,192
	73,142	67,145	70,281
	121,895	119,778	120,139
	275,937	360,081	328,888
	<u>12,934,529</u>	<u>14,174,769</u>	<u>13,349,556</u>
	3,203,813	3,620,721	3,762,869
	4,665,643	4,877,485	4,825,597
	905,510	984,969	1,016,728
	341,807	309,614	333,064
	573,781	538,831	603,695
	1,767,779	1,461,987	1,656,189
	362,765	381,576	424,068
	587,665	626,743	436,933
	30,688	29,381	35,711
	250,438	270,927	288,445
	83,784	114,088	123,885
	131,004	131,702	136,294
	266,330	238,247	259,986
	4,959	4,823	5,588
	<u>13,175,966</u>	<u>13,591,094</u>	<u>13,909,052</u>
	(241,437)	583,675	(559,496)
	1,596,919	1,655,297	2,212,181
	(1,474,364)	(1,530,001)	(1,997,976)
	-	1,432	3,718
	593,065	586,744	786,524
	21,625	29,610	200,745
	3,939	-	-
	(130,389)	(38,777)	(210,383)
	-	-	-
	<u>610,795</u>	<u>704,305</u>	<u>994,809</u>
\$	<u>369,358</u>	<u>\$ 1,287,980</u>	<u>\$ 435,313</u>
	3.21%	2.87%	3.07%

**Schedule 5**  
**PERSONAL INCOME BY INDUSTRY**  
Last Ten Calendar Years  
(Dollars In Thousands)

	1997	1998	1999	2000
Farm earnings	\$ 944,559	\$ 877,230	\$ 829,000	\$ 849,067
Forestry, fishing and related activities	1,057,586	1,083,034	1,236,962	1,420,994
Mining	99,201	108,938	118,517	119,615
Utilities	512,721	544,521	521,432	578,914
Construction	4,642,654	4,761,847	4,774,602	5,332,598
Manufacturing	10,566,007	11,064,279	11,596,866	12,577,144
Wholesale trade	3,665,792	3,914,397	4,212,260	4,699,505
Retail trade	4,755,972	5,089,896	5,429,053	5,607,328
Transportation and warehousing	2,113,203	2,249,374	2,396,359	2,547,297
Information	1,550,942	1,683,744	1,981,716	2,355,362
Finance and insurance	2,699,048	3,109,857	3,274,406	3,488,532
Real estate, rental and leasing	1,052,138	1,255,884	1,504,225	1,523,623
Professional and technical services	4,088,331	4,372,129	4,532,803	5,071,693
Management of companies	1,545,573	1,527,689	1,714,829	1,888,788
Administrative and waste services	1,927,171	2,074,251	2,229,870	2,418,378
Educational services	469,608	509,329	566,872	598,350
Health care and social assistance	5,317,315	5,629,484	5,952,190	6,420,682
Arts, entertainment and recreation	454,015	508,119	529,777	614,414
Accommodation and food services	1,754,533	1,867,021	1,958,182	2,093,510
Other services	1,784,518	1,962,937	1,983,351	2,145,908
Federal government, civilian	1,823,181	1,899,963	1,919,405	2,074,919
Military	229,080	227,765	234,824	255,157
State government	2,001,821	2,105,335	2,374,265	2,442,690
Local government	5,747,409	6,105,776	6,893,313	6,980,283
Other <sup>1</sup>	20,051,809	21,095,908	21,108,153	22,296,976
<b>Total personal income</b>	<b>\$ 80,854,187</b>	<b>\$ 85,628,707</b>	<b>\$ 89,873,232</b>	<b>\$ 96,401,727</b>

Average effective rate <sup>2</sup>	5.8%	5.5%	5.8%	5.9%
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Source: US Department of Commerce, Bureau of Economic Analysis

<sup>1</sup> Includes income from all sources other than wages, salaries, tips, etc.

<sup>2</sup> The total direct rate for personal income for the most current year is not available. Average effective rate equals tax as a percentage of taxable income. Average effective rate for 2006 will not be available until May 2008.

**Schedule 5 (continued)**  
**PERSONAL INCOME BY INDUSTRY**  
 Last Ten Calendar Years  
 (Dollars In Thousands)

2001	2002	2003	2004	2005	2006
\$ 762,582	\$ 783,405	\$ 968,009	\$ 1,104,450	\$ 1,096,704	\$ 1,014,791
1,402,084	1,402,739	1,457,355	1,331,536	1,371,694	1,411,969
109,194	126,615	132,369	157,693	184,166	210,730
671,141	629,906	619,877	669,371	656,370	700,904
5,074,116	4,922,718	4,817,247	5,149,079	5,823,174	6,575,089
12,323,976	11,778,764	12,054,617	12,799,419	13,435,811	14,050,496
4,453,367	4,563,882	4,823,676	5,265,872	5,717,009	6,095,396
5,701,001	5,740,658	5,758,769	6,013,021	6,310,246	6,638,898
2,511,318	2,598,309	2,636,899	2,949,210	3,080,567	3,254,255
2,347,055	2,169,769	2,204,798	2,295,403	2,333,499	2,557,903
3,582,049	3,809,119	4,123,573	4,164,327	4,500,259	4,817,831
1,679,550	1,687,550	1,782,389	1,817,749	1,963,411	1,988,788
5,306,394	5,109,786	5,029,118	5,471,520	5,912,443	6,398,956
1,927,405	1,830,750	1,893,453	2,062,932	2,337,342	2,512,766
2,422,120	2,599,991	2,634,758	2,743,386	3,005,103	3,232,792
662,168	708,516	757,680	845,745	890,282	959,260
7,058,647	7,602,286	8,163,915	8,788,065	9,217,563	9,866,895
641,741	671,210	652,241	655,824	676,495	707,110
2,120,172	2,193,795	2,326,395	2,481,292	2,626,695	2,808,509
2,164,703	2,288,194	2,433,979	2,586,869	2,740,167	2,895,872
2,100,834	2,207,771	2,318,225	2,482,222	2,559,549	2,639,143
275,470	346,359	474,697	501,492	554,023	521,027
2,638,359	3,134,746	3,547,392	4,065,678	3,615,690	3,778,535
7,636,646	9,004,787	9,238,589	8,018,858	7,960,778	8,413,890
23,447,921	23,970,259	24,310,787	25,386,887	26,079,335	29,007,205
<b>\$ 99,020,013</b>	<b>\$ 101,881,884</b>	<b>\$ 105,160,807</b>	<b>\$ 109,807,900</b>	<b>\$ 114,648,375</b>	<b>\$ 123,059,010</b>

5.6%

5.5%

5.6%

5.7%

5.7%

N/A

**Schedule 6  
PERSONAL INCOME TAX RATES  
Last Ten Calendar Years**

**Top Income Tax Rate is Applied to  
Taxable Income in Excess of**

Year	Top Rate	Married Filing		Average Effective Rate <sup>1</sup>
		Single & Married Filing Separately	Jointly & Head of Household	
1997	9.0%	\$ 5,700	\$ 11,400	5.8%
1998	9.0%	5,800	11,600	5.5%
1999	9.0%	5,900	11,800	5.8%
2000	9.0%	6,100	12,200	5.9%
2001	9.0%	6,300	12,600	5.6%
2002	9.0%	6,250	12,500	5.5%
2003	9.0%	6,350	12,700	5.6%
2004	9.0%	6,500	13,000	5.7%
2005	9.0%	6,650	13,300	5.7%
2006	9.0%	6,850	13,700	N/A

Source: Oregon Department of Revenue

<sup>1</sup> The total direct rate for personal income for the most current year is not available. Average effective rate equals tax as a percentage of taxable income. Average effective rate for 2006 will not be available until May 2008.



**Schedule 7**  
**PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL**  
 Calendar Years 1996 and 2005  
 (Dollars In Thousands)

1996				
Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$500,001 and higher	3,141	0.21%	\$ 267,126	10.27%
\$100,001–\$500,000	60,910	4.01%	602,524	23.16%
\$80,001–\$100,000	46,262	3.04%	223,362	8.59%
\$60,001–\$80,000	106,543	7.01%	375,651	14.44%
\$40,001–\$60,000	217,292	14.30%	504,723	19.40%
\$20,001–\$40,000	382,163	25.13%	459,833	17.67%
\$10,001–\$20,000	303,923	20.00%	136,061	5.23%
\$10,000 and lower	399,750	26.30%	32,345	1.24%
<b>Total</b>	<b>1,519,984</b>	<b>100.00%</b>	<b>\$ 2,601,625</b>	<b>100.00%</b>

2005				
Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$500,001 and higher	7,511	0.35%	\$ 860,744	17.98%
\$100,001–\$500,000	148,028	7.71%	1,600,433	33.43%
\$80,001–\$100,000	96,631	5.39%	487,738	10.19%
\$60,001–\$80,000	161,428	9.35%	583,274	12.19%
\$40,001–\$60,000	248,199	14.75%	594,867	12.43%
\$20,001–\$40,000	396,716	23.59%	500,161	10.45%
\$10,001–\$20,000	282,380	16.97%	128,521	2.68%
\$10,000 and lower	355,624	21.89%	31,046	0.65%
<b>Total</b>	<b>1,696,517</b>	<b>100.00%</b>	<b>\$ 4,786,784</b>	<b>100.00%</b>

Source: Oregon Department of Revenue

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the State's revenue. Tax year 2005 is the most current year available.

**Schedule 8  
OUTSTANDING DEBT BY TYPE  
Last Ten Fiscal Years  
(Dollars In Thousands)**

Year	Governmental Activities					Business-Type Activities				Total Primary Government	Percentage of Personal Income <sup>1</sup>	Per Capita <sup>1</sup>
	General Obligation Bonds	Revenue Bonds	Certificates of Participation	General Appropriation Bonds	Capital Leases	General Obligation Bonds	Revenue Bonds	Certificates of Participation	Capital Leases			
1998	94,480	96,245	627,366	-	119	2,903,126	857,328	29,448	10,698	4,618,810	5.39%	1.38
1999	82,445	249,780	610,062	-	372	2,396,565	1,057,488	22,604	8,429	4,427,745	4.93%	1.30
2000	87,645	396,170	781,836	-	1,026	2,341,735	1,195,479	17,093	5,475	4,826,459	5.01%	1.41
2001	77,845	502,025	784,849	-	-	2,205,097	1,323,938	30,736	3,066	4,927,556	4.98%	1.42
2002	68,715	749,042	784,839	-	5	2,317,143	1,441,640	28,018	1,381	5,390,783	5.29%	1.53
2003	163,231	807,478	779,105	469,960	79	2,149,557	1,574,960	25,475	897	5,970,742	5.68%	1.68
2004	2,347,854	763,110	783,180	466,214	47	2,016,631	1,667,734	18,288	527	8,063,585	7.34%	2.25
2005	2,336,014	1,093,936	895,231	440,372	3,954	2,009,091	1,783,305	20,633	711	8,583,247	7.49%	2.36
2006	2,321,899	1,458,648	1,090,086	413,026	3,464	1,991,627	1,694,009	22,916	490	8,996,165	7.31%	2.43
2007	2,334,620	2,098,181	1,090,193	383,655	2,949	2,065,472	1,672,267	31,589	335	9,679,261	7.31%	2.58

Note: Details regarding the State's debt can be found in Note 9 of the financial statements. Amounts of outstanding debt for bonds and certificates of participation represent the outstanding principal net of discounts, premiums and other adjustments, except for amounts prior to 2002 when GASB Statement No. 34 was implemented.

<sup>1</sup> Ratios are calculated using personal income and population data found in Schedule 13.

**Schedule 9**  
**RATIOS OF GENERAL BONDED DEBT OUTSTANDING**  
**Last Ten Fiscal Years**  
**(Dollars In Thousands)**

<b>Year</b>	<b>General Obligation Bonds</b>	<b>Percentage of Personal Income <sup>1</sup></b>	<b>Per Capita</b>
1998	\$ 2,997,606	3.50%	\$ 0.89
1999	2,479,010	2.76%	0.73
2000	2,429,380	2.52%	0.71
2001	2,282,942	2.31%	0.66
2002	2,385,858	2.34%	0.68
2003	2,312,788	2.20%	0.65
2004	4,364,485	3.97%	1.22
2005	4,345,105	3.79%	1.19
2006	4,313,526	3.51%	1.17
2007	4,400,092	3.32%	1.17

Note: Details regarding the State's debt can be found in Note 9 of the financial statements. Amounts of outstanding general bonded debt represent the outstanding principal net of discounts, premiums and other adjustments, except for amounts prior to 2002 when GASB Statement No. 34 was implemented.

<sup>1</sup> Ratios are calculated using personal income and population data found in Schedule 13.

**Schedule 10  
LEGAL DEBT MARGIN CALCULATION  
For Fiscal Year 2007**

	<b>Constitutional/Statutory Provision</b>	<b>Constitutional Debt Limit <sup>1</sup></b>	<b>Statutory Debt Limit</b>
<b>General Obligation Bonds</b>			
General Purpose	Article XI Section 7	0.00%	\$ -
State Highway	Article XI Section 7	1.00%	-
Veterans' Welfare	Article XI-A	8.00%	-
State Power Development	Article XI-D	1.50%	-
Forest Rehabilitation <sup>2</sup>	Article XI-E	0.19%	-
Higher Education	Article XI-F(1) & XI-G	1.50%	-
Pollution Control	Article XI-H/ORS 468.195	1.00%	260,000,000
Water Resources	Article XI-I(1)	1.50%	-
Elderly and Disabled Housing	Article XI-I(2)	0.50%	-
Alternate Energy Project	Article XI-J	0.50%	-
Oregon School Bond Guaranty	Article XI-K	0.50%	-
Oregon Opportunity Bonds (OHSU) <sup>3</sup>	Article XI-L	0.50%	203,175,000
Seismic Refit-Public Education Buildings	Article XI-M	0.20%	-
Seismic Refit-Emergency Service Building	Article XI-N	0.20%	-
Pension Obligation	Article XI-O	1.00%	-
<b>Revenue Bonds</b>			
Transportation Infrastructure Bank	ORS 367.030	0.00%	\$ 200,000,000
Highway User Tax	ORS 367.620	0.00%	2,228,000,000
Single and Multi-Family Housing Programs	ORS 456.661	0.00%	2,500,000,000
Oregon State Fair	ORS 565.095	0.00%	10,000,000

Source: Office of the State Treasurer, Debt Management Division and Oregon Constitution

Note: 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 the proposed new bonds. The debt limit for lottery bonds is not a specific dollar amount; the limit varies based on changes in the amount of net lottery proceeds and changes in estimated debt service on proposed new bonds. Therefore, lottery revenue bonds are not included in the schedule.

<sup>1</sup> Percentages listed are of Real Market Value (RMV) of all taxable real property in the state, based on the January 1, 2006 RMV of \$434,319,218,596.

<sup>2</sup> Issuance of Forest Rehabilitation bonds is limited by statute to \$750,000 per year.

<sup>3</sup> Bonds issued to finance capital costs of Oregon Health and Science University shall be in an aggregate principal amount that produces net proceeds in an amount that does not exceed \$200 million.

**Schedule 10 (continued)**  
**LEGAL DEBT MARGIN CALCULATION**  
**For Fiscal Year 2007**

Legal Debt Limit	Amount Outstanding	Legal Debt Margin
\$ 50,000	\$ -	\$ 50,000
4,343,192,186	-	4,343,192,186
34,745,537,488	738,428,372	34,007,109,116
6,514,788,279	-	6,514,788,279
814,348,535	-	814,348,535
6,514,788,278	1,000,693,777	5,514,094,501
260,000,000	35,942,031	224,057,969
6,514,788,279	-	6,514,788,279
2,171,596,093	198,056,925	1,973,539,168
2,171,596,093	154,799,359	2,016,796,734
2,171,596,093	-	2,171,596,093
203,175,000	190,266,316	12,908,684
868,638,437	-	868,638,437
868,638,437	-	868,638,437
4,343,192,186	2,081,905,000	2,261,287,186
<b>\$ 72,505,925,384</b>	<b>\$ 4,400,091,780</b>	<b>\$ 68,105,833,604</b>
\$ 200,000,000	\$ -	\$ 200,000,000
2,228,000,000	1,623,319,151	604,680,849
2,500,000,000	1,428,137,027	1,071,862,973
10,000,000	-	10,000,000
<b>\$ 4,938,000,000</b>	<b>\$ 3,051,456,178</b>	<b>\$ 1,886,543,822</b>

**Schedule 11  
LEGAL DEBT MARGIN INFORMATION  
Last Eight Fiscal Years  
(Dollars In Thousands)**

	2000	2001	2002	2003	2004	2005	2006	2007
<b>General Obligation Bonds</b>								
Debt limit	\$35,557,043	\$38,185,215	\$41,878,725	\$45,244,118	\$52,440,336	\$56,691,300	\$60,648,799	\$72,505,925
Total debt applicable to limit	2,429,380	2,282,942	2,385,858	2,312,788	4,364,485	4,345,105	4,313,526	4,400,092
Legal debt margin	<u>\$33,127,663</u>	<u>\$35,902,273</u>	<u>\$39,492,867</u>	<u>\$42,931,330</u>	<u>\$48,075,851</u>	<u>\$52,346,195</u>	<u>\$56,335,273</u>	<u>\$68,105,833</u>
Total debt applicable to the limit as a percentage of debt limit	6.83%	5.98%	5.70%	5.11%	8.32%	7.66%	7.11%	6.07%
<b>Revenue Bonds</b>								
Debt limit	\$ 2,548,400	\$ 2,548,400	\$ 3,110,000	\$ 3,110,000	\$ 4,838,000	\$ 4,838,000	\$ 4,938,000	\$ 4,938,000
Total debt applicable to limit	1,262,359	1,371,417	1,702,414	1,790,178	1,877,507	2,326,329	2,472,294	3,051,456
Legal debt margin	<u>\$ 1,286,041</u>	<u>\$ 1,176,983</u>	<u>\$ 1,407,586</u>	<u>\$ 1,319,822</u>	<u>\$ 2,960,493</u>	<u>\$ 2,511,671</u>	<u>\$ 2,465,706</u>	<u>\$ 1,886,544</u>
Total debt applicable to the limit as a percentage of debt limit	49.54%	53.81%	54.74%	57.56%	38.81%	48.08%	50.07%	61.80%

Source: Office of the State Treasurer, Debt Management Division

Note: Comparable legal debt limit information prior to fiscal year 2000 is not available. Amounts of outstanding debt applicable to debt limit represent the outstanding principal net of discounts, premiums and other adjustments, except for amounts prior to 2002 when GASB Statement No. 34 was implemented.

**Schedule 12  
PLEDGED REVENUE  
Lottery Revenue Bonds  
Last Ten Fiscal Years  
(Dollars In Thousands)**

Year	Revenues	Expenses	Net Revenues Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
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
2006	1,092,446	533,895	558,551	47,670	27,159	74,829	7.46
2007	1,219,556	577,103	642,453	48,970	25,984	74,954	8.57

Source: Oregon State Lottery financial statements and the Oregon Department of Administrative Services, Budget and Management Division.

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 13  
DEMOGRAPHIC AND ECONOMIC INDICATORS  
Last Ten Calendar Years**

<b>Year</b>	<b>Population</b>	<b>Personal Income<sup>1</sup></b>	<b>Per Capita Personal Income</b>	<b>Unemployment Rate</b>
1998	3,352,449	\$ 85,628,707	\$ 25,542	5.7%
1999	3,393,941	89,873,232	26,480	5.5%
2000	3,431,530	96,401,727	28,093	5.1%
2001	3,474,183	99,020,013	28,502	6.4%
2002	3,523,529	101,881,884	28,915	7.6%
2003	3,561,155	105,160,987	29,530	8.1%
2004	3,589,168	109,807,900	30,594	7.3%
2005	3,638,871	114,648,375	31,507	6.2%
2006	3,700,758	123,059,010	33,252	5.4%
2007	3,746,900	132,400,000	35,336	5.3%

Source: 1998 through 2006 US Department of Commerce, Bureau of Economic Analysis

Note: 2007 population and personal income estimates made by the Oregon Office of Economic Analysis. Unemployment rate for 2007 comes from the Oregon Employment Department.

<sup>1</sup> Personal income presented in thousands.



**Schedule 14**  
**EMPLOYMENT BY INDUSTRY**  
 Calendar Year 2006 and Nine Years Prior

	1997		2006	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Farm employment	66,086	3.31%	68,201	2.96%
Forestry, fishing and related activities	35,759	1.79%	35,949	1.56%
Mining	3,285	0.16%	3,482	0.15%
Utilities	5,945	0.30%	5,036	0.22%
Construction	121,408	6.07%	147,735	6.41%
Manufacturing	238,090	11.91%	220,322	9.56%
Wholesale trade	80,044	4.00%	89,235	3.87%
Retail trade	239,587	11.98%	252,971	10.98%
Transportation and warehousing	59,202	2.96%	68,224	2.96%
Information	39,042	1.95%	42,535	1.85%
Finance and insurance	77,272	3.87%	86,697	3.76%
Real estate, rental and leasing	74,374	3.72%	97,385	4.23%
Professional and technical services	111,542	5.58%	128,167	5.56%
Management of companies	23,310	1.17%	30,238	1.31%
Administrative and waste services	99,053	4.95%	125,898	5.46%
Educational services	27,274	1.36%	50,782	2.20%
Health care and social assistance	173,885	8.70%	235,979	10.24%
Arts, entertainment and recreation	36,224	1.81%	49,431	2.15%
Accommodation and food services	132,689	6.64%	155,627	6.75%
Other services	98,498	4.94%	123,335	5.36%
Federal government, civilian	29,818	1.49%	29,040	1.26%
Military	13,427	0.67%	12,591	0.55%
State government	57,455	2.87%	68,534	2.97%
Local government	155,904	7.80%	176,918	7.68%
<b>Total employment</b>	<b>1,999,173</b>	<b>100.00%</b>	<b>2,304,312</b>	<b>100.00%</b>

Source: US Department of Commerce, Bureau of Economic Analysis

Notes: Due to confidentiality issues, the names of the ten principal employers are not available. The categories presented are intended to provide alternative information regarding the concentration of employment in various business sectors.

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**Schedule 15  
GOVERNMENT EMPLOYEES  
Last Ten Fiscal Years**

	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Education	11,176	11,176	12,081	12,081	12,402	12,402	12,691	12,691	12,411	12,411
Human Services	9,194	9,194	8,678	8,678	8,983	8,983	9,281	9,281	9,200	9,200
Public Safety	7,027	7,027	7,949	7,949	8,265	8,265	7,810	7,810	8,187	8,187
Economic and Community Services	1,796	1,796	1,881	1,881	1,940	1,940	1,846	1,846	1,753	1,753
Natural Resources	3,733	3,733	4,042	4,042	4,272	4,272	4,163	4,163	4,272	4,272
Transportation	4,826	4,826	4,796	4,796	4,742	4,742	4,602	4,602	4,579	4,579
Consumer and Business Services	1,699	1,699	1,627	1,627	1,589	1,589	1,559	1,559	1,550	1,550
Administration	2,458	2,458	2,583	2,583	2,736	2,736	2,817	2,817	2,879	2,879
Legislative Branch	386	386	417	417	418	418	394	394	393	393
Judicial Branch	1,649	1,649	1,725	1,725	1,865	1,865	1,896	1,896	1,907	1,907
<b>Total FTE Positions</b>	<b>43,944</b>	<b>43,944</b>	<b>45,779</b>	<b>45,779</b>	<b>47,212</b>	<b>47,212</b>	<b>47,059</b>	<b>47,059</b>	<b>47,131</b>	<b>47,131</b>

Source: Department of Administrative Services, Budget and Management

Note: The number of full time equivalent (FTE) positions is established in the legislatively adopted biennial budget. A distinction between governmental and business-type activities is not available.

**Schedule 16**  
**OPERATING INDICATORS AND CAPITAL ASSET INFORMATION BY FUNCTION**  
**Last Ten Fiscal Years**

	1998	1999	2000
<b>Governmental Activities</b>			
<b>Education</b>			
Number of PreK-12 students	540,359	542,867	545,085
Number of FTE community college students	85,346	89,616	93,648
Special education school campuses	2	2	2
<b>Human Services</b>			
Number of individuals eligible for Oregon Health Plan	N/A	N/A	345,523
Average number of basic TANF individuals	46,697	41,491	39,836
<b>Public Safety</b>			
Number of sworn state police officers	769	794	805
Prison inmate population	8,281	9,144	9,933
Number of correctional facilities	10	11	11
<b>Economic and Community Development</b>			
Community development grants provided (in dollars)	15,520,585	4,189,128	18,790,086
Number of technical assistance grants provided	1	5	18
<b>Natural Resources</b>			
Forest acres burned	2,682	9,528	10,875
State park day use visitors (in millions)	37.2	36.9	37.4
Acreage of state parks	92,606	94,330	94,869
Miles of forest roads	2,845	2,861	3,042
<b>Transportation</b>			
Licensed drivers (in millions)	2.5	2.7	2.8
Vehicle miles traveled on state highway system (in billions)	19.7	20.3	20.5
State highway system miles	7,482	7,507	7,499
Number of state owned bridges	2,616	2,632	2,646
<b>Consumer and Business Services</b>			
Number of employers covered by workers' compensation	80,363	81,296	82,321
Historic premiums written for all insurance lines (in billions)	9.9	10.2	11.0
Average bank and credit union assets (in billions)	27.9	32.4	33.7
Construction employment (in thousands)	82.6	83.6	83.6
<b>Administration</b>			
Number of tax returns filed	1,587,399	1,602,850	1,628,413
Percent of returns filed electronically	10.3%	15.6%	20.3%
Uniform rent square footage	1,690,606	1,690,606	1,690,606
Leased office space square footage	3,189,424	3,189,424	3,398,067
Number of motor pool vehicles	4,320	3,967	4,019
<b>Legislative</b>			
Number of bills introduced	-	3,103	-
Number of bills becoming law	-	1,096	-
Length of legislative session (in days)	-	195	-
Capital building	1	1	1
<b>Judicial</b>			
Cases filed in circuit courts	623,593	635,501	653,367
Number of circuit court judges	160	163	163

Sources: Various state agencies

**Schedule 16 (continued)**  
**OPERATING INDICATORS AND CAPITAL ASSET INFORMATION BY FUNCTION**  
**Last Ten Fiscal Years**

2001	2002	2003	2004	2005	2006	2007
545,680	551,679	554,071	551,407	552,320	559,215	562,828
96,037	102,019	100,023	93,221	92,054	91,401	91,456
2	2	2	2	2	2	2
344,992	376,063	380,646	359,325	374,751	381,343	365,940
36,050	39,366	41,272	40,598	42,119	40,565	39,096
735	753	699	610	582	607	557
10,668	11,448	12,000	12,776	12,875	13,229	13,497
12	12	12	12	13	13	13
18,185,247	10,914,364	12,340,280	13,319,246	11,454,006	17,040,564	9,607,717
14	7	3	6	6	8	3
51,438	99,166	9,346	5,941	11,588	11,458	54,104
37.9	37.9	38.4	42.4	40.6	40.1	41.4
94,937	95,462	95,313	99,030	101,010	97,340	97,447
3,035	3,055	3,059	3,082	3,123	3,155	3,202
2.8	2.9	2.8	2.9	3.0	3.0	N/A
20.5	20.9	20.8	20.8	20.7	20.7	N/A
7,485	7,476	7,448	7,441	7,426	7,420	N/A
2,653	2,658	2,664	2,670	2,664	2,676	2,666
83,816	84,432	85,310	86,115	87,150	89,685	N/A
12.5	13.9	13.7	14.4	15.0	16.2	N/A
32.9	32.5	37.4	37.7	35.4	46.0	N/A
80.5	78.3	77.0	82.7	90.8	100.3	N/A
1,623,813	1,616,700	1,611,785	1,653,203	1,696,517	N/A	N/A
25.5%	30.6%	34.7%	45.3%	50.7%	N/A	N/A
1,690,606	1,690,606	1,690,606	1,796,482	1,796,482	1,810,942	1,896,185
3,398,067	3,522,641	3,522,641	3,522,641	3,522,641	3,784,762	4,372,625
3,913	3,923	3,682	3,605	3,689	3,814	3,922
3,106	-	2,769	-	2,957	-	N/A
989	-	817	-	844	-	N/A
181	52	227	-	208	-	N/A
1	1	1	1	1	1	1
654,822	645,956	655,574	607,539	611,946	602,896	N/A
163	163	168	169	169	173	173

**Schedule 16 (continued)**  
**OPERATING INDICATORS AND CAPITAL ASSET INFORMATION BY FUNCTION**  
**Last Ten Fiscal Years**

	1998	1999	2000
<b>Business-Type Activities</b>			
<b>Housing and Community Services</b>			
Number of low income single family home loans closed	951	1,474	1,860
Number of affordable rental units produced	409	680	1,017
<b>Veterans' Loan</b>			
Number of outstanding loans	37,697	30,229	26,008
Percent of delinquent loans	0.33%	0.31%	0.41%
<b>Lottery Operations</b>			
Number of retailers	3,622	3,516	3,501
Number of video terminals	9,033	8,892	8,776
<b>Unemployment Compensation</b>			
Number of claims paid	2,154,370	2,414,334	2,070,844
Amount of claims paid (in millions)	426.8	441.8	440.5
<b>University System</b>			
Total headcount enrollment	64,989	67,347	69,508
Degrees awarded	12,686	12,840	13,592
Number of university campuses	7	7	7
<b>State Hospitals</b>			
Number of mental health clients served	379,249	349,187	284,975
Number of state owned hospital beds	1,105	1,018	812
<b>Liquor Control</b>			
Number of state retail outlets	235	235	237
Number of cases sold	1,586,610	1,647,424	1,723,145
<b>Other Business-type Activities</b>			
Number of state fair visitors <sup>1</sup>	690,041	667,309	401,640
Number of residents in veterans' home	59	98	107
Number of state owned parking spaces	4,323	4,323	4,323

<sup>1</sup> State fair attendance calculation method changed in 2000.

**Schedule 16 (continued)**  
**OPERATING INDICATORS AND CAPITAL ASSET INFORMATION BY FUNCTION**  
**Last Ten Fiscal Years**

2001	2002	2003	2004	2005	2006	2007
1,337	1,322	1,014	1,051	1,447	1,149	1,195
1,327	206	978	1,062	719	608	522
22,296	18,014	13,788	10,176	8,013	6,612	5,672
0.42%	0.43%	0.54%	0.39%	0.21%	0.32%	0.25%
3,526	3,600	3,722	3,816	3,842	3,972	3,712
8,903	9,259	9,434	10,194	10,438	11,125	11,831
3,025,616	4,648,216	5,025,707	2,903,857	2,209,165	1,923,182	N/A
705.3	1,153.0	1,277.8	718.1	558.0	503.4	N/A
73,883	78,111	79,558	80,066	80,888	81,002	82,249
13,150	13,551	15,112	16,349	16,694	16,979	17,116
7	7	7	7	7	7	7
288,792	291,527	282,675	295,183	304,731	284,265	282,993
820	880	833	810	834	781	790
237	238	237	239	241	243	241
1,763,159	1,812,009	1,889,240	2,014,098	2,108,035	2,295,797	2,431,531
390,680	368,518	346,841	371,457	333,913	361,396	357,407
125	96	104	120	132	135	140
4,323	4,700	4,700	4,507	4,507	4,507	4,656

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