PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 7, 2013

This Official Statement has been prepared on behalf of the State of Oregon, acting by and through the Office of the Oregon State Treasurer and the State Board of Higher Education, to provide information on the 2013 Bonds. Selected information presented on this cover page is for the convenience of the users. To make an informed decision regarding the 2013 Bonds, a prospective investor should read this Official Statement in its entirety. Unless otherwise indicated, capitalized terms used on the cover page have the meanings given in this Official Statement.

NEW ISSUES − NEGOTIATED
BOOK-ENTRY ONLY

RATINGS: See "Ratings"

$244,865,000*
STATE OF OREGON
GENERAL OBLIGATION BONDS
(OREGON UNIVERSITY SYSTEM)

$82,605,000*	**$112,495,000***	**$17,005,000***	**$32,760,000***
2013 Series A	**2013 Series B**	**2013 Series C**	**2013 Series D**
(Tax-Exempt)	**(Federally Taxable)**	**(Tax-Exempt)**	**(Federally Taxable)**

DATED: Date of Delivery

DUE: As shown on the inside cover pages

Tax Status	In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel ("Bond Counsel") to the State of Oregon (the "State"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2013 Series A Bonds and the 2013 Series C Bonds (together, the "Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In the opinion of Bond Counsel, interest on the 2013 Series B Bonds and the 2013 Series D Bonds is not excludable from gross income for federal income tax purposes. In the opinion of Bond Counsel, interest on all the 2013 Bonds is exempt from Oregon personal income tax under existing law. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2013 Bonds. See "TAX MATTERS" herein.
Purpose and Authority	The 2013 Bonds are being issued to finance a variety of capital projects for the Oregon University System, refund certain of the State's outstanding general obligation bonds and pay costs of issuing the 2013 Bonds, as described herein. The 2013 Bonds are being issued pursuant to Oregon Revised Statutes chapters 286A and 351, as amended, provisions of the Oregon Constitution that specifically authorize the issuance of general obligation bonds for the Oregon University System, resolutions of the State Board of Higher Education and its Finance and Administration Committee, and an Issuance Certificate executed by the State Treasurer.
Security	The 2013 Bonds are direct general obligations of the State, and the full faith and credit and taxing power of the State are pledged to pay the 2013 Bonds when due, including the power to levy an ad valorem property tax.
Interest Payment Dates	Interest on the 2013 Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2013.
Denominations	The 2013 Bonds will be available in denominations of $5,000 and integral multiples thereof.
Redemption	The 2013 Bonds are subject to redemption prior to maturity at the times, under the conditions and at the prices described herein.
Closing/Settlement	The 2013 Bonds are expected to be available for delivery through the facilities of DTC in New York, New York on or about February __, 2013.
Legal Counsel	Orrick, Herrington & Sutcliffe LLP, Portland, Oregon, Bond Counsel; the Oregon Department of Justice, Salem, Oregon, Counsel to the State; Hawkins Delafield & Wood LLP, Portland, Oregon, the Underwriters' Counsel.
Paying Agent	The Bank of New York Mellon, as the State of Oregon's Fiscal Agent.

BofA Merrill Lynch **Citigroup**

Fidelity Capital Markets **Goldman, Sachs & Co.**

J.P. Morgan **Morgan Stanley** **RBC Capital Markets**

* Preliminary, subject to change.

MATURITY SCHEDULES

STATE OF OREGON
GENERAL OBLIGATION BONDS
(OREGON UNIVERSITY SYSTEM)

$82,605,000[*]
2013 Series A (Tax-Exempt)

$________ 2013 Series A Serial Bonds

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP[**] (68608U)
	$	%		

$_________ __.___% Series A Term Bonds maturing _______ 1, 20___
Price to Yield __.___% (CUSIP No. 68608U ___[**])

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[*] Preliminary, subject to change.

[**] Copyright 2013, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, operated by Standard and Poor's, a division of The McGraw Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the registered owners of the applicable Bonds. Neither the State nor any of the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2013 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2013 Bonds.

MATURITY SCHEDULES

STATE OF OREGON
GENERAL OBLIGATION BONDS
(OREGON UNIVERSITY SYSTEM)

$112,495,000*
2013 Series B (Federally Taxable)

$________ 2013 Series B Serial Bonds

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP** (68608U)
	$	%		

$_________ __.___% Series B Term Bonds maturing _______ 1, 20___
Price to Yield __.___% (CUSIP No. 68608U ___)**

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MATURITY SCHEDULES

STATE OF OREGON
GENERAL OBLIGATION BONDS
(OREGON UNIVERSITY SYSTEM)

$17,005,000[*]
2013 Series C (Tax-Exempt)

$________ 2013 Series C Serial Bonds

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP[**] (68608U)
	$	%		

$_________ __.___% Series C Term Bonds maturing _______ 1, 20___
Price to Yield __.___% (CUSIP No. 68608U ___[**])

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MATURITY SCHEDULES

STATE OF OREGON
GENERAL OBLIGATION BONDS
(OREGON UNIVERSITY SYSTEM)

$32,760,000*
2013 Series D (Federally Taxable)

$________ 2013 Series D Serial Bonds

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP** (68608U)
	$	%		

$_________ __.___% Series D Term Bonds maturing _______ 1, 20___
Price to Yield __.___% (CUSIP No. 68608U ___)**

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No dealer, broker, salesperson or other person is authorized by the State or the Underwriters to give any information or to make any representation other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No website mentioned in this Official Statement is part of this Official Statement, and readers should not rely upon any information presented on any such website in determining whether to purchase the 2013 Bonds. Any references to any website mentioned in this Official Statement are not hyperlinks and do not incorporate such websites by reference.

In connection with this offering, the Underwriters may over allot or effect transactions that stabilize or maintain the market price of the 2013 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The public offering prices or yields set forth on the inside cover pages hereof may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2013 Bonds to certain dealers, unit investment trusts or money market funds at prices lower than the public offering prices stated on the inside cover pages hereof.

This Preliminary Official Statement has been "deemed final" as of its date by the State, except for the omission of offering prices, interest rates, selling commissions, aggregate principal amount, principal amount per maturity, delivery dates and other terms of the 2013 Bonds depending on such matters, in accordance with Rule 15c2-12(b)(i) under the Securities Exchange Act of 1934, as amended.

Certain statements contained in this Official Statement do not reflect historical facts but are forecasts and “forward-looking statements.” No assurance is given that any future results discussed herein will be achieved, and actual results may differ materially from any forecasts described herein. In this respect, the words such as “estimate,” “project,” “forecast,” “anticipate,” “expect,” “intend,” “plan,” “believe” and similar expressions identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinion and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

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APPENDIX F	DESCRIPTION OF DTC AND ITS BOOK-ENTRY SYSTEM

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John Kitzhaber

OREGON STATE TREASURER

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$244,865,000*
STATE OF OREGON
GENERAL OBLIGATION BONDS
(OREGON UNIVERSITY SYSTEM)

$82,605,000*	$112,495,000*	$17,005,000*	$32,760,000*
2013 Series A	**2013 Series B**	**2013 Series C**	**2013 Series D**
(Tax-Exempt)	**(Federally Taxable)**	**(Tax-Exempt)**	**(Federally Taxable)**

INTRODUCTION

This Official Statement, including the cover page, inside cover pages and appendices, provides information in connection with the issuance of the State of Oregon General Obligation Bonds (Oregon University System), 2013 Series A (Tax-Exempt) (the "2013 Series A Bonds"), the State of Oregon General Obligation Bonds (Oregon University System), 2013 Series B (Federally Taxable) (the "2013 Series B Bonds"), the State of Oregon General Obligation Bonds (Oregon University System), 2013 Series C (Tax-Exempt) (the "2013 Series C Bonds"), and the State of Oregon General Obligation Bonds (Oregon University System), 2013 Series D (Federally Taxable) (the "2013 Series D Bonds"). The 2013 Series A Bonds, 2013 Series B Bonds, the 2013 Series C Bonds, and the 2013 Series D Bonds are collectively referred to herein as the "2013 Bonds."

The 2013 Bonds are direct, general obligations of the State of Oregon (the "State"), and the full faith and credit and taxing power of the State are pledged to pay the 2013 Bonds when due, including the power to levy an ad valorem property tax. See "SECURITY AND SOURCES OF PAYMENT," "STATE FINANCIAL INFORMATION" and APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON."

The 2013 Bonds will be issued by the State, acting by and through the State Treasurer (the "State Treasurer") at the request of the State Board of Higher Education (the "Board" acting through its Finance and Administration Committee (the "Finance Committee")), pursuant to the constitutional and statutory authority described herein and by resolutions of the Board and its Finance Committee.

The 2013 Series A Bonds and the 2013 Series C Bonds (collectively, the "Tax-Exempt Bonds") will bear interest that is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Tax-Exempt Bonds will be included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. The 2013 Series B Bonds and 2013 Series D Bonds (collectively, the "Taxable Bonds") will bear interest that is not excludable in gross income for federal income tax purposes. Each series of the 2013 Bonds will bear interest that is exempt from Oregon personal income taxation. See "TAX MATTERS."

The 2013 Bonds are being issued to (i) pay a portion of the costs of projects authorized by the Oregon Legislative Assembly (the "Legislative Assembly") for the benefit of the programs, activities and institutions of higher education under the jurisdiction of the Board (referred to collectively in this Official Statement as the "Oregon University System" or "OUS") (the "Projects"); (ii) refund certain maturities of outstanding general obligation bonds issued for the benefit of programs, activities and institutions of OUS; and (iii) pay costs of issuing the 2013 Bonds. See "THE PROJECTS" and "PLAN OF REFUNDING."

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* Preliminary, subject to change.

AUTHORITY FOR ISSUANCE

Constitutional Authority and Limits

The Oregon Constitution authorizes the issuance of general obligation bonds for a variety of purposes under Articles XI-A through XI-Q. Approximately $5.06 billion of State general obligation bonds were outstanding as of December 31, 2012, including outstanding Article XI-F(1) Bonds and Article XI-G Bonds (each as described below). See "SECURITY AND SOURCES OF PAYMENT—BOND DEBT SERVICE" and see APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON — DEBT AUTHORITY AND BOND ISSUANCE" and Tables 28 through 30 therein for a summary of the State's outstanding debt obligations, including outstanding general obligation bonds.

The Oregon Constitution authorizes the issuance of two types of general obligation bonds for higher education purposes, both of which are direct general obligations of the State, payable from any legally available funds of the State.

Article XI-F(1). The 2013 Series A Bonds and the 2013 Series B Bonds are being issued under authority granted by Article XI-F(1) of the Oregon Constitution ("Article XI-F(1)") and are referred to herein as the "2013 Article XI-F(1) Bonds." Article XI-F(1) authorizes the issuance of general obligation bonds to: 1) provide funds with which to acquire, construct, improve, repair, equip and furnish buildings, structures, land and other projects, or parts thereof, that the Legislative Assembly determines will benefit higher education institutions or activities, and 2) refund general obligation indebtedness incurred under Article XI-F(1). Article XI-F(1) authorizes the State to issue the bonds if there are sufficient estimated revenues of the OUS, exclusive of moneys appropriated from the General Fund of the State of Oregon (the "General Fund") to pay the indebtedness and to operate the projects financed with the proceeds of the indebtedness. The State voters adopted Article XI-F(1) in 1950 and amended it in 1960 and 2010.

The Oregon Constitution limits State general obligation bonds issued under Article XI-F(1) that may be outstanding at any one time to three-fourths of one percent (0.75 percent) of the "true cash value" of taxable property within the State. The amount of true cash value (referred to as "real market value" in Appendix A), as determined by the State Department of Revenue, is the market value of all nonexempt real and personal property in the State as of the valuation date (January 1) for the tax and fiscal year beginning the following July 1. As of January 1, 2011, the true cash value of nonexempt real and personal property in the State was approximately $434 billion. Table 1 below shows the total approximate amount of outstanding Article XI-F(1) Bonds and the approximate percentage of remaining bonding authority under Article XI-F(1). The amount of outstanding Article XI-F(1) Bonds shown in Table 1 includes the Refunded Bonds, as defined below, that are being refunded under Article XI-F(1), but excludes the 2013 Article XI-F(1) Bonds. See APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—DEBT AUTHORITY AND BOND ISSUANCE" and Table 28 therein.

TABLE 1
ARTICLE XI-F(1) BOND DEBT OUTSTANDING AND REMAINING AUTHORITY UNDER CONSTITUTIONAL LIMIT[1]

	December 31, 2012[2]
Article XI-F(1) Bonded Debt Constitutional Limit	$3.26 billion
Article XI-F(1) Bonds Outstanding	$1.06 billion
Percent of Remaining Authority Under Constitutional Limit, XI-F(1) Bonds	67.6%

(1) Amounts shown may not foot due to rounding.
(2) The limit on Article XI-F(1) Bonds is based on the true cash value of statewide property as of January 1, 2011. This figure includes the Article XI-F(1) Bonds being refunded with this issue but does not include the 2013 Article XI-F(1) Bonds. All zero-coupon/deferred-interest bonds are shown as of their original issue amount with no accreted interest.
Source: Debt Management Division, Office of the State Treasurer.

Article XI-G. The 2013 Series C Bonds and 2013 Series D Bonds are being issued under authority granted by Article XI-G of the Oregon Constitution ("Article XI-G") and are referred to herein as the "2013 Article XI-G Bonds." Article XI-G authorizes the issuance of general obligation bonds for the same purposes as Article XI-F(1) but the State may issue bonds (other than refunding bonds) only if the amount issued under Article XI-G is matched by at least an equal amount that will be used for the same or similar purposes as the proceeds of the bonds. The matching amount may not consist of proceeds of bonds issued by the State under any other provision of the Oregon Constitution. The State voters adopted Article XI-G in 1964 and amended it in 1968 and 2010. Article XI-G also authorizes general obligation bonds to be issued for the purposes of financing projects for community colleges ("Community College Bonds"); none of the 2013 Bonds are being issued to refund bonds that financed community college projects.

The Oregon Constitution limits State general obligation bonds issued under Article XI-G that may be outstanding at any one time to three-fourths of one percent (0.75 percent) of the "true cash value" of taxable property within the State. Table 2 below shows the total approximate amount of outstanding Article XI-G Bonds, the approximate percentage of remaining bonding authority under Article XI-G for Article XI-G Bonds and for Community College Bonds. The amount of outstanding Article XI-G Bonds shown in Table 2 includes the Refunded Bonds, as defined below, that are refunded under Article XI-G, but excludes the 2013 Article XI-G Bonds. See APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON-DEBT AUTHORITY AND BOND ISSUANCE" and Table 28 therein.

TABLE 2
ARTICLE XI-G BOND DEBT OUTSTANDING AND REMAINING AUTHORITY UNDER CONSTITUTIONAL LIMIT[1]

	December 31, 2012[2]
Article XI-G Bonded Debt Constitutional Limit	$3.26 billion
Article XI-G OUS Bonds Outstanding	$381.0 million
Article XI-G Community College Bonds Outstanding	$111.9 million
Percent of Remaining Authority Under Constitutional Limit, XI-G Bonds	84.9%

(1) Amounts shown may not foot due to rounding.
(2) The limit on Article XI-G Bonds is based on the true cash value of statewide property as of January 1, 2011. This figure includes the Article XI-G Bonds being refunded with this issue but does not include the 2013 Article XI-G Bonds. All zero-coupon/deferred-interest bonds are shown as of their original issue amount with no accreted interest.
Source: Debt Management Division, Office of the State Treasurer.

Legislative Authority

2011-13 Biennium Authority. State law requires the Legislative Assembly to establish the amount of bonds that may be issued during each two-year budget period (a "biennium") for purposes other than refunding. The total amount of general obligation bonds authorized for the 2011-13 biennium by the Legislative Assembly was approximately $749 million. The State has approximately $546 million of remaining authority for the 2011-13 biennium as of December 31, 2012, not including the 2013 Bonds, which include new money and refunding bonds, and any additional refunding bonds that may be issued during the remainder of the biennium. The total amount of Article XI-F(1) General Obligation Bonds authorized for the 2011-13 biennium was $166,722,070. The total amount of Article XI-G General Obligation Bonds authorized was $42,108,000. The full amount of both authorizations remain available before issuance of the 2013 Bonds. See "AUTHORITY FOR ISSUANCE—Constitutional Authority and Limits" and APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—DEBT AUTHORITY AND BOND ISSUANCE" for a summary of the State's outstanding debt obligations.

TABLE 3
GENERAL OBLIGATION BOND 2011-13 ISSUANCE AUTHORITY[(1)]

	Authorized	Issued[(2)]
Total General Obligation Bond Issuance Authority	$ 748,829,070	$ 202,900,000
Article XI-F(1) Issuance Authority	166,722,070	-0-
Article XI-G Issuance Authority	42,108,000	-0-

(1) Amounts shown are approximate; totals may not add due to rounding.
(2) Excludes the 2013 Bonds.
Source: Debt Management Division, Office of the State Treasurer; data as of December 31, 2012.

Other Authority

The 2013 Bonds are also issued pursuant to Oregon Revised Statutes ("ORS") chapters 286A and 351, as amended.

Pursuant to ORS 351.062 the Board has authorized the Finance Committee to approve the sale of bonds issued pursuant to Articles XI-F(1) and XI-G. The Finance Committee adopted a resolution on December 21, 2012 (the "Refunding Resolution"), which among other things, authorizes general obligation refunding bonds to be issued pursuant to Articles XI-F(1) and XI-G and applicable statutes of the State to achieve debt service savings. The Finance Committee also adopted a resolution on December 21, 2012 (the "2013 Project Resolution" and collectively, with the refunding Resolution, the "Resolutions"), which among other things, authorizes general obligation bonds to be issued pursuant to Articles XI-F(1) and XI-G and other applicable statutes of the State to finance the Projects. The Resolutions request the Treasurer to structure, sell and issue bonds authorized by the Resolutions. The Treasurer will execute and deliver an issuance certificate to be dated the date of delivery of the 2013 Bonds (the "Issuance Certificate").

TABLE 4
2013 BONDS CONSTITUTIONAL AUTHORITY AND NEW MONEY AND REFUNDING ALLOCATION

	Constitutional Authority	New Money	Refunding
2013 Series A (Tax-Exempt)	XI-F(1)	$	$
2013 Series B (Taxable)	XI-F(1)		
2013 Series C (Tax-Exempt)	XI-G		
2013 Series D (Taxable)	XI-G		

Source: Debt Management Division, Office of the State Treasurer.

SECURITY AND SOURCES OF PAYMENT

Pledge of Full Faith and Credit

The 2013 Bonds are direct general obligations of the State, and the full faith and credit and property taxing power of the State are irrevocably pledged to pay the 2013 Bonds when due, including the power to levy an ad valorem property tax upon all taxable property within the State.

Sources of Payment

Article XI-F(1) Bonds

The 2013 Article XI-F(1) Bonds are expected to be paid from program revenues of OUS ("Program Revenues"). Program Revenues include, but are not limited to, tuition, fees, gifts, grants, building fees and revenues generated from housing, dining, parking and athletics and other services or facilities of OUS. Program Revenues do not include moneys appropriated to OUS from the State's General Fund.

If Program Revenues ever are not expected to be sufficient to pay the 2013 Article XI-F(1) Bonds, and the Legislative Assembly is in session, the Legislative Assembly may appropriate additional moneys from the General Fund or from other unrestricted sources to pay the debt service on Article XI-F(1) Bonds, including the 2013 Article XI-F(1) Bonds. If the Legislative Assembly is not in session, the Emergency Board, established under Article III, Section 3 of the Oregon Constitution, may allocate moneys to pay debt service out of the emergency fund that is appropriated to it by the full Legislative Assembly. See "STATE FINANCIAL INFORMATION—Budgeting" and APPENDIX A—"GENERAL INFORMATION RELATED TO THE STATE OF OREGON—THE STATE OF OREGON GOVERNMENTAL ORGANIZATION—The Legislative Branch" and "—STATE FINANCIAL OPERATIONS—Budgetary Process."

Article XI-G Bonds

The 2013 Article XI-G Bonds are expected to be paid from biennial appropriations from the State's General Fund budgeted by the Legislative Assembly.

Property Taxes

If the Department of Administrative Services ("DAS") determines that amounts available during a fiscal year will not be sufficient to pay the Article XI-(F)(1) Bonds and Article XI-(G) Bonds, current Oregon law requires the State to impose an *ad valorem* property tax levy on all taxable property within the State in an amount equal to the deficit. However, the State has not imposed *ad valorem* property taxes for many years and does not expect that property taxes would be levied to pay the 2013 Bonds. Instead, the State expects that the Legislative Assembly or the Emergency Board would provide revenues to pay the 2013 Bonds.

Bond Debt Service*

Table 5 on the following page shows annual debt service on all general obligation bonds of the State that were outstanding as of December 31, 2012, including the debt service on the Refunded Bonds. The debt service on the 2013 Bonds is not reflected in Table 5. The State plans to issue additional general obligation bonds after the 2013 Bonds are issued. Debt service on those additional general obligation bonds does not appear in Table 5.

* Preliminary, subject to change.

TABLE 5
STATE OF OREGON
GENERAL OBLIGATION BOND DEBT SERVICE

Calendar Year Ending December 31	Outstanding Debt Service[1] [2] (A)	Refunded Bonds Debt Service (B)	2013 Bonds Principal	2013 Bonds Interest	2013 Bonds Debt Service (C)	Combined Total[2] Bond Debt Service (D=A-B+C)
2013	$421,468,275.12					
2014	435,126,292.58					
2015	441,696,545.97					
2016	446,052,104.23					
2017	445,670,529.87					
2018	455,568,843.25					
2019	472,987,047.58					
2020	444,261,581.59					
2021	434,443,087.72					
2022	436,763,365.76					
2023	427,299,946.12					
2024	421,990,477.24					
2025	430,030,476.85					
2026	438,126,909.04					
2027	429,406,166.68					
2028	150,441,796.89					
2029	141,128,944.71					
2030	133,437,330.42					
2031	129,726,274.49					
2032	115,212,930.48					
2033	111,288,188.07					
2034	101,065,428.71					
2035	98,375,229.04					
2036	86,314,582.71					
2037	68,813,228.60					
2038	63,290,579.70					
2039	41,185,730.80					
2040	23,423,872.00					
2041	20,058,412.25					
2042	2,891,922.00					
2043	3,001,171.50					
2044	2,937,195.25					
2045	3,089,309.50					
2046	216,731.25					
2047	217,350.00					
2048	107,493.75					
TOTAL	**7,877,115,351.72**					

(1) Includes all outstanding general obligation bonds of the State as of December 31, 2012. Does not include debt service on the 2013 Bonds. This column also does not exclude debt service on the Refunded Bonds.
(2) The interest calculation on variable rate obligations is determined twice each year, on June 30 and December 31, by multiplying the interest rate reset for each obligation times its outstanding principal over the life of the bonds.
Source: Debt Management Division, Office of the State Treasurer.

STATE FINANCIAL INFORMATION

Budgeting

The Oregon Constitution requires the Legislative Assembly to balance the State's General Fund budget. The Legislative Assembly adopts individual budgets for all State agencies or programs. Each budget includes appropriations of General Fund moneys or program revenues for the payment of debt service to those State agencies for which general obligation bonds have been issued by the State Treasurer. Historically, the Legislative Assembly met in regular session once every two years and budgeted for the two-year period (a "biennium") that follows the regular session. In 2010, however, the Oregon Constitution was amended to provide for annual legislative sessions. As a consequence, the Legislative Assembly may now make some budgetary determinations for a single fiscal year. Once the Legislative Assembly has appropriated moneys for debt service, Oregon law does not permit the amount allocated to debt service to be subsequently reduced administratively in order to balance the General Fund budget; budget reductions must be made in other program areas. See APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—STATE FINANCIAL OPERATIONS—Budgetary Process" for more information about the State budget and payment of State general obligation bonds.

General Fund Revenues

The State General Fund is comprised of various revenue sources including, among other things, taxes, fines and fees, liquor sales apportionment, charges for services, interest earnings and miscellaneous revenues. Additionally, revenues from the operation of the Oregon State Lottery, moneys from the federal government, reserve funds and other funds comprise significant sources of money in the State's budget. With respect to moneys from the federal government, the Legislative Assembly may authorize receipt of federal funds for specific purposes. The Legislative Assembly must appropriate and use any federal funds in accordance with any restrictions placed on such funds by the federal government. See APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—REVENUES" for a detailed description of sources of General Fund revenues and other sources of revenues available to the State.

Oregon law requires DAS, with the assistance of the Department of Revenue, to prepare an estimate for each calendar quarter of the revenue available for State purposes for the current fiscal year, as well as the amount of revenue received quarterly, through the biennium (the "State Economic and Revenue Forecast"). The DAS Office of Economic Analysis (the "OEA") produces the State Economic and Revenue Forecast based upon information available at the time of preparation and upon a wide variety of assumptions. The State's actual results will be affected by subsequent national and state economic activity and other events, including events that are not within the State's control. See "RECENT DEVELOPMENTS."

If amounts budgeted or expected to pay any general obligation bonds of the State, including the 2013 Bonds, are not available for any reason, the Treasurer may make an intrafund or interfund loan from funds held in the Oregon State Treasury to pay debt service on those bonds. Any intrafund loan is repaid without interest. Any interfund loan is repaid with interest and may only be made if the borrowing fund is expected to be able to repay the borrowed funds, with interest, before the borrowed funds are needed by the lending fund, and if the interfund loan meets certain other conditions. The State is not obligated to obtain loans from these funds and may decide to seek other sources of funds to pay its legal obligations.

The table below presents forecast State General Fund Revenues for the 2005-07, 2007-09 and 2009-11 biennia, and forecast State General fund Revenues for the 2011-13 biennia as presented in the State Economic and Revenue Forecast, released on November 20, 2012 (the "December 2012 Forecast"). See "RECENT DEVELOPMENTS—Economic and Revenue Forecast" and APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—REVENUES."

TABLE 6
STATE OF OREGON
GENERAL FUND REVENUE STATEMENT

($ In Thousands)[1]

Taxes	**2005-2007 Actuals[2] ($)**	**2007-2009 Actuals[3] ($)**	**2009-2011 Actuals[4] ($)**	**2011-13 Forecast[5] ($)**
Personal	11,040,347	11,174,799[6]	10,467,225	11,974,811
Corporate Excise and Income	844,082	684,485	827,614	855,875
Other Taxes[7]	407,497	407,792	386,021	428,992
Fines and Fees[8]	175,405	170,552	171,137	274,884
Additional Revenues[9]	269,851	289,359	222,316	264,411
One-time Transfers	4,824	86,104	447,383	162,086
Gross General Fund Revenues	12,742,006	12,813,091	12,521,696	13,961,059
Total Kicker Refunds /Credits	0	(1,084,201)	0	(11,965)
Net General Fund Revenues	12,742,006	11,728,890	12,521,696	13,949,094
Beginning Balance	308,523	1,436,710	0	0
Anticipated Administrative Actions	(4,937)[10]	(42,140)[10]	(8,200)[10]	(4,395)[10]
Legislative Adopted Actions	0	(319,288)[11]	0	0
Available Resources	13,045,592	12,804,172	12,513,496	13,944,699
Appropriations	11,641,200	12,793,534	13,432,875	13,723,770
Reversion	(32,318)	(762)	0	0
Administrative Actions	0	0	(954,613)[12]	0
Projected Expenditures	11,608,882	12,792,772	12,478,261	13,723,770
Ending Balance	1,436,710	11,400[13]	35,235[13]	220,929

Note: One-time action and expenditure changes from SB 5562, HB 5015 and SB 581 are included for FY 2009.
(1) Totals may not agree with sum of components due to rounding.
(2) September 2007 Economic and Revenue Forecast, adjusted for reversions.
(3) December 2009 Economic and Revenue Forecast, subject to adjustments through June 2010.
(4) September 2011 Economic and Revenue Forecast.
(5) December 2012 Economic and Revenue Forecast.
(6) Not reduced by $1,084,201 Kicker.
(7) Other Taxes include insurance, estate, cigarette, other tobacco products, and other miscellaneous taxes.
(8) Fines and Fees include State court fees, Secretary of State corp. fees, criminal fines and assessments, and securities fees.
(9) Additional Revenues include Central Service Charge, Liquor Apportionment, Interest Earnings, and Miscellaneous Revenues.
(10) Interest expense associated with the Tax Anticipation Notes program, and is exclusive of any internal borrowing.
(11) Equals 2005-2007 portion of corporate surplus designated for the Rainy Day Fund.
(12) Allotment reductions to agencies.
(13) The ending balances for 2007-2009 and 2009-2011 were transferred to the Rainy Day Fund so the beginning balances for 2009-2011 and 2011-2013, respectively, were assumed to be -0-.
Source: State of Oregon, Budget and Management, and Oregon Office of Economic Analysis Revenue Forecasts.

Reserve Funds

The State has two budgetary reserve funds, the Education Stability Fund (the "ESF") and the Oregon Rainy Day Fund (the "Rainy Day Fund"), that may be drawn on in the event of General Fund revenue shortfalls or economic downturns within a biennium subject to certain restrictions that are described in APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—REVENUES—Reserve Funds."

As presented in the December 2012 Forecast, as of the end of the 2011-13 biennium, the projected ending balance of the Rainy Day Fund is $61.8 million and the projected ending balance of the ESF is $6.9 million. The projected ending balance of the ESF reflects the net available amount in the ESF, exclusive of funds held in the Oregon Growth Account that may be illiquid. The projected ESF ending balance also reflects the staged transfers from the ESF totaling approximately $182.2 million, as approved by the Legislative Assembly in the 2011-13 biennium budget. These projected ending balances are based upon information available at the time of preparation of the December 2012 Forecast and upon certain assumptions set out in the forecast. In addition to the reserve balances, the State is also projected to have a General Fund ending balance for the 2011-13 biennium of approximately $220.9 million. The actual amount of reserves and ending balance will be affected by national and State economic activity and other events, including events that are not within the State's control. See "RECENT DEVELOPMENTS."

Pension Benefit Programs

The State is one of many participants in the statewide Oregon Public Employees' Retirement System ("PERS"). The State participates in three retirement pension benefit programs provided through PERS that are commonly referred to as Tier 1, Tier 2, and the Oregon Public Service Retirement Plan ("OPSRP"). A majority of local governments in Oregon and the State participate in PERS. For a description of these retirement benefit programs, see APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS." Oregon statutes require an actuarial valuation of PERS by an actuary, at least every two years. Under current practice, actuarial valuations are performed annually, but only valuations as of the end of each odd-numbered year are used to determine annual required employer contribution rates. The actuarial valuations use the Projected Unit Credit actuarial cost method, as adopted by the PERS Board, and the market value method to determine asset valuation, without smoothing, and an assumed investment rate of 8%. Valuations are released approximately one year after the valuation date. The current PERS actuary is Milliman, Inc. ("Milliman"). See APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—System Pension Programs—*System Pension Plan Asset and Liabilities Valuations*."

Funding Levels and State Contributions. The most recent actuarial valuation report of the assets and liabilities of the statewide PERS as of December 31, 2011 (the "2011 System Valuation") was released by Milliman in November 2012. In October 2012, the State's individual 2011 actuarial valuation report (the "2011 State Report") was released which includes information regarding the State's share of the PERS unfunded actuarial accrued liability as of December 31, 2011. The table below provides summary information and a comparison of the statewide PERS (as reported in the 2011 System Valuation) and State valuations. See APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—System Pension Programs—*System Pension Plan Asset and Liabilities Valuations*."

The State's actuarial valuation report as of December 31, 2009 (the "2009 State Report") includes combined employer contribution rates for the current 2011-13 biennium for the State. The 2011 State Report includes combined employer contribution rates for the 2013-15 biennium for the State. See APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—State Employer Contribution Rates" and "—State Contributions." The 2011-13 employer contribution rates were derived using a rate stabilization methodology designed to cap rate increases and reduce large fluctuations in employer contribution rates; such rate increases are shifted to future biennia, including the 2013-15 biennium. Moreover, the 2011 System Valuation states that the Tier 1/Tier 2 rate pools have a calculated contribution rate, prior to the application of the rate stabilization methodology, which will exceed the maximum rate allowed by the rate cap. The rate cap will reduce the Tier 1/Tier 2 rate pools for the 2013-15 biennium by 2.2%. If all actuarial assumptions are met in 2012 and 2013, that deferred increase would be reflected in contribution rates for the 2015-17 biennium. For information regarding the contribution rate stabilization method and the State's employer contribution rates, see APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—System Pension Programs—*System Pension Plan Asset and Liabilities Valuations* and —*State Employer Contribution Rates.*"

TABLE 7
SUMMARY OF SYSTEM AND STATE FUNDING LEVELS
($ In Millions)

	SYSTEM[1]				**STATE**			
Calendar Year	**Actuarial Value of Assets[2]**	**Actuarial Value of Liabilities**	**Unfunded Liability**	**Funded Ratio[3]**	**Actuarial Value of Assets[4]**	**Actuarial Value of Liabilities**	**Unfunded Liability**	**Funded Ratio[3]**
2007	59,327.8	52,871.2	(6,456.6)	112.2	15,769.3	13,611.1	(2,158.2)	115.9
2008	43,520.6	54,259.5	10,738.9	80.2	11,600.1	14,036.0	2,435.9	82.6
2009	48,729.2	56,810.6	8,081.4	85.8	13,014.7	14,771.7	1,757.0	88.1
2010	51,583.6	59,329.5	7,745.9	86.9	13,529.8	15,116.4	1,586.5	89.5
2011	50,168.0	61,198.0	11,030.0	82.0	13,208.2	15,660.0	2,451.8	84.3

(1) System funding levels composed of Tier 1 and Tier 2 and Oregon Public Service Retirement Plan ("OPSRP") pensions but excluding retiree healthcare subsidies of RHIA and RHIPA.
(2) Includes proceeds of pension bonds issued by Oregon local governments and the State.
(3) Funded ratios are based on "mark to market" accounting procedures.
(4) Includes State Pension Bonds proceeds.
Source: PERS.

The Governor has proposed program changes to the PERS System. See "RECENT DEVELOPMENTS - Governor's Recommended Budget for 2013-15 Biennium - *The Balanced Budget Proposal*." If these proposed changes are approved by the Legislative Assembly during the 2013 Legislative Session and survive legal challenges, if any, the changes are currently estimated to reduce the System's actuarial accrued liability by approximately $4.66 billion.

In spring 2013, the PERS Board is expected to consider lowering the assumed investment rate of return; preliminary analysis suggests that lowering this assumed rate to 7.5% increases the System's actuarial accrued liabilities by $2.7 billion.

Other Post-Employment Benefits

In addition to the pension benefits provided through PERS, the State provides healthcare benefits (medical, vision and dental) through two PERS health insurance programs and through the Oregon Public Employees' Benefit Board ("PEBB"). At the time of retirement, State employees can choose whether to obtain post-employment benefits through PERS or through PEBB. Approximately 52,944 retirees received healthcare benefits through PERS health insurance programs and approximately 2,500 retirees receive healthcare benefits through PEBB. See APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS" for information regarding the State's obligations to provide benefits through PEBB.

THE 2013 BONDS

When issued the 2013 Bonds will be dated their date of delivery and will bear interest at the rates per annum and will mature, subject to redemption prior to maturity, on the dates and in the principal amounts, set forth on the inside cover pages of this Official Statement. Interest on the 2013 Bonds will be calculated on the basis of a 360-day year comprising twelve 30-day months. Interest on the 2013 Bonds will be payable on February 1 and August 1 of each year, commencing August 1, 2013. The 2013 Bonds are issuable in fully registered form, in denominations of $5,000 and integral multiples thereof, without coupons. The State's fiscal agent, currently The Bank of New York Mellon (the "Fiscal Agent"), is to serve as paying agent and registrar for the 2013 Bonds.

When issued, the 2013 Bonds will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"). DTC is to act as securities depository for the 2013 Bonds. Individual purchases may be made only in book-entry form. Purchasers will not receive certificates representing their interests in the 2013 Bonds purchased. So long as Cede & Co. (or such other name as may be requested by an authorized representative of DTC) is the registered owner of the 2013 Bonds as nominee of DTC, all payments and notices, including redemption notices, are to be made to DTC or to its nominee and not to the Beneficial Owners of the 2013 Bonds. References in this Official Statement to "Owners," "Bondholders" or "Registered Owners" mean Cede & Co. or DTC and not the Beneficial Owners of the 2013 Bonds. In this Official Statement, the term "Beneficial Owner" means the person for whom its DTC participant acquires an interest in the 2013 Bonds. See APPENDIX F- "DESCRIPTION OF DTC AND ITS BOOK-ENTRY SYSTEM."

The information in "DESCRIPTION OF DTC AND ITS BOOK-ENTRY SYSTEM" in Appendix F regarding DTC and its book-entry system has been furnished by DTC and no representation is made by the State, the Underwriters or the Financial Advisor as to the accuracy or completeness of such information.

If the 2013 Bonds are no longer issued in book-entry form, the Fiscal Agent will be required to mail each 2013 Bond interest payment when due to the registered owner at the address appearing on the Bond Register as of the fifteenth day of the month preceding a 2013 Bond payment date. If payment is so mailed, neither the State nor the Fiscal Agent will have any further liability to any party for such payment.

REDEMPTION OF THE 2013 BONDS*

Redemption of the 2013 Bonds

Optional Redemption of Tax-Exempt Bonds.

The Tax-Exempt Bonds maturing on or after _______, 20___ are subject to redemption prior to maturity at the option of the State, in whole or in part at any time on or after _______, 20___ (with the Series and maturities to be selected by the State and by lot within a maturity) at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption.

Optional Redemption of Taxable Bonds.

The Taxable Bonds maturing on or after _______, 20___ are subject to redemption prior to maturity at the option of the State, in whole or in part at any time on or after _______, 20___ (with the Series and maturities to be selected by the State and within a maturity on a "Pro Rata Pass-Through Distribution of Principal" basis in accordance with DTC procedures) at a redemption price equal to 100 percent of the principal amount thereof, plus accrued but unpaid interest to the date fixed for redemption.

* Preliminary, subject to change.

Make-Whole Optional Redemption of Taxable Bonds.

Prior to _____ 1, 20___, the Taxable Bonds are subject to optional redemption by the State prior to their stated maturity dates, as a whole or in part, on any business day, at the "Make-Whole Redemption Price," plus accrued and unpaid interest on the Taxable Bonds to be redeemed on the date fixed for redemption.

The "Make-Whole Redemption Price" is the greater of (i) 100 percent of the principal amount of the Taxable Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the Taxable Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Taxable Bonds are to be redeemed, discounted to the date on which the Taxable Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the "Treasury Rate" defined below, plus ___ basis points.

"Treasury Rate" means, with respect to any redemption date for a particular Series of Taxable Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series of Taxable Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Taxable Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Taxable Bond to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Taxable Bond:

(1) the most recent yield data for the applicable U.S. Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported, as of 11:00 a.m. New York City time, on the Valuation Date; or

(2) if the yield described in (1) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Designated Investment Banker.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the State.

"Reference Treasury Dealer" means each of four firms, specified by the State from time to time, that are primary United States Government securities dealers in the City of New York (each, a "Primary Treasury Dealer"); provided, that if any of them ceases to be a Primary Treasury Dealer, the State is to substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series of Taxable Bond, the average, as determined by the

Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

"Valuation Date" means at least three (3) Business Days but not more than twenty (20) calendar days prior to the mailing of redemption notice.

Mandatory Redemption.

The 2013 Series A Bonds maturing on _______, 20__ and ________, 20__, respectively, shall also be subject to mandatory redemption prior to their respective stated maturities, in part, by lot, from sinking fund installments on each August 1st a sinking fund installment is due as specified below, in the principal amount equal to the sinking fund installment due on such date and at a redemption price equal to 100% of the principal amount thereof, plus accrued but unpaid interest to the redemption date, without premium.

The sinking fund installments for the 2013 Series A Bonds maturing on _____, 20__ shall be due in the amounts and on the dates as follows:

2013 Series A Term Bonds
Due _______, 20___
(CUSIP No. 68608U ___)

Sinking Fund Installment Dates (____)	Sinking Fund Installments
‡	

‡Final maturity.

The 2013 Series B Bonds maturing on _______, 20__ and ________, 20__, respectively, shall also be subject to mandatory redemption prior to their respective stated maturities, in part, with maturities to be selected by the State and within a maturity on a "Pro Rata Pass-Through Distribution of Principal" basis in accordance with DTC procedures, from sinking fund installments on each August 1st a sinking fund installment is due as specified below, in the principal amount equal to the sinking fund installment due on such date and at a redemption price equal to 100% of the principal amount thereof, plus accrued but unpaid interest to the redemption date, without premium.

The sinking fund installments for the 2013 Series B Bonds maturing on _____, 20__ shall be due in the amounts and on the dates as follows:

2013 Series B Term Bonds
Due _______, 20___
(CUSIP No. 68608U ___)

Sinking Fund Installment Dates (____)	Sinking Fund Installments
‡	

‡Final maturity.

The 2013 Series C Bonds maturing on _______, 20__ and ________, 20__, respectively, shall also be subject to mandatory redemption prior to their respective stated maturities, in part, by lot, from sinking fund installments on each August 1st a sinking fund installment is due as specified below, in the principal amount equal to the sinking fund installment due on such date and at a redemption price equal to 100% of the principal amount thereof, plus accrued but unpaid interest to the redemption date, without premium.

The sinking fund installments for the 2013 Series C Bonds maturing on _____, 20__ shall be due in the amounts and on the dates as follows:

2013 Series C Term Bonds
Due _______, 20___
(CUSIP No. 68608U ___)

Sinking Fund Installment Dates (____)	Sinking Fund Installments
‡	

‡Final maturity.

The 2013 Series D Bonds maturing on _______, 20__ and ________, 20__, respectively, shall also be subject to mandatory redemption prior to their respective stated maturities, in part, with maturities to be selected by the State and within a maturity on a “Pro Rata Pass-Through Distribution of Principal” basis in accordance with DTC procedures, from sinking fund installments on each August 1st a sinking fund installment is due as specified below, in the principal amount equal to the sinking fund installment due on such date and at a redemption price equal to 100% of the principal amount thereof, plus accrued but unpaid interest to the redemption date, without premium.

The sinking fund installments for the 2013 Series D Bonds maturing on _____, 20__ shall be due in the amounts and on the dates as follows:

2013 Series D Term Bonds
Due _______, 20___
(CUSIP No. 68608U ___)

Sinking Fund Installment Dates (____)	Sinking Fund Installments
‡	

‡Final maturity.

In the event of an optional redemption of a Series of the 2013 Bonds, the State shall designate the sinking fund installments of such Series, in an aggregate amount equal to the principal amount of 2013 Bonds so optionally redeemed, that are to be reduced as allocated to such redemption, and such sinking fund installments shall be reduced accordingly.

Selection for Redemption; Notice and Effect of Redemption

Selection for Redemption of Tax-Exempt Bonds. If fewer than all of the Tax-Exempt Bonds of a series and maturity are to be redeemed prior to maturity, then (i) if the Tax-Exempt Bonds of such series and maturity are in book-entry form at the time of such redemption, the Fiscal Agent shall select the Tax-Exempt Bonds of such maturity to be redeemed, from the outstanding Tax-Exempt Bonds of such maturity and series not previously called for redemption, in minimum denominations of $5,000 (of principal), by lot; and (ii) if the Tax-Exempt Bonds of such series and maturity are not then in book-entry form at the time of such redemption, the redemption shall be effected by the Fiscal Agent, subject to minimum denominations of $5,000 (of principal) with the particular Tax-Exempt Bonds to be redeemed determined by the Fiscal Agent in any manner which the Fiscal Agent shall deem appropriate and consistent with the designation of the State.

Selection for Redemption of Federally Taxable Bonds. If the Taxable Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Taxable Bonds, if less than all of the Taxable Bonds of a series and maturity are called for prior redemption, the particular Taxable Bonds or portions thereof to be redeemed shall be selected on a "Pro Rata Pass-Through Distribution of Principal" basis in accordance with DTC procedures, provided that, so long as the Taxable Bonds are held in book-entry form, the selection for redemption of such Taxable Bonds shall be made in accordance with the operational arrangements of DTC then in effect that currently provide for adjustment of the principal by a factor provided pursuant to DTC operational arrangements. If the Fiscal Agent does not provide the necessary information and identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis, the Taxable Bonds shall be selected for redemption by lot in accordance with DTC procedures.

If the Taxable Bonds are not registered in book-entry only form, the Taxable Bonds will be assigned certificate numbers. Any redemption of less than all of a series and maturity of the Taxable Bonds shall be effected by the Fiscal Agent designated such Taxable Bonds for optional redemption within a maturity in the order of the assigned certificate numbers.

Notice and Effect of Redemption; Conditional Notice of Optional Redemption. Unless the book-entry only system with DTC is discontinued, notice of any redemption of a 2013 Bond is to be given to DTC not less than twenty days prior to the date fixed for redemption (or such lesser time period that is acceptable to the Fiscal Agent and consistent with the operational arrangements of DTC). DTC is responsible for notifying the DTC participants of such redemption.

The Issuance Certificate provides that except as described in the next sentence in the case of an optional redemption, interest on any 2013 Bond so called for redemption shall cease to accrue on the redemption date designated in the notice. The Issuance Certificate permits any optional redemption to be conditional and if any condition stated in the notice of redemption shall not have been satisfied on or prior to the redemption date, said notice shall be of no force and effect and the State shall not be required to redeem such 2013 Bonds and the redemption shall be cancelled and the Fiscal Agent shall within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled. In addition, the State may, at its option, on or prior to the date fixed for optional redemption in any notice of redemption of the 2013 Bonds, rescind and cancel such notice of redemption by written request of the State to the Fiscal Agent, and any optional redemption of 2013 Bonds and notice thereof shall be rescinded and cancelled and the Fiscal Agent shall mail notice of such cancellation to the recipients of the notice of redemption being cancelled pursuant to the provisions of the Issuance Certificate. Any optional redemption of 2013 Bonds and notice thereof shall be rescinded and cancelled if for any reason on the date fixed for optional redemption moneys are not available or otherwise on deposit and held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium, if any, due on the 2013 Bonds called for optional redemption and such failure to optionally redeem the 2013 Bonds called for redemption shall not be a default under the Issuance Certificate.

THE OREGON UNIVERSITY SYSTEM

As described above, the State Treasurer issues bonds for the Oregon University System under authority of the Oregon Constitution and State statutes and pursuant to fiscal policies of OUS and resolutions of the Board and its Finance Committee. The 2013 Bonds are general obligations of the State, payable from any legally available revenues of the State. Article XI-F(1) Bonds, including the 2013 Article XI-F(1) Bonds, are issued for revenue producing facilities and are expected to be paid from Program Revenues. Article XI-G Bonds, including 2013 Article XI-G Bonds, are issued for non-revenue producing facilities and are expected to be paid from legislative appropriations. The proceeds and debt service revenues for OUS's Article XI-F(1) Bonds and Article XI-G Bonds are segregated in OUS's accounting records. Additional information about Program Revenues and other information about OUS is presented in APPENDIX C—"INFORMATION RELATED TO THE OREGON UNIVERSITY SYSTEM."

THE PROJECTS

The Board plans to use a portion of the proceeds to be received from the sale of the 2013 Bonds to pay a portion of the costs of the following Projects and to pay a portion of the costs of issuing the 2013 Bonds. The table below lists the projects expected to be financed with the proceeds of the 2013 Bonds. Other authorized projects may be substituted for any of these Projects.

TABLE 8*
EXPECTED PROJECTS

2013 Article XI-F(1) Bonds

Institution	**Project**	**Estimated 2013 Article XI-F(1) Bond Proceeds**
Eastern Oregon University	Hoke Hall renovations	$3,000,000
Oregon State University	Gill Coliseum renovations	284,570
Oregon State University	New student residence hall	10,000,000
Oregon State University	New sports performance center	12,000,000
Oregon State University	Sackett Hall renovations	3,000,000
Portland State University	Blumel Hall renovations	7,000,000
Portland State University	Parking One renovations	4,000,000
University of Oregon	Erb Memorial Union renovations	2,260,000
Total Article XI-F(1) Projects		**$41,544,570**

2013 Article XI-G Bonds

Institution	**Project**	**Estimated 2013 Article XI-G Bond Proceeds**
Eastern Oregon University	Zabel Hall Deferred Maintenance	$ 1,522,000
Total Article XI-G Projects		**$ 1,522,000**

Source: Oregon University System.

PLAN OF REFUNDING*

To effect debt service savings, the State plans to use a portion of the proceeds to be received from the sale of the 2013 Bonds to defease on the date of delivery and refund all or a portion of certain State general obligation bonds shown in Tables 9-A through 9-B below (collectively, the "Refunded Bonds").

The refunding of the Refunded Bonds is subject to market conditions. If in the opinion of the State the redemption of some or all of the Refunded Bonds will not result in sufficient debt service savings, the State may determine not to refund some or all of the Refunded Bonds. The State could also determine to refund additional general obligation bonds if market conditions warrant.

A portion of the proceeds of the 2013 Bonds are to be held in escrow until applied to refund the Refunded Bonds on the dates fixed for refunding shown in the tables below.

* Preliminary, subject to change.

TABLES 9-A THROUGH 9-B
OUTSTANDING GENERAL OBLIGATION BONDS TO BE REFUNDED WITH 2013 BONDS

BONDS TO BE REFUNDED WITH THE 2013 SERIES A AND SERIES B BONDS

Table 9-A

Series	Principal Amount	Redemption Date	Redemption Price	CUSIP
2004 Series D				
2005 Series A				
2005 Series C				
2006 Series A				
2006 Series C				
2007 Series A				
2009 Series A				

BONDS TO BE REFUNDED WITH THE 2013 SERIES C AND SERIES D BONDS

Table 9-B

Series	Principal Amount	Redemption Date	Redemption Price	CUSIP
2004 Series E				
2005 Series B				
2005 Series D				
2006 Series B				
2006 Series D				
2007 Series C				
2008 Series B				
2009 Series B				

The State intends to establish an escrow deposit account (the “Escrow Deposit Account”) with Wells Fargo Bank, National Association, as escrow agent (the “Escrow Agent”), pursuant to an escrow deposit agreement with the Escrow Agent. The State expects to purchase direct obligations of the United States or obligations the principal of and interest on which are fully and unconditionally guaranteed by the United States for deposit into the Escrow Deposit Account together with cash or cash equivalents, if necessary, in an amount sufficient to provide for the payment of the refunding price of the Refunded Bonds.

Causey, Demgen & Moore P.C. (the “Verification Agent”) is expected to deliver to the State on or before the date the 2013 Bonds are issued its reports indicating that it has verified the mathematical accuracy of (i) the mathematical computations relating to the sufficiency of the cash, if any, and maturing principal of and interest on the escrow investments to pay the principal of and interest on the Refunded Bonds on their redemption dates; (ii) the mathematical computations of the yield on the Tax-Exempt Bonds and the yield on the escrow investments purchased with the Tax-Exempt Bonds, and (iii) the mathematical computations of the yield on the Taxable Bonds and the yield on the escrow investments purchased with the Taxable Bonds.

Bond Counsel has relied upon such information set forth in the accountants’ report in concluding that the proposed defeasance of the Refunded Bonds, subject to the condition that the State comply with certain covenants made to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the “Code”) under present law, will not cause the interest component of the Refunded Bonds to be defeased to be includible in the gross income of the owners thereof for federal income tax purposes. See "TAX MATTERS."

Tax-Exempt Status of 2006 Tax-Exempt Bonds

The State previously issued its State of Oregon State Board of Higher Education General Obligation Bonds, 2006 Series A and 2006 Series B (collectively, the "2006 Tax-Exempt Bonds") in the original aggregate principal amount of $61,670,000 of which $50,555,000 in aggregate principal amount is presently outstanding, to finance certain educational facilities. The State expects that a portion of the proceeds of the 2013 Bonds will be used to refund all or a portion of the outstanding 2006 Tax-Exempt Bonds, as described herein.

The State received written notice from the Internal Revenue Service (the "IRS"), by letter dated July 6, 2012, that the 2006 Tax-Exempt Bonds have been selected for an examination to determine compliance with applicable federal tax requirements (the "Audit"). In the letter, the IRS stated that it "routinely examines municipal debt issuances to determine compliance with Federal tax requirements." The State and OUS believe that the audit is routine and that they have complied with all applicable requirements of the Code related to the tax exemption of the 2006 Tax-Exempt Bonds. The State and OUS are cooperating with the IRS in its examination of the 2006 Tax-Exempt Bonds. Interest on the 2013 Bonds could become subject to federal income taxation retroactively to the original date of issuance if the IRS determined that the 2006 Tax-Exempt Bonds failed to meet applicable federal tax requirements and the State did not enter into a closing agreement with the IRS with respect to the 2006 Tax-Exempt Bonds. See "TAX MATTERS – Investor Considerations Concerning Tax-Exempt Status of the 2013 Bonds."

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the 2013 Bonds are shown below.

	2013 Series A Bonds	2013 Series B Bonds	2013 Series C Bonds	2013 Series D Bonds	Total
Sources of Funds:					
Principal Amount					
Net Original Issue Premium/Discount					
Total Sources					
Uses of Funds:					
Deposit for Construction and Acquisition					
Deposit to Escrow Account					
Underwriters' Discount					
Costs of Issuance[1]					
Total Uses					

[1] Includes legal fees, printing costs, fees and expenses of the financial advisor and the rating agencies and other miscellaneous expenses.

RECENT DEVELOPMENTS

Actions of the Legislative Assembly

2012 Legislative Session. The Legislative Assembly completed its 2012 Legislative Session on March 5, 2012 (the "2012 Legislative Session"). Actions taken during the 2012 Legislative Session included revising the balanced budget to reflect a decline in projected General Fund Revenues of approximately $305 million between the State Economic and Revenue Forecast that was released on May

12, 2011 (the "2011 Close of Session Forecast"), and the State Economic and Revenue Forecast released on February 8, 2012 (the "March 2012 Forecast"). The Legislative Assembly also restored certain program reductions included in the initial Legislatively Adopted Budget for the 2011-13 biennium (the "LAB") adopted during the 2011 session of the Legislative Assembly. After the 2012 Legislative Session, the combined General Fund and Lottery Revenues budget totaled $14.786 billion. Other legislation was enacted during the 2012 Legislative Session, including House Bill 4164 to create a health insurance exchange. Through the actions taken in the 2012 Legislative Session, the combined General Fund and Lottery Fund ending balance was projected to be approximately $115 million. Based on the December 2012 Forecast, the General Fund ending balance is projected to be $220.9 million prior to any future action taken by the Emergency Board or Legislative Assembly. Based on the December 2012 Forecast, the projected ending balances in the Rainy Day Fund and the ESF are $61.8 million and $6.9 million, respectively.

Combined General Fund and Lottery Fund expenditures in the LAB for the 2011-13 biennium are primarily divided among the agencies and program areas described in the table below.

TABLE 10
2011-13 BIENNIUM LEGISLATIVE ADOPTED BUDGET

Amount	Agency/Program Area
$7.395 billion	Education, including:
	$5.714 billion for the K-12 State School Fund
	$861 million for the public universities
	$425 million for community colleges and workforce programs
	$395 million for other education programs (including early learning)
$3.874 billion	Human Services
$2.549 billion	Public Safety/Judicial
$300 million	Natural Resources
$174 million	Economic and Community Development
$494 million	All Other Program Areas

Source: 2011-13 LAB.

December 14, 2012 Special Session. To further an economic development opportunity, the Governor called the Legislative Assembly into a one day special session to approve legislation authorizing the Governor and Department of Revenue to enter into agreements with certain qualifying companies that invest at least $150 million within five years in an Oregon capital project and hire at least an additional 500 full time employees. Under the agreement, the company would be able to use its sales only in Oregon to determine its Oregon income tax, as provided under current Oregon law, for the term of the agreement.

2013 Legislative Session. The 77th Legislative Assembly will convene its 2013 Legislative Session on the second Monday of January 2013 (the "2013 Legislative Session"). Actions that the Legislative Assembly is expected to take during the 2013 Legislative Session include adopting a balanced budget for the 2013-15 biennium and revising, if necessary, the balanced budget for the 2011 - 13 biennium to reflect any declines in General Fund Revenues in the State Economic and Revenue Forecast expected to be released in February 2013 (the "March 2013 Forecast").

Economic Information

According to the December 2012 Forecast, the OEA projects General Fund revenues to be $13.961 billion for the 2011-13 biennium. This represents an increase of $40 million from the September 2012 Forecast and is $71 million below the 2011 Close of Session Forecast.

In its December 2012 Forecast, OEA notes that employment growth in Oregon continued to increase at a slow, subdued pace through early 2012, approximately in line with the gains seen at the U.S. level. The employment data discussed in the December 2012 Forecast is adjusted for two important technical purposes: seasonality and certain upcoming benchmark revisions discussed in detail in the forecast. After adjustments, the data reveals that Oregon's economy continues to expand slowly, adding nearly 25,000 jobs in the past year (through the third quarter of 2012) for a growth rate of 1.5 percent during that 12-month period. The unemployment rate in Oregon was 8.4% in November 2012, down from 9.3% compared to October 2011.

According to the December 2012 Forecast, similar to the overall economy, the two leading indicator series for Oregon both have moved in fits and starts in recent years. Following growth in late 2011 through early 2012, both indices declined sharply in June and have been essentially flat to slightly positive in subsequent months. OEA forecasts an employment outlook that is essentially unchanged for 2012. The rate of growth is projected to be 1.6 percent in 2013 and 2.5 percent in 2014.

Lottery revenues in the December 2012 Forecast for the 2011-13 biennium are expected to total $1.075 billion, almost unchanged compared to the September 2012 Forecast. The combined General Fund and Lottery Fund revenues are projected to be $16.374 billion in the 2013-15 biennium

Governor's Balanced Budget Proposal for 2013-15 Biennium

The Governor's Balanced Budget Proposal. The Governor released his proposed 2013-15 budget on November 30, 2012 for consideration by the Legislative Assembly during the 2013 Legislative Session (the "Governor's Balanced Budget" or the "Governor's Budget"). The budget assumes $16.374 billion in available resources and proposes $16.244 billion in expenditures, leaving ending fund balances of approximately $130 million. The proposed budget relies in part on savings from proposed program changes in Public Employees' Retirement System benefits, and sentencing requirements affecting prison populations, as well as continuation of increases to certain health care provider taxes all of which must be approved by the Legislative Assembly.

The proposed changes to the Public Employees Retirement System would limit annual benefits cost of living increases and eliminate a tax benefit for out-of-state retirees based on Oregon income tax. Savings from these two measures are projected to reduce the required employer contribution amount to PERS from all employers by approximately $865 million for the 2013-15 biennium, of which $83.2 million is General Fund/Lottery Fund state agencies' PERS contribution savings.

The Governor's Budget also assumes prison populations will remain stable (flat) throughout the 2013-15 biennium based on anticipated policy change recommendations from the Governor's Commission on Public Safety. Savings from maintaining a level prison population are projected to be $35.6 million in 2013-15, increasing to $190 million in the 2021-23 biennium. The Governor's Budget directs $32 million of the projected savings to community-based services to prevent criminal behavior, such as alcohol and drug treatment and mental health services.

The Governor's Budget assumes $119 million in savings by health care programs funded by the State due to improved care delivery, lower utilization rates and more effective services. The General Fund is expected to realize $46 million of the anticipated savings. Cumulative savings are expected to total $11 billion by the end of the 2021-23 biennium.

The Governor's Budget for combined General Fund and Lottery Fund expenditures is divided among six major program areas described in the table below.

TABLE 11
2013-15 BIENNIUM GOVERNOR'S BALANCED BUDGET

Amount	Agency/Program Area
$8.044 billion	Education, including:
	$6.151 billion for the K-12 State School Fund
	$1.4 billion for the Post-Secondary Education
	$493 million for other education programs (including early learning)
$4.397 billion	Human Services
$2.758 billion	Public Safety/Judicial
$337 million	Natural Resources
$170 million	Economic and Community Development
$538 million	All Other Program Areas

Source: 2013-15 GBB.

The Governor's Balanced Budget is subject to review and modification by the Legislative Assembly during the 2013 Legislative Session. If the Legislative Assembly does not enact some of the proposed program and policy changes on which the Governor's Budget is based, other measures will be required to balance the budget including reducing proposed spending levels, increasing revenues or some combination thereof. Moreover, proposed change or policy assumptions in the Governor's Budget, such as changes to the Public Employees' Retirement System, are subject to legal challenges. If any of the changes or assumptions incorporated into the 2013-15 LAB budget do not survive legal challenges, the Legislative Assembly may be required to re-balance the budget. See "STATE FINANCIAL INFORMATION - Budgeting." The State and the System cannot predict whether the Legislative Assembly will enact any of the proposals in the Governor's Budget, the potential impact on the operations or finances of the System of any proposed legislation, or whether any legislation, if adopted, would withstand any legal challenges.

Changes to Higher Education Governance Structure and Capital Construction Funding. Oregon State government has set as a goal for adult Oregonians that 40 percent have a bachelor's degree or higher, 40 percent have an associate's degree or post-secondary credential, and the remaining 20 percent or less have a high school diploma or its equivalent (the "40-40-20 goal"). The Governor's Balanced Budget reflects a number of funding initiatives and governance changes intended to further this goal, including the creation of a new Department of Post-Secondary Education (DPSE) to centralize the State's policy-making and funding for community colleges, four-year universities, and the Oregon Health and Science University. Under DPSE, the Higher Education Coordinating Commission, under direction and control of the Oregon Education Investment Board (OEIB) (established by Senate Bill 909 in the 2011 Legislative Session), would be responsible for, among other things, developing goals and a strategic plan for the State's post-secondary education system, implementing accountability measures for achieving those goals, and developing a finance model for a consolidated post-secondary education budget. The DPSE, instead of the Department of Administrative Services, would distribute State funding to OUS and the Oregon Health and Science University.

The Governor's Balanced Budget anticipates $275 million in General Fund and Lottery Fund backed debt-financed projects for education, including $244 million for community college and OUS capital projects. The Governor, in consultation with the OEIB, is evaluating capital projects proposed by the colleges and universities based on their contribution to the State's 40-40-20 goal and will make specific project recommendations prior to the 2013 Legislative Session. An additional $269.4 million is recommended for OUS projects that are financed with campus-paid debt, such as Article XI-F(1) bonds and OUS revenue bonds. Such projects include student recreation centers, housing and dining facilities, information systems and communications infrastructure, land and building acquisitions, and other priorities.

Initiatives, Referendum and Referrals

The Oregon Constitution, Article IV, Section 1, reserves to the people of the State (1) the initiative power to amend the Oregon Constitution or to enact State legislation by placing measures on the statewide general election ballot for consideration by the voters and (2) the referendum power to approve or reject at an election any act passed by the Legislative Assembly that does not become effective earlier than 90 days after the end of the legislative session. The Legislative Assembly may also refer an act to the voters for approval or rejection. See APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—INITIATIVE PETITIONS, LEGISLATIVE REFERRALS AND REFERENDUM PETITIONS" for additional information on the election requirements for these actions.

Nine referred or initiated measures appeared on the November 2012 general election ballot. Four measures passed. One of them, Measure 85, amends the Oregon Constitution to direct the corporate income and excise tax refund ("Corporate Kicker") to the General Fund to be expended on kindergarten through grade 12 public education. See APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—REVENUES for an explanation of the Corporate Kicker. The financial impact statement for the measure indicates that if it had been in place over the past ten budget periods approximately $101 million to $203 million would have been available in those periods for public education.

Measure 79, also approved by voters, prohibits the imposition of a real estate transfer tax; a tax that is currently not imposed by State law. Measures 77 and 78 were approved by voters to amend the Constitution to permit the Governor to declare a "catastrophe" in certain circumstances and to fix outdated language in the Constitution.

LITIGATION

Members of the public and advocacy groups from time to time assert that they intend to file a legal action against the State challenging certain programs, laws or actions that the State or its officers or agencies have taken. Because the State cannot be certain as to whether such actions will actually be filed, the legal assertions that may be made in a potential action or the remedy sought in terms of the amount of damages or performance requested of the State, the State includes as threatened litigation only situations in which the State is engaged in active settlement negotiations with a person or advocacy group in order to pre-empt filing of a lawsuit.

The State discloses only pending or threatened litigation which the State has determined may have a materially adverse impact on the State's financial position in relation to the bonds offered for sale; for the 2013 Bonds, the current level of materiality involves litigation where the damages or performance sought has a reasonable probability of imposing liability of $50 million or more against the State's General Fund.

Community Mental Health Investigation.

The State is engaged in discussions with the United States Department of Justice ("USDOJ") concerning the State's community mental health programs. The USDOJ is investigating whether the State's programs comply with the federal Americans with Disabilities Act. The investigation is ongoing, and the State has no specific information on the cost of implementing any changes that may result from the investigation. The State expects that if the USDOJ determines there are violations of federal law, the USDOJ will issue written findings that specify the nature of any violations, and the State will then be in a better position to estimate the costs to remedy any asserted violations. It is possible that the costs of changes to the State's community mental health programs could reach or exceed $50 million.

No Litigation Challenging the 2013 Bonds

No litigation is pending against the State or, to the knowledge of the officers of the State charged with issuing the 2013 Bonds, threatened in any court or other tribunal of competent jurisdiction, state or federal, that has a reasonable probability of success in any way (1) restraining or enjoining the issuance, sale or delivery of the 2013 Bonds or (2) questioning or affecting the validity of the 2013 Bonds or any of the proceedings for the authorization, sale, execution or delivery of the 2013 Bonds.

Claims Against the State of Oregon Exceeding $50 Million

Tobacco Cases

Estate of Williams, Estate of Schwarz v. Philip Morris, Inc.

The State and Philip Morris, Inc. ("Philip Morris"), together with a number of other states and U.S. territories (the "Settling States") and tobacco manufacturers, are parties to a Master Settlement Agreement (the "MSA"). Under the terms of the MSA, the State expects to receive periodic payments from the tobacco manufacturers that will total approximately $2 billion between the settlement date and the year 2025. Separate tort actions were filed in the State circuit court against Philip Morris on behalf of two decedents claiming their deaths from tobacco-related causes were due to the actions of Philip Morris. The plaintiffs prevailed in the trial court. The estate of Williams was awarded approximately $80 million in punitive damages. The estate of Schwarz was awarded approximately $100 million in punitive damages.

By statute, the State is entitled to 60 percent of all punitive damages awards. Philip Morris appealed the punitive damages awards in both cases to the Oregon appellate courts and the United States Supreme Court. The appellate courts upheld the awards through several appeals. Philip Morris paid the Williams judgment in February 2012, and has not sought an offset against MSA payments that have come due since then, nor has it indicated it intends to seek such an offset in the future. The amount of damages in the Schwarz case was reconsidered in the trial court and reduced to $25 million. Philip Morris has stated that it expects to continue to appeal the Schwarz case.

Non-participating Manufacturer Claims

The MSA contains a number of payment adjustment mechanisms. The non-participating manufacturers' adjustment ("NPM Adjustment") reduces the annual payments required of the manufacturers participating in the MSA ("Participating Manufacturers" or "PMs") when the following three conditions are met: (1) loss of market share by the PMs, (2) a finding by economic consultants that the MSA was a significant factor in the PMs' market share loss, and (3) a finding that the Settling State in question did not enact or diligently enforce model escrow legislation required by the MSA.

To date, the first two conditions have occurred for payment years beginning in 2003. As a result, the PMs have paid part of their annual payments into a disputed payment account. Between 2006 and 2012, Oregon has received approximately 8 to 15 percent less in each year than its anticipated payment of approximately $75 million to $90 million. It is possible that the PMs will withhold more from the State's payments in the future.

Oregon is currently litigating with the PMs whether the State "diligently enforced" its model escrow legislation in 2003. In April 2006, the State filed suit in Oregon's Multnomah County Circuit Court seeking full payment from the PMs. The court found that the dispute is subject to nationwide arbitration in which the Settling States are on one "side" of the dispute and the PMs are on the other "side." An arbitration panel has been formed and the PMs and the Settling States are working toward arbitration of the issues in this case. If it is determined in the arbitration that the State did not diligently enforce its model escrow statutes, the full amount of the yearly payment at issue could be deducted by the PMs from the next annual payment that the State is scheduled to receive.

Potential Superfund Site Liability

Two State agencies are involved in a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of sediment contamination in the Portland Harbor, a 10-mile stretch of the lower Willamette River area that the U.S. Environmental Protection Agency (the "EPA") has listed as a Superfund site under the federal Superfund law ("CERCLA"). Over 200 parties, private companies and public entities, may eventually be found liable for a share of the costs related to investigation and clean-up of the Portland Harbor Superfund Site.

The Oregon Department of Transportation ("ODOT") and the Oregon Department of State Lands ("DSL") have received General Notice Letters from the EPA informing them that the State, by and through those agencies, is a potentially responsible party ("PRP") under CERCLA for cleanup costs at the site. The EPA's letter to ODOT asserts that ODOT may incur CERCLA liability for hazardous substances in stormwater draining into the Portland Harbor from ODOT-owned highways and bridges. As to DSL, the EPA's letter charges that the State, through DSL and the State Land Board, is a PRP because of releases of hazardous substances by third-parties on submerged and submersible leased lands owned by the State and administrated by DSL.

It is too early in the EPA's remedial action process to estimate the total amount of cleanup costs that will be shared by liable parties; however, the potential amount of cleanup costs is discussed in a draft Feasibility Study delivered to EPA on March 30, 2012. The draft Feasibility Study outlines eleven alternative options for cleaning up the Portland Harbor Superfund Site with a range of costs from $269 million to $1.8 billion depending on which alternative is adopted by EPA. In addition, it is too early to estimate the proportionate share of liability for cleanup costs, if any, that may ultimately be assessed against either of the State agencies involved in the allocation process. When the mediation will end is not known, but it may be as late as 2017.

The Portland Harbor Superfund will also involve a separate allocation of liability for injuries to natural resources caused by contamination at the site, which is an additional type of recovery under the Superfund law known as natural resource damages ("NRD"). This NRD claim is asserted against all PRPs, including ODOT and DSL, by the Portland Harbor natural resource trustees, a group composed of five tribes, two federal agencies and the State, acting through its trustee, the Oregon Department of Fish and Wildlife. The trustees have initiated a cooperative injury assessment process funded by twenty-five parties including the State, which will provide an opportunity for early settlement of the NRD claim. The NRD process will result in an allocation of liability for NRD damages at the same time as the allocation of liability for remedial costs. It is too early to evaluate what, if any, share of liability either ODOT or DSL may ultimately bear for this NRD claim.

Another potential financial risk for the State involves the Superfund's orphan share obligations. When settling its claim against PRPs, EPA may agree to pay some portion of the financial liability assigned to those parties who are insolvent or defunct, and unaffiliated with any other viable liable party (the "Orphan Share"). EPA may thereafter request, as authorized by the Superfund law, that the State pay 10 percent of any orphan share payment made by EPA, plus the costs of continuing operation and maintenance of the orphan site(s). At this time, whether the State would enter into such an agreement and the amount the State would pay are unknown, and will depend on the outcome of negotiations with the EPA.

Multistate Tax Compact

A case is pending in the Oregon Tax Court that challenges the State's departure from provisions in the Multistate Tax Compact (the "Compact") when apportioning income attributable to corporations operating in more than one state. Under the Compact, the income of a multi-state corporation is apportioned to a state using an equally weighted three-factor formula. The formula compares in-state payroll, property and sales to the corporation's overall payroll, property and sales. Many states, including Oregon, have diverged from equally weighting each of the three elements to determine the amount of income in a particular state. Currently, the State uses only sales in Oregon and does not use the other two factors to apportion corporate income. See APPENDIX A—"REVENUES—General Fund Revenues – Taxes – Corporate Excise and Income Taxes." The taxpayer in *Health Net v. Dept. of Revenue* asserts that the Compact is a binding contractual arrangement that cannot be unilaterally changed by a participating state. Therefore, the taxpayer argues, the State must allow taxpayers to apportion multi-state corporate income based only on the formula in the Compact. The amount at issue in *Health Net* is approximately $350,000. If the taxpayer prevails, however, and a court determines that the State must use the Compact formula, other corporations may seek refunds based on the same theory and the State may collect less corporate income tax in the future. The State has insufficient data to accurately predict the amounts it could be required to refund or the overall impact on future revenues. Those amounts would depend on the circumstances of individual corporations that may, or may not, seek refunds and actions the Legislative Assembly may take in response to an adverse ruling. Such actions could include withdrawing from the Compact or adopting legislative changes to apportionment statutes. Preliminary estimates, however, indicate that potential maximum refund liability and reductions in corporate income tax revenues, without any legislative action, would exceed the materiality threshold stated above of $50 million. The State anticipates that the Oregon Tax Court's ruling will be appealed to the Oregon Supreme Court by the State or the taxpayer. Similar litigation is pending in the California appellate court.

Pro Se Cases

There are also several *pro se* cases pending against the State in which plaintiffs representing themselves are suing the State for many millions of dollars. The possibility of the State having to pay anything in any of these cases is negligible.

TAX MATTERS

Tax-Exempt Bonds

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the further opinion that interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expects to deliver an opinion at the time of issuance of the Tax-Exempt Bonds substantially in the form set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Tax-Exempt Bonds is less than the amount to be paid at maturity of such Tax-Exempt Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Tax-Exempt Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Tax-Exempt Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Tax-Exempt Bonds is the first price at which a substantial amount of such maturity of the Tax-Exempt Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Tax-Exempt Bonds accrues daily over the term to maturity of such Tax-Exempt Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Tax-Exempt Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Tax-Exempt Bonds. Beneficial Owners of the Tax-Exempt Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Tax-Exempt Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Tax-Exempt Bonds in the original offering to the public at the first price at which a substantial amount of such Tax-Exempt Bonds is sold to the public.

Tax-Exempt Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Tax-Exempt Bonds. The Issuer has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Tax-Exempt Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Tax-Exempt Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Tax-Exempt Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Tax-Exempt Bonds may adversely affect the value of, or the tax status of interest on, the Tax-Exempt Bonds.

Although Bond Counsel is of the opinion that interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Tax-Exempt Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Tax-Exempt Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion. The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Tax-Exempt Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Issuer, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Issuer has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Tax-Exempt Bonds ends with the issuance of the Tax-Exempt Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer or the Beneficial Owners regarding the tax-exempt status of the Tax-Exempt Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Issuer and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Issuer legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Tax-Exempt Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Tax-Exempt Bonds, and may cause the Issuer or the Beneficial Owners to incur significant expense.

Investor Considerations Concerning Tax-Exempt Status of the Tax-Exempt Bonds

The tax-exempt status of the Tax-Exempt Bonds is based on the continued compliance by the State, OUS and other users of property financed or refinanced with proceeds of the Tax-Exempt Bonds with various covenants, including but not limited to the use of the facilities financed and refinanced with the proceeds of the Tax-Exempt Bonds and arbitrage limitations and rebate of certain excess investment earnings to the federal government. Failure to comply with such covenants could cause interest on the Tax-Exempt Bonds to become subject to federal income taxation retroactively to the original date of issuance of the Tax-Exempt Bonds. In such event, the Tax-Exempt Bonds are not subject to redemption solely as a consequence of such adverse tax determination.

The State and OUS have received written notice from the IRS that the 2006 Tax-Exempt Bonds have been selected for an examination to determine compliance with federal tax requirements. See "PLAN OF REFUNDING – Tax-Exempt Status of 2006 Tax-Exempt Bonds."

Taxable Bonds

Interest on the Taxable Bonds generally will be taxable as ordinary interest income at the time such amounts are accrued or received, in accordance with the Beneficial Owner's method of accounting for U.S. federal income tax purposes.

Circular 230

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the State and its tax advisors are (or may be) required to inform prospective investors that:

(i) any advice contained herein is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer;

(ii) any such advice is written to support the promotion or marketing of the Taxable Bonds and the transactions described herein; and

(iii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on employee benefit plans subject to Title I of ERISA ("ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including, but not limited to, the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to Title I of ERISA but are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" or "disqualified persons" (each, a "Party in Interest")) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The fiduciary of a Plan that proposes to purchase and hold any Taxable Bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in Interest, (ii) the sale or exchange of any property between a Plan and a Party in Interest and (iii) the transfer to, or use by or for the benefit of, a Party in Interest, of any Plan assets. Depending on the identity of the Plan fiduciary making the decision to acquire or hold Taxable Bonds on behalf of a Plan and other factors, U.S. Department of Labor Prohibited Transaction Class Exemption ("PTCE") 75-1 (relating to certain broker-dealer transactions), PTCE 84-14 (relating to transactions effected by "qualified professional asset managers"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by an insurance company general account), or PTCE 96-23 (relating to transactions directed by certain "in-house asset managers") (collectively, the "Class Exemptions") could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. In addition, Section 408(b)(7) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between Plans and persons who are Parties in interest solely by reason of providing services to such Plans or that are affiliated with such service providers, provided generally that such persons are not `fiduciaries with respect to the "plan assets" of any Plan involved in the transaction and that certain other conditions are satisfied.

By its acceptance of a Taxable Bond, each purchaser will be deemed to have represented and warranted that either (i) no "plan assets" of any Plan have been used to purchase such Taxable Bond, or (ii) the Underwriter is not a Party in Interest with respect to the "plan assets" of any Plan used to purchase such Taxable Bond, or (iii) the purchase and holding of such Taxable Bond is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory exemption or an administrative class exemption.

Each Plan fiduciary (and each fiduciary for a governmental or church plan subject to the rules similar to those imposed on Plans under ERISA) should consult with its legal advisor concerning an investment in any of the Taxable Bonds.

RATINGS

Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw Hill Companies ("Standard & Poor's") have assigned their municipal bond ratings of "___," "___" and "___," respectively, to the 2013 Bonds.

Any explanation of the significance of ratings should be obtained directly from the agencies. There is no assurance that any rating will not be subsequently revised or withdrawn entirely if, in the judgment of the assigning agency, circumstances so warrant. The State has undertaken to provide timely notice of any change in such ratings. See "CONTINUING DISCLOSURE" below.

FINANCIAL ADVISOR

OUS has retained Seattle-Northwest Securities Corporation (the "Financial Advisor"), as sole financial advisor in connection with the preparation of this Official Statement and with respect to the issuance of the 2013 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken, to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

UNDERWRITING

The 2013 Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Fidelity Capital Markets, a division of National Financial Services LLC, Goldman, Sachs & Co., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and RBC Capital Markets, LLC (collectively, the "Underwriters").

The purchase agreement relating to the 2013 Bonds (the "2013 Purchase Agreement") provides that the Underwriter will purchase all of the 2013 Bonds, if they are purchased. The purchase price of the 2013 Series A Bonds is $________ (the principal amount of the 2013 Series A Bonds ($________), [plus/less] a net original issue [premium/discount] of $________, and less an Underwriter's discount of $________). The purchase price of the 2013 Series B Bonds is $________ (the principal amount of the

2013 Series B Bonds ($________) less an Underwriter's discount of $________). The purchase price of the 2013 Series C Bonds is $________ (the principal amount of the 2013 Series C Bonds ($________), [plus/less] a net original issue [premium/discount] of $________, and less an Underwriter's discount of $________). The purchase price of the 2013 Series D Bonds is $________ (the principal amount of the 2013 Series D Bonds ($________) less an Underwriter's discount of $________). The obligation to make such purchase is subject to certain terms and conditions set forth in the 2013 Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriters reserve the right to join with dealers and other underwriters in offering the 2013 Bonds to the public. The Underwriters may offer and sell the 2013 Bonds to certain dealers (including dealers depositing the 2013 Bonds to investment trusts) and others at prices lower than the initial public offering prices indicated on the inside cover page hereof. The Underwriters may change the public offering prices from time to time without prior notice.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC, each an underwriter of the 2013 Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of the 2013 Bonds.

Goldman, Sachs & Co. ("Goldman Sachs"), one of the Underwriters of the 2013 Bonds, has entered into a master dealer agreement (the "Master Dealer Agreement") with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the 2013 Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase 2013 Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any 2013 Bonds that Incapital sells.

J.P. Morgan Securities LLC ("JPMS"), an underwriter of the 2013 Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the 2013 Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS& Co. will purchase the 2013 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2013 Bonds that such firm sells.

CERTAIN LEGAL MATTERS

The validity of the 2013 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Portland, Oregon, Bond Counsel to the State. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Orrick, Herrington & Sutcliffe LLP represents the State in certain bond, disclosure and other matters and also represents the Underwriters in connection with certain other State bond matters. Orrick, Herrington & Sutcliffe LLP also represents the Public Employees' Retirement Board and the State acting by and through the Oregon Investment Council on behalf of the Oregon Public Employees' Retirement Fund.

In connection with the 2013 Bonds, certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, Portland, Oregon, and for the State by the Oregon Department of Justice, Salem, Oregon. Hawkins Delafield & Wood LLP represents the State in certain bond, disclosure and other matters.

CONTINUING DISCLOSURE

The State, acting by and through the State Treasurer and OUS, with respect to the 2013 Bonds will undertake in a Continuing Disclosure Certificate for the benefit of registered and beneficial Owners of the 2013 Bonds to provide to the Municipal Securities Rulemaking Board (the "MSRB"), on an annual basis on or before nine months after the end of each fiscal year, commencing with the fiscal year ending June 30, 2012, certain specified financial information and operating data. In addition, the State and OUS will undertake for the benefit of registered and beneficial Owners of the 2013 Bonds, to provide to the MSRB in a timely manner notices of certain material events. This undertaking is to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission. The proposed form of Continuing Disclosure Certificate is contained in Appendix E.

The State has determined that the Financial Statements of the Oregon University System for the fiscal year ended June 30, 2009 were not filed for the six digit base CUSIP number 68608K, although such financial statements were timely filed with respect to other six digit base CUSIP numbers of the State. An amendment has been made to the original EMMA filing so that these financial statements are now connected to the six digit base CUSIP number 68608K. The State believes that it has otherwise complied in all material respects with its previous continuing disclosure undertakings under Rule 15c2-12.

MISCELLANEOUS

References are made herein to certain documents and reports of which brief summaries are contained herein, which do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the 2013 Bonds.

This Official Statement is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used in whole or in part, for any other purpose.

By Order of
Ted Wheeler
Oregon State Treasurer

By: ____________________________________
Director, Debt Management Division

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APPENDIX A

GENERAL INFORMATION RELATING TO THE STATE OF OREGON

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THE STATE OF OREGON
GOVERNMENTAL ORGANIZATION

The Oregon Constitution divides the powers of State government among the Legislative, Executive and Judicial branches.

The Legislative Branch

Oregon has a bicameral Legislative Assembly consisting of the Senate with thirty members elected to serve four-year terms and the House of Representatives with sixty members elected to two-year terms.

The Legislative Assembly convenes its regular session in January of each year, with normal sessions in odd-numbered years ("regular sessions") and abbreviated sessions in even-numbered years. Legislative sessions are limited to 160 days in odd numbered years, and 35 days in even numbered years. Sessions may be extended for five days at a time, by a two-thirds majority vote of both chambers of the legislature. During a typical regular legislative session, approximately one-third of the estimated 3,000 bills introduced become law. The Governor or a majority of each house may call special sessions of the Legislative Assembly to deal with emergencies.

The primary functions of the Legislative Assembly are to adopt a balanced budget for all State funds, as required by the Oregon Constitution and to enact general laws. Historically, the Legislative Assembly budgeted on a biennial basis because it convened biennially. However, the Oregon Constitution was amended in 2010 to provide for annual sessions. Therefore, the Legislative Assembly may adopt annual budgets for State agencies, rather than for the entire biennium, or may adopt biennial agency budgets that are adjusted in an interim legislative session. State law requires a financial report of State operations to be prepared at the end of each fiscal year. The State's fiscal year ends June 30.

The Oregon Constitution authorizes the Emergency Board ("E-Board'), a joint legislative committee, to meet between legislative sessions to address financial matters of the State arising in the interim period. The seventeen-member E-Board consists of the President of the Senate, Speaker of the House of Representatives, Co-Chairpersons of the Joint Ways and Means Committee, six other Senate members and seven other House members. The E-Board, which may schedule its own meetings, usually meets once every other month during the interim between regular sessions. If an emergency exists, the E-Board may allocate additional moneys to any State agency out of funds appropriated to the E-Board by the Legislative Assembly during its regular session. The Board may also provide moneys for an activity required by law for which the Legislative Assembly did not appropriate moneys to increase expenditure authority from dedicated or continuously appropriated funds, and approve funding for a new activity coming into existence at a time that would preclude submission of a budget to the Legislative Assembly.

The Executive Branch

The chief executive power of the State is vested in the Governor. The Governor is elected to a four-year term and is limited to serving two terms in any twelve-year period. John Kitzhaber was recently elected to his third term as Governor after an eight year absence and is scheduled to serve until January 2015. The Governor proposes, plans, and recommends a budget for almost all of State government to the Legislative Assembly. The Governor also may call special sessions of the Legislative Assembly and appoint judges to vacant judicial positions. The Governor directly appoints the directors of most State agencies and many other State officials.

The Secretary of State is a statewide constitutionally elected officer designated as the auditor of public accounts in the State and as the State's chief elections officer. As auditor, the Secretary of State audits or reviews the accounts and financial affairs of State boards, commissions, departments and institutions. The Secretary of State also edits, codifies and publishes administrative rules, which supplement laws passed by the Legislative Assembly and prescribe the manner in which State agencies conduct business.

The State Treasurer is also a statewide constitutionally elected officer. The Treasurer is responsible for all moneys paid into the State Treasury and administers the State's banking, cash flow, borrowing and investment operations. The State Treasurer also chairs or serves on numerous State boards and commissions responsible for investing several State funds and for setting borrowing policies for the State.

The Governor, the Secretary of State and the State Treasurer comprise the State Land Board, established by the Oregon Constitution to manage the Common School Fund and certain lands dedicated at statehood for educational purposes. The Common School Fund's most recent valuation was approximately $1.07 billion as of December 31, 2011. Its value fluctuates based on market conditions and the amount of withdrawals. The fund is managed as a perpetual trust fund with approximately two to five percent of its value distributed annually to the State Superintendent of Public Schools for distribution to the State's K-12 public school districts.

In addition to the Offices of the Secretary of State and the State Treasurer, the Executive Branch includes other offices administered by statewide elected officials. The State Attorney General manages the Department of Justice and the State's legal affairs. The Labor Commissioner manages the Bureau of Labor and Industries that oversees and enforces the State's labor and wage laws.

The Judicial Branch

The Oregon Constitution establishes the Judicial Branch and consists of the Supreme Court, Court of Appeals, Tax Court, and 36 Circuit Courts in 27 judicial districts. The Chief Justice of the Oregon Supreme Court administers the State court system and is the head of the Oregon Judicial Department. The Court of Appeals hears most of the civil and criminal appeals from the Circuit Courts and reviews most State administrative agency actions. The Circuit Courts are Oregon's trial courts of general jurisdiction. The Tax Court is a special one-judge court that has exclusive, statewide jurisdiction to hear only cases involving Oregon's tax laws. All Oregon judges are elected by popular vote. The Governor, however, may appoint judges to fill vacancies that occur.

Services Provided by State Government

The Governor appoints the heads of and coordinates numerous State agencies that provide services through program areas that include: (1) Consumer and Business Services for protecting consumers and workers, promoting a positive business climate and regulation of various professions; (2) Economic and Community Development that aids businesses and people, including job creation, placement and retention services, business recruitment, community development and affordable housing; (3) Education from pre-kindergarten to post-secondary and life-long learning through community colleges and workforce development programs; (4) Human Services that relate to physical, mental and public health, self-sufficiency, child protective services and care for seniors and people with disabilities; (5) Natural Resources overseeing pollution control, land use, water quality and conservation, agriculture and food products, forests, watersheds and fisheries; (6) Public Safety that protects Oregon's people, property and natural resources, through trained militia, law enforcement, prosecution and incarceration of juvenile and adult offenders; (7) Transportation; and (8) Administration that manages and provides policy direction and central services to other State agencies, such as data and networking infrastructure and procurement activities. The management of elections and tax collection activities are also under this program area.

See Table 15 for a summary of expenditures by program area.

Employee Relations

For the 2011-13 biennium, there are approximately 50,735 employees providing services through State government. Approximately 70 percent of non-management or executive service employees in State government are members of bargaining units subject to collective bargaining. Employees of the State of Oregon and of certain political subdivisions have the right to form, join, and participate in the activities of labor organizations for representation and collective bargaining on matters concerning employment relations. An officially recognized or certified labor organization is the exclusive representative of its covered employees for collective bargaining. The scope of representation may include, but is not limited to, matters concerning wages, hours, paid leave and grievance procedures. The public employer must bargain in good faith with respect to employment relations. If a contract remains unsettled after a 150-day period of good faith contract negotiations, either or both of the parties may notify the Employment Relations Board of an impasse and the need for a mediator. The parties may mutually agree to request a mediator before the end of the 150-day period by notifying the Board. If the parties do not reach settlement through mediation, then after a 30-day cooling off period for strike-permitted bargaining units the employer may unilaterally implement its last offer and/or the union may strike. For strike-prohibited bargaining units, either the employer or the exclusive representative may initiate binding arbitration to establish a successor collective bargaining agreement if mediation fails to produce a settlement. All State labor contracts expire at the end of each biennium (June 30, every two years) and are re-negotiated for the following biennium.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Historical Perspective

The Oregon economy has transitioned and diversified from a predominant concentration in timber harvesting and wood products' manufacturing to high-tech manufacturing. As high-tech manufacturing grew in Oregon, the State also developed stronger ties to major export markets in the Pacific Rim. Population growth has historically exceeded the national rate, fueled by the in-migration of young professional and retiree populations attracted by the high-quality jobs, relatively low cost of living and affordable housing.

Sectors of increasing importance in the Oregon economy include construction, retail trade, health services, and leisure and hospitality services. Exports also continue to be a significant driver for the Oregon economy, nearly doubling since 2001.

The collapse of the national housing market affected associated Oregon industries, with job losses in wood products and construction. As the financial crisis led to a deeper recession for the U.S. economy, this in turn deepened the recession for Oregon. While Oregon's housing market was affected by the economic downturn, it is better off than several other western states including California, Nevada, and Arizona.

Employment

The following two tables compare Oregon and the United States with respect to unemployment rates and the composition of annual average employment.

TABLE 1
UNEMPLOYMENT RATES
OREGON AND UNITED STATES
(ANNUAL AVERAGES, IN THOUSANDS)

	Total Civilian Labor Force				Unemployment Rate as %	
Year	Oregon	Percent Change (%)	U.S. [1]	Percent Change (%)	Oregon	U.S.
2001	1,825	--	143,734	--	6.4	4.7
2002	1,836	0.6	144,863	0.8	7.6	5.8
2003	1,844	0.4	146,510	1.1	8.2	6.0
2004	1,845	0.1	147,401	0.6	7.3	5.5
2005	1,856	0.6	149,320	1.3	6.2	5.1
2006	1,893	1.8	151,428	1.4	5.4	4.6
2007	1,921	1.4	153,124	1.1	5.1	4.6
2008	1,957	1.7	154,287	0.8	6.5	5.8
2009	1,979	0.8	154,142	-0.1	11.0	9.3
2010	1,983	0.1	153,889	-0.2	10.6	9.6
2011	1,992	1.5	153,617	-0.2	9.5	8.9

Source: *U.S. Bureau of Labor Statistics (Seasonally Adjusted).*

(1) Reflects recent revised population controls and/or model re-estimation.

TABLE 2
COMPOSITION OF ANNUAL AVERAGE EMPLOYMENT OREGON AND THE UNITED STATES 2006 AND 2011

	2006				2011			
	Oregon		United States		Oregon		United States	
	# of Jobs	% of Total	# of Jobs	% of Total	# of Jobs	% of Total	# of Jobs	% of Total
Mining and logging	9,400	0.6	684,000	0.5	6,900	0.4	784,000	0.6
Construction	100,900	5.9	7,691,000	5.7	68,800	4.3	5,504,000	4.2
Durable goods manufacturing	154,700	9.1	8,981,000	6.6	117,900	7.2	7,274,000	5.5
Nondurable goods manufacturing	52,600	3.1	5,174,000	3.8	48,700	3.1	4,460,000	3.4
Wholesale Trade	79,900	4.7	5,904,500	4.3	74,400	4.9	5,528,800	4.2
Retail trade	197,300	11.6	15,353,300	11.4	184,700	11.5	14,642,900	11.1
Transportation, warehousing, and utilities	58,400	3.4	5,018,100	3.7	53,300	3.2	4,847,400	3.7
Information	34,900	2.0	3,038,000	2.2	32,300	2.0	2,659,000	2.0
Financial activities	106,100	6.2	8,328,000	6.1	92,000	5.7	7,681,000	5.8
Professional and business services	194,400	11.4	17,566,000	12.9	186,000	11.4	17,331,000	13.2
Educational services	28,200	1.7	2,900,900	2.1	33,600	2.0	3,240,700	2.5
Health care and social assistance	176,800	10.4	14,925,300	11.0	201,500	12.5	16,642,800	12.7
Leisure and hospitality	164,900	9.7	13,292,000	9.8	165,300	10.4	13,320,000	10.2
Other services	58,900	3.5	5,438,000	4.0	57,500	3.5	5,342,000	4.1
Government	286,100	16.8	21,974,000	16.1	295,400	18.1	22,104,000	16.8
Total Nonfarm jobs [1]	1,703,500		136,086,000		1,618,100		131,359,000	

Sources: *Oregon Employment Department, Oregon Labor Market Information Services; U.S. Bureau of Labor Statistics (Not Seasonally Adjusted).*

(1) Totals may not agree with sum of components due to categorization and rounding.
Note: US 2011 Annual data is preliminary.

Oregon Gross Domestic Product

Oregon Gross Domestic Product (GDP) represents the value of goods and services produced by the State. The following table illustrates the changes in the components of the State's GDP over the 2006 to 2011 five-year period.

TABLE 3
OREGON GROSS DOMESTIC PRODUCT
(DOLLARS IN MILLIONS)

Industry	2006 ($)	% of Total	2011 ($)	% of Total
Agriculture, forestry, fishing and hunting	3,783	2.4	3,249	1.7
Mining	271	0.2	230	0.1
Utilities	2,045	1.3	2,107	1.1
Construction	7,580	4.7	6,372	3.3
Durable goods manufacturing	30,185	18.9	50,905	26.1
Nondurable goods manufacturing	4,649	2.9	5,097	2.6
Wholesale trade	9,845	6.2	10,717	5.5
Retail trade	8,941	5.6	9,138	4.7
Transportation and warehousing, excluding Postal Service	4,603	2.9	4,436	2.3
Information	4,794	3.0	5,589	2.9
Finance and insurance	8,027	5.0	8,887	4.6
Real estate, rental, and leasing	20,444	12.8	22,164	11.4
Professional and technical services	7,507	4.7	9,934	4.8
Management of companies and enterprises	3,077	1.9	3,536	1.8
Administrative and waste services	4,083	2.6	4,378	2.2
Educational services	1,144	0.7	1,489	0.8
Health care and social assistance	11,104	6.9	14,742	7.6
Arts, entertainment, and recreation	948	0.6	1,062	0.5
Accommodation and food services	4,118	2.6	4,757	2.4
Other Services, except government	3,927	2.5	4,128	2.1
Government	18,826	11.8	22,365	11.5
Total Oregon GDP	159,899		194,742	

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Residential Construction

The following table shows the number of Oregon residential building permits issued over the last ten years.

TABLE 4
OREGON RESIDENTIAL BUILDING PERMITS

Year	Single-Family Dwellings	Percent Change (%)	Multi-Family Dwellings	Percent Change (%)
2002	17,413	6.7	4,773	-4.5
2003	17,875	2.7	7,140	49.6
2004	20,728	16.0	6,581	-7.8
2005	23,840	15.0	7,184	9.2
2006	19,859	-16.7	6,764	-5.8
2007	15,310	-22.9	5,791	-14.4
2008	7,466	-51.2	4,210	-27.3
2009	5,278	-29.3	1,761	-58.2
2010	5,259	-0.4	1,609	-8.6
2011	4,854	-7.7	2,809	74.6

Source: U.S. Census Bureau, May 18, 2012.

International Trade and Exports

International trade is an increasingly important component of the State's economy. Canada was Oregon's top export market from 2002 through mid-2008; since then however, exports to Canada have fallen dramatically. China is playing an increasing role in both the international community and Oregon's local economy. Since the 3rd quarter of 2008, China has become the largest export market destination for Oregon products, accounting for nearly 23 percent of its exports.

The State's geography and natural resources have been instrumental in the development of the State's international trade activities. The State has twenty-three port districts all located on navigable waterways. The majority of the State's international trade occurs through the Port of Portland. Other important ports are located at the coastal cities of Astoria, Newport and Coos Bay. The following two tables show Oregon's top exports by industry and Oregon's major trading partners in 2006 and 2011.

TABLE 5
OREGON EXPORTS BY INDUSTRY
(DOLLARS IN MILLIONS, CALENDAR YEAR)

	2006 ($)	% of Total	2011 ($)	% of Total
Computer and Electronics Products	6,542	42.8	6,479	35.4
Agricultural Products	1,490	9.7	2,841	15.5
Chemicals	500	3.3	1,730	9.5
Machinery, except Electrical	1,579	10.3	1,555	8.5
Transportation Equipment	1,900	12.4	920	5.0
Primary Metal Manufacturing	495	3.2	654	3.6
Waste and Scrap	307	2.0	614	3.4
Food and Kindred Products	321	2.1	546	3.0
Wood Products	373	2.4	535	2.9
Paper	374	2.4	470	2.6
Other	1,422	9.3	1,948	10.6
Total All Industries	15,303		18,292	

Source: Office of Economic Analysis

TABLE 6
OREGON EXPORTS TO MAJOR TRADING PARTNERS
(DOLLARS IN MILLIONS, CALENDAR YEAR)

	2006	% of Total	2011	% of Total
China (Mainland)	1,396	9.1	3,161	17.3
Canada	2,219	17.6	2,713	14.8
Malaysia	1,215	7.9	2,219	12.1
Japan	1,254	8.2	1,649	9.0
Korea, Republic Of	1,189	8.4	1,062	5.8
China (Taiwan)	855	5.6	721	3.9
Germany	386	2.5	511	2.8
Costa Rica	584	3.8	500	2.7
Brazil	63	0.4	444	2.4
Singapore	491	3.2	406	2.2
Australia	418	2.7	355	1.9
Hong Kong	253	1.7	297	1.6
Mexico	856	5.6	285	1.6
United Kingdom	296	1.9	277	1.5
Other	2,325	15.2	2,948	16.1
Total All Countries	15,303		18,292	

Source: Office of Economic Analysis

Income

The following two tables compare Oregon and the United States with respect to personal income and per capita income from 2002 to 2011.

TABLE 7
PERSONAL INCOME
(DOLLARS IN MILLIONS, CALENDAR YEAR)

Year	Oregon ($)	Percent Change (%)	U.S. ($)	Percent Change (%)	Oregon as a % of U.S.
2002	104,690	3.2	9,054,702	2.0	1.16
2003	108,487	3.6	9,369,072	3.5	1.16
2004	112,974	4.1	9,928,790	6.0	1.14
2005	117,634	4.1	10,476,669	5.5	1.12
2006	127,403	8.3	11,256,516	7.4	1.13
2007	133,821	5.0	11,900,562	5.7	1.12
2008	140,979	5.3	12,451,660	4.6	1.13
2009	135,079	(4.2)	11,916,773	(4.3)	1.13
2010	139,395	3.2	12,353,577	3.7	1.13
2011	145,300	4.2	12,949,905	4.8	1.12

Source: U.S. Bureau of Economic Analysis, October 3, 2012.

TABLE 8
PER CAPITA INCOME
(CALENDAR YEAR)

Year	Oregon ($)	Percent Change (%)	U.S. ($)	Percent Change (%)	Oregon as a % of U.S.
2002	29,797	1.9	31,481	1.0	94.7
2003	30,582	2.6	32,295	2.6	94.7
2004	31,650	3.5	33,909	5.0	93.3
2005	32,557	2.9	35,452	4.6	91.8
2006	34,706	6.6	37,725	6.4	92.0
2007	35,950	3.6	39,506	4.7	91.0
2008	37,407	4.1	40,947	3.6	91.4
2009	35,467	(5.2)	38,846	(5.1)	91.3
2010	36,317	2.4	39,937	2.8	90.9
2011	37,527	4.5	41,560	4.5	90.3

Source: U.S. Bureau of Economic Analysis October 3, 2012
(p) Preliminary

Population

The 2010 U.S. Census ranked Oregon as the 27th most populous state with a population of 3.87 million. Oregon's population growth rate since the 2000 census is the 14th fastest in the nation.

TABLE 9
POPULATION CHANGE
OREGON AND UNITED STATES, 1990 – 2020

Year	Oregon	Percent Change (%)	United States[1]	Percent Change (%)
1990	2,860,400	--	248,709,873	--
2000	3,431,100	20.0	281,421,906	13.2
2010	3,837,300	11.8	308,745,538	9.7
2020 (projected)	4,268,600	11.2	341,387,000	10.6

Sources: Office of Economic Analysis, March 2012 Oregon Economic and Revenue Forecast; U.S. Census Bureau.

(1) As of April 1 (with corrections).

STATE FINANCIAL OPERATIONS

Budgetary Process

The Oregon constitution requires the State's budget to balance at the end of each biennium. Article IX, Section 2 of the Oregon Constitution states that the Legislative Assembly shall provide for raising revenue sufficiently to defray the expenses of the State for each fiscal year. Article IX, Section 6 of the constitution states that "whenever the expenses, of any fiscal year, shall exceed the income, the Legislative Assembly shall provide for levying a tax, for the ensuing fiscal year, sufficient, with other sources of income, to pay the deficiency, as well as the estimated expense [sic] of the ensuing fiscal year.'' Because of these two provisions, Oregon may not budget a deficit and is required to alleviate any revenue shortfalls within each biennium.

Historically, during the regular legislative session at the start of every biennium, the Legislative Assembly adopts a budget covering all of the State's operations for the next biennium. A biennium begins July 1 and ends June 30 of odd-numbered years. The budget is adopted through the enactment of separate budget bills for each State agency and for the Legislative and Judicial Branches (the "Budget Bills"). There are four different categories of funds included in the State's budget: (i) General Funds, (ii) Lottery Funds, (iii) Other Funds (dedicated funds), and (iv) Federal Funds.

The budgeting process begins with the Governor's submission of a recommended budget for State agencies in the December preceding the start of a new regular legislative session. Concurrently, each agency prepares and files Budget Bills during December so that when the Legislative Assembly convenes in January for its regular session, the Joint Ways and Means Committee can begin consideration of each bill. By statute, the budget may not permit certain governmental purpose expenditures to exceed eight percent of the State's personal income. This limitation may be exceeded only if the Governor declares an emergency and if three-fifths of each house of the Legislative Assembly votes to exceed the limit.

The Legislative Assembly may provide spending authority to a State agency through a continuous appropriation of a fund dedicated for a certain purpose. In that case, spending is limited only by the amount of revenues received in or held by the fund. The Legislative Assembly may also limit the amount of money spent by placing an expenditure limitation on a continuously appropriated and dedicated fund. In addition, the Legislative Assembly enacts one-time appropriations of moneys to specific agencies or programs from moneys expected to be received or held by the State's General Fund and from lottery revenues. After the Budget Bills are passed, the Governor may veto an entire bill, single items in appropriation bills or the emergency clause in a bill. A two-thirds vote of the Legislative Assembly may override the Governor's veto.

If budget adjustments are required after a legislative session has ended, the Legislative Assembly may meet again in a specially called session, or the Legislative E- Board may adjust agency budgets.

Revenue Forecasting

Oregon law requires DAS to prepare an estimate for each calendar quarter of the total amount of revenue, including General Fund and lottery revenues, available for State purposes for the current fiscal year, as well as the amount of revenue received quarterly, cumulated through the biennium. DAS must report its estimates to the Legislative Assembly, when it is in session, and to certain interim committees of the Legislative Assembly, when it is not in session. The reports are issued as of the first day of each March, June, September and December. These reports are commonly known as the quarterly "revenue forecast", and focus on the amount of expected General Fund and lottery revenues. In odd-numbered years when the Legislative Assembly is in session, the June forecast is released approximately May 15 and is commonly referred to as the "close of session" or "COS" forecast.

Oregon law also requires DAS to set forth the methodology and assumptions used to develop each quarterly revenue forecast. Currently, the State uses an econometric model to forecast the Oregon economy and personal and corporate income taxes (over 80 percent of the State's General Fund revenue). The system receives new data each quarter, with revisions to the model as necessary. The econometric model has two major parts: (1) a State economic model that estimates employment, wages and personal income; and (2) a revenue forecasting system based on the economic model, for use in estimating personal and corporate income taxes. The model does not include the fees and other miscellaneous revenues that comprise the balance of General Fund revenues.

The development of a revenue forecast involves three steps. First, a forecast of economic conditions in Oregon is made, then projected income and population is translated into projected tax receipts other than from corporate and excise taxes and finally corporate income and excise tax collections are projected. In developing its projections the State uses the national baseline forecasts of Global Insight, Inc.

Accounting Practices

Oregon law designates DAS as the agency responsible for the overall administration and coordination of the State's internal accounting and other fiscal controls and procedures. DAS has developed the Oregon Accounting Manual that sets forth internal policies and uniform procedures for agencies to follow in their fiscal management, accounting and reporting.

DAS must prepare a financial report for the State of Oregon within 180 days after the close of each fiscal year. The reporting entity of the State of Oregon includes all State agencies, universities, commissions and boards for which elected State officials have oversight responsibility. Oregon's financial statements are prepared in conformity with generally accepted accounting principles ("GAAP") applicable to state governments.

All governmental funds use the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. On the modified accrual basis of accounting, taxpayer assessed taxes are recognized when the underlying exchange has occurred and the resources are available. Expenditures are recognized under the modified accrual basis of accounting when the related liability is incurred. An exception to this general rule of expenditure recognition is that principal and interest on general long-term debt is recognized when due.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses (other than debt service) are recognized when they are incurred.

Controls

Audits

The Secretary of State, as State Auditor, may audit or review the accounts and financial affairs of each State agency as deemed appropriate under ORS 297.210. An audit or review may also occur when there is a change in the executive head of an institution or department. The Governor, Legislative Fiscal Officer and DAS receive a report on each audit. The Secretary of State's Audit Division reviews the funds of the State's larger agencies in connection with the development of the State's annual financial report and provides annual audits, as requested, for the State's revenue bond funded programs.

Disbursements and Allotments

Oregon law requires that State agency spending be monitored and that moneys be disbursed throughout the biennium through an allotment process that is administered by DAS. Under this process, DAS allots to each agency the amount of appropriated moneys that may be spent during each of the eight quarters in a biennium. The amount of an allotment is based on estimates submitted by agencies of their statutory duties and projected expenditures to fulfill the purposes for which moneys were appropriated to them. DAS may amend allotments previously made by it at the request of an agency or after notice by DAS to an agency. In addition, if DAS declares at any time during the biennium that there is a projected budget deficit due to insufficient revenues, then DAS, with the Governor's approval, may reduce previously made allotments to a level necessary to prevent the deficit. Allotments made for the purpose of debt service payments, however, may not be reduced.

Fiscal Checks and Balances

Oregon law provides for a system of checks and balances with respect to the deposit, accounting and expenditure of State moneys. DAS supervises State agency accounting and prescribes rules and regulations for preparation of agency budgets. The Secretary of State, the constitutionally designated auditor of public accounts, may disapprove claims for payment from any moneys in the State Treasury. State agencies are required to turn the moneys collected by them over to the State Treasurer for deposit into various funds that comprise the State Treasury. The State Treasurer is responsible for control of State banking relationships, cash management and the investment of State funds. Some State moneys are deposited with outside trustees who administer the cash and investments.

On a day-to-day basis, DAS, along with the State Treasurer and the Secretary of State, maintains the system of checks and balances. For example, DAS reconciles its accounts monthly with the related account balances maintained by the State Treasurer, which facilitates the adjustment of any imbalances or other errors. DAS also follows up on major deficiencies listed in the audit reports prepared by the Audits Division of the Secretary of State. Agencies must respond to DAS stating in detail how they will correct the deficiencies.

Loss Management

The State Services Division of DAS is responsible for managing the State's risk of loss due to various types of loss or liability. The primary kinds of loss that the division works to prevent or pay include employee injuries; property loss; employee theft or dishonesty and tort liability claims arising from an alleged failure of state agencies or employees to perform their duties. The State Insurance Fund (the "Fund") generally pays up to a set amount for various types of losses through its self-insurance program, with excess amounts covered by purchased commercial insurance policies. The State Services Division pays for both its self-insurance losses and commercial insurance premiums from the Fund. For each separate category of potential loss, the Division determines the appropriate level of the Fund or commercial insurance. Agencies pay assessments to the Fund for each category of loss. For additional information, see note 19 of the Basic Financial Statements for the State for the fiscal year ended June 30, 2011.

REVENUES

Revenues available to the State are discussed below based on the following categories: General Funds, Lottery Funds, Reserve Funds, Other Funds and Federal Funds. Certain of these revenues are available only to finance permitted purposes as authorized by State or federal law.

General Fund Revenues

The following describes the largest sources of the State's General Fund revenues. For additional information on the General Fund revenue amounts collected each biennium see Table 11 under "Oregon Financial Information."

Taxes

Personal Income Taxes. Oregon taxes the personal income of individuals, estates, and trusts. Taxable income is calculated using the Internal Revenue Code of 1986, as amended and in effect applicable to the tax year of the taxpayer. Oregon employers withhold income tax from their employees' wages. The employees then file Oregon tax returns for refunds or pay additional tax by April 15 of each year. Self-employed persons and others not subject to withholding must pay quarterly estimated tax payments.

Oregon tax rates for single filers are graduated between 5 percent for income under $3,050 to 11 percent for income over $250,000 for the 2011 tax year. The amount of applicable income is doubled for joint returns. The income amount to which a certain rate applies is indexed to changes in the Consumer Price Index. Beginning with the 2012 tax year the top tax rate is reduced to 9.9 percent for single filers with income over $125,000.

Corporate Excise and Income Taxes. Corporations are subject to either a corporate excise tax or the corporate income tax under Oregon law.

The corporate excise tax is imposed for the privilege of doing business in Oregon. A corporation is doing business in Oregon when it engages in any profit-seeking activity in Oregon. The amount of excise tax is 6.6 percent for corporate taxable income of $250,000 and under and 7.6 percent for income over $250,000. However, there is a minimum tax of $150 for S corporations and Partnerships or between $150 and $100,000 for C Corporations, depending on Oregon sales. Beginning in 2013, the tax rate will be 6.6 percent for taxable income of $10 million or less and 7.6 percent for taxable income greater than $10 million.

The corporate income tax is imposed on any corporation that is not doing business in Oregon, but that has income from an Oregon source. Corporations that operate in more than one state must determine the share of their income attributable to Oregon activities using Oregon sales relative to sales in all states. The corporate income tax rate mirrors that of the excise tax rate on taxable income derived from sources within Oregon.

Insurance Taxes. All authorized insurers in Oregon are subject to the corporate excise tax; however, foreign insurers (those domiciled in other states) and alien insurers (those domiciled in other countries) are also subject to a retaliatory tax. The Oregon Department of Revenue collects the excise tax. The Insurance Division of the Department of Consumer and Business Services collects the retaliatory tax.

Estate Taxes. Oregon's estate tax is imposed as a percentage of the Oregon estate. Because Oregon calculates its tax differently than the federal estate tax, the Oregon inheritance tax amount may be different from the federal tax amount, even though the Oregon tax is tied to the Federal Internal Revenue Code.

Cigarette and Other Tobacco Taxes. The State imposes an excise tax on the distribution of all tobacco products in Oregon. The tax rate on cigarettes is $0.059 per cigarette ($1.18 for a pack). The tax rate on the other tobacco products is 65 percent of the wholesale price, and $0.50 per cigar. Moist snuff is taxed at $1.78 per ounce with a minimum of $2.14 per container. The cigarette and other tobacco products taxes are distributed primarily to the General Fund, with the balance distributed equally among cities, counties and the Department of Transportation.

Other Taxes. A portion of the moneys collected from the Eastern Oregon Severance Tax, Western Oregon Severance Tax and Amusement Device Tax are allocated to the General Fund.

Fines and Fees

The fines and fees section of General Fund revenues includes State Court Fees, Secretary of State Corporation Fees, Criminal Fines and Assessments, and Securities Fees. These are fees imposed by agencies or the State courts for the filing of certain court-related or corporate documents and certain fines for violations of the law.

Liquor Sales Apportionment

The State imposes taxes on beer and wine manufactured or distributed in Oregon. The current tax rates are 8.4 cents per gallon of beer ($2.60 per 31-gallon barrel), 67 cents per gallon of wine with 14 percent or less alcohol, and 77 cents per gallon of wine with 14 percent – 21 percent alcohol. The Oregon Liquor Control Commission (OLCC) exclusively imports and distributes beverages with 21 percent or more alcohol. The OLCC sets retail prices, on average, at 101 percent above the sum of costs, shipping, and federal taxes. The net revenue from these operations goes into an OLCC account, which distributes approximately 56 percent of the revenues to the General Fund.

Other Sources

Other major sources of General Fund revenue include charges for central services performed by DAS, interest earnings, and miscellaneous revenues.

General Fund Revenue Reduction Due to Income Tax Return (2% Surplus Kicker)

Under the Oregon Constitution, if biennium revenues actually received exceed estimated amounts to be received from either of two General Fund revenue categories, personal or corporate taxes, by more than two percent, a tax credit is issued to individual taxpayers and corporate taxpayers. This credit of excess revenues is popularly known as the "kicker." For individuals, the refundable credit is based on the previous calendar year's tax liability (for example, 2008 liability for the 2007-09 kicker). For corporations, the credit is based on the tax liability for the calendar year containing the end of the biennium (for example, 2009 liability for the 2007-09 kicker). The State may retain the corporate or individual kicker moneys only if two-thirds of each house of the Legislative Assembly votes to keep the kicker. See "Reserve Funds – *Rainy Day Fund*" below.

Lottery Funds

Revenues from the operation of the Oregon State Lottery comprise a significant source of money in the State's budget. After the payment of prizes and operating the State Lottery, revenues are constitutionally dedicated to education, economic development, and natural resources program areas. According to the Oregon Constitution, approximately 84 percent of the total annual revenues from the sale of lottery tickets or shares shall be returned to the public in the form of prizes and net revenues benefiting the public purpose. After paying player prizes and operating expenses, the Lottery transfers the remaining revenues to the Administrative Services Economic Development Fund. The constitution and the Legislative Assembly direct how moneys from this fund are distributed. Presently, the Education Stability Fund and the Parks and Natural Resources Fund receive about 33 percent of total transfers. Debt service payments, State school funding, and economic development efforts are the primary uses for the remainder. For a discussion on lottery revenue bonds, see "Debt Authority and Bond Issuance - Direct Revenue Bonds, *Lottery Revenue Bonds*" below.

Reserve Funds

Reserve Funds. The State has two budgetary reserve funds, the Education Stability Fund and the Oregon Rainy Day Fund that may be drawn on in the event of General Fund revenue shortfalls or economic downturns within a biennium subject to certain restrictions described below.

Education Stability Fund (ESF). Under the Oregon Constitution, 18 percent of the net proceeds from the State Lottery must be deposited in the ESF. The ESF retains earnings or spends them on public education. The Legislative Assembly also may appropriate other moneys or revenues to the ESF. The amount in the ESF may not exceed 5 percent of the amount that was accrued as revenues in the State's General Fund during the prior biennium. If three-fifths of the Legislative Assembly approves, the Legislative Assembly can appropriate all or a portion of the money in the ESF for public education expenditures subject to the Governor declaring an emergency or the Legislative Assembly finding that at least one of the following conditions exists: (i) General Fund moneys in the next biennium will be at least three percent below current biennium appropriations; (ii) nonfarm employment has declined for two consecutive quarters in the last twelve months or (iii) General Fund revenues have dropped at least two percent below the current close of session forecast.

Rainy Day Fund (RDF). The 2007 Legislative Assembly authorized the establishment of the Oregon Rainy Day Fund, codified in ORS 293.144 to 293.148. ORS 293.146 provides for deposits to the RDF in an amount equal to up to one percent of the State's General Fund appropriations for a biennium. The deposit is payable from the State's General Fund ending balance at the end of a particular biennium. The actual amount of the deposit up to the one percent requirement will depend on the size of the State's General Fund ending balance. Additional transfers to the RDF cannot be made if the balance in the RDF exceeds 7.5 percent of the amount of General Fund revenues collected in the prior biennium. If 3/5ths of the Legislative Assembly approves, the Legislative Assembly may appropriate money from the RDF if it finds that at least one of the following conditions exists: (i) General Fund moneys in the next biennium will be at least three percent below current biennium appropriations; (ii) nonfarm employment has declined for two consecutive quarters in the last twelve months or (iii) General Fund revenues have dropped at least two percent below the current close of session forecast.

The chart below presents historic amounts in the State's reserve funds. The Oregon Constitution requires 18 percent of net lottery revenues be deposited in the ESF each year. Under state law, the Oregon Growth Account generally receives 5 percent of that amount.

TABLE 10
HISTORIC EDUCATION STABILITY
AND RAINY DAY FUNDS
(DOLLARS IN MILLIONS)

Biennium	Education Stability Fund [1,2] ($)	Rainy Day Fund ($)	Total ($)
1999-01	171.6		
2001-03	16.1		
2003-05	32.6		
2005-07	178.9		
2007-09	0.0	112.5	112.5
2009-11	5.1	10.4	15.5
2011-13	6.9	61.8	68.7

Source: Office of Economic Analysis.

(1) Effective July 1, 2003 the Oregon Constitution was amended to change the Education Endowment Fund to the Education Stability Fund and to increase the contribution from 15 percent of net proceeds to 18 percent of the net lottery proceeds.

(2) Reflects net available amount in the ESF, exclusive of funds held in the Oregon Growth Account that may be illiquid and any subsequent transfers by the Legislative Assembly.

Other Funds Revenues

A description of the largest sources of the State's Other Funds revenue follows below. For additional information on the Other Funds revenue amounts collected each biennium see Table 14, "Oregon Financial Information."

Selective Sales and Use Taxes

Cigarette and Other Tobacco Taxes. As described above, a large part of the cigarette and other tobacco products taxes is distributed to the General Fund. Part of those taxes, however, is also distributed as Other Funds revenue. The Oregon Health Plan is the primary recipient of the cigarette tax distributed as Other Funds, with small amounts distributed to tobacco cessation programs and among cities, counties, and elderly and disabled transportation programs. The remaining tobacco products tax distributed as Other Funds goes primarily to the Oregon Health Plan with a small amount to tobacco cessation programs.

Motor Fuels Tax and Weight-Mile Tax. Oregon imposes a tax at the rate of 30 cents per gallon on the sale of gasoline and other fuels used to propel motor vehicles on the State's highways. The Oregon Department of Transportation (ODOT) also assesses a weight-mile tax and road use fees on commercial vehicles that operate on public roads within Oregon. The weight-mile tax is based on the declared combination of vehicle weight and vehicle classification group. Revenues derived from the fuels tax, weight-mile tax and road use assessment fees are paid into the State Highway Fund.

Gross Receipts Business Taxes

Public Utilities. Regulated utilities operating within the State must pay in taxes up to 0.25 percent of gross operating revenues. These taxes are collected to cover the cost of utility regulation performed by the Oregon Public Utility Commission.

Employer-Employee Taxes

Employment Taxes. Employers and employees in Oregon must pay unemployment taxes. The rate of unemployment tax depends upon the balance in the Unemployment Compensation Trust Fund as of August 31 of each year, the taxable payroll, and the amount of unemployment benefits paid.

Workers' Compensation Insurance. Oregon employers and employees also pay a workers' compensation assessment. The Director of the Department of Consumer and Business Services determines the amount of workers' compensation assessments.

Severance Taxes

Portions of the Eastern Oregon, Western Oregon and Other Severance taxes are paid to funds outside of the General Fund for various forest-related and other programs.

Licenses and Fees

Owners and operators of motor vehicles pay fees to ODOT for the licensing, registration, and titling of their vehicles. These moneys are dedicated to the State Highway Fund, the Student Driver Training Fund, and the Motor Vehicle Accident Fund. Another source of revenue comes from the sale of hunting and fishing licenses and tags and occupational licenses.

Other Revenues

Charges for Services. Major portions of these Other Funds revenues are collected by the Oregon University System and consist of auxiliary enterprise and service income. Sales of State Forest Lands and Common School Lands also provide income. This category also includes revenue from veterans' home loan repayments and retirement system contributions, as well as various other smaller sources.

Fines, Rents and Royalties, Bond Sales. The State collects income from State-owned properties that are leased or rented. It also collects royalties or similar returns through the Oregon University System and some loan and grant programs. Proceeds from the sale of bonds issued by the State are deposited into various program funds and accounts for disbursement to construction projects, or loan and grant programs operated by various State agencies.

Sales, Donations and Loan Repayments. The State from time to time sells State-owned properties, receives donations from various parties and receives repayments on loans made to governmental and private entities under various programs.

Federal Funds

Federal Funds are moneys received from the federal government. The Legislative Assembly may authorize receipt of Federal Funds for specific purposes. These funds must be appropriated by the Legislative Assembly and used in accordance with any restrictions placed on the funds by the federal government.

OREGON FINANCIAL INFORMATION

Table 11 presents historical State General Fund Revenues for three biennia and the 2011-13 biennia forecast.

TABLE 11
STATE OF OREGON
GENERAL FUND REVENUE STATEMENT
(DOLLARS IN THOUSANDS) [1]

Taxes	2005-07 Actuals [2] ($)	2007-09 Actuals [3] ($)	2009-11 Actuals [4] ($)	2011-13 Forecast [5] ($)
Personal Income	11,040,347	11,174,799 [6]	10,467,225	11,974,811
Corporate Excise and Income	844,082	684,485	827,614	855,875
Insurance	114,718	93,328	90,496	97,226
Estate	168,933	196,820	168,864	199,138
Cigarette	88,789	81,649	76,837	74,234
Other Tobacco Products	32,553	34,518	47,328	56,231
Other	2,504	1,477	2,496	2,163
Fines and Fees				
State Court Fees	48,036	55,625	50,464	133,660
Secretary of State Corp. Fees	20,402	22,496	41,950	50,800
Criminal Fines and Assessments	88,741	72,855	59,460	71,326
Securities Fees	18,226	19,576	19,263	19,098
Central Service Charge	6,687	8,713	8,174	11,152
Liquor Apportionment	146,110	184,326	198,283	230,471
Interest Earnings	101,356	84,344	4,927	12,891
Miscellaneous Revenues	15,698	11,976	10,932	9,897
One–time Transfers	4,824	86,104	447,383	162,086
Gross General Fund Revenues	12,742,006	12,813,091	12,521,696	13,961,059
Total Kicker Refunds/Offsets and Transfers	0	(1,084,201)	0	(11,965)
Net General Fund Revenues	12,742,006	11,728,890	12,521,696	13,949,094
Beginning Balance	308,523	1,436,710	0	0
Anticipated Administrative Actions	(4,937) [7]	(42,140) [7]	(8,200) [7]	(4,395) [7]
Legislative Adopted Actions	0	(319,288) [8]	0	0
Available Resources	13,045,592	12,804,172	12,513,496	13,944,699
Appropriations	11,641,200	12,793,534	13,432,875	13,723,770
Reversions	(32,318)	(762)	0	0
Administrative Actions	0	0	(954,613) [9]	0
Projected Expenditures	11,608,882	12,792,772	12,478,261	13,723,770
Ending Balance	1,436,710	11,400 [10]	35,235 [10]	220,929

Source: State of Oregon, Budget and Management, and Oregon Office of Economic Analysis Revenue Forecasts.

Note: One-time Action and expenditure changes from SB 5562, HB 5015 and SB 581 are included for FY 2009.

(1) Totals may not agree with sum of components due to rounding.
(2) September 2007 Oregon Economic and Revenue Forecast, adjusted for reversions.
(3) December 2009 Oregon Economic and Revenue Forecast, subject to adjustments through June 2010.
(4) September 2011 Oregon Economic and Revenue Forecast.
(5) December 2012 Oregon Economic and Revenue Forecast.
(6) Not reduced by $1,084,201 Kicker.
(7) Interest expense associated with the Tax Anticipation Notes program, and is exclusive of any internal borrowing.
(8) Equals 2005-07 portion of corporate surplus designated for the Rainy Day Fund.
(9) Allotment reductions to agencies.
(10) The ending balances for 2007-09 and 2009-11 biennia were transferred to the Rainy Day Fund so the beginning balances for 2009-11 and 2011-13 respectively, were assumed to be -0-.

Table 12 compares budgeted and actual General Fund Revenues for the 2001-03 through the 2009-11 biennia.

TABLE 12
STATE OF OREGON
ACTUAL GENERAL FUND REVENUES COMPARED WITH LEGISLATIVELY ADOPTED BUDGET ESTIMATES
(DOLLARS IN BILLIONS)

Biennium		Budget at Close of Session ($) [1]	Actual ($) [2]	Difference ($)	Percent Difference (%)
2001-03	Personal Income Tax	9.445	7.700	(1.745)	(18.5)
	Corporate Income Tax	0.860	0.420	(0.440)	(51.2)
	Other Revenues	0.750	1.246	0.496	66.1
	Total	11.055	9.366	(1.689)	(15.3)
2003-05	Personal Income Tax	9.395	8.992	(0.403)	(4.3)
	Corporate Income Tax	0.540	0.641	0.101	18.7
	Other Revenues	0.803	0.806	0.003	0.4
	Total	10.738	10.439	(0.299)	(2.8)
2005-07	Personal Income Tax	10.124	11.040	0.916	9.1
	Corporate Income Tax	0.500	0.844	0.344	68.9
	Other Revenues	0.703	0.858	0.155	22.1
	Total	11.327	12.742	1.415	12.5
2007-09	Personal Income Tax	11.332	10.091	(1.241)	(11.0)
	Corporate Income Tax	0.921	0.685	(0.236)	(25.6)
	Other Revenues	0.834	0.954	0.120	14.4
	Total	13.087	11.729	(1.358)	(10.4)
2009-11	Personal Income Tax	11.546	10.467	(1.079)	(9.3)
	Corporate Income Tax	0.832	0.828	(0.004)	(0.5)
	Other Revenues	1.198	1.227	0.029	2.4
	Total	13.576	12.522	(1.054)	(7.8)

Source: *Oregon Economic and Revenue Forecasts.*

(1) "Budget at Close of Session" reported in the September 2001, 2003, 2005, 2007, and 2009 Oregon Economic and Revenue Forecasts, respectively.

(2) "Actuals" are reported the following biennium in the September or December 2003, 2005, 2007, 2009 and 2011 Oregon Economic and Revenue Forecasts, respectively.

Table 13 presents historical and forecasted Lottery Revenues and Distributions for the 2003-05 through the 2011-13 biennia.

TABLE 13
LOTTERY REVENUE STATEMENT
(DOLLARS IN MILLIONS)

LOTTERY EARNINGS [1]	2003-05 Actual ($)	2005-07 Actual ($)	2007-09 Actual ($) [2]	2009-11 Forecast [3]	2011-13 Forecast [4]
Regular Lottery					
Sports Action	4.0	3.6	0.0	0.0	0.0
Traditional Lottery	140.1	143.3	132.2	134.1	114.7
Total Regular Lottery	144.1	146.9	132.2	134.1	114.7
Video Lottery	601.9	914.1	1,091.2	922.7	953.3
Other Earnings / Administrative Savings	34.5	26.7	103.5	29.3	8.0
Total Available to Transfer	780.6	1,087.7	1,326.9	1,086.1	1,076.0
ECONOMIC DEVELOPMENT FUND					
Beginning Balance	11.1	0.0	64.1	1.4	0.3
Resources					
Lottery Transfers	780.6	1,087.7	1,326.9	1,086.1	1,076.0
Other Resources [5]	1.8	8.0	9.3	1.1	2.3
Total Available Resources	793.5	1,095.7	1,400.2	1,088.6	1,078.6
Allocation of Resources					
County Economic Development [6]	25.4	37.2	40.0	30.5	37.1
Education Stability Fund [7]	140.5	195.8	238.8	195.5	193.7
Parks and Natural Resources Fund [8]	117.1	163.2	199.0	162.9	161.4
OUS Sports Lottery Account [9]	4.0	3.6	11.7	9.7	8.6
Gambling Addiction [9]	6.5	8.3	12.1	8.7	10.6
County Fairs	2.5	3.3	3.6	2.8	3.6
Debt Service on Lottery Bonds [10]	119.4	133.7	161.7	216.4	259.4
Other Legislatively Adopted Allocations	378.0	486.4	732.9	461.7	415.5
Total Distributions	793.5	1,031.6	1,399.9	1,088.3	1,089.9
Ending Balance/Discretionary Resources	0.0	64.1	0.4	0.2	(11.3)

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

Note: Some totals may not foot due to rounding.

(1) Actuals are reported in the odd year September Oregon Economic and Revenue Forecast unless otherwise noted.
(2) Reported in the May 2009 Oregon Economic and Revenue Forecast.
(3) Reported in the May 2011 Oregon Economic and Revenue Forecast.
(4) Reported in the December 2012 Oregon Economic and Revenue Forecast.
(5) Includes interest earnings of Economic Development Fund and reversions.
(6) County Economic Development includes $1,023,139 for the Economic Revitalization Team.
(7) Eighteen percent of proceeds accrue to the Education Stability Fund, until the balance equals 5% of general fund revenues. Thereafter, 15% of proceeds accrue to the Oregon Capital Matching Account.
(8) The Parks and Natural Resources Fund constitutional amendment requires the transfer of 15% of net proceeds to this fund.
(9) One percent of net lottery proceeds are dedicated to Collegiate Athletics and Gambling Addiction programs, respectively. Certain limits are imposed by HB3199 and HB 2126 for 2009-11.
(10) Figures reflect gross debt service on lottery bonds as of November 23, 2012. Figures do not include future issuance.

Table 14 summarizes Other Funds and Lottery Distributions by revenue source for the 2005-07 through the 2011-13 biennia.

TABLE 14
STATE OF OREGON
OTHER FUNDS AND LOTTERY DISTRIBUTIONS BY REVENUE SOURCE

TAXES	**2007-09 [1] Actual ($)**	**2009-11 [2] Actual ($)**	**2011-13 [2] Legislatively Approved Budget ($)**	**2013-15 [2] Governor's Budget ($)**
SELECTIVE SALES AND USE TAXES				
Tobacco Taxes	420,856,663	375,581,575	374,205,000	350,577,774
Motor Fuels Taxes	842,985,199	886,844,384	1,105,858,226	1,066,193,226
Weight-Mile Taxes	449,214,083	454,146,776	610,756,359	593,105,782
Privilege Taxes	25,829,423	32,957,892	27,557,520	26,303,120
Other Selective Sales and Use Taxes	206,357,807	443,881,122	970,017,165	956,610,764
GROSS RECEIPTS BUSINESS TAXES				
Other Gross Receipts Business Taxes	3,945,380	3,156,554	3,500,000	3,500,000
Amusement Taxes	4,009,248	3,656,178	3,280,000	3,280,000
Public Utilities Taxes	177,922,724	152,750,305	150,960,666	161,896,076
Insurance Taxes	0	72,758,115	103,295,285	27,686,980
EMPLOYER-EMPLOYEE TAXES				
Employment Taxes	1,501,612,279	1,797,952,157	2,020,663,852	2,118,539,128
Workers' Compensation Insurance Taxes	77,130,779	62,043,193	104,637,732	112,638,003
Other Employer-Employee Taxes	618,371,527	608,779,277	620,621,938	626,626,351
SEVERANCE TAXES				
Eastern Oregon Severance Taxes	16,723	14,590	0	0
Western Oregon Severance Taxes	400,442	0	562,400	562,400
Other Severance Taxes	644,508	522,199	237,000	237,000
OTHER TAXES				
Forest Protection Taxes	40,460,582	27,726,216	27519,148	43,567,824
Other Taxes	155,743,036	225,695,516	151,516,116	151,516,116
LICENSES AND FEES				
BUSINESS LICENSES AND FEES	419,047,961	301,830,787	318,337,041	318,814,150
NONBUSINESS LICENSES AND FEES				
Park User Fees	34,123,590	38,210,970	42,810,388	42,026,683
Vehicle Licenses	385,422,899	517,673,388	604,702,401	577,929,662
Drivers Licenses	68,177,426	63,913,322	71,882,076	77,763,237
Transportation Licenses and Fees	46,388,291	79,609,243	96,613,799	121,129,257
Hunter and Angler Licenses	81,929,342	96,012,437	110,237,475	106,950,649
Other Non-business Licenses and Fees	129,957,483	141,290,678	94,499,358	90,542,341
State Court Fees	6,632,031	44,748,062	16,323,143	5,567,072
FEDERAL FUNDS AS OTHER FUNDS	1,830,050,839	2,206,034,172	1,858,582,015	754,039,610
OTHER REVENUES				
CHARGES FOR SERVICES				
Tuition and Fees -- Higher Education	1,305,881,105	1,741,080,821	2,135,524,731	0
Fee Remissions – Higher Education	-85,813,819	-123,013,899	-168,547,863	0
Aux. Enterprise & Service Fees Higher Ed.	435,805,302	492,801,356	547,065,787	0
Sales and Service Fees -- Higher Education	278,118,134	319,915,434	328,699,340	0
Other Charges for Services	882,935,425	2,699,767,414	2,825,696,066	3,805,074,868
FINES, RENTS, AND ROYALTIES				
Fines and Forfeitures	172,125,662	163,360,361	174,557,718	158,557,598
Rents and Royalties	126,585,545	136,805,044	98,572,546	115,837,844

TABLE 14 (Continued)

OTHER REVENUES (continued)	2007-09 [1] Actual ($)	2009-11 [2] Actual ($)	2011-13 [2] Legislatively Approved Budget ($)	2011-13 [2] Governor's Budget ($)
BOND SALES				
General Fund Obligation Bonds	216,904,596	382,255,806	38,766,592	225,708,294
Dedicated Fund Obligation Bonds	549,707,401	364,967,470	372,846,501	237,557,513
Lottery Bonds	492,062,892	186,899,106	183,614,369	140,533,450
Certificates of Participation	411,770,845	278,331,939	116,669,811	132,002,901
Revenue Bonds	978,159,419	1,022,270,645	908,031,774	1,559,721,774
Refunding Bonds	51,942,970	241,544,319	69,307,022	0
INTEREST EARNINGS				
Interest Income	253,959,538	8,322,611,079	7,733,653,929	13,739,809,116
SALES INCOME				
Liquor Sales	248,207,505	247,643,460	282,380,931	325,973,813
Pari-mutuel Receipts	3,207,081	3,258,980	3,009,800	3,347,965
State Forest Lands	141,604,849	135,334,092	121,258,234	137,278,242
Common School Land	23,134,842	18,950,331	38,494,000	38,582,000
Other Sales Income	66,738,164	49,681,395	54,337,457	27,552,704
DONATIONS AND CONTRIBUTIONS				
Donations and Grants (Non-Fed)	511,538,091	530,608,055	505,213,949	35,214,798
Retirement System Contribution	2,718,796,511	2,257,180,716	3,074,179,800	2,410,280,000
LOAN REPAYMENTS				
Housing Division Loan Repayment	201,457,724	225,747,024	213,664,618	222,176,258
Senior Citizen Property Tax Repayments	32,559,971	31,574,599	38,497,653	38,497,653
Veterans' Loan Repayments	88,706,787	78,377,015	75,000,000	75,000,000
Other Loan Repayments	178,522,161	259,695,209	151,396,684	158,764,329
Loan Proceeds	67,425,000	46,063,198	6,434,609	0
LOTTERY DISTRIBUTIONS	1,326,917,350	1,085,274,805	1,128,295,553	1,048,795,584
OTHER REVENUES	2,113,921,564	2,009,443,456	1,882,191,505	1,775,530,470
TOTAL OTHER FUNDS & LOTTERY DISTRIBUTIONS	21,320,112,880	31,846,218,338	32,427,989,218	34,749,410,379

Source: State of Oregon, Department of Administrative Services, Budget and Management Division.

(1) Reported in 2011-13 Governor's Budget, Schedule II.
(2) Reported in 2013-15 Governor's Budget, Schedule II.

Table 15 summarizes expenditures by statewide program area for all fund types for the 2007-09 through the 2013-15 biennia.

TABLE 15
SUMMARY OF EXPENDITURES BY PROGRAM AREA BY FUND
(DOLLARS IN MILLIONS)

	2007-09 Actual Expenditures[1]					2009-11 Actual Expenditures[2]					2011-13 Legislatively Adopted Budget[2]					2013-15 Governor's Budget[2]				
Program Area	*General Fund*	*Lottery Funds*	*Other Funds*	*Federal Funds*	*Total Funds*	*General Fund*	*Lottery Funds*	*Other Fund*	*Federal Funds*	*Total Funds*	*General Funds*	*Lottery Funds*	*Other Funds*	*Federal Funds*	*Total Funds*	*General Funds*	*Lottery Funds*	*Other Funds*	*Federal Funds*	*Total Funds*
Education	$ 6,752	$1,145	$ 4,714	$ 1,342	$13,953	$ 6,433	$ 702	$ 1,801	$ 1,857	$13,794	$ 6,754	$ 641	$ 4,877	$ 1,319	$13,590	$ 7,642	$395	$ 271	$ 1,465	$ 9,772
Human Services	3,196	12	1,364	7,334	11,907	3,285	10	4,245	10,186	17,725	3,864	10	5,767	10,956	20,598	4,386	11	6,428	14,433	25,258
Public Safety	1,828	7	647	449	2,931	1,779	7	721	485	2,992	1,953	7	537	480	2,977	2,120	5	559	497	3,181
Judicial Branch	522	---	55	1	578	496	---	93	1	590	590	---	60	1	650	633	---	82	1	716
Economic & Community Development	34	128	4,355	679	5,196	27	115	4,134	3,740	8,015	25	149	3,719	1,678	5,572	25	145	3,045	436	3,651
Natural Resources	165	198	958	176	1,497	141	169	964	244	1,518	131	169	1,142	320	1,762	167	169	1,156	267	1,760
Transportation	5	47	3,009	72	3,132	17	80	3,645	119	3,862	2	73	3,618	142	3,835	3	95	3,862	128	4,088
Consumer and Business Services	13	---	908	2	922	12	---	577	4	593	11	---	596	9	617	12	---	618	5	635
Administration	188	7	8,009	11	8,215	182	10	8,080	10	8,283	202	14	8,810	16	9,042	194	15	10,674	10	10,894
Legislative Branch	78	---	39	---	116	71	---	8	---	79	83	---	7	---	90	88	---	6	---	94
Miscellaneous-(Incl. E-Board)	---	---	---	---	---	---	---	---	---	---	109	---	---	---	109	131	---	---	---	131
Statewide Total Expenditures[3]	$12,781	$1,544	$24,058	$10,066	$48,447	$12,442	$1,092	$27,270	$16,647	$57,451	$13,724	$1,063	$29,134	$14,923	$58,843	$15,401	$835	$26,701	$17,242	$60,180

Source: *State of Oregon, Department of Administrative Services, Budget and Management Division.*

(1) Reported in Governor's Balanced Budget, 2011-13.
(2) Reported in Governor's Balance Budget, 2013-15.
(3) Totals may not agree with sum of components due to rounding.

STATE OF OREGON INVESTMENT POLICIES

The Office of the State Treasurer (the "OST") invests moneys held on behalf of state agencies and participating local governments through two pooled investment vehicles or through separate accounts with guidelines specific to the agency's investment needs. Some of the agency moneys invested by the OST are bond proceeds or moneys used to pay bond debt service. The State's investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council (the "OIC"). The OIC, created by a 1965 legislative act, establishes investment policies for all State funds. The OST is responsible for implementing those policies. The Governor appoints four of the OIC's five voting members, who are subject to confirmation by the Oregon Senate. The State Treasurer serves by statute. OST pooled investment vehicles are the statutory Oregon Short-Term Fund (the "OSTF") and the internally established Oregon Intermediate-Term Pool (the "OITP").

The OSTF is a short-term cash investment vehicle created by statute to invest State agency and Oregon local government moneys. The OSTF is not registered with the U.S. Securities and Exchange Commission as an investment company. The OST manages the OSTF within guidelines established by the OIC, with advice from and in consultation with, the OSTF Board. Primary investment objectives established for the fund are, in order of priority: preservation of principal, liquidity and yield. As of August 31, 2012, the OSTF totaled approximately $10.2 billion.

The guidelines currently in place for the OSTF require at least 50 percent of the portfolio to mature or re-price within 93 days; no more than 25 percent of the portfolio may have a maturity longer than one year; and no investments may have a final maturity longer than three years as measured from the settlement date of the initial transaction. Total weighted average credit quality of the portfolio must be a minimum of AA or Aa2 by Standard & Poor's, or Moody's Investors Services, respectively. The guidelines currently in use for the OSTF, allow the following:

- Investments with minimum long-term ratings of AA-, Aa3, or AA-, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, consisting of:
  - U.S. Treasury Securities
  - Senior Unsecured Debt Obligations guaranteed by the Federal Deposit Insurance Corporation ("FDIC") under the Temporary Liquidity Guarantee Program (TLGP)
  - U.S. Government Agency Securities
  - U.S. dollar-denominated Foreign Government Securities and their Instrumentalities
- Commercial Paper with at least two minimum short-term ratings of A-1, P-1 or F1 by Standard & Poor's, Moody's or Fitch Ratings, respectively.
- Corporate indebtedness with minimum long-term ratings of A-, A3 or A- by Standard & Poor's, Moody's or Fitch Ratings, respectively, at the time of purchase.
- Certificates of deposit issued by banks in Oregon and insured by the FDIC or collateralized according to ORS Chapter 295, and negotiable certificates of deposit and banker's acceptances from domestic commercial banks with minimum long-term ratings of AA-, Aa3 or AA- by Standard & Poor's, Moody's or Fitch Ratings, respectively.
- Municipal debt obligations (agencies, instrumentalities, and political subdivisions) that have long-term ratings of AA-, Aa3 or AA-, or better, or are rated in the highest category for short-term municipal debt by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.
- Repurchase agreements and reverse repurchase agreements that mature in no more than 90 days are fully collateralized with cash, government obligations or obligations of agencies of the federal government and are entered into with primary dealers as recognized by the Federal Reserve Bank or the State's custodial bank and certain other types of debt or similar instruments.

The OITP is an alternative to the OSTF for State agencies. The moneys in the OITP are pooled and managed by OST to invest dollars not needed to cover short-term needs and able to withstand price volatility to achieve returns often associated with longer-term investments. The OITP is a voluntary investment vehicle for State agencies with funds that are allowed to be invested.

The OITP's management objective is to maximize total return, which includes investment value and coupon income within the desired risk parameters and fixed income investments prescribed in the portfolio guidelines. The OITP's benchmark index is the BofA Merrill Lynch 1-5 Year AAA-A U.S. Corporate & Government Index. The OITP is not structured to provide 100 percent net asset value on each participant's initial investment at all times. For consistency with the portfolio's total return objective, the value of each participant's investment is determined on a proportional basis to the net market value of the entire portfolio. The OITP is not registered with the U.S. Securities and Exchange Commission as an investment company.

Eligible investments are detailed in the OITP guidelines, but in general, the OITP may invest, subject to diversification requirements, in several types of investment grade rated debt market instruments denominated in U.S. dollars. These may include:

- Obligations of U.S. and non-U.S. private issuers;
- Obligations of the U.S. government and its agencies and instrumentalities;
- Obligations issued or guaranteed by non-U.S. governments and instrumentalities;
- Taxable debt securities issued by U.S. states or local governments and their agencies, authorities and other U.S. state government-sponsored enterprises;
- Repurchase agreements and Reverse repurchase agreements.

The OITP invests in securities that, at the time of purchase, are investment grade rated by nationally recognized rating agencies, such as Moody's or Standard & Poor's. The overall portfolio must maintain an average modified duration of 3.0 years or less. Limitations on individual investment terms to maturity vary by security type, but in general, securities have a maximum term of 10.25 years.

Except for U.S. Treasury and U.S. Agency securities, no more than 5 percent of the OITP may be invested in the securities of any one issuer and a maximum of 25 percent may be invested in any one of 10 broad sectors as defined by the Bloomberg Industry Classification System (BICS).

INITIATIVE PETITIONS, LEGISLATIVE REFERRALS AND REFERENDUM PETITIONS

Initiative Petitions

General. The State Constitution, Article IV, Section 1, reserves to the people of the State (1) the initiative power to amend the State constitution or to enact State legislation by placing measures on the statewide general election ballot for consideration by the voters and (2) the referendum power to approve or reject at an election any act passed by the Legislative Assembly that does not become effective earlier than 90 days after the end of the legislative session. The Legislative Assembly may also refer an act to the voters for approval or rejection.

State law permits any person to file a proposed initiative with the Secretary of State's office without payment of fees or other burdensome requirements. Although a large number of initiative measures are submitted to the Secretary of State's office, a much smaller number of petitions contain sufficient signatures to be placed on the ballot. Because many proposed initiative measures are submitted that do not qualify for the ballot, the State does not formally or systematically monitor the impact of those measures or estimate their financial effect prior to the time the measures qualify for the ballot. Consequently, the State does not ordinarily disclose information about proposed initiative measures that have not qualified for the ballot.

Requirements for Proposed Initiative Measures to Be Placed on the Ballot. To place a proposed initiative on a general election ballot, the proponents must submit to the Secretary of State initiative petitions signed by the number of qualified voters equal to a specified percentage of the total number of votes cast for all candidates for governor at the gubernatorial election at which a governor was elected for a term of four years next preceding the filing of the petition with the Secretary of State. Any elector may sign an initiative petition for any measure on which the elector is entitled to vote.

The initiative petition must be submitted to the Secretary of State not less than four months prior to the general election at which the proposed measure is to be voted upon. As a practical matter, proponents of an initiative have approximately two years in which to gather the necessary number of signatures. State law permits persons circulating initiative petitions to pay money to persons obtaining signatures for the petition.

Although a large number of initiative measures are submitted to the Secretary of State's office, a much smaller number of petitions contain sufficient signatures to be placed on the ballot. Once an initiative measure has gathered a sufficient number of signatures and qualified for placement on the ballot, the State is required to prepare a formal estimate of the measure's financial impact. Typically, this estimate is limited to an evaluation of the direct dollar impact. Historically, a larger number of initiative measures have qualified for the ballot than have been approved by the electors.

Year of General Election	Number of Initiatives that Qualified	Number of Initiatives that Passed
2002	7	3
2004	6	2
2006	10	3
2008	8	0
2010	4	2

Source: Elections Division, Oregon Secretary of State.

Legislative Referrals and Referendum Petitions

The Legislative Assembly may refer constitutional amendments or statutory changes to the Oregon voters for their approval. In addition, within 90 days after the end of a legislative session, any person may file a petition seeking to have any act passed by the Legislative Assembly that does not become effective earlier than 90 days after the end of the legislative session referred to the voters for their approval or rejection at the next general election, or at a special election provided for by the Legislative Assembly. To place a proposed referendum on the ballot, the proponents must submit to the Secretary of State within 90 days after the end of the legislative session referendum petitions signed by the number of qualified voters equal to four percent of the total number of votes cast for all candidates for governor at the gubernatorial election at which a governor was elected for a term of four years next preceding the filing of the petition with the Secretary of State. Any elector may sign a referendum petition for any measure on which the elector is entitled to vote. An act approved by the voters through the referendum process becomes effective 30 days after the date of the election at which it was approved. A referendum on part of an act does not prevent the remainder of the act from becoming effective as provided in the act.

PENSION AND POST EMPLOYMENT BENEFITS

The State is one of many participants in the statewide Oregon Public Employees' Retirement System ("PERS" or "System"). The State participates in three retirement pension benefit programs provided through PERS and three retirement healthcare benefit programs (two provided through PERS and one provided by the State's Public Employees' Benefit Board ("PEBB")). Most public employers in Oregon, including State government employers, participate in PERS.[1] Benefits provided through PERS are paid from the Oregon Public Employees' Retirement Fund ("OPERF"). The Public Employees' Retirement Board (the "PERS Board") administers PERS and is responsible for setting policies and for providing administrative direction to PERS.

System Pension Programs

The three PERS pension programs are composed of two defined benefit programs and one program that has features similar to a defined contribution plan. In a defined benefit plan, the investment risk for the plan assets is borne by the employer. In a defined contribution plan, the investment risk for the plan assets is borne by the employee. A combination of participating employer contributions (determined by the PERS Board based upon the results of actuarial valuations), investment earnings and employee contributions (determined by statute, currently 6 percent of salaries and 7 percent for judges) fund these pension programs.

Employees hired before January 1, 1996 are known as "Tier 1" participants. The retirement benefits applicable to Tier 1 participants are based primarily on a defined benefit model. Employees hired on or after January 1, 1996 and before August 29, 2003 are known as "Tier 2" participants. The Tier 2 program also provides a defined benefit but with lower expected costs to employers than under the Tier 1 benefit. Employees hired on or after August 29, 2003 are participants in a successor retirement program to the Tier 1 and Tier 2 retirement programs (the "T1/T2 Pension Programs") known as the Oregon Public Service Retirement Plan ("OPSRP").

PERS also offers a program that has features similar to a defined contribution benefit known as the Individual Account Program ("IAP"). Effective January 1, 2004, active Tier 1, Tier 2 (T1/T2) and OPSRP employees became members of the IAP. Tier 1 and Tier 2 employees retain their existing T1/T2 Pension Program account, but the IAP account receives any future member contributions.

The current pensions programs are the result of legislation enacted in 2003 that made significant changes to PERS. Several Oregon employees filed lawsuits challenging various aspects of the 2003 legislation. All of the significant challenges to the PERS legislation and resulting actions by the PERS board have been resolved except a question involving the transfer of $61 million to a contingency reserve account. In that case, the Oregon Supreme Court held that it did not have enough information to determine whether the transfer was reasonable and remanded that issue back to the trial court. The most recent actuarial valuations of the PERS system take into account the court decisions in existence when the valuations were completed.

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[1] In addition, the Oregon Health and Science University and the Oregon University System have each established alternatives to the participation in PERS. See footnote 12 in the State's Basic Financial Statements in Appendix B.

System Pension Plan Asset and Liabilities Valuations

Oregon statutes require an actuarial valuation of the System by a competent actuary at least once every two years. Under current practice, actuarial valuations are performed annually, but only valuations as of the end of each odd-numbered year are used to determine annual required employer contribution rates. Valuations are released approximately one year after the valuation date. The PERS current actuary, Milliman, Inc. replaced the prior actuary, Mercer (US), Inc. ("Mercer") in January 2012.

The PERS actuary released its December 31, 2009 valuation for the System (the "2009 System Valuation") on October 27, 2010 and its December 31, 2010 valuation for the System (the "2010 System Valuation") on November 10, 2011. The 2009 System Valuation and the 2010 System Valuation include actuarial valuations for the T1/T2 Pension Programs and OPSRP. The actuarial valuation report for the System as of December 31, 2011 was released on October 26, 2012. In connection with the T1/T2 Pension Programs, the State is pooled with certain local governments and community college districts (the "State and Local Government Rate Pool" or "SLGRP"). Because OPSRP's assets and liabilities are pooled on a program-wide basis, the State is pooled with all Oregon local governments in connection with OPSRP. The PERS actuary released the State's individual 2009 valuation report as of December 31, 2009 (the "2009 State Valuation") on September 27, 2010, the State's individual 2010 valuation report as of December 31, 2011 (the "2011 State Valuation") on September 28, 2012, which provides the State's portion of the unfunded actuarial liabilities of the SLGRP and OPSRP based on the State's proportionate share of total System covered payroll.

An employer's unfunded actuarial liability ("UAL") is the excess of the actuarially determined present value of the employer's benefit obligations to employees over the existing actuarially determined assets available to pay those benefits. The following methods and assumptions adopted by the PERS Board are the basis for the actuarial valuations:

Assumption/Method

Actuarial Cost Method:	Projected Unit Credit
UAL Amortization Method:	
T1/T2 Programs	Level Percentage of Payroll over 20 years (fixed)
OPSRP	Level Percentage of Payroll over 16 years (fixed)
Asset Valuation Method:	Market Value[1]
Investment Rate of Return:	8.00%
Payroll Growth Rate:	3.75%
Inflation Level:	2.75%
Contribution Rate Stabilization Method:	Contribution rate may increase or decrease by 3% to 6% of payroll or by 20% of the previous rate; whichever is greater, when an employer's funded status is between 80% and 120%. At a funded status of 70% or less, or 130% or more, the limitation doubles to 6% of payroll or 40% of the previous rate, whichever is greater. At a funded status between 70% and 80% or 120% and 130%, the limitation increases in increments between 3%-6% of payroll or 20%-40% of the previous rate, whichever is greater.

(1) Market value of assets reduced by value of assets in statutory reserves (contingency, capital preservation and rate guarantee reserves).

In addition to the actuarial methods and assumptions listed above, the actuary uses other methods, procedures and economic and demographic assumptions when performing its actuarial valuations.

The table below shows the actuarial value of assets and liabilities, the UALs and surpluses and funded ratios for PERS pension plans for the past ten years. For similar information regarding the PERS-sponsored retirement healthcare benefit programs see Tables 22 and 23.

TABLE 16
PUBLIC EMPLOYEES' RETIREMENT SYSTEM – SYSTEMWIDE PENSION HISTORICAL ACTUARIAL FUNDED RATIOS (DOLLARS IN MILLIONS)[1]

Calendar Year Ending	Actuarial Value of Assets[2] ($)	Actuarial Liability ($)	Unfunded Actuarial Liability ($)	Funded Ratio (%)
2002	35,446.9	38,947.0	3,500.1	91.0
2003	42,753.3	44,078.1	1,324.8	97.0
2004[3]	45,708.3	47,398.6	1,690.3	96.4
2005[4,5]	51,403.9	49,294.0	-2,109.9	104.3
2006	56,616.5	51,252.9	-5,363.6	110.5
2007	59,327.8	52,871.2	-6,456.6	112.2
2008	43,520.6	54,259.5	10,738.9	80.2
2009	48,729.2	56,810.6	8,081.4	85.8
2010	51,583.6	59,329.5	7,745.9	86.9
2011[6]	50,168	61,198	11,030	82.0

Sources: Actuarial valuations of System for years 2002-2010; 2011 State Valuation for year 2011.

(1) Composed of Tier 1/Tier 2 and OPSRP pensions but excluding retiree healthcare subsidies of RHIP and RHIPA.
(2) Includes proceeds of pension bonds issued by Oregon local governments and the State.
(3) In 2003, the Oregon Legislative Assembly enacted significant changes to the System and created OPSRP. The 2003 legislative reforms were enacted in response to a growing UAL of the System and to increasing charges to public employers to fund the System. Two actuarial valuations of the System were performed as of December 31, 2001, one prior to and one after the enactment of the 2003 reform legislation. The 2001 numbers reported in this table reflect the impact from the 2003 reform legislation. See "Litigation – Challenges Related to PERS" for discussion on litigation regarding the 2003 reform legislation.
(4) Effective with the 2004 valuation, the cost method 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 among other changes.
(5) Assets and liabilities for OPSRP are first valued in the 2005 OPSRP Valuation.
(6) Only rounded numbers currently available for 2011.

The following table shows the investment returns for the OPERF for the last ten calendar years.

TABLE 17
OREGON PUBLIC EMPLOYEES
RETIREMENT FUND INVESTMENT RETURNS[1]

Year Ending	Net Returns (%)
2002	-7.9
2003	22.7
2004	14.5
2005	13.5
2006	15.3
2007	9.7
2008	-27.0
2009	19.4
2010	12.6
2011	2.2

Source: Office of the State Treasurer.

(1) Regular account, before administrative expenses.

The funded status of the pension programs may change depending on the market performance of the securities that OPERF is invested in, future changes in compensation and benefits of covered employees, demographic characteristics of members and methodologies and assumptions used by the actuary in estimating the assets and liabilities of PERS. Additionally, the market value of the investments held in OPERF is determined using various sources. For descriptions of the methodologies applied by the Office of the Oregon State Treasurer to determine the market value of OPERF investments see the *State of Oregon Comprehensive Financial Report for the Fiscal Year ended June 30, 2011* Note 1.D., captioned "Deposits and Investments" and the *Oregon Public Employees' Retirement System Comprehensive Financial Report for the Fiscal Year Ended June 30, 2011,* Note 15.B. captioned "Summary of Significant Accounting Policies".

State of Oregon Experience

The following table shows the number of active State members in the T1/T2 Pension Programs and OPSRP.

TABLE 18
ACTIVE STATE PERS MEMBERS

Year Ending	Active T1/T2 Members	Active OPSRP Members[1]	Total	Percent Change (%)
2002	41,389	---	41,389	---
2003	40,010	---	40,010	-3.3
2004	37,419	---	37,419	-6.5[2]
2005	34,588	6,583	41,171	10.0
2006	34,151	8,411	42,562	3.4
2007	32,140	10,684	42,824	0.6
2008	30,615	13,643	44,258	3.3
2009	29,154	16,689	45,843	3.6
2010	27,569	20,288	47,857	4.2
2011	25,623	19,751	45,374	-5.2

Source: *Oregon PERS.*

(1) Information regarding OPSRP membership not available prior to 2005 because first year actuarial valuation of OPSRP is as of December 31, 2005.

(2) Decrease in percentage of active State PERS members reflects lack of information regarding OPSRP membership prior to 2005. New employees hired after August 29, 2003 became members of OPSRP.

State Pension Plan Asset and Liabilities

The following table shows the State's portion of the actuarial value of assets and liabilities, UALs and surpluses and funded ratios for PERS pension programs for the past ten years for which actuarial valuations were performed. For the T1/T2 Pension Programs, the State's portion of PERS' assets and liabilities is based upon the State's proportionate share of SLGRP's pooled covered payroll (as of December 31, 2011, approximately 47.82 percent) and reflects proceeds from the State pension bonds issued in October 2003 in the aggregate principal amount of $2.1 billion (the "State Pension Bonds"). For OPSRP, the State's proportionate share is based upon the State's share of total System covered payroll (as of December 31, 2011, approximately 27.60 percent). The State's proportionate liability may increase if other participants fail to pay their full employer contributions.

TABLE 19
STATE OF OREGON - PENSION
HISTORICAL ACTUARIAL FUNDED RATIOS
(DOLLARS IN MILLIONS)

Year Ending[1]	Actuarial Value of Assets[2] ($)	Actuarial Liability ($)	Unfunded Actuarial Liability ($)	Funded Ratio (%)
2002	11,421.3	10,724.3	(697.0)	106.5
2003	12,348.7	12,157.5	(191.1)	101.6
2004[3]	13,084.7	13,217.0	132.3	99.0
2005[4]	14,155.8	13,339.1	(816.7)	106.1
2006	15,598.1	13,823.3	(1,774.8)	112.8
2007	15,769.3	13,611.1	(2,158.2)	115.9
2008	11,600.1	14,036.0	2,435.9	82.6
2009	13,014.7	14,771.7	1,757.0	88.1
2010	13,529.8	15,116.4	1,586.5	89.5
2011	13,208.2	15,660.0	2,451.8	84.3

Source: State Actuarial Valuation Reports.

(1) Information regarding the State's actuarial funded ratios separate from SLGRP is not available prior to 2002.
(2) Includes State Pension Bonds proceeds beginning in 2002. Although the State Pension Bonds were issued in October 2003, the State's PERS actuary included the proceeds of the State Pension Bonds in the State's 2002 valuation by discounting the proceeds on a present value basis to December 31, 2002.
(3) 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.
(4) Assets and liabilities for OPSRP are first valued in the 2005 OPSRP Valuation.

State Employer Contribution Rates

At the end of each odd-numbered year, actuarial valuations determine the employer contribution rates that are officially set by the PERS Board. The 2009 State Valuation contains the current employer contribution rates. These rates are effective for the 2011-13 biennium. The 2011 State Valuation contains the State's employer contribution rates for the 2013-15 biennium All employers participating in PERS are required to make their contribution to PERS based on the employer contribution rates set by the PERS Board.

The following table shows the State's employer contribution rates expressed as percentages of the actuarially determined covered payroll for PERS pension and PERS-sponsored healthcare costs for the 2011-13 biennium based on the 2009 State Valuation and the 2013-15 biennium based on the 2011 State Valuation.

TABLE 20
STATE CONTRIBUTION RATES

Payrolls Paid	2011-13 (%)	2013-15 (%)
T1/T2	10.73	15.36
OPSRP General Services	8.05	12.54
OPSRP Police and Fire	10.76	15.27
Judiciary[1]	18.33	22.31
Blended Rate	9.60	14.49[2]

Sources: 2009 State Valuation, State Judiciary Valuation as of December 31, 2009, 2011 State Valuation and PERS.

(1) Members of the Oregon state judiciary are participants of the Judge Retirement Program and the employee contribution rate for the Judge Retirement Program is calculated separately. According to the 2009 System Valuation and the State Judiciary Valuation as of December 31, 2009, the value of the covered payroll of the judiciary as of December 31, 2009 is approximately $17.7 million, compared to the value of the covered payroll of all Pension Programs of approximately $8,512.2 million as of December 31, 2009.

(2) This preliminary blended rate was calculated by the PERS Actuary before completion of the 2011 State Valuation and adoption of the 2013-15 contribution rates by the PERS Board. A final blended rate is not yet available.

State Contributions

The following table shows the amount of State contributions paid to PERS for the three pension programs and the PERS-sponsored health care programs for the past ten fiscal years and the amount paid for the debt service on the State Pension Bonds.

TABLE 21
STATE CONTRIBUTIONS TO PERS AND PERS-RELATED DEBT SERVICE
(DOLLARS IN MILLIONS)
As of June 30, 2011

Year Ending 6/30	State Contribution to PERS[1] ($)	Percent Change (%)	Employee Contribution[2] ($)	POB Debt Service [3] ($)	Total ($)	Percent Change (%)
2001	193.4	5.5	117.2	---	310.6	5.4
2002	189.4	-2.1	103.5	---	292.9	-5.7
2003	195.1	3.0	102.7	---	297.8	1.7
2004	132.0	-32.3	110.1	---	242.1	-18.7
2005	107.6	-18.5	108.7	111.5	327.8	35.4
2006	176.2	63.8	115.9	118.8	410.9	25.4
2007	179.2	1.7	123.8	120.8	423.8	3.1
2008	160.8	-10.3	131.9	131.3	424.0	0.0
2009	170.8	6.2	141.2	136.9	448.9	5.9
2010 [4]	87.9	-48.5	141.8	142.7	372.4	-17.0
2011	100.5	14.3	141.6	148.8	390.9	5.0

Sources: *Footnote 12, State of Oregon Basic Financial Statements for Fiscal Years (FYs) ended June 30, 2005 and 2004; Oregon State Controller's Division for FY ended June 30, 2006; Footnote 13, State of Oregon Basic Financial Statements for FYs ending June 30, 2007, 2008 and 2009; and Footnotes 15 and 16, State of Oregon Basic Financial Statements for FY ending June 30, 2010 and June 30, 2011; PERS and Office of the State Treasurer.*

(1) Amount does not include employer paid employee portion but does include amounts paid for RHIA and RHIPA and discretely presented component units (SAIF Corporation and Oregon Health and Science University) as well as primary government.
(2) The State pays employee contributions. Years 2000, 2001 and 2007 through 2010 amounts are based on 6 percent contribution rate and actual annual covered payroll. Years 2003 through and including 2006 amounts based on 6 percent contribution rate and combined valuation-covered payroll from actuarial valuations of the System.
(3) Fiscal Year State Pension Bonds debt service. Fiscal year 2004 and 2005 debt service is net of capitalized interest. The State issued Pension Bonds October 31, 2003. As of June 30, 2011, $2.02 billion principal amount of State Pension Bonds remain outstanding.
(4) The State's PERS contribution rate was 6.71 percent of payroll from January 1, 2009 through June 30, 2009. That rate dropped to 3.17 percent of payroll for the second half of 2009 and all of 2010, resulting in a substantial decrease in the State's contribution to PERS.

Other Post-Employment Benefits

In addition to pension benefits, the State provides healthcare benefits (medical, vision and dental) to approximately 55,922 retirees through PERS health insurance programs. At the time of retirement, State employees can choose whether to obtain post-employment benefits through PERS or through PEBB.

PERS-Sponsored Retirement Health Insurance Account Plan (RHIA)

Retirees who receive pension benefits through the T1/T2 Pension Programs and are enrolled in certain PERS-administered health insurance programs may receive a subsidy towards the payment of health insurance premiums. ORS 238.420 established the Retirement Health Insurance Account ("RHIA") program under which qualified retirees may receive a subsidy for Medicare supplemental health insurance of up to $60 per month towards the cost of their health insurance premiums. The State's employer contribution rate for the RHIA program for the 2011-13 biennium is 0.59 percent of payroll and is a component of the State blended employer contribution rate of 9.6 percent for the 2011-13 biennium.

The State's employer contribution rate for the RHIA program for the 2013-15 biennium is 0.59 percent of payroll and is a component of the estimated State blended employer contribution rate of 14.49 percent for the 2013-15 biennium. The employer contribution rate for RHIA paid by the State is based on the annual required contribution (ARC) calculated for the biennium. As of December 31, 2011 the RHIA program has an unfunded actuarial liability of approximately $221.5 million representing a funded ratio of approximately 52.0 percent, of which $61.6 million is allocable to the State.

TABLE 22
RETIREMENT HEALTH INSURANCE ACCOUNT (RHIA)
HISTORICAL ACTUARIAL FUNDED RATIOS
(DOLLARS IN MILLIONS)[1]

Year Ending	Program UAL ($)	Program Funded Ratio (%)	State Share of UAL ($)
2003	405.4	22.4	111.1
2004	408.9	26.6	111.7
2005	314.9	36.5	84.7
2006	290.3	43.3	77.1
2007	248.8	50.2	66.5
2008	310.2	37.2	83.9
2009	296.9	41.9	82.7
2010	314.8	42.5	85.6
2011	221.5	52.0	61.6

Source: Actuarial valuations of System; PERS.

PERS-Sponsored Retiree Health Insurance Premium Account Plan (RHIPA)

Another subsidy is available to pre-Medicare-age State retirees through the Retiree Health Insurance Premium Account (RHIPA) plan. On or before January 1 of each year, the PERS Board calculates the average difference between the health insurance premiums paid by retired State employees under contracts entered into by the PERS Board and health insurance premiums paid by State employees who are not retired. RHIPA authorizes payment of this average difference to qualified retired State employees. The State's employer contribution rate for the RHIPA plan for the 2011-13 biennium is 0.16 percent of payroll and is a component of the State blended employer contribution rate of 9.60 percent for the 2011-13 biennium. The State's employer contribution rate for the RHIPA program for the 2013-15 biennium is 0.27 percent of payroll and is a component of the estimated State blended employer contribution rate of 14.49 percent for the 2013-15 biennium. The employer contribution rate for RHIPA paid by the State is based on the ARC calculated for the biennium. As of December 31, 2011, the RHIPA program had an unfunded actuarial liability (the "RHIPA UAL") of approximately $29.9 million, representing a funded ratio of approximately 13.1 percent, all of which is allocable to the State.

TABLE 23
RETIREE HEALTH INSURANCE PREMIUM ACCOUNT (RHIPA)
HISTORICAL ACTUARIAL FUNDED RATIOS
(DOLLARS IN MILLIONS) [1]

Year Ending	Program UAL ($)	Program Funded Ratio (%)
2002	28.4	9.0
2003	21.0	16.0
2004	23.0	18.4
2005	20.9	22.7
2006	16.4	29.9
2007	15.5	33.6
2008	15.6	26.7
2009	18.1	26.1
2010	28.2	16.8
2011	29.9	13.1

Source: Actuarial valuations of System.

(1) RHIPA benefits are only available to State employees; therefore, the RHIPA plan UAL is allocable entirely to the State.

PEBB Retiree Health Insurance Benefit Plan

In addition to the pension and healthcare benefits provided to retired State employees through PERS, the State provides healthcare benefits (medical, vision and dental) through PEBB to approximately 2,000 retirees who do not receive healthcare benefits through PERS and are not yet eligible for Medicare. PEBB's obligations to provide benefits are State obligations for accounting purposes. 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, where the retiree pays the same premium amount as active employees.

On June 25, 2010, the State's actuary for PEBB, released an actuarial valuation as of July 1, 2009 (the "2009 PEBB Valuation") for purposes of complying with the OPEB standards (GASB 43 and GASB 45). The valuation was prepared using the Entry Age Normal actuarial cost method, an amortization period of 30 years, and an assumed discount rate of 4.0 percent. The State's unfunded actuarial accrued liability at the valuation date of July 1, 2009 for post-employment benefits provided through PEBB was estimated $161.7 million. For fiscal year 2011, the ARC for post-employment benefits provided through PEBB, was $17.4 million, plus interest on the net OPEB obligation of $1.9 million, less the ARC adjustment of $2.7 million. Because the State continues to fund the PEBB OPEB on a pay-as-you-go basis, the net OPEB obligation reported at the end of fiscal year 2011 in the State's financial statements is $55.4 million. The $55.4 million is the sum of the prior year's ending balance of $47.7 million and the fiscal year 2011 annual OPEB expense of $16.6 million, less the pay-as-you-go contribution of approximately $8.9 million.

DEBT AUTHORITY AND BOND ISSUANCE

Administration

Oregon law authorizes the State Treasurer to coordinate the issuance of all State of Oregon bonds. The Treasurer reviews and approves the terms and conditions of bond sales and issues all bonds for State agencies. By centralizing this authority, the agencies for which bonds are issued are encouraged to plan their offerings well in advance and to work together to obtain the most favorable market reception. In addition, the uniform approach permits greater control of the State's overall debt position, allowing the Treasurer to address the interests and concerns of the financial community and rating agencies as well as those of the State agencies.

The State Treasurer advises the Governor on the total biennial bonding level for State agency programs in the development of the Governor's recommended budget. The Legislative Assembly authorizes bonds to be issued for each agency's program in the "biennial bonding bill". The Governor's recommended budget includes requests by agencies for bonds to fund their capital project needs, as well as agencies' grant and loan programs. The Legislative Assembly reviews each program request and approves what it determines to be an appropriate level of issuance in the biennial bonding bill.

The State generally issues four types of "long-term" financing obligations: general obligation bonds, appropriation obligations, direct revenue bonds and conduit revenue bonds. The State also may issue full faith and credit short-term borrowings, known as "Tax Anticipation Notes." The Treasurer approves financing agreements, including lease purchase agreements, installment sales agreements and loan agreements to finance real or personal property and approves certificates of participation with respect to the financing agreements. The principal amount of such financing agreements is treated as bonds subject to the biennial bonding bill.

Prior to the issuance of bonds, typically agencies submit reports to the State Treasurer that project future cash flows, the agency's ability to meet future debt service, and the agency's historical performance on payments and delinquencies. Agencies must also provide cash flow projections and other requested information to the State Treasurer on a periodic basis. Agency bond programs may be audited annually with the audit results published as soon after the audit as possible.

Capital Needs and Budget Process

Oregon law requires the Governor's budget to include capital construction needs for a minimum of six years. Prior to the biennial preparation of the Governor's recommended budget, agencies submit their projected capital needs for the upcoming biennium and for the two subsequent biennia. These requests are evaluated and placed in the Governor's recommended budget under one of two categories: capital improvements (less than $500,000) or major construction and acquisition projects (greater than $500,000). The capital improvement projects are included in agency operating budget appropriation bills. The major construction and acquisition projects are approved by the Legislative Assembly in the biennial bonding bill.

Authorization

The Oregon Constitution generally prohibits state government from incurring any indebtedness that exceeds $50,000. Consequently, all general obligation bonds are authorized by an amendment to the Oregon Constitution that has been approved by Oregon voters and that permits bonds to be issued as an exception to the constitutional debt limit. The State's various bond programs are summarized in the text and tables that follow. Table 24 lists the amount of debt that the Legislative Assembly has authorized for State agencies in the current biennium. Table 25 summarizes the various bond programs and provides information on constitutional and statutory debt limits and remaining authority for each active bond program.

General Obligation Bonds

The amount of general obligation bonds that may be issued is usually expressed in the Constitution as a percentage of the statewide property value. The general obligation bond programs are also subject to legislative direction. The Legislative Assembly may place limits on general obligation bond programs that are more restrictive than those approved by the voters.

The State's general obligation debt is secured by a pledge of the full faith and credit and statutory taxing power of the State of Oregon. In addition to any revenues from the program for which the bonds are issued, general obligation bonds may be paid from any undedicated and unrestricted moneys of the State. A property tax, where authorized by the Oregon Constitution, may also be levied to pay some general obligation bonds, although the State has not levied such a tax to pay any bonds in many years.

Currently, there are 17 constitutionally authorized general obligation bond programs. Although each of these programs may draw on the State's General Fund or other taxing authority, many of the programs are fully self-supporting from program or other revenue streams. See Tables 24 and 25 for more information about applicable constitutional and statutory debt limits and remaining authority for each active general obligation bond program. See Table 26 for a summary of general obligation debt outstanding for the State. See Table 27 for the State of Oregon Aggregate General Obligation Debt Service.

The following active general obligation bond programs are primarily supported by the State's General Fund: Higher Education Facilities and Community College Bonds, Pollution Control Bonds, Alternate Energy Bonds, Oregon Opportunity Bonds, Seismic Rehabilitation Bonds for Public Education and Emergency Services Buildings, and a portion of the Pension Obligation Bonds and State Property Bonds.

The following active general obligation bond programs are either partially (as identified in Table 25) or fully self-supporting: Veterans' Welfare Bonds, Higher Education Facilities Bonds, Pollution Control Bonds, Water Resources Bonds, Elderly and Disabled Housing Bonds, Alternate Energy Bonds and a portion of the Pension Obligation Bonds and State Property Bonds.

In addition to the active general obligation bond programs described above, the Oregon Constitution authorizes the State Treasurer to pledge the full faith and credit of the State to guarantee the general obligation bonds of Oregon's common or union high school districts, education service districts or community college districts. The State guarantees outstanding school district bonds of approximately $3.2 billion under this program and has not issued any bonds under this authorization. The Oregon Constitution also authorizes the State to incur indebtedness to provide funds to school districts to finance capital costs of the district.

Tax Anticipation Notes

ORS 293.173 authorizes a short-term, full faith and credit, borrowing program for the State through the issuance of Tax Anticipation Notes (TANs). The State may borrow and issue notes in anticipation of the collection of State taxes and revenues to be received during a biennium. The notes typically mature within 13 months. They are not considered debt within the meaning of any Constitutional prohibition because they mature and are repaid within a biennium. If the State General Fund or other available revenues are insufficient to pay the TANs, the State Treasurer may use internal borrowing to make any required payment.

Appropriation Credits

The State also issues appropriation credits that are special limited obligations of the State payable solely from funds appropriated or otherwise made available by the Legislative Assembly. The obligation of the State to provide appropriated moneys and to pay those borrowings is subject to future appropriation by the Legislative Assembly for the fiscal period in which payments are due. See Tables 24 and 25 for more information on the statutory debt limits and outstanding amount of special limited obligations of the State. The following appropriation credits are authorized under Oregon Law:

Oregon Appropriation Bonds. After an approximately $2-billion decline in revenues during the

2001-2003 biennium, the Legislative Assembly authorized the issuance of Oregon Appropriation Bonds (Oregon Laws 2003, chapter 11) to pay for education, human services and other expenditures and to provide a beginning General Fund balance for the next biennium. The obligations are appropriation credits and payment is subject to an appropriation by the Legislative Assembly in each biennium. The State does not have current authority to issue additional Oregon Appropriation Bonds.

Certificates of Participation. Under Oregon law (ORS 283.085 to 283.092), the State is authorized to enter into financing agreements to finance real and personal property projects for State agencies using certificates of participation. Each certificate represents an interest in and right to receive a portion of loan payments made by the State to a trustee for the certificate holders. The State's obligation to make the loan payments is subject to appropriation by the Legislative Assembly of the payment amounts each biennium. In some cases, the State's repayment obligation is also secured by a pledge of certain projects financed by the certificates as collateral. Following voter approval of an amendment to the Oregon Constitution in 2010 that authorizes the State to issue general obligation bonds to finance real and personal property projects under Article XI-Q of the Oregon Constitution, the State expects to use Certificate of Participation authority on a more limited basis.

Direct Revenue Bonds

State revenue bond programs operate under statutory authority from the Legislative Assembly. Each program is fully self-supporting, and has no general obligation backing from the State. The Legislative Assembly, however, could provide a funding stream if program revenues were insufficient to support debt service payments. The Legislative Assembly normally limits revenue bonds to a specific dollar amount.

The following are active revenue bond programs authorized by the Legislative Assembly: State Highway User Tax Bonds, Lottery Revenue Bonds, Oregon Bond Bank Revenue Bonds, and Single-Family and Multifamily Revenue Bonds. See Tables 24 and 25 for more information about applicable constitutional and/or statutory debt limits and remaining authority for each active State revenue bond program.

Conduit Revenue Bonds

The State has three authorized and active conduit or "pass-through" revenue bond programs consisting of the Oregon Facilities Authority, Industrial and Economic Development Revenue Bonds, and Housing Development Revenue Bonds. The Legislative Assembly has authorized these conduit revenue bond programs, and pursuant to that authority the State is the issuer of the bonds. The bonds are repaid only from revenues generated by the projects financed or from other sources available to a borrower. The State has no financial obligation for these bonds and bondholders have no recourse against the properties, funds or assets of the State. See Tables 24 and 25 for more information about applicable statutory debt limits and remaining authority for each active State conduit revenue bond program.

TABLE 24
STATE OF OREGON
GENERAL OBLIGATION AND REVENUE BOND AND CERTIFICATES OF PARTICIPATION
2011-13 BIENNIUM ISSUANCE LIMITS
As of March 6, 2012

State Agency or Authority	Laws	Constitutional / Statutory	Bond Limits General Obligation ($)
Department of Veterans' Affairs	HB 5005	Article XI-A	100,000,000
Oregon University System	HB 5005/5201-A	Article XI-F(1)	166,722,070
Oregon University System	HB 5005	Article XI-G	17,608,000
Department of Community Colleges & Workforce Development	HB 5005	Article XI-G	24,500,000
Department of Environment Quality	HB 5005	Article XI-H	16,740,000
Housing and Community Services Department	HB 5005	Article XI-I(2)	50,000,000
Department of Energy	HB 5005	Article XI-J	150,000,000
Water Resources Department	HB 5005	Article XI-I(1)	15,000,000
Oregon Military Department	HB 5005	Article XI-M	7,614,000
Department of Administrative Services	HB 5005/5201-A	Article XI-Q	200,645,000
Total General Obligation Bonds			748,829,070
			Direct Revenue Bonds
Housing and Community Services Department	HB 5005	ORS 456.661	300,000,000
Department of Transportation			
Highway User Tax	HB 5005	ORS 367.025	663,000,000
Transportation Infrastructure Fund	HB 5005	ORS 367.030	18,360,000
Oregon Business Development Department	HB 5005	ORS 285B.473	100,000,000
Department of Administrative Services Lottery	HB 5005/5201-A	Various	233,330,000
Department of Energy	HB 5005		25,000,000
Total Direct Revenue Bonds			1,339,690,000
			Pass Through Revenue Bonds
Economic & Community Development Department			
Industrial Development Revenue Bonds	HB 5005	ORS 285B.344	125,000,000
Oregon Facilities Authority	HB 5005	ORS 289.200	550,000,000
Housing and Community Services Department	HB 5005	ORS 456.692	125,000,000
Total Pass Through Revenue Bonds			800,000,000
			Certificates of Participation and Other Financing Agreements
Department of Administrative Services	HB 5005/5201-A	ORS 283.020-092	12,500,000
Total Financing Agreements or Certificates of Participation (COPs)			12,500,000

Source: HB 5005, 76th OREGON LEGISLATIVE ASSEMBLY – 2011 Regular Session, the Oregon Constitution and Oregon Revised Statutes. HB 5201-A, 2012 Annual Session.

TABLE 25
STATE OF OREGON OUTSTANDING LONG-TERM FINANCIAL OBLIGATIONS AND CONSTITUTIONAL AND STATUTORY PROVISIONS AS OF June 30, 2012 [1]

General Obligation Bonds	Debt Limit (as % RMV)[2]	Constitutional Debt Limit($)[3]	Statutory Debt Limit ($)	Amount Outstanding ($)	Authorization Remaining ($) [4]
General Fund Supported					
Higher Ed. Facility (XI-G) [5]	0.7500	3,258,219,357	---	392,056,452	
Community College Bonds (XI-G)				115,090,000	2,751,072,905
Pollution Control [6] (42%)	0.5000	2,172,146,238	109,200,000	16,107,000	
Alternate Energy Projects [7] (18%)	0.5000	2,172,146,238		43,682,400	347,303,923
Oregon Opportunity Bonds [8]	0.5000	2,172,146,238	203,175,000	138,830,000	
Seismic Rehab– Public Education Bldgs.	0.2000	868,858,495		10,815,000	858,043,495
Seismic Rehab– Emergency Serv. Bldgs.	0.2000	868,858,495		10,645,000	858,043,495
Pension Obligations [9] (32%)	1.0000	4,344,292,476	---	634,971,200	
General Purpose General Obligation Bonds	1.0000	4,344,292,476		645,165,000	3,699,127,476
Total General Fund Supported				2,007,362,052	
Self-Supporting					
Veteran's Welfare [5]	8.0000	34,754,339,804	---	348,590,000	34,405,749,804
Higher Ed. Building (XI-F) [5]	0.7500	3,258,219,357	---	1,094,241,823	2,163,977,533
Pollution Control [6] (57%)	0.5000	2,172,146,238	260,000,000	22,243,000	2,011,346,238
Water Resources	1.5000	6,516,438,713			6,516,438,713
Elderly & Disabled Housing	0.5000	2,172,146,238	---	141,830,000	2,030,316,238
Alternate Energy Projects [7] (82%)	0.5000	2,172,146,238	---	198,997,600	1,582,162,315
Pension Obligations [9] (68%)	1.0000	4,344,292,476	---	1,349,313,800	
Total Self-Supporting				3,155,216,223	
Total General Obligation Bonds				5,162,578,275	
Appropriation Credits					
Certificates of Participation - GF [10] (85%)	---	---	---	893,039,750	
Certificates of Participation – Non-GF (15%)				157,595,250	
Oregon Appropriation Bonds	---	---	431,560,000	98,095,000	
Total Appropriation Credits				1,148,730,000	
Direct Revenue Bonds					
Lottery Revenue Program(s)	---	---	---	1,129,055,000	
Transportation Infrastructure Bank	---	---	200,000,000	0	200,000,000
Highway User Tax [11]	---	---	3,240,000,000	2,142,990,000	840,000,000
Single & Multi-Family Housing	---	---	2,500,000,000	1,235,985,000	1,264,015,000
Oregon Business Development Dept.	---	---	---	116,555,000	
Total Direct Revenue Bonds				4,624,585,000	
Conduit Revenue Bonds					
Industrial Development – OBDD	---	---	---	466,564,210	
Oregon Facilities Authority	---	---	---	1,636,369,753	
Multi-family Housing Programs	---	---	---	190,968,871	
Total Conduit Revenue Bonds				2,293,902,833	

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

(1) Excludes the impact, if any, of the issuance of obligations offered by this Official Statement. Does not include: Bond or Tax Anticipation Notes issued for less than 13 months, refunded and defeased bonds.

(2) Percentages listed are of Real Market Value (RMV) of all taxable real property in the State.

(3) Based on the January 1, 2011 Real Market Value (RMV) of $434,429,247,553. Authorizations may not include inactive programs.

(4) For those active debt issuing programs whose remaining debt authorization is determined by current outstanding debt. The Constitutional authorization remaining is depicted in the Self-Supporting section for programs with General Fund ("GF") and Self-Supporting bond portions. It is calculated by subtracting the sum of the GF and Self-Supporting bonds outstanding from the Constitutional debt limit.

(5) Outstanding Department of Veterans' Affairs and State Board of Higher Education general obligation debt reflect the proceeds amount of original issue discount and deferred interest bonds.

(6) The amount of GF debt service support varies depending on a variety of factors such as which bonds are coming due. In this Table Pollution Control Debt is reported at 42% GF supported and 58% self-supporting; calculated by the ratio of remaining debt service times outstanding amount.

(7) The amount of GF support varies depending on the amortization and budgeted allocation of each bond. Alternate Energy debt is reported at 18% GF supported and 82% self-supporting; calculated by the ratio of remaining debt service times outstanding amount.

(8) Authorized to finance capital construction at Oregon Health and Science University in an aggregate principal amount that produces net proceeds in an amount that does not exceed $200 million.

(9) Approved by the voters September 16, 2003. 32% is assumed to be paid from the GF, and 68% is assumed to be paid from Non-GF sources; calculated by the ratio of remaining debt service times outstanding amount.

(10) The amount of GF support varies depending on the amortization and budgeted allocation of each obligation. COP obligations are reported at 85% GF supported and 15% self-supporting.

(11) Authorization remaining is based on issued amount, not outstanding amount. All bonds authorized under OTIA I, II, and III have been issued. The remaining authority is for JTA.

TABLE 26
STATE OF OREGON
GENERAL OBLIGATION DEBT OUTSTANDING SUMMARY
(FISCAL YEAR, AS OF JUNE 30, 2012)

	2008	2009	2010	2011	2012
Gross General Obligation Debt [1]	$4,520,412,674	$4,620,536,873	$4,797,381,780	$5,020,564,093	$5,162,578,275
Revenue Supported GO Debt	$3,260,150,251	$3,229,084,387	$3,383,126,683	$3,316,344,503	$3,155,216,223
Net GO Debt	$1,260,262,423	$1,391,452,486	$1,414,255,097	$1,704,219,590	$2,007,362,052
Population [2]	3,784,600	3,815,800	3,837,300	3,856,300	3,887,000
Gross Debt per Capita	$1,194	$1,211	$1,250	$1,302	$1,328
Net Debt per Capita	$333	$365	$369	$442	$516
Real Market Value (RMV) [3]	$501,152,650,155	$525,356,272,908	$498,657,322,131	$458,518,867,537	$434,429,247,553
Gross Debt as Percent of RMV	0.90%	0.88%	0.96%	1.09%	1.19%
Net Debt as Percent of RMV	0.25%	0.26%	0.28%	0.37%	0.46%
Total Personal Income [4]	$136,300,000,000	$135,100,000,000	$139,400,000,000	$146,800,000,000	$151,600,000,000
Revenue Supported GO Debt as Percent of Total Personal Income	2.39%	2.39%	2.43%	2.26%	2.08%
Net GO Debt as Percent of Total Personal Income	0.92%	1.03%	1.01%	1.16%	1.32%

Compiled by: Office of the Oregon State Treasurer, Debt Management Division.
Source: Oregon Department of Administrative Services, Office of Economic Analysis, June 2012 State Economic & Revenue Forecast, Tables A.1 Annual Forecast for Personal Income estimates & Table C.3 for Population estimates.

(1) Excludes the impact of the issuance (if any) of the obligations offered by this Official Statement. Does not include notes issued for less than 13 months or refunded and defeased bonds.
(2) Population figures are as of July 1 each year.
(3) Based on true cash value of statewide property as of January 1, of the prior year.
(4) Total personal income includes all classes of income.

TABLE 27
STATE OF OREGON
AGGREGATE GENERAL OBLIGATION DEBT SERVICE[1]
(FISCAL YEAR, AS OF JUNE 30, 2012)

Year	Principal($)	Interest($) [2]	Total ($)
2012-2013	$164,492,360.25	$271,039,045.07	$435,531,405.32
2013-2014	184,044,060.00	263,921,483.43	447,965,543.43
2014-2015	200,146,440.30	253,714,102.04	453,860,542.34
2015-2016	212,771,434.30	245,512,573.05	458,284,007.35
2016-2017	222,385,162.15	236,798,539.16	459,183,701.31
2017-2018	233,252,239.65	223,316,704.56	456,568,944.21
2018-2019	252,888,074.25	208,059,915.31	460,947,989.56
2019-2020	314,209,965.75	194,726,404.20	508,936,369.95
2020-2021	288,023,352.10	176,851,369.36	464,874,721.46
2021-2022	288,085,186.50	160,792,415.35	448,877,601.85
2022-2023	306,120,000.00	143,672,942.15	449,792,942.15
2023-2024	314,400,000.00	126,885,313.99	441,285,313.99
2024-2025	330,665,000.00	109,344,872.47	440,009,872.47
2025-2026	357,640,000.00	90,764,932.17	448,404,932.17
2026-2027	374,430,000.00	70,666,814.72	445,096,814.72
2027-2028	109,345,000.00	49,713,726.80	159,058,726.80
2028-2029	102,915,000.00	44,469,552.80	147,384,552.80
2029-2030	100,415,000.00	39,614,909.62	140,029,909.62
2030-2031	96,315,000.00	34,986,318.63	131,301,318.63
2031-2032	96,395,000.00	30,484,092.98	126,879,092.98
2032-2033	85,855,000.00	26,269,850.01	112,124,850.01
2033-2034	89,970,000.00	22,240,317.38	112,210,317.38
2034-2035	83,445,000.00	18,243,279.43	101,688,279.43
2035-2036	83,930,000.00	14,320,089.56	98,250,089.56
2036-2037	63,370,000.00	10,543,279.28	73,913,279.28
2037-2038	60,625,000.00	7,595,785.90	68,220,785.90
2038-2039	58,605,000.00	4,782,081.75	63,387,081.75
2039-2040	38,075,000.00	2,627,090.65	40,702,090.65
2040-2041	21,110,000.00	1,440,181.75	22,550,181.75
2041-2042	17,925,000.00	646,216.25	18,571,216.25
2042-2043	2,795,000.00	243,812.50	3,038,812.50
2043-2044	2,910,000.00	163,717.50	3,073,717.50
2044-2045	2,975,000.00	102,433.75	3,077,433.75
2045-2046	1,640,000.00	40,018.75	1,680,018.75
2046-2047	200,000.00	17,100.00	217,100.00
2047-2048	210,000.00	7,481.25	217,481.25
Total	**$5,162,578,275.25**	**$3,084,618,763.57**	**$8,247,197,038.82**

Source: *Office of the State Treasurer, Debt Management Division.*

(1) Does not reflect the impact, if any, of the issuance of obligations offered by this Official Statement.

(2) The interest calculation on variable rate obligations is determined by multiplying the most recent interest rate reset for each obligation times its outstanding principle over the life of the bonds.

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APPENDIX B

Basic Financial Statements
for the State of Oregon
for the Year Ended
June 30, 2012

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Oregon

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012

John A. Kitzhaber, MD
Governor

Michael Jordan
State Chief Operating Officer
Director, Department of Administrative Services

George Naughton, State Chief Financial Officer

Report Prepared by:

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Year Ended June 30, 2012

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Introductory Section

Oregon
John A. Kitzhaber, MD, Governor

Department of Administrative Services
Chief Financial Office
155 Cottage Street NE U10
Salem, OR 97301

December 19, 2012

To the Honorable Governor John Kitzhaber, MD, 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, 2012. 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 (State). 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, 2012. 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 the financial statements for fiscal year 2012 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 March 31, 2013.

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 should be read in conjunction with the letter of transmittal.

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 support, and judicial services. Oregon's primary government as reported in the accompanying financial statements consists of approximately 90 state agencies. In addition to the primary government, four entities are reported as discretely presented component units to emphasize that they are legally separate from the State. See Note 1 to the basic financial statements for a more detailed discussion of the reporting entity.

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 that 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 approval is required to transfer expenditure authority between appropriations. Management can reallocate within an appropriation without legislative approval. The following budgeted appropriated fund types have been established to account for the State’s budgetary activities: general funds, federal funds, lottery funds, and other funds. See the notes to the required supplementary information for additional information about the budget process and budgetary monitoring.

Local Economy

Oregon is the least populous of the three west coast states that also include California and Washington. Oregon has almost 2 million of the three states’ 23.9 million workers. Oregon’s largest metro area is centered in Portland, stretching west to Hillsboro and north across the Columbia River to Vancouver, Washington. The Portland area has the sixth largest number of workers of all metro areas in the three states. One-half of Oregon’s jobs are located within the Oregon portion of the Portland metro area.

Rapid job growth from late 2003 to mid-2006 pulled Oregon’s unemployment rate down to a low of 5 percent in early 2007. In the summer of 2008, the rate began rising rapidly in response to job losses in many industries. It hit a peak of 11.6 percent in the spring of 2009, the second highest in the nation. As of November 2012, Oregon’s unemployment rate was 8.4 percent compared to 9.1 percent in November 2011.

From late 2003 to mid-2006, Oregon gained jobs at roughly 3 percent per year. Oregon’s nonfarm payroll jobs peaked in February 2008, two months after the start of the national recession, and the State lost 8.5 percent of its jobs before reaching bottom in February 2010. Since that low point, all of Oregon’s 11 major industries have added back jobs lost during the recession for a net gain of over 45,500 jobs.

Oregon’s major foreign export-related industries include computers and electronic products, agricultural products, chemicals, machinery, and transportation equipment. The largest foreign consumers of Oregon’s products are China, Canada, Malaysia, Japan, and South Korea. Oregon also ships large values of goods to domestic markets. These shipments include wood, food, nursery products, transportation equipment, machinery, instruments, and plastic and paper products. Oregon also serves both foreign and domestic tourists.

Oregon’s annual nonfarm employment level in 2012 should grow about 1.3 percent over 2011’s level and is expected to grow another 1.5 percent in 2013, reflecting the modest recovery in jobs following the recession. Employment growth is expected to rise to 2.4 percent in 2014 and remain above 2 percent each year through 2016. The State’s current job growth mirrors the national trends, although Oregon’s future job growth is expected to be slightly faster. Job growth over this period is expected to be fastest in construction and professional and business services, as these industries recover from the jobs cut during the recession. Professional and business services and health care and social assistance will likely add the most jobs between 2012 and 2016. Overall, employment in Oregon is expected to outpace population growth between 2012 and 2016.

Spending for education reported by the State’s governmental funds during fiscal year 2012 was up $83.8 million, or 2.1 percent, compared to fiscal year 2011, but was 40.1 percent higher than the amount spent on education ten years ago. Human services spending by the State’s governmental funds during fiscal year 2012 was up $552.1 million, or 7.2 percent, compared to fiscal year 2011, but was 90.2 percent higher than the amount spent in fiscal year 2003. Governmental fund expenditures for administration in fiscal year 2012 were down $56.7 million, or 14.2 percent, compared to fiscal year 2011 and were 47.4 percent lower than in fiscal year 2003. The slower growth rate in expenditures for education and administration, when compared to human services, reflects the continued demand for safety net programs during the recession and opportunities to use state debt to spur economic growth. Governmental fund expenditures related to debt service, for example, have increased as the State expands its use of low-cost capital financing. Debt service expenditures in fiscal year 2012 were more than two times higher than the amount spent on debt service in fiscal year 2003.

During this same ten-year period, tax revenues, while increasing in amount overall, decreased 2.9 percent as a percentage of total governmental fund revenues. The reason for this decline is the relative increase in governmental fund expenditures for federally supported programs (e.g., human services) versus governmental activities funded by taxes. As a percentage of total revenues, federal revenues were 4.5 percent higher than they were ten years ago, evidence of the State’s increased participation in federal assistance programs.

Prolonged Recession Impacts Oregon's Budget

The legislatively approved budget for the State of Oregon for the 2011-13 biennium, as adjusted during the 2012 legislative session, is $58.8 billion total funds, a decrease of $3.4 billion, or 5.5 percent, from the 2009-11 legislatively approved budget of $62.2 billion. The primary reason for the decrease is the significantly reduced amount of funding from the federal government from the economic stimulus and unemployment benefit extension programs. The State's federally funded expenditures jumped from $10.1 billion in the 2007-09 biennium to over $17.7 billion in 2009-11. In comparison, federally funded expenditures in the 2011-13 budget are $2.8 billion lower than amounts included in the 2009-11 budget, a decrease of nearly 16 percent. The decline in the 2011-13 total funds approved budget is the first biennial decline since the 1981-83 biennium.

Due to concerns about the remaining revenue forecasts for the 2011-13 biennium and budget restoration needs identified by the Joint Committee on Ways and Means, the 2012 legislative session focused on developing a budget rebalance plan for the General Fund. The co-chairs of the Joint Committee on Ways and Means agreed to a total rebalance problem of slightly over $200 million that was addressed through a combination of actions. These actions included selected program and service reductions; the re-appropriation of certain account balances; accessing additional resources provided to the State through three unanticipated legal settlements; and engaging the executive branch in reform actions to reduce administrative middle management positions and make other business operational changes.

Long-term Financial Planning

The 2011-13 legislatively approved budget for capital construction is $1.4 billion. This total includes $346.5 million of capital construction and deferred maintenance projects for the Oregon University System (OUS), funded through a variety of sources, including various categories of bonds, federal grants, donations, and other cash balances. Unlike biennia in the past, no General Fund resources were appropriated to support OUS capital construction or deferred maintenance expenditures. Debt service for the related bonds will come from lottery revenues, student fees, housing and dining revenues, and other campus funds.

The 2012 Legislature increased lottery revenue bond authority by $10.6 million to provide funding for community college capital projects. However, the additional lottery revenue bonds cannot be issued if the State Treasurer determines, after considering a report from the State Debt Policy Advisory Commission, that lottery-backed debt capacity is not sufficient. The next report on lottery-backed debt capacity is due no later than February 1, 2013.

The largest General Fund project included in the 2011-13 budget is $62.7 million for completion of the new facility to replace the original State Hospital constructed in 1893. The new 620-bed Salem campus began operations during fiscal year 2012, with four wards not scheduled to open until the beginning of the 2013-15 biennium. Debt service on the related bonds will be paid with General Fund resources.

In 2012, the Legislature also approved $10.1 million of other funds and $19.4 million of federal funds for construction of a veterans' home in Lebanon, a U.S. Veterans Administration priority project selected in June 2010. Local government funds from Linn County will provide approximately 35 percent of the project funding for this 150-bed facility. The State expects to complete this project in the fall of 2014.

The 2011-13 transportation budget includes $600 million in highway revenue bond proceeds for bridge construction authorized under the Oregon Transportation Investment Act of 2003. It also includes $75 million in bond proceeds for the State Radio Project (formerly known as the Oregon Wireless Interoperability Network Project) and $478.5 million for highway projects identified in the Legislature's enactment of the Jobs and Transportation Act of 2009.

The Legislature also authorized the sale of $40 million of lottery revenue bonds for Connect Oregon (a 60 percent reduction from the prior biennium). This sale is in addition to the $100 million Connect Oregon bond sale authorized in the 2005-07 biennium; the $100 million Connect Oregon II bond sale in 2007-09; and the $100 million Connect Oregon III bond sale in 2009-11. Launched to expand the State's investment in key non-highway facilities, Connect Oregon is a multi-modal transportation initiative that includes public transit, air, rail, and marine transportation infrastructure.

The December 2012 economic and revenue forecast projects $14 billion of General Fund gross revenues for the 2011-13 biennium. The projected General Fund ending balance for 2011-13 is $220.9 million. General Fund resources are forecasted to increase by 11.1 percent in the 2013-15 biennium and 11 percent in the 2015-17 biennium.

Relevant Financial Policies

The State currently administers two general reserve accounts, the Oregon Rainy Day Fund and the Education Stability Fund.

Established by the 2007 Legislature, the Oregon Rainy Day Fund is funded from the General Fund's ending balance up to one percent of General Fund appropriations for the prior biennium. The Legislature may deposit additional funds as it did to create the fund, using surplus corporate income tax revenues from the 2005-07 biennium. The Rainy Day Fund also earns interest on the moneys in the fund. Withdrawals from the Rainy Day Fund require one of three specific economic triggers to occur plus approval of three-fifths of both chambers of the Legislature. Withdrawals are capped at two-thirds of the balance as of the beginning of the biennium in question, while fund balance is capped at 7.5 percent of General Fund revenues in the prior biennium.

The Education Stability Fund is the State's second general reserve fund. Its current reserve structure and mechanics are the result of a constitutional amendment in 2002. Amounts in the Education Stability Fund may be spent under the same conditions as those required for spending moneys in the Oregon Rainy Day Fund. However, if none of the conditions is met, the Education Stability Fund can also be used by the Legislature for public education in Oregon if the Governor declares an emergency and the expenditure is approved by a three-fifths majority in each chamber. This fund receives 18 percent of lottery earnings, deposited on a quarterly basis. The fund does not retain interest earnings. Fund balance is capped at five percent of General Fund revenues collected in the prior biennium.

The Rainy Day Fund ended the 2009-11 biennium with a cash balance of $10.4 million. The General Fund's ending cash balance for 2009-11 of $35.2 million was deposited into the Rainy Day Fund at the beginning of the 2011-13 biennium, Agency revisions from the 2009-11 biennium, plus savings related to the tax anticipation notes, added another $15.6 million to the Rainy Day Fund. The December 2012 economic and revenue forecast projects the Rainy Day Fund will end the 2011-13 biennium with a cash balance of $61.8 million.

The Education Stability Fund ended the 2009-11 biennium with a cash balance of $5.1 million. The December 2012 economic and revenue forecast projects the Education Stability Fund will end the current biennium with a cash balance of $6.9 million, which includes deposits of $184.1 million based on lottery sales and scheduled withdrawals of $182.9 million.

Major Initiatives

Of the major projects and related efforts included in the 2011-2013 budget, several are of particular interest due to their overall cost, complexity and risk, importance to public safety and health, and/or cross-biennium timeframes. These projects include:

- Oregon Judicial Department's eCourt Program
- Oregon Department of Transportation's State Radio Project
- Oregon Health Authority's Health Insurance Exchange Project

The 2011 Legislature asked the Judicial Department to remediate 37 key program deficiency areas as a condition of approving additional funding for the eCourt Program. During the 2012 legislative session, the Judicial Department reported significant progress on 11 of the 37 key deliverables. As a result, the Legislature approved $23.4 million in other funds, which includes new bonding authority of $13.7 million, for the program's continued development. The Judicial Department was further instructed to move forward with five pilot and early adopter eCourt implementations scheduled to start during 2011-13. The Legislature also instructed the Judicial Department to develop an implementation and evaluation plan for the Multnomah County Circuit Court, including a comprehensive post-implementation review and lessons learned report that could be utilized to verify readiness for the remaining 30-plus trial court implementations.

The 2011 Legislature directed the leadership of the State Radio Project to scale back the project to the first goal established in the original 2005 legislation, which was simply to upgrade all existing state radios and infrastructure to assure the continued proper operation of an "integrated statewide radio network." The scaled back project is estimated to cost a total of $209 million of which $121.4 million was set aside for expenditure in the 2011-13 biennium and $43 million in the 2013-15 biennium. During the 2012 session, the Department of Transportation reported on the overall status of the project, including its efforts to incorporate existing statewide private systems into its final wireless network solution. The agency also reported on the status of partnership agreements and future plans to deal with both technology and interoperability challenges.

Due to the complexity of the Health Insurance Exchange Project and the short federal timeframes for completing the work required by a $48 million federal grant, the 2011 Legislature directed the Oregon Health Authority to develop a detailed project plan that identified the key activities, milestones, and performance measures necessary to ensure the project proceeds according to schedule and budget. (A health insurance exchange (HIX) is a set of state-regulated and standardized health care plans from which individuals may purchase health insurance that is eligible for federal subsidies. All exchanges must be fully certified and operational by January 1, 2014, under federal law.) Oregon resources dedicated to the project are approximately $55 million. During the 2012 legislative session, the Oregon Health Authority reported on progress to date with instructions to report on the remaining project management deliverables and overall HIX program progress during the 2012 interim period.

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, 2011. This was the twentieth consecutive year that the State has achieved this prestigious award. To receive the 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 Chief Financial Office 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 policy section of the Chief Financial Office, the Office of the State Treasurer, and the staff of the Secretary of State Audits Division.

Respectfully submitted,

George Naughton
Chief Financial Officer
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, 2011

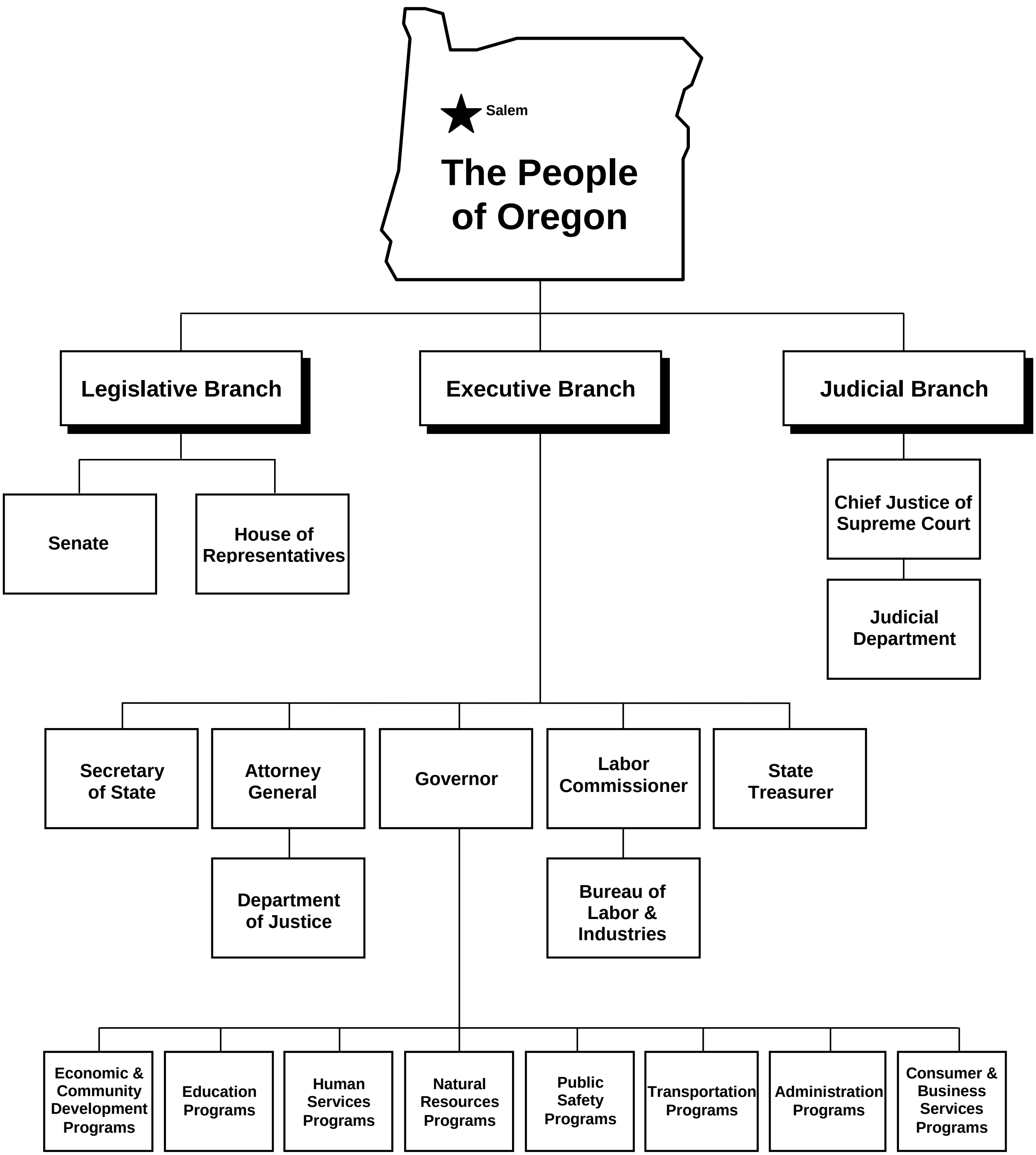
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Christopher P Morrill
President

Jeffrey R. Esser
Executive Director

STATE OF OREGON ORGANIZATION CHART



Principal State Officials

EXECUTIVE

John A. Kitzhaber, MD, Governor

Kate Brown, Secretary of State

Ted Wheeler, State Treasurer

Ellen F. Rosenblum, Attorney General

Brad Avakian, Commissioner, Labor and Industries

LEGISLATIVE

Peter Courtney, Senate President

Bruce Hanna, Co-speaker of the House of Representatives
Arnie Roblan, Co-speaker of the House of Representatives

JUDICIAL

Thomas A. Balmer, Chief Justice of the Supreme Court

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The Honorable John Kitzhaber
Governor of Oregon

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, 2012, 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, the Oregon University System, the Veterans' Loan Fund, the Common School Fund or the Public Employees Retirement System. Those financial statements represent part or all of the total assets, net assets/fund balance, and revenues/additions of opinion units as indicated below:

Opinion Unit	Percent of Assets	Percent of Net Assets/ Fund Balance	Percent of Revenues/ Additions
Governmental Activities	5%	8%	0.1%
Business-type Activities	48%	38%	36%
Discretely Presented Component Units	100%	100%	100%
Common School – Major Governmental Fund	100%	100%	100%
Veterans' Loan – Major Enterprise Fund	100%	100%	100%
University System – Major Enterprise Fund	100%	100%	100%
Aggregate Remaining Funds:			
Public Employees Retirement System	85%	89%	28%

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 above opinion units 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. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to previously 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress, as listed in table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the combining fund financial statements are fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section and statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State of Oregon's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date in the Oregon Single Audit Report. 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 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.

OREGON AUDITS DIVISION

Kate Brown
Secretary of State

December 18, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Oregon (State) for the fiscal year ended June 30, 2012. The MD&A is intended to serve as an introduction to the State's 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 matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes, and required supplementary information should be reviewed in their entirety.

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

- On June 30, 2012, the assets of the State exceeded its liabilities by $15.9 billion (net assets). Of this amount, $1.9 billion were classified as unrestricted net assets, while $3.7 billion were restricted for specific uses. The remaining $10.3 billion were invested in capital assets, net of related debt.
- The State's total net assets increased $785.9 million compared to the prior year. The net assets for governmental activities increased 3.4 percent, while the net assets for business-type activities increased 10 percent.
- As of June 30, 2012, the State's governmental funds reported combined ending fund balances of $4.7 billion. Of this total, approximately 2.5 percent was considered nonspendable and included amounts related to inventories, prepaid amounts, and permanent fund principal.
- Approximately 87.3 percent of ending governmental fund balances was classified as restricted and included amounts that were subject to constraints imposed by external parties, such as creditors, grantors, or the laws and regulations of other governments (including the federal government), or imposed by constitutional provisions or enabling legislation. Restricted fund balances totaled $4.1 billion.
- The remaining 10.2 percent of ending fund balances was classified as unrestricted and included the fund balance categories designated as committed, assigned and unassigned. Committed fund balances are available for spending only with legislative approval. Assigned and unassigned fund balances may be spent at the government's discretion. Total unrestricted fund balances equaled $481.2 million. Additional information on the classification of governmental fund balances may be found in Notes 1 and 21 in the notes to the financial statements.
- At fiscal year end, unrestricted fund balance (committed, assigned, and unassigned categories) in the General Fund netted to a negative $101.3 million. The negative amount is due primarily to the net change in total other financing sources and uses. General Fund transfers to other funds exceeded transfers from other funds by $198.8 million.
- Outstanding debt (bonds and certificates of participation) decreased by $450.1 million during fiscal year 2012. As part of an overall plan to reduce borrowing costs, the State was involved in 12 separate debt refunding issuances and refunded $943.2 million of previously existing debt with $905.3 million of new debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to the MD&A, the financial section of this annual report contains the *basic financial statements, required supplementary information*, and the *combining financial statements* for nonmajor funds, internal service funds, and fiduciary funds. A *statistical section* follows the combining fund statements.

The basic financial statements contain three components: government-wide financial statements, fund financial statements, and 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).

Net assets 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 the State's 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 activities reported in the government-wide financial statements are divided into three categories:

- *Governmental activities*. This category 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 state agencies, are included in governmental activities because these services predominately benefit governmental programs rather than business-type functions.
- *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 and the Oregon University System are also reported under business-type activities.
- *Component units*. The State includes four other entities in its report: SAIF Corporation, Oregon Health and Science University, the Oregon University System Foundations, and the Oregon Affordable Housing Assistance Corporation. Although legally separate, these entities are reported as component units either because they are fiscally dependent on the State or because of the nature and significance of their relationship to the State. Financial information for the component units is reported separately from the financial information of the primary government.

The government-wide financial statements can be found on pages 28-31 of this report.

Fund Financial Statements

The fund financial statements provide detail 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 by bond covenants. The State establishes other funds to control and manage money for particular purposes, such as health and social services, or to show that it is properly using certain taxes and grants, such as 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 resources that can be readily converted to cash flow in and out and (2) the balances remaining at year-end that are available to spend. 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 long-term focus of the government-wide statements, additional information has been provided following each governmental fund statement that reconciles the government-wide focus to the governmental fund focus.

The State maintains 20 individual governmental funds. Information is presented separately in the governmental fund financial statements for the five major governmental funds, including the General Fund. Data from the other 15 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the combining statements presented later in this report. The basic governmental fund financial statements can be found on pages 32-39 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 the business-type activities reported in the government-wide statements, except that the fund statements provide more detail and additional information, such as cash flows. The State also uses internal service funds (the other type of proprietary fund). The Central Services Fund, for example, is used to report activities that provide services to other agencies.

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 combining statements presented later in this report. The basic proprietary fund financial statements can be found on pages 40-49 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, due to 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 combining statements presented later in this report. The basic fiduciary fund financial statements can be found on pages 50-51 of this report.

Discretely Presented Component Units

Combining statements that report the activities of the discretely presented component units, SAIF Corporation, Oregon Health and Science University, the Oregon University System Foundations, and the Oregon Affordable Housing Assistance Corporation, can be found on pages 53-55 of this report. In the government-wide statements, the activities of the component units are aggregated into a single column; the combining statements provide detail for each component unit.

Notes to the Financial Statements

The basic financial statements also include notes that provide additional information essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 57-156 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents a section of *required supplementary information* (RSI), beginning on page 160, which contains budget-to-actual comparison schedules for all of the State's budgeted appropriated funds as well as accompanying notes. This section also includes a Schedule of Funding Progress and accompanying notes for the Public Employees Benefit Board Plan, an agent multiple-employer postemployment healthcare benefit plan, and the Retiree Health Insurance Premium Account, a defined benefit single-employer postemployment healthcare benefit plan.

The combining financial statements referred to earlier are presented immediately following the required supplementary information beginning on page 172 of this report. These combining statements provide details about the nonmajor governmental funds, nonmajor enterprise funds, and internal service funds, each of which has been aggregated and presented in a single column in the basic financial statements. The combining financial statements also provide details about the pension and other employee benefit trust funds.

A statistical section containing information regarding financial trends, revenue capacity, and debt capacity, as well as demographic, economic, and operating information follows immediately after the combining statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. The State's *combined* net assets at June 30, 2012, were approximately $15.9 billion as shown in Table 1. Most of this balance was invested in capital assets, with infrastructure being the largest component. The amount invested in capital assets, net of related debt, was $10.3 billion. Restricted net assets represent resources that are subject to external restrictions on how they may be used. At June 30, 2012, restricted net assets totaled $3.7 billion. The remaining balance of $1.9 billion was classified as unrestricted net assets.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Other assets and deferred outflows	$ 9,114.8	$ 10,180.9	$ 6,435.7	$ 6,844.0	$ 15,550.5	$ 17,024.9
Capital assets	12,147.2	11,690.4	3,090.8	2,841.0	15,238.0	14,531.4
Total assets and deferred outflows	21,262.0	21,871.3	9,526.5	9,685.0	30,788.5	31,556.3
Long-term liabilities	7,989.9	8,173.6	3,972.1	4,156.5	11,962.0	12,330.1
Other liabilities	2,080.6	2,868.9	886.5	1,283.8	2,967.1	4,152.7
Total liabilities	10,070.5	11,042.5	4,858.6	5,440.3	14,929.1	16,482.8
Net assets:						
Invested in capital assets, net of related debt	8,888.1	8,107.7	1,383.1	1,195.6	10,271.2	9,303.3
Restricted	3,143.9	2,582.7	506.0	670.7	3,649.9	3,253.4
Unrestricted	(840.5)	138.4	2,778.8	2,378.4	1,938.3	2,516.8
Total net assets	$ 11,191.5	$ 10,828.8	$ 4,667.9	$ 4,244.7	$ 15,859.4	$ 15,073.5

Changes in net assets. The State's total net assets increased $785.9 million compared to the prior year. The net assets of governmental activities increased 3.4 percent, while the net assets of business-type activities increased 10 percent.

Total ending net assets of governmental activities for fiscal year 2012 were $11.2 billion compared to $10.8 billion reported in fiscal year 2011. Total operating grants and contributions were down $924.1 million, reflecting the significant reduction in funding from federal economic stimulus programs. However, personal income taxes and other taxes enjoyed healthy increases.

Personal income taxes, as shown in Table 2, rose by 5.4 percent in fiscal year 2012. This increase was due to a combination of factors, including an improving labor market as Oregon emerges from the recession, strong growth in the investment income of individual taxpayers, and enhanced collection efforts.

Within other taxes, the most significant change is attributable to healthcare provider taxes, which grew 81.3 percent in fiscal year 2012. These taxes are used to support higher Medicaid reimbursement for services as well as benefits for the Oregon Health Plan. The 2009 Legislature approved new hospital taxes and health insurance premium assessments through September 30, 2013. During the 2011 legislative session, significantly higher hospital taxes were negotiated in order to avoid large budget reductions in the Oregon Health Plan. The tax was increased from the old rate of 2.32 percent, potentially up to a rate of 5.25 percent.

Year over year, capital grants and contributions declined $60.6 million, or 62 percent. In fiscal year 2011, the State issued bonds for community college capital construction projects, which required each institution to provide matching funds; similar bonds were not issued in fiscal year 2012. In addition, a federally funded project to construct a military reserve center was completed early in fiscal year 2012.

Spending on education increased by $82.3 million, or 2 percent, while spending for human services increased $651.4 million, or 8.6 percent. The increase in human services expenses reflects the continued demand for safety net programs during the prolonged recession. However, this increase was partially offset by a $161 million reduction in expenses for consumer and business services. House Bill 2009, which was passed by the 2009 Legislature, authorized the creation of a new healthcare agency, the Oregon Health Authority (OHA), and authorized the transfer to OHA of the duties, functions and powers of the Oregon Medical Insurance Pool, which previously had been accounted for under consumer and business services.

Transportation program costs also declined in fiscal year 2012. The State distributed $197 million in lottery bond proceeds in the previous fiscal year to pay for the extension of the Portland-Milwaukie Light Rail Project. No similar distribution occurred in fiscal year 2012.

As shown in Table 2, total ending net assets of business-type activities for fiscal year 2012 were $4.7 billion compared to $4.2 billion reported in fiscal year 2011. Although federal funding for unemployment benefits (which is reported under operating grants and contributions) decreased year over year, it was more than offset by a reduction in the operating expenses of the Unemployment Compensation Fund, which dropped $577.1 million, or 25 percent. Together, these two changes reflect Oregon's slowly improving unemployment rate.

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

	Governmental Activities		**Business-type Activities**		**Total**	
Revenues:	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	$ 1,426.2	$ 1,403.7	$ 4,397.7	$ 4,224.1	$ 5,823.9	$ 5,627.8
Operating grants and contributions	7,400.7	8,324.8	1,621.3	1,986.4	9,022.0	10,311.2
Capital grants and contributions	37.1	97.7	36.8	60.1	73.9	157.8
General revenues:						
Personal income taxes	5,901.4	5,597.8	-	-	5,901.4	5,597.8
Corporate income taxes	440.4	502.9	-	-	440.4	502.9
Other taxes	2,258.6	1,924.0	16.9	16.2	2,275.5	1,940.2
Unrestricted investment earnings	11.2	3.3	-	-	11.2	3.3
Total revenues	17,475.6	17,854.2	6,072.7	6,286.8	23,548.3	24,141.0
Expenses:						
Education	4,061.8	3,979.5	-	-	4,061.8	3,979.5
Human services	8,186.5	7,535.1	-	-	8,186.5	7,535.1
Public safety	1,235.6	1,180.4	-	-	1,235.6	1,180.4
Economic & community development	416.7	480.2	-	-	416.7	480.2
Natural resources	619.5	629.2	-	-	619.5	629.2
Transportation	1,394.8	1,566.2	-	-	1,394.8	1,566.2
Consumer and business services	263.6	424.5	-	-	263.6	424.5
Administration	349.6	376.8	-	-	349.6	376.8
Legislative	34.8	37.8	-	-	34.8	37.8
Judicial	326.8	313.9	-	-	326.8	313.9
Interest on long-term debt	367.8	351.7	-	-	367.8	351.7
Housing and community services	-	-	75.9	78.2	75.9	78.2
Veterans' loan	-	-	18.6	19.4	18.6	19.4
Lottery operations	-	-	534.0	510.4	534.0	510.4
Unemployment compensation	-	-	1,729.4	2,306.5	1,729.4	2,306.5
University system	-	-	2,300.5	2,146.9	2,300.5	2,146.9
State hospitals	-	-	270.8	248.0	270.8	248.0
Liquor control	-	-	344.5	325.4	344.5	325.4
Other business-type activities	-	-	268.7	269.2	268.7	269.2
Total expenses	17,257.5	16,875.3	5,542.4	5,904.0	22,799.9	22,779.3
Increase (decrease) before contributions, special and extraordinary items, and transfers	218.1	978.9	530.3	382.8	748.4	1,361.7
Contributions to permanent funds	0.1	-	-	-	0.1	-
Additions to permanent endowments	-	-	0.2	-	0.2	-
Transfers	125.9	(62.9)	(125.9)	62.9	-	-
Increase (decrease) in net assets	344.1	916.0	404.6	445.7	748.7	1,361.7
Net assets – beginning	10,828.8	9,877.5	4,244.7	3,735.3	15,073.5	13,612.8
Prior period adjustments	18.6	35.3	18.6	63.7	37.2	99.0
Net assets – beginning – as restated	10,847.4	9,912.8	4,263.3	3,799.0	15,110.7	13,711.8
Net assets – ending	$11,191.5	$ 10,828.8	$ 4,667.9	$ 4,244.7	$ 15,859.4	$15,073.5

Figure 1 below illustrates fiscal year 2012 revenues of the State as a whole, by source. Approximately 38.3 percent of total revenue was provided by other entities and governments in the form of operating grants and contributions (e.g., federal revenues). Personal and corporate income taxes provided 26.9 percent of total revenues, while charges for services accounted for 24.7 percent.

Figure 1
State of Oregon's Revenue by Source
For the Year Ended June 30, 2012

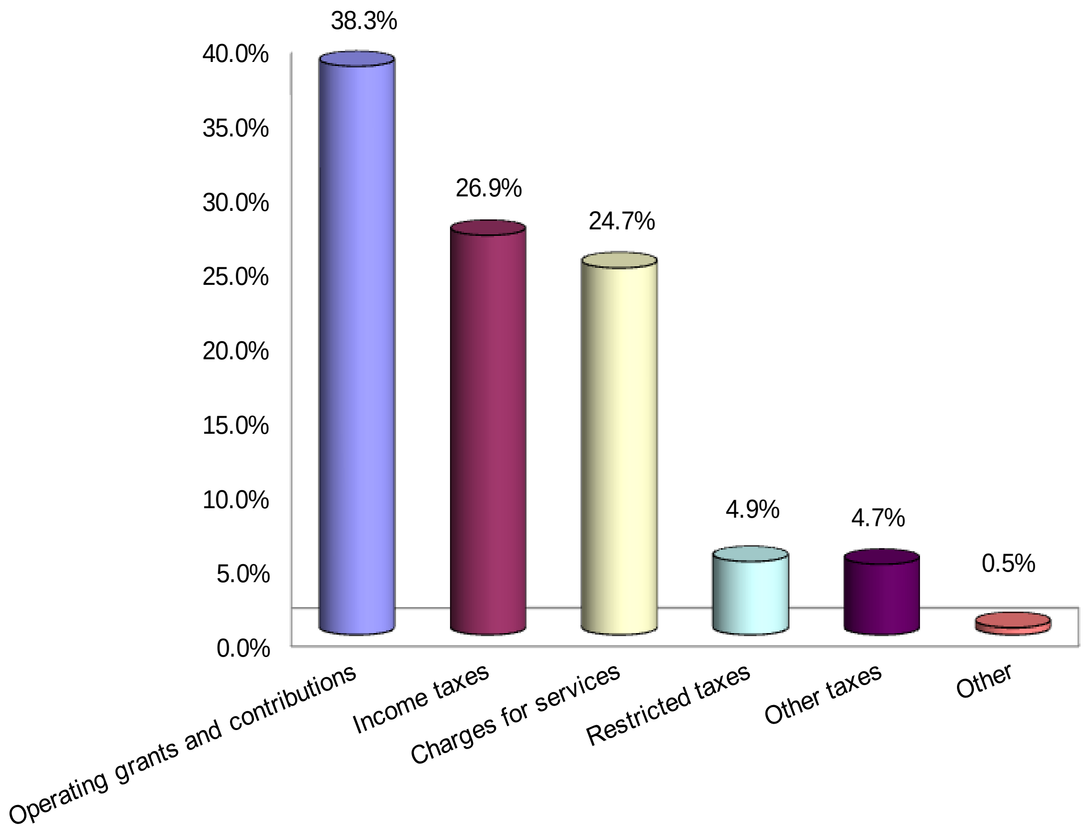
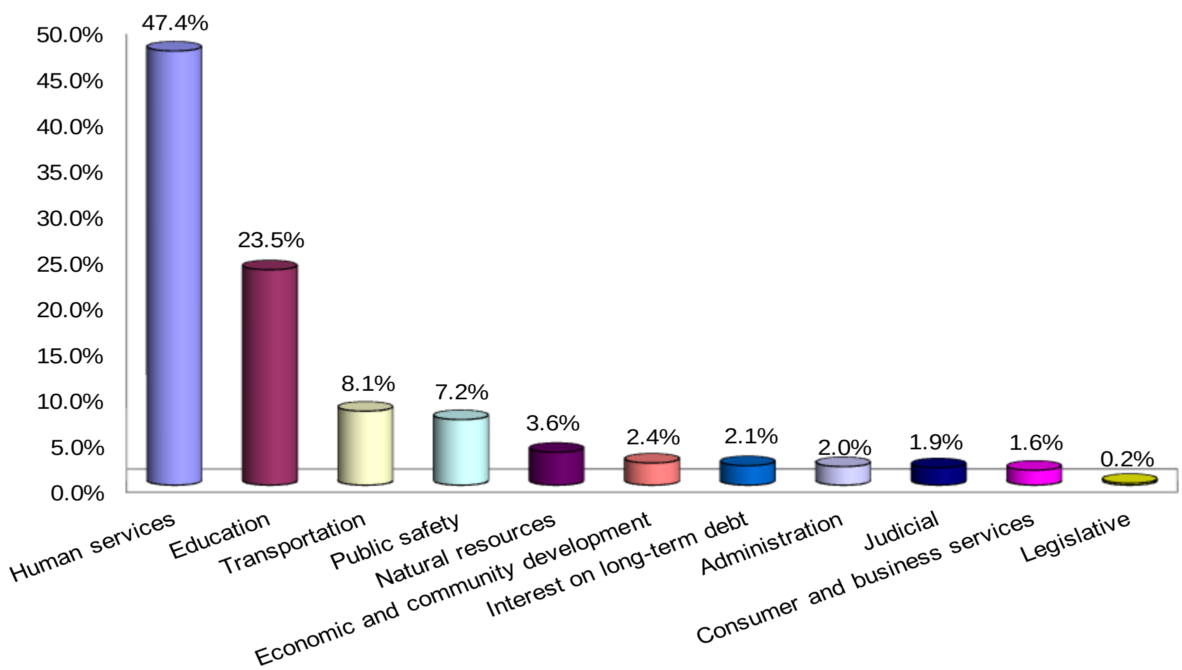


Figure 2 below shows governmental activity expenses for the State as a whole, by function. The cost of providing human services for Oregon citizens in need of assistance comprised 47.4 percent of total expenses. Elementary and secondary education accounted for 23.5 percent of the total.

Figure 2
State of Oregon's Governmental Expenses by Function
For the Year Ended June 30, 2012



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, such information may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2012, the State's governmental funds reported combined ending fund balances of $4.7 billion, down $251.3 million compared to the prior year.

Nonspendable balances of $116.4 million, or 2.5 percent, included amounts that were either not in spendable form or were legally or contractually required to be maintained intact, while restricted fund balances of $4.1 billion, or 87.3 percent, were restricted for specific purposes. These restrictions included, for example, vehicle-related taxes that must be used for transportation purposes; federal funding that must be spent in accordance with the underlying grants; and lottery revenues restricted by the Oregon Constitution for job creation, economic development, financing public education, and restoring and protecting Oregon's parks and beaches.

Committed fund balances of $606.6 million comprised 12.9 percent of total fund balances. This category represents amounts committed to specific purposes, such as residential assistance and community protection programs, as the result of constraints imposed by legislation. These amounts may not be used for other purposes unless the legislation is modified or rescinded by passing additional legislation. The assigned fund balance category of $37.5 million represents amounts constrained by the State's intent to use them for specific purposes. Legislative authority is not required to create or modify an assignment. The unassigned fund balance category of a negative $162.9 million represents the residual amount applicable to the General Fund only.

In the General Fund, which is the operating fund of the State, total ending fund balance for fiscal year 2012 decreased $202.7 million, or 83 percent, from the prior year. Although total revenues grew by 7.5 percent, spending on education and human services, plus transfers to other funds of $1.1 million dollars, exceeded available revenues and other financing sources. As a result, the General Fund ended fiscal year 2012 with a $41.5 million fund balance.

Due to the implementation of GASB Statement No. 54, the State now reports the Oregon Rainy Day Fund as part of the General Fund. Beginning fund balance for the separate Rainy Day Fund was $10.4 million. Ending cash balances from the 2009-11 biennium of $35.2 million were deposited in the Rainy Day Fund at the beginning of the 2011-13 biennium. Agency revisions for the 2009-11 biennium, plus savings related to the tax anticipation notes, added another $15.6 million. As of June 30, 2012, $61.5 million of the General Fund's ending fund balance was attributable to the Rainy Day Fund and was classified as committed fund balance.

The Health and Social Services Fund saw a 23.7 percent reduction in fund balance for fiscal year 2012. Healthcare provider taxes jumped 81.3 percent, due to an increase in the provider tax rates. However, this increase was more than offset by the continued demand for spending on human services programs. In addition, transfers to other funds increased when it was determined that the State's self-insured healthcare plans should be reported as part of the Central Services Fund, an internal service fund.

Due to the significant reduction in federal stimulus programs, federal revenues reported by the Public Transportation Fund declined $169.4 million, or 21.5 percent. In addition, investment income fell $4.8 million, or 33.1 percent. These revenue reductions were accompanied by a substantial decrease in spending. Transportation program costs dipped $382.4 million, or 19.8 percent, enough to generate a 5.2 percent increase in ending fund balance for fiscal year 2012. In fiscal year 2011, the State distributed $197 million in lottery bond proceeds to pay for the extension of the Portland-Milwaukie Light Rail Project. No similar distribution occurred in fiscal year 2012.

Ending fund balance in the Environmental Management Fund increased $57.6 million, or 7.3 percent. Operating revenues and expenditures remained relatively flat year over year; total revenues rose slightly, just 1.9 percent, while total expenditures declined 2.9 percent. The major contributor to the increase in fund balance was the positive net change in transfers to/from other funds. In fiscal year 2011, transfers from other funds exceeded transfers to other funds by $62.2 million; in fiscal year 2012, transfers from other funds exceeded transfers to other funds by $82.7, a 32.9 percent increase. The increase in current year transfers from other funds was primarily the result of budget funding shifts.

The Common School Fund experienced a 4.9 percent decline in fund balance for fiscal year 2012. Due to flagging market performance, financial assets returned a negative $8.3 million in the current year compared to a positive $207.5 million in the prior year, resulting in a 104 percent drop in investment income. Revenue related to unclaimed property declined $35.5 million, a decrease of 69.9 percent compared to the $50.8 million reported in fiscal year 2011. The 2011 unclaimed property revenue included a one-time adjustment to reflect more accurately the value of abandoned property not expected to be repaid to claimants.

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.

Housing and Community Services finances home ownership and multi-family units for elderly, disabled, and low to moderate income persons through the issuance of bonds. The Veterans' Loan Program provides home purchase and home improvement loans at favorable interest rates to eligible veterans. For fiscal year 2012, the Housing and Community Services Fund reported an operating loss of $3.6 million; operating expenses declined 2.9 percent, while operating revenue declined 7.7 percent. However, investment earnings quadrupled in fiscal year 2012 and more than offset the operating loss. The net result was a $10.2 million increase in fund equity as of June 30, 2012. The Veterans' Loan Fund also experienced an operating loss. Unlike the previous year, the current year operating loss of $5.1 million was only partially offset by investment income. Investment income reported by the fund decreased 42.4 percent from $4 million in fiscal year 2011 to $2.3 million in fiscal year 2012. The net result was a decrease in ending net assets of $2.6 million.

Net assets in the Lottery Operations Fund increased $3 million in fiscal year 2012. For the second year in a row, the Lottery reported an increase in net product sales; current year sales were up $12.4 million, or 1.2 percent. This increase was primarily attributable to an increase in Video Lottery^{SM} revenue. During the year, new game sets were deployed on select Video Lottery^{SM} terminals to offer a wide variety of game choices that appeal to a diverse audience. Although economic conditions continued to impact consumer spending on entertainment such as lottery games, this is the second consecutive year of slight gains in Video Lottery[SM] revenue. Investment income increased $14.2 million due primarily to favorable changes in the fair value of its investments. The Lottery also transferred $531 million to other funds, a decrease of $24.1 million compared to the prior fiscal year. Of the total amount transferred to other funds, the Economic Development Fund received $523.7 million.

For fiscal year 2012, the Unemployment Compensation Fund reported assessments of $1.1 billion, an increase of only 5.5 percent compared to a 30 percent jump in fiscal year 2011. The 2011 increase was the result of an administrative decision by the Employment Department to add a temporary surcharge to agency assessments in the prior year. Federal revenues declined for the second year in a row, as benefit payments to unemployed Oregonians continued to decrease, down $584 million, or 25.5 percent. These two factors reflect Oregon's declining unemployment rate and, in some cases, the expiration of extended benefits. Because of these changes, net assets in the Unemployment Compensation Fund increased $295.6 million, or 23.5 percent.

The University System Fund saw a 6.9 percent increase in total operating revenues compared to an 11.5 percent jump in fiscal year 2011. At the same time, operating expenses increased 7.1 percent, which was on track with the prior year. The net result was an operating loss $394.4 million for fiscal year 2012, an amount which was 8.3 percent greater than the operating loss reported in the prior year. In spite of the operating loss, the University System Fund saw a small increase in net assets of $10.2 million due primarily to transfers from other funds, including a transfer of $343.5 million from the General Fund

In fiscal year 2012, significant capital contributions were recorded for the second year in a row in the other (nonmajor) proprietary fund. Capital assets of approximately $116.1 million were transferred from governmental activities to the State Hospital Fund (a nonmajor proprietary fund reported in the combining proprietary fund statements).

At the end of fiscal year 2012, approximately 59.5 percent of the total net assets reported by the State's proprietary funds was classified as unrestricted and was available for spending on business-type activities. However, restrictions significantly affected the availability of resources in the Housing and Community Services Fund with 96 percent of the fund's net assets restricted for debt service. In the University System Fund, 59.3 percent of net assets was invested in capital assets, net of related debt, while 18.6 percent was restricted for education, debt service, capital construction, and purposes stipulated by donors.

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, decreased by $1.7 billion, or 2.8 percent. The net depreciation in fair value of investments was the primary factor contributing to this decrease. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGETARY HIGHLIGHTS

The State budgets on a biennial basis rather than an annual basis. Budgets are prepared on the cash basis utilizing encumbrance accounting. The original budget amounts reported for revenues in the budgetary statements 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 budgeted expenditures represent the original appropriated budget modified by legally authorized legislative and executive changes, as well as Emergency Board actions taken during the year. For the 2011-13 biennium, final estimated revenues for the General Fund increased slightly compared to the original estimate. The General Fund's final budgeted expenditures increased by $161.2 million, or 1.2 percent.

Because of Oregon's biennial process, budget to actual comparisons are not final until the second year of the biennium. For the first year of the 2011-13 biennium, actual expenditures and other financing uses exceeded actual General Fund revenues and other financing sources by $298.2 million, leaving an ending budget balance of $68.5 million. Actual revenues for the first year of the biennium were 48.6 percent of final budgeted revenues, or $6.7 billion, while actual cash expenditures were 52 percent of those budgeted, or $7.1 billion.

To manage differences in the timing of cash flows, the State issued $639.5 million of tax anticipation notes in July 2012. These notes will be repaid with income tax revenue prior to the end of fiscal year 2013.

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 2012 Legislature increased lottery revenue bond authority by $10.6 million to provide funding for community college capital projects. However, the additional lottery revenue bonds cannot be issued if the State Treasurer determines, after considering a report from the State Debt Policy Advisory Commission, that lottery-backed debt capacity is not sufficient. The next report on lottery-backed debt capacity is due no later than February 1, 2013. As of June 30, 2012, the State's debt credit ratings, which are an indication of the State's ability to repay its debt, were AA+ by Fitch, AA+ by Standard & Poor's, and Aa1 by Moody's.

Debt outstanding for the years ended June 30, 2012 and 2011 is summarized in Table 3. Oregon voters approved a constitutional amendment in November 2010 authorizing the use of general obligation bonds under Article XI-Q to finance (or refinance) the costs of acquiring, constructing, and equipping real or personal property that is or will be owned or operated by the State. In fiscal year 2012, the majority of general obligation bonds issued were Article XI-Q bonds to finance or refinance the new state mental hospital, the Judicial Department's eCourt system, prison construction, renovation of the Department of Transportation's headquarters building, and the State Radio Project. Other general obligation bonds were issued to finance acquisition and construction of new higher education facilities.

During fiscal year 2012, revenue bonds were issued for transportation and economic development projects, and residential assistance for low-income families. The majority of new revenue bonds issued for business-type activities in fiscal year 2012 were single-family mortgage bonds.

The State was involved in 12 separate debt refunding issuances in fiscal year 2012 and refunded $943.2 million of previously existing debt with $905.3 million of new debt. Additional information on the State's long-term debt may be found in Note 9 of this report.

Table 3
State of Oregon's Outstanding Debt
For the Years Ended June 30, 2012 and 2011
(dollars in millions)

			2012 Over (Under) 2011	
	2012	2011	Amount	Percent
General Obligation Bonds	$ 5,270.4	$ 5,079.7	$ 190.7	3.8%
Revenue Bonds	4,685.3	4,929.2	(243.9)	-4.9%
Certificates of Participation	1,082.1	1,410.2	(328.1)	-23.3%
General Appropriation Bonds	102.8	171.6	(68.8)	-40.1%
Total	$ 11,140.6	$ 11,590.7	$ (450.1)	-3.9%

CAPITAL ASSETS

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2012, was $15.2 billion (net of accumulated depreciation) as summarized in Table 4. Capital assets include land, buildings, improvements, equipment, construction in progress, highways, tunnels and bridges, and works of art and other nondepreciable assets. The State's investment in capital assets for fiscal year 2012 increased $706.6 million, or 4.9 percent.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 1,782.6	$ 1,778.3	$ 135.1	$ 132.2	$ 1,917.7	$ 1,910.5
Buildings, property and equipment	1,848.0	1,800.9	2,514.5	2,256.2	4,362.5	4,057.1
Construction in progress	1,253.1	1,469.8	320.8	332.7	1,573.9	1,802.5
Infrastructure	7,261.5	6,639.5	51.7	47.4	7,313.2	6,686.9
Works of art and other nondepreciable assets	2.0	1.9	68.7	72.5	70.7	74.4
Total	$ 12,147.2	$ 11,690.4	$ 3,090.8	$ 2,841.0	$ 15,238.0	$ 14,531.4

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

- The State's construction commitments related to highway and bridge construction totaled $618.6 million at June 30, 2012.
- The increase in buildings, property and equipment in the business-type activities was primarily the result of the completion of the final phases of the Oregon State Hospital replacement project and construction of higher education facilities.

Additional information on the State's capital assets may be found in Note 6 of this report.

ECONOMIC FACTORS AND NEXT BIENNIUM'S BUDGET

Oregon's unemployment rate for November 2012 was 8.4 percent compared to 9.1 percent in November 2011. The U.S. unemployment rate for November 2012 was 7.7 percent. Since reaching a high point of 11.6 percent in May and June 2009, the rate has slowly declined over the past three and a half years.

After a strong start to the year, with employment increasing nearly 3 percent on an annual basis in the first calendar quarter, employment gains have slowed the past two quarters in Oregon. As of November 2012, job growth was up 1.2 percent on the year with the expectation that slow growth will continue to be the norm. Oregon is not expected to recover all of the jobs lost until the end of 2014, seven years after the recession began.

Over the past year, job growth has been widespread across Oregon's industries, with only information and financial service firms seeing small declines in the private sector. Public sector employment continued to fall. However, the losses have lessened in recent months. The largest gains have been in professional and business services, leisure and hospitality, and retail trade. Health services and construction have also added jobs over the past year. These five main industry groups account for approximately 60 percent of all private sector gains, with manufacturing accounting for another 16 percent. Within manufacturing, gains were led by durable goods, particularly metals and machinery.

The outlook for the 2013-15 biennium calls for some modest improvement in revenue growth. However, state revenue collections will still likely fail to keep pace with the growing cost of providing public services. The primary risk facing the near-term revenue forecast is the uncertain future of the nationwide economic expansion. Should federal government austerity or the slowdown in Europe and Asia derail the U.S. economy, Oregon tax collections will come in far below the forecast.

Revenue growth in Oregon will face considerable downward pressure over the 10-year extended forecast horizon. As the baby boom population cohort works less and spends less, traditional state tax instruments such as personal income taxes will become less effective, and revenue growth will fail to match the pace seen in the past.

The December 2012 forecast for General Fund revenues for the 2011-13 biennium is $13.9 billion. This figure is $71 million below the amount forecasted at the close of the 2011 legislative session. The projected General Fund ending balance for the 2011-13 biennium is $220.9 million. The latest revenue forecast projects increases in General Fund revenues for the next two biennia, up 11.1 percent to $15.5 billion in 2013-15 and 11 percent to $17.2 billion in 2015-17.

Basic Financial Statements

Statement of Net Assets
June 30, 2012
(In Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS AND DEFERRED OUTFLOWS				
Current Assets:				
Cash and Cash Equivalents	$ 1,285,611	$ 2,134,971	$ 3,420,582	$ 295,945
Cash and Cash Equivalents - Restricted	-	21,704	21,704	-
Investments	1,056,888	27,224	1,084,112	4,212,229
Investments - Restricted	-	52,104	52,104	-
Securities Lending Collateral	346,195	222,672	568,867	199,304
Accounts and Interest Receivable (net)	684,238	562,310	1,246,548	648,925
Taxes Receivable (net)	619,899	-	619,899	-
Pledges, Contributions, and Grants Receivable (net)	-	-	-	203,503
Internal Balances	199,292	(199,292)	-	-
Due from Component Units	6	20,561	20,567	-
Due from Other Governments	-	10,567	10,567	1,788
Due from Primary Government	-	-	-	13,552
Inventories	84,695	37,298	121,993	18,137
Prepaid Items	7,997	27,163	35,160	60,992
Foreclosed and Deeded Property	-	13,350	13,350	-
Total Current Assets	4,284,821	2,930,632	7,215,453	5,654,375
Noncurrent Assets:				
Cash and Cash Equivalents - Restricted	1,440,827	526,511	1,967,338	-
Investments	136,188	123,774	259,962	511,573
Investments - Restricted	260,321	572,018	832,339	1,830,308
Custodial Assets	10,439	-	10,439	-
Taxes Receivable (net)	456,148	-	456,148	-
Deferred Charges	35,730	14,299	50,029	11,689
Interfund Loans	(278)	278	-	-
Advances to Component Units	-	42,457	42,457	-
Net Contracts, Notes, and Other Receivables	261,638	124,137	385,775	3,566
Loans Receivable (net)	611,982	2,061,243	2,673,225	-
Pledges, Contributions, and Grants Receivable (net)	-	-	-	56,119
Net Pension Asset	1,617,000	-	1,617,000	-
Capital Assets:				
Land	1,782,577	135,147	1,917,724	82,746
Buildings, Property, and Equipment	3,268,266	4,278,627	7,546,893	2,292,608
Construction in Progress	1,253,065	320,751	1,573,816	83,860
Infrastructure	16,545,150	103,974	16,649,124	-
Works of Art and Other Nondepreciable Assets	2,032	68,678	70,710	-
Less Accumulated Depreciation and Amortization	(10,703,855)	(1,816,419)	(12,520,274)	(1,107,736)
Total Noncurrent Assets	16,977,230	6,555,475	23,532,705	3,764,733
Deferred Outflows	-	40,393	40,393	15,957
Total Assets and Deferred Outflows	21,262,051	9,526,500	30,788,551	9,435,065

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

Statement of Net Assets
June 30, 2012
(In Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
LIABILITIES AND DEFERRED INFLOWS				
Current Liabilities:				
Accounts and Interest Payable	629,594	265,411	895,005	281,400
Obligations Under Securities Lending	346,195	222,672	568,867	199,315
Due to Component Units	13,467	1,234	14,701	-
Due to Other Governments	157,250	6,253	163,503	20,588
Due to Primary Government	-	-	-	27,452
Unearned Revenue	68,728	126,161	194,889	234,158
Matured Bonds/COPs and Coupons Payable	-	1,762	1,762	-
Compensated Absences Payable	115,495	58,600	174,095	56,668
Reserve for Loss and Loss Adjustment Expense	-	-	-	225,388
Claims and Judgments Payable	131,180	13,959	145,139	18,678
Lottery Prize Awards Payable	-	29,320	29,320	-
Arbitrage Rebate Payable	896	123	1,019	-
Custodial Liabilities	226,066	32,098	258,164	8,698
Contracts, Mortgages and Notes Payable	11,900	13,249	25,149	1,948
Bonds/COPs Payable	370,880	115,537	486,417	11,794
Obligations Under Capital Lease	5,687	65	5,752	4,034
Pollution Remediation Obligation	3,296	56	3,352	-
Total Current Liabilities	2,080,634	886,500	2,967,134	1,090,121
Noncurrent Liabilities:				
Obligations Under Life Income Agreements	-	-	-	89,130
Compensated Absences Payable	59,496	8,591	68,087	-
Reserve for Loss and Loss Adjustment Expense	-	-	-	2,794,005
Claims and Judgments Payable	904,725	-	904,725	42,550
Lottery Prize Awards Payable	-	125,041	125,041	-
Arbitrage Rebate Payable	384	16,342	16,726	-
Custodial Liabilities	3,297	11,445	14,742	-
Contracts, Mortgages, and Notes Payable	42,807	23,708	66,515	65,873
Bonds/COPs Payable	6,925,897	3,725,246	10,651,143	750,847
Obligations Under Capital Lease	2,802	491	3,293	629
Advances from Primary Government	-	-	-	42,457
Pollution Remediation Obligation	7,366	-	7,366	-
Net OPEB Obligation	43,119	21,026	64,145	8,071
Derivative Instrument Liabilities	-	40,244	40,244	15,957
Total Noncurrent Liabilities	7,989,893	3,972,134	11,962,027	3,809,519
Total Liabilities and Deferred Inflows	10,070,527	4,858,634	14,929,161	4,899,640
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	8,888,097	1,383,060	10,271,157	645,610
Expendable Net Assets Restricted for:				
Health and Social Services Programs	182,687	-	182,687	-
Transportation Programs	638,069	-	638,069	-
Natural Resource Programs	702,393	-	702,393	-
Education	1,161,931	159,469	1,321,400	959,809
Community Protection	40,565	-	40,565	-
Consumer Protection	69,113	-	69,113	-
Employment Services	119,641	-	119,641	-
Workers' Compensation	-	-	-	1,174,124
Residential Assistance	88,383	2,582	90,965	-
Debt Service	186	265,395	265,581	-
Capital Projects	2,125	61,999	64,124	-
Other Purposes	111,902	-	111,902	-
Nonexpendable Net Assets Restricted for:				
Donor Purposes	-	16,546	16,546	742,226
Education	1,786	-	1,786	175,023
Residential Assistance	23,424	-	23,424	-
Natural Resource Programs	1,500	-	1,500	-
Workers' Compensation	250	-	250	-
Unrestricted	(840,528)	2,778,815	1,938,287	838,633
Total Net Assets	$ 11,191,524	$ 4,667,866	$ 15,859,390	$ 4,535,425

Statement of Activities
For the Year Ended June 30, 2012
(In Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Functions/Programs					
Primary Government:					
Governmental Activities:					
Education	$ 4,061,791	$ 12,774	$ 632,458	$ -	$ (3,416,559)
Human Services	8,186,498	531,658	5,225,178	2,187	(2,427,475)
Public Safety	1,235,617	141,432	178,975	17,849	(897,361)
Economic and Community Development	416,683	27,340	344,487	-	(44,856)
Natural Resources	619,535	306,336	196,523	745	(115,931)
Transportation	1,394,815	140,219	587,526	16,353	(650,717)
Consumer and Business Services	263,541	69,000	17,553	-	(176,988)
Administration	349,555	96,006	215,786	-	(37,763)
Legislative	34,839	2,388	30	-	(32,421)
Judicial	326,803	99,052	2,187	-	(225,564)
Interest on Long-term Debt	367,826	-	-	-	(367,826)
Total Governmental Activities	17,257,503	1,426,205	7,400,703	37,134	(8,393,461)
Business-type Activities:					
Housing and Community Services	75,879	72,298	13,938	-	10,357
Veterans' Loan	18,628	13,426	2,327	-	(2,875)
Lottery Operations	534,018	1,050,315	17,744	-	534,041
Unemployment Compensation	1,729,355	1,083,438	973,106	-	327,189
University System	2,300,493	1,356,609	607,569	33,875	(302,440)
State Hospitals	270,793	75,012	-	-	(195,781)
Liquor Control	344,540	470,421	-	-	125,881
Other Business-type Activities	268,659	276,209	6,570	2,895	17,015
Total Business-type Activities	5,542,365	4,397,728	1,621,254	36,770	513,387
Total Primary Government	$ 22,799,868	$ 5,823,933	$ 9,021,957	$ 73,904	$ (7,880,074)
Component Units:					
SAIF Corporation	$ 573,267	$ 381,048	$ 215,706	$ -	$ 23,487
Oregon Health and Science University	2,015,806	1,645,339	445,017	4,059	78,609
Oregon University System Foundations	204,072	24,412	196,939	-	17,279
Oregon Affordable Housing Asst. Comm.	45,206	-	45,206	-	-
Total Component Units	$ 2,838,351	$ 2,050,799	$ 902,868	$ 4,059	$ 119,375

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

Statement of Activities
For the Year Ended June 30, 2012
(In Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in Net Assets:				
Net (Expense) Revenue	$ (8,393,461)	$ 513,387	$ (7,880,074)	$ 119,375
General Revenues:				
Taxes:				
Personal Income Taxes	5,901,448	-	5,901,448	-
Corporate Income Taxes	440,444	-	440,444	-
Tobacco Taxes	249,388	-	249,388	-
Healthcare Provider Taxes	423,951	-	423,951	-
Inheritance Taxes	102,351	-	102,351	-
Public Utilities Taxes	72,310	-	72,310	-
Insurance Premium Taxes	94,583	-	94,583	-
Other Taxes	156,256	16,893	173,149	-
Restricted for Transportation Purposes:				
Motor Fuels Taxes	492,188	-	492,188	-
Weight Mile Taxes	260,091	-	260,091	-
Vehicle Registration Taxes	281,799	-	281,799	-
Restricted for Workers' Compensation and Workplace Safety Programs:				
Workers' Compensation Insurance Taxes	53,669	-	53,669	-
Employer-Employee Taxes	71,977	-	71,977	-
Total Taxes	8,600,455	16,893	8,617,348	-
Unrestricted Investment Earnings	11,157	-	11,157	-
Contributions to Permanent Funds	76	-	76	-
Additions to Permanent Endowments	-	159	159	-
Transfers - Internal Activities	125,915	(125,915)	-	-
Total General Revenues, Contributions, Special Items, Extraordinary Items, and Transfers	8,737,603	(108,863)	8,628,740	-
Change in Net Assets	344,142	404,524	748,666	119,375
Net Assets - Beginning	10,828,780	4,244,753	15,073,533	4,415,927
Prior Period Adjustments	18,602	18,589	37,191	123
Net Assets - Beginning - As Restated	10,847,382	4,263,342	15,110,724	4,416,050
Net Assets - Ending	$ 11,191,524	$ 4,667,866	$ 15,859,390	$ 4,535,425

Balance Sheet
Governmental Funds
June 30, 2012
(In Thousands)

	General	Health and Social Services	Public Transportation
ASSETS			
Cash and Cash Equivalents	$ 61,504	$ 306,537	$ 576,550
Investments	4,987	-	121,775
Custodial Assets	75	-	-
Securities Lending Collateral	7,916	62,882	100,191
Accounts and Interest Receivable (net)	19,141	242,317	54,489
Taxes Receivable (net)	930,564	58,566	77,314
Due from Other Funds	240,822	62,109	94,349
Due from Component Units	-	-	-
Inventories	27,916	644	25,471
Prepaid Items	5,426	-	514
Advances to Other Funds	-	-	-
Net Contracts, Notes, and Other Receivables	21,278	6,210	3,772
Loans Receivable (net)	-	725	33,899
Total Assets	$ 1,319,629	$ 739,990	$ 1,088,324
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts and Interest Payable	$ 122,436	$ 165,409	$ 69,638
Obligations Under Securities Lending	7,916	62,882	100,191
Due to Other Funds	448,944	17,550	17,168
Due to Component Units	-	13,467	-
Due to Other Governments	34,783	-	73,350
Deferred Revenue	654,478	8,070	21,383
Custodial Liabilities	8,864	22,656	28
Contracts, Mortgages, and Notes Payable	74	-	-
Advances from Other Funds	648	-	-
Total Liabilities	1,278,143	290,034	281,758
Fund Balances:			
Nonspendable	33,361	696	25,951
Restricted by:			
Federal Laws and Regulations	1,280	30,381	28,830
Oregon Constitution	41,874	717	247,991
Enabling Legislation	59,489	214,510	70,282
Debt Covenants	6,815	58,095	433,512
Donors and Other External Parties	-	4,733	-
Committed	61,534	125,532	-
Assigned	-	15,292	-
Unassigned	(162,867)	-	-
Total Fund Balances	41,486	449,956	806,566
Total Liabilities and Fund Balances	$ 1,319,629	$ 739,990	$ 1,088,324

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

Environmental Management	Common School	Other	Total
$ 331,365	$ 52,417	$ 996,248	$ 2,324,621
-	1,018,352	232,372	1,377,486
1,022	7,248	2,095	10,440
49,138	8,724	86,111	314,962
53,383	7,180	245,521	622,031
-	-	9,603	1,076,047
82,631	136	266,298	746,345
-	-	6	6
25,851	3	3,287	83,172
50	-	835	6,825
-	19,300	-	19,300
12,551	703	217,033	261,547
407,091	-	170,241	611,956
$ 963,082	$ 1,114,063	$ 2,229,650	$ 7,454,738
$ 13,783	$ 23,856	$ 155,536	$ 550,658
49,138	8,724	86,111	314,962
7,060	786	51,609	543,117
-	-	-	13,467
15,403	-	33,712	157,248
27,662	752	224,758	937,103
4,502	180,545	6,219	222,814
-	-	-	74
300	-	19,088	20,036
117,848	214,663	577,033	2,759,479
26,004	3	30,337	116,352
529,892	-	83,418	673,801
80,748	645,697	448,281	1,465,308
96,621	252,540	310,147	1,003,589
45,733	-	398,013	942,168
1,374	1,160	5,591	12,858
59,551	-	359,957	606,574
5,311	-	16,873	37,476
-	-	-	(162,867)
845,234	899,400	1,652,617	4,695,259
$ 963,082	$ 1,114,063	$ 2,229,650	$ 7,454,738

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Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2012
(In Thousands)

Total fund balances of governmental funds		$	4,695,259
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	1,773,234		
Buildings, property, and equipment	2,686,676		
Construction in progress	1,244,823		
Infrastructure	16,544,513		
Works of art and other nondepreciable assets	1,865		
Accumulated depreciation and amortization	(10,382,258)		
Total capital assets			11,868,853
The net pension asset resulting from contributions in excess of the annual required contribution in 2004 is not a financial resource and, therefore, is not reported in the funds. (See Note 15)			1,617,000
Some of the State's revenues will be collected after year-end but are not available soon enough to pay the current year liabilities and, therefore, are deferred in the funds.			888,030
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.			435,787
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.			34,851
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	(7,178,587)		
Accrued interest on bonds and COPs	(51,608)		
Claims and judgments	(846,351)		
Compensated absences	(164,051)		
Obligations under capital lease	(1)		
Net OPEB obligation	(41,241)		
Arbitrage rebate	(1,280)		
Pollution remediation obligation	(10,662)		
Contracts, mortgages, and notes payable	(54,475)		
Total long-term liabilities			(8,348,256)
Net assets of governmental activities		$	11,191,524

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012
(In Thousands)

	General	Health and Social Services	Public Transportation
Revenues:			
Personal Income Taxes	$ 5,876,050	$ -	$ -
Corporate Income Taxes	441,802	-	-
Tobacco Taxes	67,908	190,688	-
Healthcare Provider Taxes	-	423,951	-
Inheritance Taxes	101,364	-	-
Public Utilities Taxes	-	-	-
Insurance Premium Taxes	46,455	48,120	-
Motor Fuels Taxes	-	-	490,992
Weight Mile Taxes	-	-	259,984
Vehicle Registration Taxes	-	-	281,358
Employer-Employee Taxes	-	-	-
Workers' Compensation Insurance Taxes	-	-	-
Other Taxes	81,235	-	1,801
Licenses and Fees	120,506	14,053	80,842
Federal	105	3,969,872	617,754
Charges for Services	22,014	201,030	45,257
Fines and Forfeitures	65,768	171	4,367
Rents and Royalties	490	14	5,772
Investment Income (Loss)	11,157	2,043	9,630
Sales	1,343	2,078	4,679
Donations and Grants	1,069	5,376	25
Contributions to Permanent Funds	-	-	-
Tobacco Settlement Proceeds	-	78,940	-
Foreclosure Settlement Proceeds	25,253	-	-
Pension Bond Debt Service Assessments	-	-	-
Unclaimed Property Revenue	-	-	-
Other	18,896	317,958	8,118
Total Revenues	6,881,415	5,254,294	1,810,579
Expenditures:			
Current:			
Education	3,349,773	-	-
Human Services	1,862,595	5,133,945	-
Public Safety	896,257	-	-
Economic and Community Development	21,458	-	-
Natural Resources	62,379	-	-
Transportation	8,957	-	1,550,480
Consumer and Business Services	5,596	75	-
Administration	222,265	1	60,248
Legislative	31,603	-	-
Judicial	308,072	1,413	-
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	85,774	-	-
Interest	53,632	1	600
Other Debt Service	1,700	578	398
Total Expenditures	6,910,061	5,136,013	1,611,726
Excess (Deficiency) of Revenues Over (Under) Expenditures	(28,646)	118,281	198,853
Other Financing Sources (Uses):			
Transfers from Other Funds	940,311	96,331	89,478
Transfers to Other Funds	(1,139,103)	(307,604)	(265,747)
Insurance Recoveries	225	-	-
Long-term Debt Issued	16,322	57,710	-
Debt Issuance Premium	3,037	4,788	-
Refunding Debt Issued	-	-	-
Refunded Debt Payment to Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	(179,208)	(148,775)	(176,269)
Net Change in Fund Balances	(207,854)	(30,494)	22,584
Fund Balances - Beginning	244,154	589,792	767,013
Prior Period Adjustments	3,730	(108,895)	18,112
Fund Balances - Beginning - As Restated	247,884	480,897	785,125
Change in Inventories	1,456	(447)	(1,143)
Fund Balances - Ending	$ 41,486	$ 449,956	$ 806,566

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

Environmental Management	Common School	Other	Total
$ -	$ -	$ -	$ 5,876,050
-	-	-	441,802
-	-	-	258,596
-	-	-	423,951
-	-	-	101,364
-	-	72,310	72,310
-	-	8	94,583
-	-	-	490,992
-	-	-	259,984
-	-	-	281,358
-	-	71,977	71,977
-	-	53,669	53,669
23,218	-	37,990	144,244
125,966	993	128,120	470,480
170,970	-	2,493,228	7,251,929
42,172	155	61,733	372,361
453	126	66,469	137,354
2,381	4,094	2,894	15,645
12,620	(8,292)	24,673	51,831
78,646	327	4,833	91,906
565	-	17,100	24,135
-	-	76	76
-	-	-	78,940
-	-	-	25,253
-	-	5,681	5,681
-	15,308	-	15,308
16,278	107	79,322	440,679
473,269	12,818	3,120,083	17,552,458
-	-	712,471	4,062,244
-	-	1,272,203	8,268,743
-	-	323,595	1,219,852
-	-	394,937	416,395
503,032	14,367	43,683	623,461
-	-	9,602	1,569,039
-	-	275,885	281,556
-	-	60,742	343,256
-	-	1,686	33,289
-	-	26,614	336,099
-	-	129,337	129,337
9	-	245,798	331,581
1	-	296,640	350,874
37	-	4,104	6,817
503,079	14,367	3,797,297	17,972,543
(29,810)	(1,549)	(677,214)	(420,085)
146,461	11,201	1,078,053	2,361,835
(63,756)	(54,969)	(401,640)	(2,232,819)
18	333	100	676
1,241	-	94,886	170,159
-	-	87,213	95,038
-	-	502,389	502,389
-	-	(574,833)	(574,833)
83,964	(43,435)	786,168	322,445
54,154	(44,984)	108,954	(97,640)
787,600	945,289	1,612,669	4,946,517
5,246	(905)	(69,029)	(151,741)
792,846	944,384	1,543,640	4,794,776
(1,766)	-	23	(1,877)
$ 845,234	$ 899,400	$ 1,652,617	$ 4,695,259

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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, 2012
(In Thousands)

Net change in fund balances of total governmental funds		$ (97,640)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlay is reported as an expenditure 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:		
Capital outlay	694,350	
Depreciation expense	(295,604)	
Excess of capital outlays over depreciation		398,746
The net effect of sales, transfers, impairments, and donations of capital assets is a decrease to net assets.		(124,628)
Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statement of Net Assets.		(767,586)
Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the Statement of Net Assets.		906,414
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.		18,372
Some expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, they are not reported as expenditures in governmental funds.		
Accrued interest on long-term debt	(27,670)	
Claims and judgments payable	17,020	
Compensated absences	(9,078)	
Net pension asset	(61,700)	
Net OPEB obligation	(5,670)	
Pollution remediation obligation	(19,825)	
Contracts, mortgages, and notes payable	224	
Total		(106,699)
Investment income related to rebatable arbitrage does not provide current financial resources and is not reported as revenue in the governmental funds.		201
Some revenues will not be collected for several months after the State's fiscal year ends. Therefore, they are not considered "available" revenues and are deferred in the governmental funds.		(75,458)
The change in inventory is reported as a separate line after the change in fund balances in governmental funds but is included in expenses in the Statement of Activities.		(1,877)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net income of the internal service funds is reported within governmental activities.		194,297
Change in net assets of governmental activities		$ 344,142

Balance Sheet
Proprietary Funds
June 30, 2012
(In Thousands)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	**Veterans' Loan**	**Lottery Operations**
ASSETS AND DEFERRED OUTFLOWS			
Current Assets:			
Cash and Cash Equivalents	$ 5,747	$ 70,538	$ 233,605
Cash and Cash Equivalents - Restricted	7,748	1,970	-
Investments	-	14,526	12,698
Investments - Restricted	52,104	-	-
Securities Lending Collateral	5,601	22,652	107,815
Accounts and Interest Receivable (net)	7,487	1,581	20,669
Due from Other Funds	33	68	-
Due from Component Units	-	-	-
Due from Other Governments	-	-	-
Inventories	-	-	2,266
Prepaid Items	43	9	476
Foreclosed and Deeded Property	10,640	1,908	-
Total Current Assets	89,403	113,252	377,529
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	70,852	140,316	-
Investments	-	7,006	116,768
Investments - Restricted	214,124	-	-
Deferred Charges	9,522	1,305	-
Advances to Other Funds	-	-	-
Advances to Component Units	-	-	-
Net Contracts, Notes, and Other Receivables	-	1,082	3,097
Loans Receivable (net)	1,223,595	217,023	-
Capital Assets:			
Land	-	-	-
Buildings, Property, and Equipment	174	8,925	183,985
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Other Nondepreciable Assets	-	627	-
Less Accumulated Depreciation and Amortization	(163)	(5,089)	(140,824)
Total Noncurrent Assets	1,518,104	371,195	163,026
Deferred Outflows	37,197	3,047	-
Total Assets and Deferred Outflows	$ 1,644,704	$ 487,494	$ 540,555

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

Business-type Activities - Enterprise Funds				
Unemployment Compensation	University System	Other	Total	Governmental Activities Internal Service Funds
$ 1,227,438	$ 268,040	$ 329,603	$ 2,134,971	$ 378,670
64	1,477	10,445	21,704	-
-	-	-	27,224	-
-	-	-	52,104	-
1,172	58,388	27,044	222,672	31,232
289,227	217,551	25,760	562,275	62,195
-	7,626	1,176	8,903	3,980
-	20,561	-	20,561	-
10,567	-	-	10,567	-
-	7,606	27,426	37,298	1,522
-	25,675	960	27,163	1,171
-	-	802	13,350	-
1,528,468	606,924	423,216	3,138,792	478,770
1,738	264,292	49,313	526,511	23,148
-	-	-	123,774	-
-	357,894	-	572,018	75,912
-	-	3,472	14,299	879
-	-	96,977	96,977	648
-	42,457	-	42,457	-
68,774	51,170	14	124,137	91
-	-	620,625	2,061,243	26
-	128,165	6,982	135,147	9,343
-	3,616,434	469,109	4,278,627	581,590
-	320,068	683	320,751	8,242
-	101,926	2,048	103,974	637
-	68,011	40	68,678	167
-	(1,604,266)	(66,077)	(1,816,419)	(321,597)
70,512	3,346,151	1,183,186	6,652,174	379,086
-	149	-	40,393	-
$ 1,598,980	$ 3,953,224	$ 1,606,402	$ 9,831,359	$ 857,856

(continued on next page)

Balance Sheet
Proprietary Funds
June 30, 2012
(In Thousands)
(continued from previous page)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	**Veterans' Loan**	**Lottery Operations**
LIABILITIES, DEFERRED INFLOWS, AND NET ASSETS			
Current Liabilities:			
Accounts and Interest Payable	$ 28,757	$ 678	$ 8,847
Obligations Under Securities Lending	5,601	22,652	107,815
Due to Other Funds	7	-	126,123
Due to Other Governments	-	-	-
Due to Component Units	-	-	-
Unearned Revenue	1,252	-	318
Matured Bonds/COPs and Coupons Payable	-	95	-
Compensated Absences Payable	137	301	1,844
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	29,320
Arbitrage Rebate Payable	-	-	-
Custodial Liabilities	-	1,836	87
Contracts, Mortgages, and Notes Payable	-	-	12
Bonds/COPs Payable	32,020	3,395	-
Obligations under Capital Lease	-	-	-
Pollution Remediation Obligation	-	-	-
Total Current Liabilities	67,774	28,957	274,366
Noncurrent Liabilities:			
Compensated Absences Payable	71	155	950
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	125,041
Arbitrage Rebate Payable	482	15,860	-
Custodial Liabilities	-	-	-
Contracts, Mortgages, and Notes Payable	1,500	-	-
Bonds/COPs Payable	1,317,477	308,639	-
Obligations Under Capital Lease	-	-	-
Advances from Other Funds	-	-	-
Net OPEB Obligation	75	101	604
Derivative Instrument Liabilities	37,197	3,047	-
Total Noncurrent Liabilities	1,356,802	327,802	126,595
Total Liabilities and Deferred Inflows	1,424,576	356,759	400,961
Net Assets:			
Invested in Capital Assets, Net of Related Debt	11	4,464	43,161
Expendable Net Assets Restricted for:			
Residential Assistance	2,582	-	-
Education	-	-	-
Debt Service	211,382	-	-
Capital Projects	-	-	-
Nonexpendable Net Assets Restricted for:			
Donor Purposes	-	-	-
Unrestricted	6,153	126,271	96,433
Total Net Assets	220,128	130,735	139,594
Total Liabilities, Deferred Inflows and Net Assets	$ 1,644,704	$ 487,494	$ 540,555

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

Business-type Activities - Enterprise Funds				Governmental Activities
Unemployment Compensation	University System	Other	Total	Internal Service Funds
$ 26,362	$ 167,866	$ 32,397	$ 264,907	$ 27,330
1,172	58,388	27,044	222,672	31,232
9,139	-	81,164	216,433	137
6,253	-	-	6,253	-
-	1,234	-	1,234	-
-	123,186	1,405	126,161	19,655
-	1,477	190	1,762	-
-	48,159	8,159	58,600	7,220
-	-	13,959	13,959	36,964
-	-	-	29,320	-
-	123	-	123	-
64	17,676	12,435	32,098	3,277
-	13,237	-	13,249	158
-	56,670	23,452	115,537	13,969
-	65	-	65	5,686
-	56	-	56	-
42,990	488,137	200,205	1,102,429	145,628
-	3,319	4,096	8,591	3,720
-	-	-	-	152,590
-	-	-	125,041	-
-	-	-	16,342	-
1,738	9,707	-	11,445	3,271
-	22,208	-	23,708	-
-	1,751,477	347,653	3,725,246	104,221
-	491	-	491	2,802
-	96,599	100	96,699	190
-	16,652	3,594	21,026	1,878
-	-	-	40,244	-
1,738	1,900,453	355,443	4,068,833	268,672
44,728	2,388,590	555,648	5,171,262	414,300
-	927,735	407,689	1,383,060	151,702
-	-	-	2,582	-
-	159,469	-	159,469	-
-	53,119	894	265,395	-
-	61,999	-	61,999	-
-	16,546	-	16,546	-
1,554,252	345,766	642,171	2,771,046	291,854
1,554,252	1,564,634	1,050,754	4,660,097	443,556
$ 1,598,980	$ 3,953,224	$ 1,606,402	$ 9,831,359	$ 857,856

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 within the business-type activities.	7,769
Net assets of business-type activities	$ 4,667,866

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2012
(In Thousands)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
Operating Revenues:			
Assessments	$ -	$ -	$ -
Licenses and Fees	2,585	134	-
Federal	-	-	-
Charges for Services	983	1,679	-
Fines and Forfeitures	-	-	-
Rents and Royalties	-	698	-
Sales	-	-	1,050,214
Loan Interest Income	68,918	10,603	-
Gifts, Grants, and Contracts	-	-	-
Other	111	294	209
Gain (Loss) on Foreclosed Property	(277)	76	-
Total Operating Revenues	72,320	13,484	1,050,423
Operating Expenses:			
Salaries and Wages	4,092	5,654	36,317
Services and Supplies	9,578	4,260	238,413
Cost of Goods Sold	-	-	-
Distributions to Other Governments	329	-	-
Loan Interest Expense	49	-	-
Special Payments	925	-	232,369
Bond and COP Interest	58,696	7,499	-
Other Debt Service	22	765	-
Depreciation and Amortization	1	109	26,794
Bad Debt Expense	2,212	336	-
Total Operating Expenses	75,904	18,623	533,893
Operating Income (Loss)	(3,584)	(5,139)	516,530
Nonoperating Revenues (Expenses):			
Bond and COP Interest	-	-	-
Investment Income (Loss)	13,938	2,327	17,744
Other Taxes	-	-	-
Gain (Loss) on Disposition of Assets	-	-	(148)
Insurance Recoveries	-	-	31
Loan Interest Income	-	-	-
Loan Interest Expense	-	-	-
Other Nonoperating Items	(21)	(58)	(139)
Total Nonoperating Revenues (Expenses)	13,917	2,269	17,488
Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers	10,333	(2,870)	534,018
Capital Contributions	-	-	-
Additions to Permanent Endowments	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(166)	(229)	(531,022)
Change in Net Assets	10,167	(3,099)	2,996
Net Assets - Beginning	209,961	133,291	136,598
Prior Period Adjustments	-	543	-
Net Assets - Beginning - As Restated	209,961	133,834	136,598
Net Assets - Ending	$ 220,128	$ 130,735	$ 139,594

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

Business-type Activities - Enterprise Funds: Unemployment Compensation	University System	Other	Total	Governmental Activities Internal Service Funds
$ 1,061,035	$ -	$ -	$ 1,061,035	$ -
-	-	7,584	10,303	-
930,580	343,709	6,200	1,280,489	-
-	794,444	302,086	1,099,192	956,706
3,604	-	486	4,090	-
-	-	53	751	42,194
-	420,621	478,199	1,949,034	7,603
-	-	31,180	110,701	-
-	232,475	-	232,475	-
18,799	32,804	2,888	55,105	10,621
-	-	-	(201)	-
2,014,018	1,824,053	828,676	5,802,974	1,017,124
-	1,434,177	250,697	1,730,937	132,462
-	515,310	146,805	914,366	761,876
-	-	241,762	241,762	9,456
-	-	53,960	54,289	185
-	-	-	49	-
1,707,441	143,998	158,623	2,243,356	659
-	-	16,524	82,719	5,003
-	-	637	1,424	91
-	124,963	9,847	161,714	29,301
21,744	-	5,151	29,443	-
1,729,185	2,218,448	884,006	5,460,059	939,033
284,833	(394,395)	(55,330)	342,915	78,091
-	(82,959)	-	(82,959)	-
42,526	31,385	1,435	109,355	4,436
-	-	16,893	16,893	-
-	(1,338)	13	(1,473)	785
-	956	-	987	1,250
-	-	-	-	41
-	-	-	-	(15)
-	107,784	(69)	107,497	(208)
42,526	55,828	18,272	150,300	6,289
327,359	(338,567)	(37,058)	493,215	84,380
-	33,875	117,180	151,055	69
-	159	-	159	-
487	354,397	198,276	553,160	145,910
(50,891)	(39,643)	(173,235)	(795,186)	(33,941)
276,955	10,221	105,163	402,403	196,418
1,258,692	1,554,413	946,150	4,239,105	271,844
18,605	-	(559)	18,589	(24,706)
1,277,297	1,554,413	945,591	4,257,694	247,138
$ 1,554,252	$ 1,564,634	$ 1,050,754	$ 4,660,097	$ 443,556

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 within the business-type activities.	2,121
Change in net assets of business-type activities	$ 404,524

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012
(In Thousands)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	**Veterans' Loan**	**Lottery Operations**
Cash Flows from Operating Activities:			
Receipts from Customers	$ 3,817	$ 1,251	$ 1,044,348
Receipts from Other Funds for Services	-	1,492	-
Loan Principal Repayments	136,041	44,950	-
Loan Interest Received	68,929	13,251	-
Taxes and Assessments Received	-	-	-
Payments to Employees for Services	(4,128)	(5,636)	(33,216)
Payments to Suppliers	(6,491)	(2,551)	(237,816)
Payments to Other Funds for Services	-	(731)	-
Payments to Prize Winners	-	-	(219,269)
Claims Paid	-	-	-
Loans Made	(80,485)	(19,396)	-
Distributions to Other Governments	-	-	-
Other Receipts (Payments)	3,336	3,220	910
Net Cash Provided (Used) in Operating Activities	121,019	35,850	554,957
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bond/COP Sales	28,790	-	-
Principal Payments on Bonds/COPS	(134,265)	(63,443)	-
Interest Payments on Bonds/COPS	(60,092)	(7,988)	-
Interest Payments on Loans	(49)	-	-
Bond/COP Issuance Costs	(489)	(1,117)	-
Taxes and Assessments Received	-	-	-
Other Gifts and Private Contracts	-	-	-
Insurance Recoveries for Other than Capital Assets	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(166)	(229)	(550,389)
Net Cash Provided (Used) in Noncapital Financing Activities	(166,271)	(72,777)	(550,389)
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 Received	-	-	-
Interest on Advances	-	-	-
Principal Payments on Loans	-	-	(27)
Interest Payments on Loans	-	-	-
Other Interest Payments	-	-	-
Acquisition of Capital Assets	(12)	-	(7,837)
Payments on Capital Leases	-	-	-
Proceeds from Disposition of Capital Assets	-	-	564
Insurance Recoveries for Capital Assets	-	-	31
Capital Contributions	-	-	-
Transfers from Other Funds	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	(12)	-	(7,269)
Cash Flows from Investing Activities:			
Purchases of Investments	(725,126)	-	(10,508)
Proceeds from Sales and Maturities of Investments	788,529	12,153	14,056
Interest on Investments and Cash Balances	6,173	2,298	1,030
Interest Income from Securities Lending	38	107	324
Interest Expense from Securities Lending	(21)	(58)	(139)
Net Cash Provided (Used) in Investing Activities	69,593	14,500	4,763
Net Increase (Decrease) in Cash and Cash Equivalents	24,329	(22,427)	2,062
Cash and Cash Equivalents - Beginning	60,018	235,251	231,543
Prior Period Adjustments Restating Beginning Cash Balances	-	-	-
Cash and Cash Equivalents - Ending	$ 84,347	$ 212,824	$ 233,605

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

Business-type Activities - Enterprise Funds				
Unemployment Compensation	University System	Other	Total	Governmental Activities Internal Service Funds
$ -	$ 1,798,372	$ 791,923	$ 3,639,711	$ 609,079
-	-	9,957	11,449	380,696
-	12,841	58,453	252,285	-
-	-	30,151	112,331	-
1,067,995	-	-	1,067,995	-
-	(1,391,136)	(257,733)	(1,691,849)	(140,767)
-	(560,605)	(351,457)	(1,158,920)	(724,783)
-	-	(21,296)	(22,027)	(35,210)
-	-	-	(219,269)	-
(1,750,353)	-	(160,152)	(1,910,505)	(20,473)
-	(132,489)	(75,733)	(308,103)	-
-	-	(52,768)	(52,768)	(244)
954,365	(4,088)	45,128	1,002,871	53,306
272,007	(277,105)	16,473	723,201	121,604
-	-	24,264	53,054	-
-	-	(66,833)	(264,541)	-
-	-	(17,824)	(85,904)	-
-	-	-	(49)	-
-	-	(191)	(1,797)	-
-	-	16,887	16,887	-
-	108,464	-	108,464	-
-	81	-	81	32
11,938	307,832	199,595	519,365	145,800
(55,620)	(42,038)	(161,109)	(809,551)	(48,637)
(43,682)	374,339	(5,211)	(463,991)	97,195
-	4,000	61	4,061	31,397
-	(58,376)	(4,235)	(62,611)	(45,050)
-	(87,248)	(220)	(87,468)	(5,481)
-	-	-	-	(306)
-	-	-	-	34
-	-	-	-	41
-	-	-	(27)	(83)
-	-	-	-	(15)
-	-	(4)	(4)	-
-	(291,519)	(7,386)	(306,754)	(22,117)
-	-	-	-	(8)
-	4,750	13	5,327	1,094
-	875	-	906	1,247
-	45,995	1,066	47,061	-
-	42,773	-	42,773	-
-	(338,750)	(10,705)	(356,736)	(39,247)
-	(109,234)	-	(844,868)	(33,524)
-	4,631	-	819,369	20,242
38,590	25,972	1,492	75,555	1,930
-	341	107	917	387
-	(178)	(57)	(453)	(208)
38,590	(78,468)	1,542	50,520	(11,173)
266,915	(319,984)	2,099	(47,006)	168,379
962,325	853,793	387,262	2,730,192	233,339
-	-	-	-	100
$ 1,229,240	$ 533,809	$ 389,361	$ 2,683,186	$ 401,818

(continued on next page)

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012
(In Thousands)
(continued from previous page)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	**Veterans' Loan**	**Lottery Operations**
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	$ (3,584)	$ (5,139)	$ 516,530
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	1	109	26,794
Amortization of Bond/COP Issuance Costs	735	-	-
Amortization of Bond/COP Premium and Discount	(505)	25	-
Amortization of Deferred Charges	(504)	765	-
Bad Debt Expense	-	-	-
Interest Payments Reported as Operating Expense	59,041	7,988	-
Bond/COP Issuance Costs Reported as Operating Expense	-	1,117	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable	240	(7)	(4,879)
Due from Other Funds	-	(2)	-
Due from Other Governments	-	-	-
Inventories	-	-	79
Prepaid Items	(43)	(2)	80
Foreclosed and Deeded Property	144	(338)	-
Deferred Charges	-	-	-
Advances to Other Funds	-	-	-
Net Contracts, Notes, and Other Receivables	-	-	-
Loans Receivable	65,285	29,437	-
Accounts and Interest Payable	33	(655)	3,252
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Unearned Revenue	205	-	(267)
Compensated Absences Payable	(38)	8	80
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	13,252
Arbitrage Payable	-	2,690	-
Custodial Liabilities	-	(159)	(48)
Contracts, Mortgages, and Notes Payable	-	-	-
Net OPEB Obligation	9	13	84
Total Adjustments	124,603	40,989	38,427
Net Cash Provided (Used) by Operating Activities	$ 121,019	$ 35,850	$ 554,957
Noncash Investing and Capital and Related Financing Activities:			
Net Change in Fair Value of Investments	$ 9,575	$ 87	$ 16,391
Capital Assets Transferred from Governmental Funds	-	-	-
Capital Leases Entered into During the Year	-	-	-
Capital Assets Acquired Through Long-Term Contracts	-	-	24
Capital Assets Contributed	-	-	-
Foreclosed Property	24,099	1,908	-
Loan Modifications	205	-	-
Advanced Debt Refunding Deposited with Escrow Agent	-	-	-

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

Business-type Activities - Enterprise Funds				
Unemployment Compensation	University System	Other	Total	Governmental Activities Internal Service Funds
$ 284,833	$ (394,395)	$ (55,330)	$ 342,915	$ 78,091
-	124,963	9,847	161,714	29,301
-	-	557	1,292	38
-	-	(571)	(1,051)	(953)
-	-	354	615	677
-	-	5,151	5,151	-
-	-	18,043	85,072	5,481
-	-	193	1,310	306
10,787	2,385	6,643	15,169	6,527
6	-	(30)	(26)	(1,565)
4,360	-	-	4,360	-
-	(574)	1,096	601	27
-	(4,056)	(101)	(4,122)	(776)
-	-	(802)	(996)	-
-	-	(277)	(277)	(246)
-	-	(5,406)	(5,406)	-
(24,938)	11,502	-	(13,436)	(27)
-	-	(7,096)	87,626	5
(3,669)	16,852	(11,572)	4,241	(10,089)
(405)	-	54,444	54,039	(126)
881	-	(36)	845	-
-	(28,432)	979	(27,515)	19,248
-	-	869	919	429
-	-	(9,533)	(9,533)	(4,026)
-	-	-	13,252	-
-	-	-	2,690	-
152	295	8,476	8,716	(1,137)
-	(5,645)	-	(5,645)	158
-	-	575	681	261
(12,826)	117,290	71,803	380,286	43,513
$ 272,007	$ (277,105)	$ 16,473	$ 723,201	$ 121,604
$ -	$ 7,315	$ -	$ 33,368	$ 2,232
-	-	116,114	116,114	69
-	15	-	15	4,633
-	-	-	24	-
-	7,064	-	7,064	-
-	-	-	26,007	-
-	-	-	205	-
-	122,432	2,563	124,995	-

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012
(In Thousands)

	Pension and Other Employee Benefit Trust	Private Purpose Trust	Investment Trust	Agency
ASSETS				
Cash and Cash Equivalents	$ 1,903,898	$ 22,698	$ 4,233,737	$ -
Investments:				
Fixed Income	14,641,988	184	-	-
Public Equity	20,918,982	380	-	-
Real Estate	6,760,575	-	-	-
Annuity Contracts	-	298	-	-
Private Equity	14,544,003	-	-	-
Alternative Equity	410,251	-	-	-
Opportunity Portfolio	933,878	-	-	-
Total Investments	58,209,677	862	-	-
Custodial Assets	-	6,136	-	1,610,719
Securities Lending Collateral	2,445,136	2,922	426,575	-
Receivables:				
Employer Contributions	29,188	-	-	-
Plan Member Contributions	12,106	-	-	-
Interest and Dividends	336,418	-	10,620	-
Member Loans	9,732	-	-	-
Investment Sales	1,194,676	-	173,150	-
Benefit Recoveries	110,516	-	-	-
Accounts	-	66	-	5,150
From Other Funds	8,213	-	-	-
Total Receivables	1,700,849	66	183,770	5,150
Prepaid Items	7,502	-	-	-
Net Contracts, Notes and Other Receivables	-	-	-	93,083
Receivership Assets	-	-	-	61,571
Loans Receivable (net)	-	-	7	-
Capital Assets (net of accumulated depreciation):				
Land	944	14	-	-
Buildings, Property and Equipment	39,016	-	-	-
Total Assets	64,307,022	32,698	4,844,089	1,770,523
LIABILITIES				
Accounts and Interest Payable	2,268,689	155	93,670	4
Obligations Under Securities Lending	2,460,234	2,922	426,575	-
Due to Other Funds	7,754	-	-	-
Due to Other Governments	-	-	-	7,308
Deferred Revenue	299	-	-	-
Custodial Liabilities	110,277	1,661	-	1,763,211
Contracts, Mortgages and Notes Payable	-	2,041	-	-
Bonds/COPs Payable	3,072	-	-	-
Net OPEB Obligation	447	-	-	-
Total Liabilities	4,850,772	6,779	520,245	1,770,523
NET ASSETS				
Held in Trust for:				
Pension Benefits	58,051,543	-	-	-
Other Postemployment Benefits	271,139	-	-	-
Other Employee Benefits	1,133,568	-	-	-
External Investment Pool Participants	-	-	4,323,844	-
Individuals, Organizations and Other Governments	-	25,919	-	-
Total Net Assets	$ 59,456,250	$ 25,919	$ 4,323,844	$ -

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, 2012
(In Thousands)

	Pension and Other Employee Benefit Trust	Private Purpose Trust	Investment Trust
ADDITIONS			
Contributions:			
Employer	$ 879,966	$ -	$ -
Plan Members	613,343	-	-
Total Contributions	1,493,309	-	-
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	(822,999)	-	-
Interest, Dividends and Other Investment Income	1,626,215	165	34,484
Total Investment Income	803,216	165	34,484
Less Investment Expense	341,208	7	3,225
Net Investment Income	462,008	158	31,259
Gifts, Grants and Contracts	-	4,680	-
Veterans' Income	-	7,273	-
Other Income	3,160	536	-
Share Transactions:			
Participant Contributions	-	-	14,347,393
Participant Withdrawals	-	-	14,223,146
Net Share Transactions	-	-	124,247
Transfers from Other Funds	-	151	-
Total Additions	1,958,477	12,798	155,506
DEDUCTIONS			
Pension Benefits	3,516,522	-	-
Death Benefits	3,918	-	-
Contributions Refunded	34,020	-	-
Healthcare Premium Subsidies	33,822	-	-
Distributions to Other Governments	-	227	-
Distributions to Participants	-	-	27,772
Deferred Compensation Benefits	61,465	-	-
Administrative Expenses	42,255	9,905	-
Payments in Accordance with Trust Agreements	-	5,421	-
Total Deductions	3,692,002	15,553	27,772
Change in Net Assets Held in Trust For:			
Pension Benefits	(1,780,143)	-	-
Other Postemployment Benefits	18,026	-	-
Other Employee Benefits	28,592	-	-
External Investment Pool Participants	-	-	127,734
Individuals, Organizations and Other Governments	-	(2,755)	-
Net Assets - Beginning	61,189,775	28,674	4,196,110
Net Assets - Ending	$ 59,456,250	$ 25,919	$ 4,323,844

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

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Combining Balance Sheet
Discretely Presented Component Units
June 30, 2012
(In Thousands)

	SAIF Corporation	Oregon Health and Science University	Oregon University System Foundations	Oregon Affordable Housing Assistance Corporation	Total
ASSETS AND DEFERRED OUTFLOWS					
Current Assets:					
Cash and Cash Equivalents	$ 44,535	$ 209,004	$ 31,493	$ 10,913	$ 295,945
Investments	4,083,247	128,982	-	-	4,212,229
Securities Lending Collateral	199,304	-	-	-	199,304
Accounts and Interest Receivable (net)	351,324	297,331	-	270	648,925
Pledges, Contributions, and Grants Receivable (net)	-	21,262	182,241	-	203,503
Due from Other Governments	-	1,788	-	-	1,788
Due from Primary Government	85	13,467	-	-	13,552
Inventories	77	18,060	-	-	18,137
Prepaid Items	7,673	15,260	37,609	450	60,992
Total Current Assets	4,686,245	705,154	251,343	11,633	5,654,375
Noncurrent Assets:					
Investments	-	511,573	-	-	511,573
Investments - Restricted	-	551,625	1,278,683	-	1,830,308
Deferred Charges	-	11,689	-	-	11,689
Net Contracts, Notes and Other Receivables	-	3,566	-	-	3,566
Pledges, Contributions, and Grants Receivable (net)	-	56,119	-	-	56,119
Capital Assets:					
Land	3,029	72,443	7,274	-	82,746
Buildings, Property, and Equipment	41,577	2,192,985	58,046	-	2,292,608
Construction in Progress	-	83,860	-	-	83,860
Less Accumulated Depreciation and Amortization	(28,091)	(1,066,641)	(13,004)	-	(1,107,736)
Total Noncurrent Assets	16,515	2,417,219	1,330,999	-	3,764,733
Deferred Outflows	-	15,957	-	-	15,957
Total Assets and Deferred Outflows	$ 4,702,760	$ 3,138,330	$ 1,582,342	$ 11,633	$ 9,435,065
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts and Interest Payable	$ 72,514	$ 188,289	$ 20,120	$ 477	$ 281,400
Obligations Under Securities Lending	199,315	-	-	-	199,315
Due to Other Governments	2,260	18,328	-	-	20,588
Due to Primary Government	20,448	2,374	4,624	6	27,452
Unearned Revenue	184,118	27,124	11,766	11,150	234,158
Compensated Absences Payable	3,735	52,933	-	-	56,668
Reserve for Loss and Loss Adjustment Expense	225,388	-	-	-	225,388
Claims and Judgments Payable	-	18,678	-	-	18,678
Custodial Liabilities	8,698	-	-	-	8,698
Contracts, Mortgages, and Notes Payable	-	1,948	-	-	1,948
Bonds/COPS Payable	-	11,794	-	-	11,794
Obligations Under Capital Lease	-	4,034	-	-	4,034
Total Current Liabilities	716,476	325,502	36,510	11,633	1,090,121
Noncurrent Liabilities:					
Obligations Under Life Income Agreements	-	16,235	72,895	-	89,130
Reserve for Loss and Loss Adjustment Expense	2,794,005	-	-	-	2,794,005
Claims and Judgments Payable	-	42,550	-	-	42,550
Contracts, Mortgages, and Notes Payable	-	34,472	31,401	-	65,873
Bonds/COPS Payable	-	705,400	45,447	-	750,847
Obligations Under Capital Lease	-	629	-	-	629
Advances from Primary Government	-	42,457	-	-	42,457
Net OPEB Obligation	1,640	6,431	-	-	8,071
Derivative Instrument Liabilities	-	15,957	-	-	15,957
Total Noncurrent Liabilities	2,795,645	864,131	149,743	-	3,809,519
Total Liabilities and Deferred Inflows	3,512,121	1,189,633	186,253	11,633	4,899,640
Net Assets:					
Invested in Capital Assets, Net of Related Debt	16,515	629,095	-	-	645,610
Expendable Net Assets Restricted for:					
Education	-	309,035	650,774	-	959,809
Workers' Compensation	1,174,124	-	-	-	1,174,124
Nonexpendable Net Assets Restricted for:					
Donor Purposes	-	-	742,226	-	742,226
Education	-	175,023	-	-	175,023
Unrestricted	-	835,544	3,089	-	838,633
Total Net Assets	1,190,639	1,948,697	1,396,089	-	4,535,425
Total Liabilities, Deferred Inflows and Net Assets	$ 4,702,760	$ 3,138,330	$ 1,582,342	$ 11,633	$ 9,435,065

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, 2012
(In Thousands)

	SAIF Corporation	Oregon Health and Science University	Oregon University System Foundations
Operating Revenues:			
Federal Revenue	$ -	$ -	$ -
Charges for Services	-	1,549,060	-
Premiums Earned (net)	357,473	-	-
Investment Income (net)	-	-	7,089
Gifts, Grants, and Contracts	-	393,119	189,850
Other Revenues	23,575	92,900	24,412
Total Operating Revenues	381,048	2,035,079	221,351
Operating Expenses:			
Salaries and Wages	-	1,194,176	-
Services and Supplies	-	627,831	196,806
Loss and Loss Adjustment Expense	328,448	-	-
Policyholders' Dividends	150,043	-	-
Underwriting Expenses	93,530	-	-
Mortgage Assistance Payments	-	-	-
Bond and COP Interest	-	34,742	-
Depreciation and Amortization	1,246	111,174	-
Bad Debt Expense	-	47,883	-
Other Expenses	-	-	7,266
Total Operating Expenses	573,267	2,015,806	204,072
Operating Income (Loss)	(192,219)	19,273	17,279
Nonoperating Revenues (Expenses):			
Investment Income	215,706	16,509	-
Other	-	3,379	-
State Appropriations	-	35,389	-
Total Nonoperating Revenues (Expenses)	215,706	55,277	-
Income (Loss) Before Capital Contributions	23,487	74,550	17,279
Capital Contributions	-	4,059	-
Change in Net Assets	23,487	78,609	17,279
Net Assets - Beginning	1,167,152	1,870,088	1,378,687
Prior Period Adjustments	-	-	123
Net Assets - Beginning - As Restated	1,167,152	1,870,088	1,378,810
Net Assets - Ending	$ 1,190,639	$ 1,948,697	$ 1,396,089

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

Oregon Affordable Housing Assistance Corporation	Total	Adjustments to Recast	Statement of Activities
$ 45,204	$ 45,204	$ (45,204)	$ -
-	1,549,060	501,739	2,050,799
-	357,473	(357,473)	-
2	7,091	(7,091)	-
-	582,969	319,899	902,868
-	140,887	(140,887)	-
45,206	2,682,684	270,983	2,953,667
-	1,194,176	-	1,194,176
9,056	833,693	-	833,693
-	328,448	-	328,448
-	150,043	-	150,043
-	93,530	-	93,530
36,150	36,150	-	36,150
-	34,742	-	34,742
-	112,420	-	112,420
-	47,883	-	47,883
-	7,266	-	7,266
45,206	2,838,351	-	2,838,351
-	(155,667)	270,983	115,316
-	232,215	(232,215)	-
-	3,379	(3,379)	-
-	35,389	(35,389)	-
-	270,983	(270,983)	-
-	115,316	-	115,316
-	4,059	-	4,059
-	119,375	-	119,375
-	4,415,927	-	4,415,927
-	123	-	123
-	4,416,050	-	4,416,050
$ -	$ 4,535,425	$ -	4,535,425

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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, including all agencies, boards, commissions, courts, and colleges and universities that are legally part of the State (primary government), and the State's component units. Component units are legally separate entities for which the 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.

Discretely Presented Component Units

The State reports discretely presented component units in a separate column in the government-wide financial statements to emphasize they are legally separate from the State. The component unit column in the government-wide financial statements includes the data of the State's four discretely presented component units.

SAIF Corporation (SAIF) is a public corporation created by an act of the Legislature. SAIF is authorized to write workers' compensation insurance coverage in Oregon and certain other jurisdictions as required by the Oregon 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. The term of office for a board member is four years, but a member serves at the pleasure of the Governor. SAIF reports on a fiscal year ended December 31 and uses proprietary fund accounting principles. The December 31, 2011, 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. As an academic health center, OHSU provides education and training to healthcare 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 moneys 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 Oregon's seven public universities. The OUS foundations report under Financial Accounting Standards Board (FASB) Accounting Standards Codification 958, *Not-for-Profit Entities* (ASC 958). 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.

The Oregon Affordable Housing Assistance Corporation (OAHAC) is an Oregon not-for-profit public benefit corporation. The director of the Oregon Housing and Community Services Department (OHCSD) appoints two of the five OAHAC board members and approves the candidacy of the remaining at-large members. The at-large directors may be removed at any time by a vote of two-thirds or more of the directors then in office, and the government directors may be removed at any time by the director of OHCSD.

The primary purpose of OAHAC is to administer programs targeted to help prevent or mitigate the impact of foreclosures on low and moderate income persons; to help stabilize housing markets in Oregon; to provide resources of affordable or subsidized housing; to develop and administer programs related to housing permitted under the Emergency Economic Stabilization Act of 2008 (EESA), as amended; and act as an institution eligible to receive Troubled Asset Relief Program (TARP) funds under EESA. Currently, OAHAC administers Oregon's share of the Hardest Hit Fund programs, which are part of TARP. In fiscal year 2011, OAHAC was reported as a blended component unit and included within the financial activity of OHCSD. It has since been determined that OAHAC should be reported as a discretely presented component unit. OAHAC reports on a fiscal year ended December 31 and has adopted ASC 958. The December 31, 2011, financial information of OAHAC is included in this report.

Readers may obtain complete financial statements for SAIF, OHSU, the OUS Foundations, and OAHAC from their respective administrative offices or from the Oregon Department of Administrative Services, Chief Financial Office, 155 Cottage Street NE, Salem, Oregon 97301-3969.

Related Organizations

The following professional and occupational licensing boards are semi-independent: the Board of Architect Examiners, the Board of Examiners for Engineering and Land Surveying, the Landscape Architect Board, the Board of Geologist Examiners, the Board of Optometry, the Board of Massage Therapists, the Physical Therapists Licensing Board, the Appraiser Certification and Licensure Board, the Landscape Contractors Board, the Wine Board, and the Patient Safety Commission. Although the Governor appoints the administrators of these boards, the boards are all self-supporting and the State's accountability for these organizations does not extend beyond making the appointments. The State has no financial accountability for these related organizations.

The Oregon Utility Notification Center (OUNC) is an independent not-for-profit 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 moneys, and the State has no financial accountability for OUNC.

The Oregon Health Insurance Exchange Corporation is an independent public corporation established under the federal Affordable Care Act of 2010 that will offer health insurance and coverage options to individuals, families, and small employers. It is governed by a nine-member board of directors, appointed by the Governor. The Exchange operates at no cost to the state. It is funded by federal grant dollars through 2014 and after that, it will be self-sustaining through an administrative fee charged to insurance carriers.

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. Direct expenses include 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 in separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The State uses the economic resources measurement focus and the accrual basis of accounting in preparing the government-wide financial statements, as well the financial statements of the proprietary funds, internal service funds, and fiduciary funds (except for 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, to the extent such amounts are measurable. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The State uses the current financial resources measurement focus and the modified accrual basis of accounting in preparing the governmental fund financial statements. Revenues are recognized when they are both measurable and available. Revenues are considered 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 as 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, such as licenses, fees, and the cash sales of goods and services, are considered measurable and available only when cash is received.

For governmental funds, 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:

<u>General Fund</u>

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. Beginning in fiscal year 2011, the General Fund includes some activity previously accounted for in special revenue funds. The implementation of Governmental Accounting Standards Board (GASB) Statement No. 54 necessitated this change. Statement No. 54 clarifies that one or more specific restricted or committed revenues must comprise a substantial portion of the "inflows" reported in a special revenue fund. The state considers 30 percent as "substantial" for financial reporting purposes. In special revenue funds where a substantial portion of the inflows will not derive from specific restricted or committed revenue sources, the funds' activities are accounted for in the General Fund. The *Oregon Rainy Day Fund*, for example, was previously reported as an individual major special revenue fund but is now reported in the General Fund. The Rainy Day Fund relies on resources that are "transferred" from the General Fund in accordance with state law and which, along with investment income generated, can be appropriated by the Legislature only when certain specific criteria related to economic or revenue conditions have been met. The funding source for the Rainy Day Fund is not a specific restricted or committed revenue.

<u>Special Revenue Funds</u>

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The *Health and Social Services Fund* accounts for programs that provide assistance, services, training, and healthcare 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 user 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. Statutory and constitutional provisions stipulate that the assets of the fund, including investment income, must be used for common school purposes. The primary funding sources for these programs include investment income, leasing revenues, forest management, unclaimed property receipts, and transfers from other funds.

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

The *Housing and Community Services Fund* accounts for activities 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 which markets and sells Lottery products to the public. The primary objective of the Oregon State Lottery is to produce the maximum amount of net revenues to be used for creating jobs, furthering economic development, financing public education, and restoring and protecting Oregon's parks, beaches, watersheds, and critical fish and wildlife habitats.

The *Unemployment Compensation Fund* accounts for federal moneys 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.

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. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Additionally, the State reports the following fund types:

<u>Governmental Fund Types (reported as nonmajor funds)</u>

Like major special revenue funds, nonmajor *special revenue funds* also account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt service funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on long-term obligations.

The *Capital Projects Fund* accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities

The *Permanent Fund* accounts for and reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the State and its citizenry.

Proprietary Fund Types (reported as nonmajor funds)

Nonmajor *enterprise funds* account for and report business-type activities for which fees are charged to external users for goods and services.

Internal service funds account for goods and services provided by state agencies to other state agencies and to other governmental units on a cost-reimbursement basis. These goods and services 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 and reported in the internal service funds.

Fiduciary Fund Types

The *Pension and Other Employee Benefit Trust Fund* accounts for activities of the Public Employees Retirement System (PERS), which administers resources for the payment of retirement, disability, postemployment healthcare, and death benefits to members and beneficiaries of the retirement system.

The *Private Purpose Trust Fund* accounts for all trust arrangements, other than those properly reported in pension and other employee benefit trust funds or investment trust 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. 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, are followed in both the government-wide and proprietary fund financial statements to the extent those standards do not conflict with, or contradict the 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 applies private sector guidance issued after November 30, 1989, except for those standards limited to not-for-profit organizations.

D. Deposits and Investments

Deposits

Cash deposits not held in a cash management or investment pool are classified as cash and cash equivalents. Cash deposits that are held in a cash management or investment pool are classified as cash and cash equivalents when the pool has the general characteristics of a demand deposit account. Cash and cash equivalents include: cash on hand, cash and investments held by the Office of the State Treasurer in the Oregon Short-Term Fund (OSTF), 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 OSTF with remaining maturities of up to 90 days are carried at amortized cost, which approximates fair value. The State reports these investments as cash and cash equivalents on the balance sheet or statement of net assets, but as investments in Note 2.

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

The fair value of publicly traded debt and equity securities in active markets is determined by the custodian's pricing agent using nationally recognized pricing services. The custodian's pricing agent values equity securities traded on a national or international exchange at the last reported sales price and generally values debt securities by using evaluated bid prices. The fair value of publicly traded real estate investment trust (REIT) securities is determined by the custodian's pricing agent using recognized pricing services. For securities that do not have an active market, such as private placements or commingled investment vehicles, the custodian's pricing agent or investment manager uses a similar benchmark security to estimate fair value. The benchmark used to value a debt security, for example, typically has a coupon rate and maturity date comparable to the debt security being valued, as well as similar market risk.

Investments in private equities are recorded at fair value, as of June 30, 2012, as determined by PERS management based on valuation information provided by the general partner. Investments in private equities representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to information including, but not limited to, the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information, including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Investments in real estate, with the exception of publicly traded REITs, for which observable market prices in active markets do not exist, are reported at fair value as of June 30, 2012, as determined by PERS management based on valuation information provided in good faith by the general partner. Direct investments in real estate are appraised every two to three years and, between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. Valuation of investments in real estate partnerships, in the absence of observable market prices, rely on the general partners to determine fair value by using valuation methods considered most appropriate. A variety of factors are considered, including the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment.

Investments in the PERS Opportunity and Alternative Equity portfolios are recorded at fair value as of June 30, 2012, as determined by the respective general partner or account manager. (The Opportunity Portfolio is an investment portfolio within the PERS Fund that utilizes innovative investment approaches across a wide range of investment opportunities, while investments in the Alternative Equity portfolio represent alternative investment strategies, including infrastructure, natural resources, natural resource commodities, and absolute return or hedge fund strategies.) Investments in these portfolios representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner or account manager determines fair value based on the best information available and by reference to information including, but not limited to, the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information, including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Due to the inherent uncertainty and the degree of judgment involved in determining certain private equity, Opportunity, Alternative Equity, and real estate portfolio investment valuations, the fair values reflected in the accompanying financial statements may differ significantly from values that would have been used had a readily determinable market value for the investments existed, and the difference could be material. In addition, these investments are generally considered illiquid long-term investments; the recorded fair values may materially differ from the amounts eventually realized from the sale or other disposition of these investments.

Derivatives

In accordance with State investment policies, the Office of the State Treasurer participates in contracts that have derivative characteristics. Derivative instruments are used to lower the cost of borrowing, to hedge against fluctuations in foreign currency rates, and to manage the overall risk of investment portfolios.

The fair value of *effective* hedging derivative instruments are reported on the proprietary funds balance sheet and the statement of fiduciary net assets as assets and liabilities as applicable, with offsetting balances reported as deferred inflows or deferred outflows. The changes in fair value of effective hedging derivative instruments are also reflected on the proprietary funds balance sheet and the statement of fiduciary net assets; such changes are not reported on the statement of revenues, expenses, and changes in proprietary fund net assets and the statement of changes in fiduciary net assets.

Ineffective hedging derivative instruments and derivatives purchased as investments are reported at fair value on the proprietary funds balance sheet and the statement of fiduciary net assets. The related changes in fair value are reported on the statement of revenues, expenses, and changes in proprietary fund net assets and the statement of changes in fiduciary net assets.

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.”

Trade receivables consist of revenues earned or accrued in the current period and are shown net of estimated uncollectible amounts. Income tax receivables deemed reasonably estimable are reported, net of estimated uncollectible amounts, in the fiscal year when the underlying exchange has occurred. Income tax receivables that may arise in the future from audits of prior years and discovery of non-filers are not included in receivables or revenues in the financial statements because these transactions are not measurable.

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 each fund in the 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 offset by nonspendable fund balance since the fund balance associated with inventory is not in spendable form. However, in the case of inventory held for resale, if the proceeds from the sale of the inventory are restricted, committed, or assigned to a specific purpose, the related fund balance is classified as restricted, committed, or assigned, as appropriate, rather than as nonspendable. In proprietary funds, inventories are expended when consumed rather than when purchased.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items. In governmental funds and proprietary funds, prepaid items are accounted for using the consumption method. In governmental funds, a portion of fund balance equal to the prepaid items is classified as nonspendable to indicate that it is not in spendable form.

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 their use is limited by applicable bond covenants or COP financing agreements. Other restrictions on asset use may change the nature and availability of an asset. Various grant moneys, loan acquisition funds, customer deposits, and insurance funds, are also classified as restricted assets.

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 market.

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 in the agency fund.

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 more than 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 asset 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 10 to 75 years, while useful lives of equipment and machinery range from 3 to 50 years. For infrastructure assets, useful lives range from 5 to 75 years, with docks, dikes and dams having useful lives between 30 to 50 years. Useful lives for works of art and historical treasures range from 10 to 30 years, and useful lives for motor vehicles range from 3 to 30 years. Data processing software and hardware have useful lives ranging from 3 to 10 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 the result of employee resignations and retirements.

N. Long-term Obligations

In the government-wide statement of net assets, long-term debt and other long-term obligations are reported as liabilities for governmental activities or business-type activities, as applicable. In proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the balance sheet. Bond or certificate of participation (COP) premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the debt. 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 other debt service expenditures.

O. Fund Equity

The difference between assets and liabilities is labeled as "Net Assets" on the government-wide, proprietary fund, and fiduciary fund financial statements and as "Fund Balance" on the governmental fund financial statements.

In governmental funds, fund balance is reported in five components: (1) Nonspendable, (2) Restricted, (3) Committed, (4) Assigned, and (5) Unassigned.

> *Nonspendable fund balances* include amounts that cannot be spent because they are either not in *spendable* form or they are legally or contractually required to be maintained intact.
>
> *Restricted fund balance*s are the result of constraints imposed 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. Enabling legislation authorizes the State to levy, assess, charge, or otherwise mandate payment from external resource providers and includes a legally enforceable requirement that those resources be used only for specific purposes stipulated by the legislation. The restricted fund balance category has been further broken down on the face of the governmental fund financial statements to indicate the various sources of those constraints.
>
> *Committed fund balance* results from constraints imposed by bills (passed by the Legislature and signed into law by the Governor) that are separate from the authorization to raise the underlying revenue.
>
> *Assigned fund balance* is the residual amount in governmental funds other than the General Fund. It represents amounts that are constrained by the State's intent to be used for a specific purpose, but which are neither restricted nor committed.
>
> *Unassigned fund balance* is the residual amount in the General Fund not included in the previous four categories. Deficit fund balances in other governmental funds are reported as unassigned. See Note 21 for additional information on fund equity.

In the government-wide statement of net assets and the proprietary fund balance sheet, net assets are 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.

For fund balance classification purposes, state agencies determine the appropriate classification of each of their detail-level funds based on the resources accounted for in those funds and the constraints on spending those resources. Agencies expend resources from the appropriate funds based on each fund's specific spending constraints. Ending fund balances, therefore, are the result of that spending. In the event that an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available for use, the individual state agencies determine the order in which those resources are spent. The same is true of an expenditure incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available.

The state maintains two stabilization funds: the Oregon Rainy Day Fund within the General Fund and the Education Stability Fund within the Educational Support Fund, a nonmajor special revenue fund. The resources in both funds may be expended only when specific non-routine budget shortfalls occur. See Note 21 for additional information about the stabilization funds.

P. Changes in Accounting Principle

Effective July 1, 2011, the State implemented GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53). Some governments enter into interest rate swap agreements and commodity swap agreements to manage specific risks or to make investments. Sometimes a swap counterparty, or the swap counterparty's credit support provider, commits or experiences an act of default or a termination event. To address the problem, many governments replace the swap counterparty or swap counterparty's credit support provider by amending existing swap agreements or by entering into new swap agreements.

When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement No. 53 requires a government to cease hedge accounting upon termination of the hedging arrangement, resulting in immediate recognition of deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of Statement No. 64 is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Statement sets forth criteria that establish when an effective hedging relationship continues and hedge accounting should continue to apply. During fiscal year ending June 30, 2012, no counterparties to the State's swap agreements or their credit support providers committed or experienced an act of default or a termination event.

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 Oregon State Treasury (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, fixed income investments, and direct equity investment transactions, although the majority of equity investments 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 moneys contributed to the Oregon Public Employees Retirement Fund (OPERF) and the Industrial Accident Fund (SAIF Corporation) and not more than 65 percent of the other trust and endowment funds managed by the Council or the Treasury. The Deferred Compensation Fund, the Education Stability Fund, the State Board of Higher Education, 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 the 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 may be obtained from the Oregon State Treasury, Finance Division, 350 Winter Street NE, Suite 100, Salem, Oregon 97301-3896, or from the Treasury's website at:

http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx

The Treasurer also makes short-term and long-term investments, which are held separately by several of the State's funds. The Treasury's direct investments in short-term securities are limited by portfolio rules established by the OSTF Board and the Council. Other investments are made directly by state agencies with the approval of the Treasurer.

A. Custodial Credit Risk

Custodial Credit Risk for Deposits

The custodial credit risk for deposits is the risk that, in the event of a depository financial institution failure, the State will not be able to recover deposits or 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, banking regulations and Oregon law establish the insurance and collateral requirements for deposits in the OSTF.

Oregon Revised Statutes (ORS), Chapter 295, governs the collateralization of public funds. Bank depositories are required to pledge collateral against any public fund deposits in excess of deposit insurance amounts. This requirement provides additional protection for public funds in the event of a bank loss. ORS Chapter 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable.

ORS Chapter 295 provides the statutory authority for the Public Funds Collateralization Program (PFCP). The PFCP is an application created by the Treasury to facilitate bank depository, custodian, and public official compliance with ORS Chapter 295. Under the PFCP, banks are required to report quarterly to the Treasury, providing quarter-end public fund balances in excess of Federal Deposit Insurance Corporation (FDIC) limits. Banks are also required to report their net worth and FDIC capitalization information. The FDIC assigns each bank a capitalization category quarterly: well capitalized, adequately capitalized, or undercapitalized. Based on this information, the bank's minimum collateral required to be pledged with the custodian and the maximum liability in the pool of all banks are calculated for the next quarter. The maximum liability is reported to the bank, the Treasury, and the custodian.

Barring any exceptions, a bank depository is required to pledge collateral valued at no less than 10 percent of the bank's quarter-end public fund deposits if the bank is well capitalized and 110 percent if the bank is adequately capitalized, undercapitalized, or assigned to pledge 110 percent by Treasury.

There are three exceptions to this calculation, and any exceptions are required to be collateralized at 100 percent.

1. A bank may not accept public fund deposits from one depositor in excess of the bank's net worth. If the bank has a drop in net worth that takes it out of compliance, the bank is required to post 100 percent collateral on any amount the depositor has in excess of the bank's net worth while working to eliminate that excess.
2. A bank may not hold aggregate public funds in excess of a percentage of the bank's net worth based on its capitalization category (100 percent for undercapitalized, 150 percent for adequately capitalized, 200 percent for well capitalized) unless approved for a period of 90 days or less by the Treasury.
3. A bank may hold in excess of 30 percent of all aggregate public funds reported by all banks holding Oregon public funds, only if the excess is collateralized at 100 percent.

Where interest-bearing balances within the OSTF exceed the Federal Deposit Insurance amount of $250 thousand, the balances are covered by collateral held in the PFCP. Non-interest-bearing accounts are fully covered by FDIC insurance under the Dodd-Frank Wall Street Reform and Consumer Protection Act until December 31, 2012. As of June 30, 2012, all OSTF demand deposits were covered by FDIC insurance, and no OSTF demand deposits were collateralized under the PFCP.

As of June 30, 2012, $1.7 billion in other bank balances of the primary government and its discretely presented component units were exposed to custodial credit risk (in thousands):

	Primary Government	Discretely Presented Component Units	Balance at June 30, 2012
Uninsured and uncollateralized	$ 1,566,062	$ 10,667	$ 1,576,729
Uninsured and collateralized by the pledging bank	55,221	-	55,221
Uninsured and collateralized by the pledging bank's trust department, but not in the State's name	38,360	-	38,360
Total	$ 1,659,643	$ 10,667	$ 1,670,310

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. For the year ended June 30, 2012, no investment holdings of the primary government, SAIF Corporation, or Oregon Health and Science University were exposed to custodial credit risk.

B. Investments – Primary Government (Excluding the OPERF)

Investments Held at Treasury

Investments of the primary government (excluding the OPERF) held by the Treasurer require the exercise of prudent and reasonable care in the context of a 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 suitable to the particular investment fund. Each Treasury fund has a policy and procedure that addresses objectives and strategies.

Interest Rate Risk

Investment policy for fixed income investments under the direct management of the Treasurer generally limits the time horizon of the portfolio to an average maturity of 1 to 5 years. In addition, externally managed fixed income investment funds are required by policy to maintain an average bond duration level within 20 percent of the benchmark 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.

Credit Risk

Investment policies for fixed income investments under the management of the Treasurer require that the portfolio maintain an average Standard and Poor's (S&P) credit quality of AA or A, as determined for each investment fund. For investments not under management of the Treasurer, there are no formal policies on credit risk.

The credit rating for the investments at Treasury held within the governmental funds, excluding the Common School Fund, and using the segmented time distribution method at June 30, 2012 (dollars in thousands):

			Investment Maturities (in years)				
Reporting Fund[1]	**Investment Type**	**Credit Rating**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10 or none**	**Balance at June 30, 2012**
Public Transportation	U.S. Federal agency debt	A	$ 11,044	$ -	$ -	$ -	$ 11,044
			11,044	-	-	-	11,044
	Corporate bonds	AA	15,857	1,745	-	-	17,602
		A	37,195	18,610	-	-	55,805
		BBB	5,250	13,010	-	-	18,260
			58,302	33,365	-	-	91,667
	International debt securities	AA	5,739	2,247	-	-	7,986
		A	-	11,078	-	-	11,078
			5,739	13,325	-	-	19,064
			75,085	46,690	-	-	121,775
Employment Services	U.S. Federal agency debt	AA	17,917	-	-	-	17,917
		A	10,542	-	-	-	10,542
			28,459	-	-	-	28,459
	Corporate bonds	AA	9,600	11,411	3,281	-	24,292
		A	13,167	6,454	2,613	-	22,234
		BBB	9,020	11,988	5,912	-	26,920
			31,787	29,853	11,806	-	73,446
	International debt securities	AAA	-	-	3,172	-	3,172
		AA	2,781	3,569	-	-	6,350
		A	-	1,689	-	-	1,689
			2,781	5,258	3,172	-	11,211
			63,027	35,111	14,978	-	113,116
Residential Assistance	U.S. Federal agency debt	AA	5,557	10,737	-	-	16,294
			5,557	10,737	-	-	16,294
			$ 143,669	$ 92,538	$ 14,978	$ -	251,185
General	Alternative Equities	N/A					4,987
Educational Support	Alternative Equities	N/A					40,328
							45,315
Total							$ 296,500

[1] See separate Common School Fund schedule.

The credit rating for the Common School Fund's investments held at Treasury and using the segmented time distribution method at June 30, 2012 (dollars in thousands):

Investment Type	Credit Rating[1]	Investment Maturities (in years) Less than 1	1 to 5	6 to 10	More than 10 or none	Balance at June 30, 2012
U.S. Treasury obligations	AA	$ 10	$ 1,306	$ 1,764	$ 6,104	$ 9,184
U.S. Treasury strips	AA	-	-	206	-	206
U.S. Treasury TIPS	AA	-	-	-	1,244	1,244
U.S. Federal agency debt	AA	2,263	-	-	169	2,432
U.S. Federal agency mortgages	AA	1,893	-	-	35,855	37,748
	Not rated	-	-	-	1,242	1,242
		4,166	1,306	1,970	44,614	52,056
Municipal bonds	AAA	186	-	-	-	186
		186	-	-	-	186
Corporate bonds	AA	82	117	-	-	199
	A	3,048	3,970	5,451	2,697	15,166
	BBB	1,225	5,324	6,576	5,056	18,181
	BB	-	72	1,055	668	1,795
	B	58	280	555	189	1,082
		4,413	9,763	13,637	8,610	36,423
International debt securities	AA	-	659	-	-	659
	A	-	528	2,737	-	3,265
	BBB	416	1,461	3,049	1,128	6,054
	BB	83	532	-	-	615
	B	67	-	60	-	127
		566	3,180	5,846	1,128	10,720
Asset backed securities	AAA	656	-	-	-	656
	AA	1,557	-	-	-	1,557
	A	476	-	-	86	562
	BBB	104	-	28	-	132
	B	299	-	-	-	299
	CCC	876	-	-	-	876
	C	715	-	-	-	715
	D	81	-	-	-	81
		4,764	-	28	86	4,878
Collateralized mortgage obligations	AAA	1,303	-	-	292	1,595
	AA	32	-	-	-	32
	A	210	-	-	29	239
	BBB	478	-	-	489	967
	BB	1,016	-	-	-	1,016
	B	2,255	-	-	-	2,255
	CCC	2,564	-	-	-	2,564
	C	566	-	-	-	566
	D	447	-	-	-	447
	Not rated	1,276	-	370	3,168	4,814
		10,147	-	370	3,978	14,495
Domestic mutual funds - debt	Not rated	-	176,496	-	-	176,496
		-	176,496	-	-	176,496
International mutual funds - debt	Not rated	-	-	7,009	-	7,009
		-	-	7,009	-	7,009
		$ 24,242	$ 190,745	$ 28,860	$ 58,416	302,263
Domestic equity securities	N/A					265,357
International equity securities	N/A					190,195
Domestic mutual funds - equity	N/A					105,505
International mutual funds - equity	N/A					59,184
Domestic real estate	N/A					961
International real estate	N/A					2,887
International rights and warrants	N/A					14
Lehman Brothers	N/A					12
Private equity holdings	N/A					90,873
						714,988
Total[2]						$ 1,017,251

[1] Within investments rated AA are $9,184 in U.S. Treasury obligations, $206 in U.S. Treasury Strips, $1,244 in U.S. Treasury Inflation-Protected Securities (TIPS), and $10,030 in U.S. Agency securities invested in the Government National Mortgage Association (GNMA). These investments are explicitly guaranteed by the U.S. government.

[2] $1,101 in real estate investments are held outside Treasury. See separate schedule.

The credit rating for the investments at Treasury held within the proprietary funds, excluding the University System Fund, and using the segmented time distribution method at June 30, 2012 (dollars in thousands):

Reporting Fund	Investment Type	Credit Rating[2]	Investment Maturities (in years): Less than 1	1 to 5	6 to 10	More than 10 or none	Balance at June 30, 2012
Housing and Community Services[1]	U.S. Treasury obligations	AA	$ -	$ -	$ 434	$ 4,739	$ 5,173
	U.S. Federal agency debt	AA	-	-	-	11,415	11,415
			-	-	434	16,154	16,588
Veterans' Loan	U.S. Federal agency debt	A	5,020	-	-	-	5,020
	Corporate bonds	AA	7,006	-	-	-	7,006
		A	9,506	-	-	-	9,506
			16,512	-	-	-	16,512
			21,532	-	-	-	21,532
Lottery Operations	U.S. Treasury strips	AA	7,006	27,227	30,044	40,287	104,564
	U.S. Federal agency debt	Not rated	5,692	14,102	3,777	1,331	24,902
			12,698	41,329	33,821	41,618	129,466
Central Services	US Treasury obligations	AA	-	-	5,841	-	5,841
			-	-	5,841	-	5,841
	US Federal agency debt	AA	4,601	-	5,762	-	10,363
		A	1,004	-	-	-	1,004
		Not rated	-	-	-	3,993	3,993
			5,605	-	5,762	3,993	15,360
	Corporate bonds	AAA	-	2,179	-	-	2,179
		AA	11,610	1,585	1,586	-	14,781
		A	7,858	5,468	-	-	13,326
		BBB	2,961	4,838	-	-	7,799
			22,429	14,070	1,586	-	38,085
	International debt securities	AAA	-	-	2,643	-	2,643
		AA	2,152	10,192	-	-	12,344
		A	-	1,639	-	-	1,639
			2,152	11,831	2,643	-	16,626
			30,186	25,901	15,832	3,993	75,912
Total			$ 64,416	$ 67,230	$ 50,087	$ 61,765	$ 243,498

[1] $249,640 in investments are held outside of Treasury. See separate schedule.

[2] Within investments rated AA are $5,173 in U.S. Treasury obligations and $104,564 in U.S. Treasury strips, which are explicitly guaranteed by the U.S. government.

The credit rating and average effective duration for the University System Fund's investments held at Treasury at June 30, 2012 (dollars in thousands):

Investment Type	Credit Rating[1]	Balance at June 30, 2012	Average Effective Duration
U.S. Treasury securities	AA	$ 11,606	7.38
		11,606	
U.S. Agency securities	AA	28,495	
	A	3,407	
	Not rated	31,438	
		63,340	3.82
Corporate bonds	AA	15,443	
	A	38,002	
	BBB	11,878	
		65,323	3.78
Municipal bonds	AAA	5,506	
	AA	3,828	
	Not rated	2,542	
		11,876	2.96
Mutual funds - Domestic fixed income	AAA	18,950	
	AA	26,287	
	A	33,078	
	BBB	43,378	
	Below BBB	367	
	Not rated	4,006	
		126,066	3.17
International debt securities	AAA	2,632	
	AA	11,725	
	A	7,270	
		21,627	5.08
Asset backed securities	AAA	7,727	2.34
Collateralized mortgage obligations	AAA	8,163	4.51
Money market fund	N/A	1,386	0.50
Equity investments	N/A	32,137	N/A
Real estate and real estate mortgages	N/A	1,901	N/A
Alternative equities	N/A	8,128	N/A
Less: University System amounts recorded as cash		(1,386)	
Total		$ 357,894	

[1] Within investments rated AA are $11,606 in U.S. Treasury obligations, and within investments rated AA are $4,837 in U.S. Agency securities invested in the Government National Mortgage Association (GNMA). These investments are explicitly guaranteed by the U.S. government.

Investments Held Outside of the Treasury

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.

The credit rating and segmented time distribution for investments held outside Treasury as of June 30, 2012 (in thousands):

Reporting Fund	Investment Type	Credit Rating[3]	Investment Maturities (in years): Less than 1	1 to 5	6 to 10	More than 10 or none	Balance at June 30, 2012
Common School	U.S. Treasury strips[1]	AA	$ -	$ 2	$ 4	$ -	$ 6
	U.S. Federal agency strips[1]	AA	6	-	-	-	6
	Municipal bonds[1]		20	10	4	1	35
	Domestic mutual funds - debt[1]	Not rated	1,983	-	-	-	1,983
	Corporate bonds[1]	A	-	-	-	3	3
		BBB	-	-	-	9	9
		BB	-	-	-	5	5
		CCC	-	2	-	-	2
			-	2	-	17	19
			2,009	14	8	18	2,049
Revenue Bond	GICs[4]	N/A	-	60,110	-	2,524	62,634
			-	60,110	-	2,524	62,634
Housing and Community Services	U.S. Treasury obligations	AA	18,480	-	1,752	98	20,330
	U.S. Federal agency debt	AAA	37,646	5,351	5,131	47,577	95,705
		P-1	65,762	-	-	-	65,762
		Not rated	29,000	1,798	-	-	30,798
			150,888	7,149	6,883	47,675	212,595
	Municipal bonds	AAA	-	-	-	13,600	13,600
		AA	-	-	-	23,445	23,445
			-	-	-	37,045	37,045
			150,888	7,149	6,883	84,720	249,640
Consumer Protection	U.S. Treasury obligations[1]	AA	550	-	-	-	550
			550	-	-	-	550
Private Purpose Trust	U.S. Treasury obligations	AA	-	168	1	15	184
	Domestic mutual funds - debt	N/A	7	-	-	272	279
	Annuity contracts	N/A	-	-	-	298	298
			7	168	1	585	761
Agency	U.S. Treasury obligations[2]	AA	33,256	27,137	-	-	60,393
	Municipal bonds[2]	A1	-	636	-	-	636
		AA3	-	-	-	111	111
	Time certificates of deposit[2]	Not rated	113	-	-	-	113
			33,369	27,773	-	111	61,253
			$ 186,823	$ 95,214	$ 6,892	$ 87,958	376,887
Common School	Real estate[1]	N/A					1,186
	Domestic equity securities[1]	N/A					4,995
Private Purpose Trust	Domestic equity securities	N/A					101
Total							$ 383,169

[1] Some investments (along with certain cash deposits) are reported as part of custodial assets on the balance sheet.

[2] Some investments (along with certain cash deposits) are reported as receivership assets on the statement of fiduciary net assets.

[3] Within investments rated AA are $81,457 in U.S. Treasury obligations and $6 in U.S. Treasury strips. These securities are explicitly guaranteed by the U.S. government.

[4] Guaranteed investment contracts.

Investments of the Oregon Short-Term Fund (OSTF)

The OSTF is an external investment pool open to state agencies and local governments. Because the OSTF acts as a demand deposit account, both the cash and investments within the OSTF are shown as cash and cash equivalents on the balance sheet and statement of net assets. The external portion of the OSTF is reported within the Investment Trust Fund. The OSTF staff manages interest rate risk by limiting the maturity of the investments. The portfolio rules require that at least 50 percent of the portfolio mature within 93 days; not more than 25 percent of the portfolio may mature in over a year; and no investments may mature over three years from settlement date. For variable rate securities, the next interest rate reset date is used instead of the maturity date. For variable rate securities in a fixed rate period that will switch to variable rate at a later date, the maturity is based on the final maturity of the security, not the next variable reset date.

Interest rate risk for the OSTF investments as of June 30, 2012 (in thousands):

	Investment Maturities (in years)			
Investment Type	**Up to 93 Days**	**94 Days to One Year**	**One to Three Years**	**Balance at June 30, 2012[1]**
U.S. Treasury and agency securities	$ 2,156,273	$ 713,345	$ 847,041	$ 3,716,659
Commercial paper	233,006	61,796	-	294,802
Time certificates of deposit	81,100	-	-	81,100
Corporate notes	2,962,336	374,127	897,974	4,234,437
Non-US government debt	-	-	82,466	82,466
Municipal bonds	107,265	-	7,568	114,833
Temporary liquidity guarantee	135,752	375,937	-	511,689
Total	$ 5,675,732	$ 1,525,205	$ 1,835,049	$ 9,035,986

[1] Balance at June 30, 2012, is a combination of amortized cost and fair value.

OSTF policies provide for a minimum composite weighted average credit quality rating for the fund’s holdings to be the equivalent of an AA Standard and Poor’s (S&P) rating. The current minimums for corporate notes are an S&P rating of A-, Moody’s of A3, or Fitch of A-. Commercial paper is required to have a minimum short-term credit rating at the time of purchase from two of three ratings services with current minimum ratings from S&P of A-1, Moody’s of P-1, and Fitch of F-1. Foreign government securities are required to have minimum credit ratings from S&P of AA-, Moody’s of Aa3, or Fitch of AA-. Occasionally, securities are downgraded, but OSTF policies allow them to be retained at the Senior Investment Officer’s discretion. Rating groups were determined using the lowest actual rating from S&P, Moody’s, or Fitch.

Credit risk schedule for the OSTF investments as of June 30, 2012 (in thousands):

Investment Type	AA[1]	A	BBB[2]	N/A[3]	Balance at June 30, 2012
U.S. Treasury and Agency securities	$ 1,410,773	$ 322,182	$ -	$ 1,983,704	$ 3,716,659
Commercial paper	9,994	284,808	-	-	294,802
Corporate notes	1,125,134	2,421,533	637,718	50,052	4,234,437
Non-US government debt	82,466	-	-	-	82,466
Municipal bonds	109,801	5,032	-	-	114,833
Temporary liquidity guarantee	511,689	-	-	-	511,689
Total	$ 3,249,857	$ 3,033,555	$ 637,718	$ 2,033,756	8,954,886
Time certificates of deposit[4]					81,100
Total investments					$ 9,035,986

[1] Within investments rated AA are $100,000 in U.S. Treasury securities and $511,689 in temporary liquidity guarantee program, which are explicitly guaranteed by the U.S. government.

[2] Securities rated BBB in this table continue to meet the investment quality rules of the OSTF because they have at least one rating of S&P A-, Moody's A3 or Fitch A-.

[3] The $50 million of corporate notes had only estimated ratings as of June 30. Shortly after that date, the securities received an S&P rating of AA+, meeting fund rules.

[4] TCDs are considered deposits for purposes of credit quality and are fully covered by FDIC and state PFCP programs.

Interest Rate Sensitive Investments

As of June 30, 2012, the primary government held approximately $52.8 million in step-coupon debt investments. The interest rate of these securities adjusts on a pre-determined schedule at pre-determined increments. Because these adjustments are not correlated with any current indices or rates, the value of the securities may change significantly in a period of interest rate volatility. The primary government also held approximately $97.1 million in debt instruments backed by pooled mortgages, to-be-announced federal agency-issued mortgage pools, collateralized mortgage obligations, or fixed-rate mortgages. These securities represent a stream of principal and interest payments from underlying mortgages. Assets with these characteristics are susceptible to prepayment by the mortgage holders, which may result in a decrease in total interest realized. The value of these securities can be volatile as interest rates fluctuate. Additionally, the risk of default exists and collateral held may potentially be insufficient to cover the principal due. In addition, the primary government held approximately $12.6 million of asset-backed securities collateralized primarily by automobile, equipment lease, and student loan receivables.

Concentration of Credit Risk

Investment policies 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, 2012, there were three issuers that exceeded 5 percent of the primary government's holdings (excluding the OPERF): $1.4 billion (11.9 percent) in Federal National Mortgage Association (FNMA); $1.3 billion (11 percent) in Federal Home Loan Bank (FHLB); and $909.5 million (7.9 percent) in Federal Home Loan Mortgage Corporation (FHLMC).

The Oregon Housing and Community Services Department also carried concentration of credit risk with 33.2 percent of the department's total investments in FNMA, 19.4 percent in FHLB, 10.9 percent in Federal Agriculture Mortgage Corporation securities, 6.2 percent in Federal Farm Credit Bank securities, 6.1 percent in FHLMC and 5.8 percent in Wyoming Community Development Authority municipal bonds.

Total investments for the Oregon Department of Veterans' Affairs included 32.5 percent in Goldman Sachs, 32.5 percent in Westpac Banking Corp, 23.3 percent in FNMA, and 11.6 percent in General Electric Capital Corporation.

The Oregon State Lottery's investments included 19.2 percent in the Resolution Funding Corporation (RFC), a U.S. government agency. The U.S. government does not explicitly guarantee these investments. However, interest payments are backed by the U.S. government, and the principal is protected by the purchase of zero-coupon bonds with an equivalent face value.

The investments of the Oregon University System included 7.5 percent in FHLMC.

Within the major governmental funds, the Public Transportation Fund's investments included 10.7 percent in General Electric Capital Corporation, 9.5 percent in Wells Fargo & Company, 9.2 percent in Westpac Banking Corporation, 9.1 percent in UBS AG Stamford, 9.1 percent in FNMA, 6.4 percent in Goldman Sachs, and 6.2 percent in National Retail Properties. The aggregated nonmajor governmental funds' total investments included 12.2 percent in FNMA, and 7 percent in FHLMC. These funds also held nonparticipating guaranteed investment contracts with the following concentrations: 11 percent in the Security Life of Denver Insurance Company, 9.6 percent in American International Group, and 6.3 percent in Bank of America.

The Central Services Fund held 12.6 percent of its investments in FNMA, 9.9 percent in General Electric Company, 7.6 percent in FHLMC, and 6.7 percent in Province of Ontario bonds.

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 moneys 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 policies for fixed income investments under the management of the Treasurer generally prohibit investments in non-dollar denominated securities. The Common School Fund and the Oregon University System Pooled Endowment Fund are allowed to invest in international equity securities within a target allocation range of 25 to 35 percent of their respective portfolios. For investments not under the management of the Treasurer, there are no formal policies on foreign currency risk.

Deposits and investments exposed to foreign currency risk for the primary government (excluding the OPERF) as of June 30, 2012 (in thousands):

	Deposits and Investments (U.S. Dollars)				
Foreign Currency Denomination	**Deposits**	**International Equity Securities**	**International Debt Securities**	**Real Estate Investment Trust**	**Total**
Australian dollar	$ 97	$ 15,139	$ -	$ -	$ 15,236
British sterling pound	64	32,088	-	-	32,152
Canadian dollar	69	12,316	-	-	12,385
Swiss franc	67	11,774	-	-	11,841
Danish krone	2	5,792	-	-	5,794
Euro	92	57,938	-	17	58,047
Hong Kong dollar	38	3,509	-	10	3,557
Israel new shekel	4	425	-	-	429
Japanese yen	526	35,190	-	-	35,716
Mexican peso	79	-	1,616	-	1,695
Norwegian krone	55	1,707	-	-	1,762
New Zealand dollar	17	615	-	-	632
Singapore dollar	45	1,191	-	-	1,236
Swedish krona	14	5,970	-	-	5,984
Total	$ 1,169	$ 183,654	$ 1,616	$ 27	$ 186,466

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

The Council establishes policies for the investment of moneys in the OPERF. Policies are based on the primary investment class of each investment manager and do not reflect the classifications of individual holdings as presented in the financial statements. Contracts with individual investment managers provide additional guidelines that vary from manager to manager.

Investments in the OPERF as of June 30, 2012 (in thousands):

Investment Type	Fair Value
Repurchase agreements	$ 12,457
U.S. Treasury securities	1,306,238
U.S. Treasury strips	4,312
U.S. Treasury TIPS	66,629
U.S. Agency securities	271,696
U.S. Agency mortgages	2,025,627
U.S. Agency strips	68,875
International debt securities	2,261,726
Corporate bonds	3,192,669
Bank loans	1,758,832
Temporary Liquidity Guarantee Program (TLGP)	6,718
Municipal bonds	105,359
Collateralized mortgage obligations	1,054,012
Asset-backed securities	502,743
Mutual funds - domestic fixed income	1,523,286
Mutual funds - international fixed income	480,810
Total debt securities	14,641,989
Derivatives	53,607
Domestic equity securities	7,045,171
International equity securities	8,660,293
Mutual funds - domestic equity	1,946,540
Mutual funds - global equity	755,731
Mutual funds - international equity	2,161,639
Mutual funds - target date	293,817
Oregon Savings Growth Plan - self directed	2,184
Limited partnerships and leveraged buyouts	14,544,003
Real estate and real estate investment trusts	6,760,574
Alternative equity	410,251
Opportunity portfolio	933,878
Total investments	$ 58,209,677

Interest Rate Risk

Interest rate risk is managed within the OPERF using the effective duration methodology. Investment policies require that the fixed income manager positions will maintain a weighted average effective duration within plus or minus 20 percent of the benchmark’s effective duration. There is no policy restriction for non-fixed income investment managers who may hold fixed income positions. As of June 30, 2012, the weighted average duration of the fixed income portfolio was 4.05 years and no individual fixed income investment manager portfolios were outside the policy guidelines.

At June 30, 2012, the OPERF held approximately $2.5 billion in debt instruments backed by pooled mortgages, collateralized mortgage obligations, or fixed-rate mortgages. These securities represent a stream of principal and interest payments from underlying mortgages. Assets with these characteristics are susceptible to prepayment by the mortgage holders, which may result in a decrease in total interest realized.

The value of these securities can be volatile as interest rates fluctuate. Additionally, the risk of default exists and collateral held may potentially be insufficient to cover the principal due. The OPERF also held approximately $690.9 million in to-be-announced federal agency-issued mortgage pools. An additional $767.5 million of debt instruments are asset-backed securities backed primarily by automobile, equipment lease, and student loan receivables.

Debt investments of the OPERF as of June 30, 2012 (in thousands):

Investment Type	**Balance at June 30, 2012**	**Weighted Average Duration**
U.S. Treasury securities	$ 1,288,241	8.92
U.S. Treasury strips	4,312	5.42
U.S. Treasury TIPS	66,629	6.38
U.S. Agency securities	271,696	6.07
U.S. Agency mortgages	1,985,081	3.24
U.S. Agency strips	68,875	7.51
International debt securities	2,181,281	4.82
Corporate bonds	3,165,388	4.93
Bank loans	1,756,910	0.28
Temporary Liquidity Guarantee Program (TLGP)	6,718	0.15
Municipal bonds	105,219	8.93
Collateralized mortgage obligations	985,069	2.82
Asset-backed securities	454,916	1.37
Mutual funds - domestic fixed income	1,266,586	2.16
Mutual funds - domestic fixed income (OSGP)	98,411	4.68
Mutual funds - international fixed income	480,810	6.13
Mutual funds - stable value	158,289	2.77
No effective duration:		
U.S. Treasury securities	17,997	
U.S. Agency mortgages	40,546	
International debt securities	80,445	
Corporate bonds	27,281	
Bank loans	1,922	
Municipal bonds	140	
Collateralized mortgage obligations	68,943	
Asset-backed securities	47,826	
Repurchase agreements	12,457	
Total debt securities	14,641,988	
Cash equivalent - U.S. government short-term funds	62,849	39 days[1]
Total subject to interest rate risk	$ 14,704,837	

[1] Weighted average maturity

Credit Risk

Investment policy requires that no more than 35 percent of the fixed income manager positions be below investment grade. Securities with a quality rating below BBB- (S&P) are considered below investment grade. There is no policy restriction on other investment managers who may hold debt securities. As of June 30, 2012, the fair value of below grade investments, excluding unrated securities, is $2.2 billion, or 26.6 percent, of total securities subject to credit risk, and the weighted quality rating average is A. Overall credit quality deteriorated due to downgrades in both corporate bonds and U.S. government securities. Unrated securities include $2 billion in mutual funds, $1.8 billion in bank loans, and $980.9 million in other debt securities.

Credit ratings for debt securities within the OPERF as of June 30, 2012 (in thousands):

Credit Rating	Balance at June 30, 2012
AAA	$ 759,239
AA	2,036,799
A	886,646
BBB	2,202,902
BB	759,251
B	819,923
CCC	526,968
CC	87,604
C	2,881
D	46,899
Not rated	4,743,831
Total subject to credit risk	12,872,943
U.S. government guaranteed securities	1,769,045
Total	$ 14,641,988

Concentrations of Credit Risk

The Council's investment policy pertaining to OPERF investments requires that investment managers maintain diversified portfolios. There is no limit on single issuer investments for domestic, global, and international equity fund managers. Policy requires that the asset classes be diversified across their respective markets. Additionally, both passive and active investing strategies are employed, and several external managers engage in active management. Policy provides the following limitations for fixed income investment manager positions:

- 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 must be credit-independent of the issuer and the security's credit enhancement 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, 2012, no single issuer debt investments exceeded the above guidelines, nor were there investments in any one issuer that represented 5 percent or more of total investments.

Foreign Currency Risk

Foreign currency and security risk of loss arises from changes in currency exchange rates. Foreign currency risk within the OPERF is controlled via contractual agreements with the investment managers. Investment policies require that no more than 15 percent of the fixed income manager positions may be invested in non-dollar denominated securities. Policies for the non-fixed portion of the OPERF are silent regarding this risk. As of June 30, 2012, approximately 3 percent of the debt investment portfolio was invested in non-dollar denominated securities.

The OPERF's exposure to foreign currency risk as of June 30, 2012 (in thousands):

	Deposits and Investments (U.S. Dollars)					
Foreign Currency Denomination	**Cash and Cash Equivalents**	**Debt Securities**	**Public Equity**	**Real Estate**	**Private Equity**	**Total**
Argentine peso	$ 74	$ -	$ -	$ -	$ -	$ 74
Australian dollar	1,108	82,299	372,150	74,509	-	530,066
Brazilian real	2,133	22,976	207,682	1,489	-	234,280
British sterling pound	7,563	93,361	1,260,823	60,762	-	1,422,509
Canadian dollar	584	23,115	415,208	16,962	-	455,869
Chilean peso	16	-	6,439	-	-	6,455
Chinese yuan	64	-	-	-	-	64
Colombian peso	-	1,256	7,411	-	-	8,667
Czech koruna	193	-	4,679	-	-	4,872
Danish krone	526	22	95,495	-	-	96,043
Dominican Republic peso	-	1,153	-	-	-	1,153
Egyptian pound	157	-	14,029	-	-	14,186
Euro	44,018	134,662	1,712,011	51,204	380,295	2,322,190
Hong Kong dollar	2,341	-	397,374	94,914	-	494,629
Hungarian forint	4	-	10,501	-	-	10,505
Indian rupee	310	-	66,428	-	-	66,738
Indonesian rupiah	409	-	82,538	-	-	82,947
Israeli shekel	74	-	10,203	-	-	10,277
Japanese yen	17,849	21,804	1,472,877	63,762	-	1,576,292
Malaysian ringgit	190	-	33,205	-	-	33,395
Mexican peso	2,062	52,751	52,860	-	-	107,673
New Zealand dollar	117	-	11,876	-	-	11,993
Nigerian naira	-	-	548	-	-	548
Norwegian krone	548	-	39,798	534	-	40,880
Pakistani rupee	66	-	1,732	-	-	1,798
Peruvian sol	-	100	967	-	-	1,067
Philippine peso	7	-	15,533	-	-	15,540
Polish zloty	35	-	23,436	-	-	23,471
Qatar riyal	-	-	2,574	-	-	2,574
Singapore dollar	255	-	86,914	22,988	-	110,157
South African rand	235	-	190,978	-	-	191,213
South Korean won	1,022	-	300,273	-	-	301,295
Swedish krona	98	-	148,452	5,514	-	154,064
Swiss franc	913	-	368,437	6,409	-	375,759
Taiwanese dollar	1,804	-	117,173	-	-	118,977
Thai baht	832	-	103,042	1,484	-	105,358
Turkish lira	261	1,281	62,675	307	-	64,524
Venezuelan fuerte	6	-	-	-	-	6
Total	$ 85,874	$ 434,780	$ 7,696,321	$ 400,838	$ 380,295	$ 8,998,108

D. Investments – Discretely Presented Component Units

SAIF Corporation (SAIF)

SAIF's investment policies are governed by statute and the Oregon Investment Council (Council). The State Treasurer (Treasurer) is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. In accordance with ORS 293.726, the investment funds are to be invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill, and caution. While the Treasurer is authorized to use demand deposit accounts and fixed income investments, equity investment transactions must be directed by external investment managers that are under contract with the Council. Equity investments are limited to not more than 50 percent of the moneys contributed to the Industrial Accident Fund (SAIF Corporation). However, SAIF's adopted investment policy as approved by the Council limits equity holdings to a range of 7 to 13 percent of the market value of invested assets with a target allocation of 10 percent.

Bond, mortgage-backed, asset-backed, and equity security transactions are recorded on a trade-date basis, generally three business days prior to the settlement date. However, the number of days between trade and settlement dates for mortgage-backed securities can be up to 30 days or longer, depending on the security.

Interest Rate Risk: SAIF's policy for fixed income investments effective January 27, 2010, 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, 2011, was 5.16 years, with an acceptable range of 4.13 to 6.19 years. As of that date, the fixed income portfolio's duration was 5.16 years.

The following 2011 maturity distribution schedule includes $1.1 billion in interest-rate sensitive securities. As of December 31, 2011, SAIF held $566.1 million of U.S. federal agency mortgage-backed securities and $229.1 million of collateralized mortgage obligations. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. As of December 31, 2011, SAIF held $308.8 million of asset-backed securities, which consisted primarily of utility, student loan, and equipment lease receivables. The value of these securities can be volatile as interest rates fluctuate. Additional risk inherent with these securities is the unpredictability of default on loans that are the collateral for the debt.

The following schedule presents SAIF's investments by maturity date as of December 31, 2011, using the segmented time distribution method (in thousands):

	Investment Maturities (in years)				
Investment Type	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10 or none**	**Balance at December 31, 2011**
U.S. Treasury securities	$ 19,995	$ 61,202	$ 98,366	$ -	$ 179,563
U.S. Agency securities	-	8,618	3,563	1,699	13,880
U.S. Agency mortgages	105,428	214,722	119,295	126,684	566,129
Corporate bonds	67,716	521,282	712,262	592,828	1,894,088
Municipal bonds	2,780	24,243	3,242	96,277	126,542
Collateralized mortgage obligations	25,843	125,456	25,282	52,501	229,082
Asset-backed securities	73,577	139,271	45,264	50,733	308,845
International debt securities	2,972	146,206	145,287	91,803	386,268
BlackRock MSCI ACWI IMI index fund	-	-	-	378,850	378,850
Total	$ 298,311	$ 1,241,000	$ 1,152,561	$ 1,391,375	$ 4,083,247

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.

Credit Risk: SAIF's credit risk policy is to maintain a well-diversified investment portfolio. Fixed income holdings shall be the largest component of the portfolio. The policy seeks to maintain an overall fixed income portfolio quality of at least A or higher. The majority of SAIF's debt securities as of December 31, 2011, were rated by Moody's and Standard & Poor's, which are nationally recognized statistical rating organizations.

The following schedule represents the ratings of debt securities by investment type as of December 31, 2011, using the Standard & Poor's rating scale (in thousands):

Investment Type	AAA	AA[1]	A	BBB	BB	B or below	Not rated	Balance at December 31, 2011
U.S. Treasury securities	$ -	$ 179,563	$ -	$ -	$ -	$ -	$ -	$ 179,563
U.S. Agency securities	-	10,317	-	-	-	-	3,563	13,880
U.S. Agency mortgages	-	566,129	-	-	-	-	-	566,129
Corporate bonds	13,297	158,191	764,153	737,138	161,588	47,618	12,103	1,894,088
Municipal bonds	2,126	59,458	43,661	8,188	-	-	13,109	126,542
Collateralized mortgages	78,254	72,763	2,797	-	-	12,541	62,727	229,082
Asset-backed securities	141,696	80,410	2,803	-	-	439	83,497	308,845
International debt securities	8,156	30,968	134,081	181,417	16,048	11,293	4,305	386,268
Total	$ 243,529	$ 1,157,799	$ 947,495	$ 926,743	$ 177,636	$ 71,891	$ 179,304	$ 3,704,397

[1] Within investments rated AA are $179,563 in U.S. Treasury securities and $149,536 in U.S. Agency mortgages invested in GNMA. These securities are explicitly guaranteed by the U.S. government.

Oregon Health and Science University (OHSU)

OHSU held $70 million of asset-backed securities collateralized primarily by auto loans, credit card receivables, and collateralized mortgage obligations as of June 30, 2012. These securities are valued at their estimated fair values. The valuation of these securities is sensitive to principal prepayments, which may result from a decline in interest rates, and they are sensitive to an increase in average maturity, which may result from interest rate increases that lead to decreasing prepayments. These factors may increase the interest rate volatility of this component of OHSU's investment portfolio.

At June 30, 2012, OHSU had partnerships, alternative investments, real estate investments, and other investments. These investments may contain elements of both credit and market risk. Such risks may include limited liquidity, absence of regulatory oversight, dependence upon key individuals, and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Interest Rate Risk: OHSU investment policies vary based on the investment objectives of the portfolio. The operating and trustee-held portfolios seek to preserve principal with the intent of maximizing total return within appropriate risk parameters. Maturities of securities in these portfolios are based upon returns available at the time of investing while considering cash requirements of the organization.

The endowment portfolio, which is included in long-term investments, seeks to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. Foundation investment policies are set based on the investment objectives of the portfolio. Each portfolio has its own board-authorized asset allocation guideline. The current fund seeks to preserve principal and generate an above average rate of return. The current fund may invest in cash, cash equivalents, and fixed income securities, which have a maturity or average life of five years or less and the average weighted maturity of the portfolio shall not exceed three years.

The endowment fund seeks to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. The endowment fund may invest in cash and cash equivalents, fixed income securities, domestic and international equity securities, and other alternative investments. Fixed income securities held in this fund shall have a medium to long average duration (three to eight years).

The charitable gift annuity pool seeks to produce a relatively predictable and stable payout stream that will satisfy the funds distribution obligations while achieving long-term capital appreciation of the overall fund balance. The charitable gift annuity pool may invest in cash and cash equivalents, domestic and international equities, fixed income, and real estate. Charitable trusts are managed to produce a relatively predictable and stable payout stream that will satisfy the funds distribution obligations while achieving long-term capital appreciation of the overall fund balance. Charitable trust investment objectives and asset allocation guidelines are determined based on the individual circumstances of each trust account. Allowable investments include cash and cash equivalents, domestic and international equities, fixed income, and real estate.

As of June 30, 2012, OHSU had the following investments and maturities at fair value (in thousands):

		Investment Maturities (in years)				
Investment Type	**Credit Rating**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10 or none**	**Balance at June 30, 2012**
Cash and money market funds	N/A	$ 189,117	$ -	$ -	$ -	$ 189,117
U.S. Treasury securities	AA	37,386	111,553	24,904	4,465	178,308
U.S. Agency securities	AAA	30,882	38,360	715	-	69,957
Domestic equity securities	N/A	-	-	-	50,351	50,351
International equity securities	N/A	-	-	-	121,631	121,631
International debt securities	AAA	1,376	658	546	1,779	4,359
	AA	-	1,120	641	148	1,909
	A	332	494	905	2,573	4,304
	BBB	-	-	798	-	798
	BB	-	681	66	-	747
	B	-	58	-	-	58
Commercial Paper	A-1+	22,673	-	-	-	22,673
	A-1	27,415	-	-	-	27,415
Corporate bonds	AA+	-	-	1,845	-	1,845
	AA	1,290	4,129	398	-	5,817
	AA-	1,215	-	-	-	1,215
	A+	-	317	-	-	317
	A	203	17,624	1,448	-	19,275
	A-	1,597	5,987	3,361	-	10,945
	BBB+	258	917	3,800	388	5,363
	BBB	1,950	32,731	3,019	-	37,700
	BBB-	-	1,558	804	-	2,362
International corporate bonds	AAA	3,651	8,124	-	-	11,775
	AA	6,430	17,077	-	-	23,507
	AA-	17,894	463	-	-	18,357
	A+	7,469	693	-	-	8,162
	A	2,502	15,709	-	-	18,211
	A-	-	-	1,300	-	1,300
	BBB+	-	-	1,190	-	1,190
	BBB	3,510	7,321	2,275	-	13,106
	BBB-	-	912	-	-	912
Interest receivable	Various	102	-	-	-	102
Asset-backed securities[1]	AAA	9,774	32,053	296	-	42,123
	AA+	409	25,256	860	436	26,961
	BBB+	-	901	-	-	901
Partnerships	N/A	-	-	-	58,759	58,759
Domestic mutual funds - debt	AAA	4,871	482	2,414	1,517	9,284
	AA	1,348	119	427	137	2,031
	A	2,573	137	361	342	3,413
	BBB	3,309	121	411	466	4,307
	BB	261	26	126	18	431
	B	19	15	78	11	123
	Below B	3	5	58	9	75
	Not rated	3	45	24	60	132
Municipal bonds	AAA	3,244	-	-	-	3,244
	AA	2,454	4,217	-	-	6,671
	A	3,791	12,228	-	-	16,019
Domestic mutual funds - equity	N/A	-	-	-	14,295	14,295
Alternative investments	N/A	-	-	-	119,302	119,302
Real estate investments and other		-	-	-	31,021	31,021
Total		$ 389,311	$ 342,091	$ 53,070	$ 407,708	$ 1,192,180

[1] Includes $1,518 which is invested in GNMA. These securities are explicitly guaranteed by the U.S. government.

Credit Risk: The OHSU operating and trustee-held portfolios require the following minimum ratings or better from Moody's or Standard & Poor's at the date of purchase:

	Moody's	S&P
Bankers acceptances, commercial paper	A-1	P-1
CDs, deposit notes, Eurodollar CDs or Eurodollar time deposits	A	A-1/P-1
Yankee CDs	A-1	P-1
Corporate debt, foreign government, and supranational debt	Baa3	BBB-
Insurance company annuity contracts, GICs, mortgage pass-through securities, structured securities including asset-backed securities	Aaa	AAA
Pooled investments	Aa	AA

The endowment portfolio requires a weighted average credit rating for 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. Issues of state or municipal agencies are prohibited, except under unusual circumstances. The endowment portfolio 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 Standard & Poor's) fixed income securities.

The charitable gift annuity and charitable trust investments require a minimum credit quality rating in investment grade Baa/BBB bond investments and a minimum rating of A-1/P-1 for investments in commercial paper.

Concentration of Credit Risk: OHSU's operating and trustee-held portfolios limit investments in any one issue to a maximum of 10 percent, depending upon the investment type, except for issues of the U.S. Government or agencies of the U.S. Government, which may be held without limitation. The endowment and charitable gift annuity portfolios limit investments in any one issue to a maximum of 5 percent, except for issues of the U.S. Government or agencies of the U.S. Government, which may also be held without limitation. The charitable trusts place no limit on the amount that may be invested in any one issuer. As of June 30, 2012, OHSU had no investments in excess of the thresholds discussed above.

Foreign Currency Risk: OHSU's investment policies permit investments in international equities and other asset classes, which can include foreign currency exposure. The operating and trustee held portfolios allow investments in Eurodollar CDs. The endowment portfolio 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 portfolio to be invested in non-U.S. dollar denominated bonds. The investment policy for the charitable gift annuity portfolio allows for up to 10 percent of the portfolio to be invested in international equities. The charitable trust investments are permitted to include international equities and the amount of the investment is determined based on the individual circumstances of each trust account.

The fair value of OHSU foreign-denominated securities by currency type as of June 30, 2012 (in thousands):

Foreign Currency Denomination	Investments (U.S. Dollars)
Australian dollar	$ 70
Brazilian real	487
British sterling pound	6,172
Chilean Peso	558
Euro	3,307
Hungarian Forint	609
South Korean won	672
Malaysian ringgit	666
Mexican peso	1,503
New Zealand dollar	66
Polish zloty	875
South African rand	589
Swiss franc	1,548
Turkish lira	651
Total	$ 17,773

E. Repurchase Agreements

Investments in repurchase agreements made with cash collateral from securities lending transactions had the following fair values at June 30, 2012:

- $415 million, or 34.6 percent, of the Oregon Short-Term Investment Fund, the cash collateral pool for all agencies, excluding OPERF.
- $1.25 billion, or 51.3 percent, of the OPERF cash collateral pool.

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 pursuant to a form of loan agreement. Both the State and borrowers maintain the right to terminate all securities lending transactions on demand. There were no significant violations of the provisions of securities lending agreements during the year ended June 30, 2012.

During the year, State Street had the authority to loan short-term, fixed income, and equity securities and to receive as collateral U.S. dollar and foreign currency cash, U.S. government and agency securities, and foreign sovereign debt of Organization of Economic Cooperation and Development countries. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security, or 105 percent in the case of international equity or Canadian fixed income securities. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default, and the State did not impose any restrictions during the fiscal year on the amount of the loans the custodian made on its behalf. The State is fully indemnified against losses due to borrower default by its custodian. There were no losses during the year from the failure of borrowers to return loaned securities and no recoveries of amounts from prior losses.

State Street, as lending agent, has created a fund to reinvest cash collateral received on behalf of the OSTF and Oregon state agencies other than PERS. As permitted under the fund's Declaration of Trust (Declaration), participant purchases and redemptions are transacted at $1 per unit ("constant value") based on the amortized cost of the fund's investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the balance sheet and statement of net assets. The Declaration also provides that if a significant difference exists between the constant value and the market-based net asset value of investments made with the collateral, the agent may determine that a condition exists that would create inequitable results if redemptions were made at the constant value. In that case, the agent may direct that units be redeemed at fair value, engage in in-kind redemptions, or take other actions to avoid inequitable results for the fund participants, until the difference between the constant value and the fair value is deemed immaterial.

The fair value of investments held by the fund is based upon valuations provided by a recognized pricing service. These funds are not registered with the Securities and Exchange Commission, but the custodial agent is subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. Since the funds are accounted for at amortized cost, the fair value of the State's position in the funds is not the same as the value of the funds' shares. No income from the funds was assigned to any other funds.

The maturities of investments made with cash collateral did not generally match the maturities of the securities loaned. Since the securities loaned are callable on demand by either the lender or borrower, the life of the loans at June 30, 2012, is effectively one day. On June 30, 2012, the State had no credit risk exposure to borrowers because the amounts the State owes to borrowers exceed the amounts borrowers owe the State.

Securities lending balances on loan, collateral received, and investments of cash collateral as of June 30, 2012, of the primary government, including the OPERF (in thousands):

Investment Type	Cash and Securities Collateral Received	Securities on Loan at Fair Value	Investments of Cash Collateral at Fair Value
US Treasury and agency securities	$ 1,377,853	$ 1,344,133	$ 1,165,960
Domestic equity securities	1,079,881	1,080,583	1,048,707
International equity securities	1,097,118	1,073,361	572,540
Domestic fixed income securities	564,563	553,366	561,916
International fixed income securities	95,158	93,071	94,570
Total	$ 4,214,573	$ 4,144,514	$ 3,443,693

State Street, as lending agent, has also created a fund, solely owned by OPERF, to reinvest cash collateral received. OPERF bears the entire risk of loss and the reinvested cash collateral is stated at fair value in the Pension and Other Employee Benefit Trust Funds in the statement of fiduciary net assets.

The credit risk of OPERF securities lending invested cash collateral as of June 30, 2012 (in thousands):

Quality Rating	Fair Value
AAA	$ 109,616
AA[1]	919,892
A[1]	634,792
BBB	456,050
BB and B	8,640
Unrated	300,000
Total subject to credit risk	2,428,990
Allocation from the Oregon Short-Term Fund	16,904
Total securities lending invested cash collateral	$ 2,445,894

[1] Commercial paper ratings of A-1+/P-1 are categorized as AA; A-1/P-1 as A.

The interest rate risk of OPERF securities lending invested cash collateral as of June 30, 2012 (in thousands):

Security Type	Fair Value	Effective Weighted Duration Rate (in days)[1]
Asset backed securities	$ 248,777	33
Bank note	39,022	20
Certificates of deposit	50,978	81
Commercial paper	668,823	46
Corporate	125,471	49
U.S. Agency	49,996	65
Repurchase agreement	1,245,923	3
Total subject to interest rate risk	2,428,990	23
Allocation from the Oregon Short-Term Fund	16,904	
Total securities lending invested cash collateral	$ 2,445,894	

[1] Weighted average days to maturity or next reset date.

As of December 31, 2011, the fair values of securities on loan and collateral held for SAIF Corporation were $241 million and $246 million, respectively.

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, 2012, the primary government had restricted assets of $2 billion in deposits and $884.4 million in investments. The discretely presented component units had restricted assets of $1.8 billion in investments.

3. DERIVATIVES

Derivatives are financial instruments whose value is derived from underlying assets, reference rates, or indexes. A derivative generally takes the form of a contract in which two parties agree to make payments at some later date based on the value of the underlying assets, reference rates, or indexes. The main types of derivatives are futures, forwards, options, and swaps. The State uses derivative instruments as hedges against certain risks, for example, to counter increases in interest costs, and as investments. For investment derivatives, the Office of the State Treasurer (Treasury) policy allows, with some restrictions, for the use of derivative instruments in the prudent management of the State's investments. Certain external management firms are allowed, through contract, to invest in derivative instruments in order to carry out their investment management activities.

A. Hedging Derivatives - Primary Government (Excluding the Oregon Public Employees Retirement Fund)

<u>Housing and Community Services Department</u>

The Oregon Housing and Community Services Department (OHCSD) has entered into 14 separate pay-fixed, receive-variable interest rate swaps to hedge against changes in variable rate interest and to lower borrowing costs compared to fixed rate bonds. The notional amounts of the swaps match the principal amounts of the associated debt. The notional amounts totaled $305.4 million and the fair value of the swaps totaled negative $37.2 million as of June 30, 2012. During the fiscal year, the swap fair value declined by $11.8 million. The fair value balance, including any change during the fiscal year, is shown on the proprietary funds balance sheet and the government-wide statement of net assets under deferred outflows and derivative instrument liabilities. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. This methodology is believed to be consistent with accepted practice in the market for interest rate swaps.

The terms, fair values, counterparties, and credit ratings of OHCSD's outstanding swaps as of June 30, 2012 (in thousands):

Bond Series	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Term Date	Counterparty	S&P
Multifamily housing revenue bonds								
2004 B	$ 14,115	12/16/04	3.89%	64% of 1-mo LIBOR[1] + .27%	$ (1,375)	7/1/46	Merrill Lynch	A-
Mortgage revenue bonds								
2003 L	15,000	4/21/10	3.64%	64.7% of 3-mo LIBOR + .23%	(759)	7/1/34	Royal Bank of Canada	AA-
2004 C	15,000	1/24/06	4.03%	64% of 1-mo LIBOR + .29%	(847)	7/1/34	Morgan Stanley	A-
2004 I	15,000	1/24/06	4.01%	64% of 1-mo LIBOR + .29%	(1,085)	7/1/34	Morgan Stanley	A-
2004 L	15,000	5/27/10	3.43%	64.8% of 3-mo LIBOR + .22%	(1,095)	7/1/35	Royal Bank of Canada	AA-
2005 C	10,500	5/27/10	3.35%	64.8% of 3-mo LIBOR + .22%	(760)	7/1/35	Royal Bank of Canada	AA-
2006 C	20,000	2/28/06	4.18%	64% of 1-mo LIBOR + .29%	(2,462)	7/1/36	Morgan Stanley	A-
2006 F	20,000	7/18/06	4.43%	64% of 1-mo LIBOR + .29%	(2,763)	7/1/37	Bank of America	A
2006 G	16,105	7/18/06	3.83%	64% of 1-mo LIBOR + .19%	(2,329)	7/1/16	Merrill Lynch	A-
2007 E	30,000	7/31/07	4.39%	64% of 1-mo LIBOR + .29%	(4,946)	7/1/38	JP Morgan Chase	A+
2007 H	30,000	11/20/07	4.06%	64% of 1-mo LIBOR + .30%	(4,644)	7/1/38	Merrill Lynch	A-
2008 C	35,000	2/26/08	3.75%	64% of 1-mo LIBOR + .30%	(4,701)	7/1/38	Bank of America	A
2008 F	35,000	5/13/08	3.74%	64% of 1-mo LIBOR + .31%	(4,178)	7/1/39	Bank of America	A
2008 I	34,650	8/26/08	3.72%	64% of 1-mo LIBOR + .31%	(5,253)	7/1/37	Bank of America	A
Total	$ 305,370				$ (37,197)			

[1] London Interbank Offered Rate

The multifamily housing revenue bonds (MF) 2004 B swap has a call option where OHCSD has the right to "call" (cancel) the swap in whole or in part semiannually beginning on January 1, 2015. The mortgage revenue bonds (MRB) swaps include options giving OHCSD the right to call the swaps in whole or in part, depending on the exercise date, semiannually beginning on January 1, 2012 (2004 C), July 1, 2012 (2004 I), January 1, 2013 (2006 C), July 1, 2013 (2006 F and 2008 F), January 1, 2014 (2003 L), July 1, 2014 (2007 E), January 1, 2015 (2007 H and 2008 C), July 1, 2015 (2004 L and 2005 C), or January 1, 2016 (2008 I). These options provide flexibility to manage the prepayments of loans and the related bonds.

Basis risk is the risk that arises when variable interest rates on a derivative and the associated bond are based on different indexes. All variable interest rates on OHCSD's tax-exempt bonds are determined weekly by a remarketing agent. OHCSD is exposed to basis risk when the variable rates received, which are based on the one or three-month London Interbank Offered Rate (LIBOR) rates, do not offset the variable rates paid on the bonds. As of June 30, 2012, the one-month LIBOR was 0.25 percent and the three-month LIBOR rate was 0.46 percent. OHCSD's variable rates as of June 30, 2012, can be found in Note 9.

Termination risk is the risk of an unscheduled termination of a swap prior to its planned maturity. OHCSD or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the swap agreement. If any of the swaps are terminated, the associated variable rate bonds would no longer carry synthetic fixed interest rates and OHCSD would then be exposed to interest rate risk. In addition, if any of the swaps had a negative value at termination, OHCSD would be liable to the counterparty for a payment equal to the fair value of the swap.

Rollover risk is the risk that occurs when the swap termination date does not extend to the maturity date of the associated debt. OHCSD is exposed to rollover risk for the MRB 2006 G swap, which has a swap termination date of July 1, 2016. The associated bonds do not mature until 2028.

Debt service requirements of the variable rate debt and net swap payments of OHCSD, using interest rates as of June 30, 2012 (in thousands):

Year Ending June 30,	Principal	Interest	Interest Rate Swaps (Net)	Total
2013	$ 190	$ 1,027	$ 10,514	$ 11,731
2014	200	678	10,527	11,405
2015	205	678	10,520	11,403
2016	215	677	10,513	11,405
2017	220	676	10,222	11,118
2018-2022	3,415	3,367	49,579	56,361
2023-2027	20,620	3,242	48,022	71,884
2028-2032	112,885	2,574	39,848	155,307
2033-2037	130,435	1,174	17,957	149,566
2038-2042	33,840	175	2,185	36,200
2043-2047	3,145	27	280	3,452
Total	$ 305,370	$ 14,295	$ 210,167	$ 529,832

OHCSD's swaps, except for the MF 2004 B and the MRB 2007 E swaps, include provisions that require collateral to be posted if the rating on the senior bonds issued under the 1988 indenture (MRB) are not above either Baa1 (Moody's) or BBB+ (S&P). If the bonds are at or below these levels, collateral in the amount of the current swap fair value (rounded to the nearest $10 thousand) must be posted. The minimum transfer amount is $100 thousand or $0 if neither rating agency rates the bonds. The total fair value on June 30, 2012, of the swaps that include these provisions is negative $30.9 million. At June 30, 2012, the bonds subject to these provisions are rated Aa2 by Moody's; the bonds are not rated by S&P.

Department of Veterans' Affairs

The Department of Veterans' Affairs (DVA) has an interest rate swap in connection with a portion of its Loan Program General Obligation Veterans' Welfare Bonds, Series 84. The swap and underlying floating rate bonds together create synthetic fixed rate debt. During fiscal year 2012, DVA did not enter into, terminate, or have any maturities of derivatives. The fair value balance of the interest rate swap is reported on the proprietary funds balance sheet and the government-wide statement of net assets under deferred outflows and derivative instrument liabilities.

Changes to the fair value balance during the year ending June 30, 2012 (in thousands):

Description	Notional Amount	Fair Value June 30, 2011	Fair Value Increase/(Decrease)	Fair Value June 30, 2012
Series 84	$ 25,000	$ (1,809)	$ (1,238)	$ (3,047)

Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2012, is negative. The fair value of the interest rate swap is estimated using the zero-coupon method. This method calculates the future payments required by the swap by assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swap.

The terms and objectives of DVA outstanding derivative instruments as of June 30, 2012 (in thousands):

Type	Objective	Notional Amount	Effective Date	Termination Date	Fixed Rate Paid	Variable Rate Received	Fair Value
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Series 84 bonds, specifically related to changes in municipal tax-exempt interest rates	$25,000	3/1/2008	6/1/2040	3.67%	62.6% of 1-month LIBOR + .265%	$ (3,047)

The Series 84 swap was structured with an option that gives the DVA the right to cancel or terminate the swap at par on any payment date, in whole or in part, commencing June 1, 2017. This option enhances asset/liability matching and provides flexibility to adjust the outstanding notional amount of the swap over time.

Credit risk is the risk that a counterparty will not fulfill its obligations. The DVA interest rate swap is with Morgan Stanley Capital Services (counterparty), which is rated A- and Baa1 by S&P and Moody's, respectively. If the counterparty's credit rating falls below certain levels, the counterparty is required to post collateral to the lower of the following ratings (in thousands):

S & P Rating	Moody's Rating	Threshold	Minimum Transfer Amount[1]
AA- or higher	Aa3 or higher	Infinite	N/A
A+	A1	$ 10,000	$ 1,000
A	A2	5,000	1,000
A-	A3	2,500	1,000
BBB+ or below or not rated	Baa1 or below or not rated	-	100

[1] Minimum transfer amount shall be $0 if, and for as long as, neither Moody's nor S&P rate the long-term unsecured, unsubordinated debt securities of Morgan Stanley.

Since the fair value of the swap as of June 30, 2012, is negative, the counterparty is not required to post collateral. The State may require collateralization or other credit enhancements to secure any or all swap payment obligations where the Office of the State Treasurer determines such security is necessary to limit the credit risk or otherwise protect the interests of the State.

The DVA is exposed to interest rate risk on its pay-fixed, receive-variable interest rate swap. As the one-month LIBOR rate decreases, the net payment on the swap increases.

The DVA is exposed to basis risk because the variable rate bonds, which are hedged by the interest rate swap, are variable rate demand obligation (VRDO) bonds that are remarketed weekly. The DVA becomes exposed to basis risk because the variable rate payments received by the DVA are based on a rate other than the interest rate paid on the VRDO bonds. At June 30, 2012, the interest rate on the variable rate hedged debt is 0.17 percent, while the 62.6 percent of one-month LIBOR plus 0.265 percent is 0.41 percent.

The DVA or its counterparties may terminate the interest rate swap if the other party fails to perform under the terms of the contract thereby exposing the DVA to termination risk.

As interest rates fluctuate, 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 the DVA. Using interest rates as of June 30, 2012, the following table presents the debt service requirements of the variable rate debt (on the notional amount of the swap) and net swap payments (in thousands):

Year Ending June 30,	Principal	Interest	Interest Rate Swap (Net)	Total
2013	$ -	$ 42	$ 815	$ 857
2014	-	43	814	857
2015	-	43	814	857
2016	410	42	804	1,256
2017	445	42	790	1,277
2018-2022	2,720	195	3,700	6,615
2023-2027	3,735	168	3,170	7,073
2028-2032	5,140	131	2,442	7,713
2033-2037	7,080	80	1,439	8,599
2038-2040	5,470	16	231	5,717
Total	$ 25,000	$ 802	$ 15,019	$ 40,821

If the State's unsecured, unenhanced, general obligation debt rating reaches certain levels, the DVA is required to post collateral to the lower of the following ratings (in thousands):

S&P Rating	Moody's Rating	Threshold	Minimum Transfer Amount[1]
A- or higher	A3 or higher	Infinite	N/A
BBB+ or below	Baa1 or below	$ -	$ 100

[1] Minimum transfer amount shall be $0 if, and for so long as, neither Moody's nor S&P rate the applicable department's debt.

B. Investment Derivatives - Primary Government (Excluding the Oregon Public Employees Retirement Fund)

Oregon University System

Deposits in foreign currency run the risk of changing value due to fluctuations in foreign exchange rates. In the course of providing students and faculty opportunities for international studies and research abroad, the Oregon University System (OUS) has established foreign bank accounts in several countries. To mitigate foreign currency risk for these activities, OUS periodically enters into forward foreign currency contracts.

The terms of the OUS forward contracts outstanding at June 30, 2012 (in thousands):

Currency	Notional Amount	Principal Amount	Effective Date	Maturity Date	Contract Rate	Fair Value
Chinese Yuan Renminbi	$ 100	$ 16	5/1/2012	10/1/2012	$ 0.16	$ (1)
Euro	511	689	6/1/2012	1/31/2013	1.35	(51)
	42	57	5/1/2012	10/31/2012	1.36	(5)
	250	339	5/15/2012	8/15/2012	1.36	(27)
	250	342	5/1/2012	7/31/2012	1.37	(31)
	250	342	5/1/2012	7/31/2012	1.37	(31)
Japanese Yen	7,324	94	7/2/2012	4/15/2013	0.01	(2)
	2,376	31	2/20/2012	7/31/2012	0.01	(1)
Total	$ 11,103	$ 1,910				$ (149)

OUS has entered into foreign currency exchange contracts to offset the foreign currency risk associated with its investments in international debt and equity securities. A foreign currency exchange contract is a forward contract that is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Foreign currency forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. Risk associated with such contracts includes adverse changes in the value of the currency and the failure of the counterparty to perform.

The following schedule presents the OUS foreign currency exchange contracts as of June 30, 2012 (in thousands):

Description	Delivery Dates	Notional Value	Fair Market Value
Foreign currency exchange contracts purchased:			
Australian dollar	9/19/2012	$ 1,177	$ 1,220
British pound sterling	9/19/2012	1,386	1,398
Canadian dollar	9/19/2012	667	674
Danish krone	9/19/2012	52	53
Euro	9/19/2012	2,691	2,741
Hong Kong dollar	9/19/2012	440	440
Israeli shekel	9/19/2012	2	2
Japanese yen	9/19/2012	896	893
New Zealand dollar	9/19/2012	49	51
Norwegian krone	9/19/2012	189	192
Singapore dollar	9/19/2012	327	331
Swedish krona	9/19/2012	416	428
Swiss franc	9/19/2012	561	571
Total contracts purchased		8,853	8,994
Foreign currency exchange contracts sold:			
Australian dollar	9/19/2012	1,177	1,220
British pound sterling	9/19/2012	1,387	1,399
Danish krone	9/19/2012	52	53
Euro	9/19/2012	3,504	3,568
Hong Kong dollar	9/19/2012	331	331
Japanese yen	9/19/2012	896	893
New Zealand dollar	9/19/2012	84	87
Norwegian krone	9/19/2012	191	195
Singapore dollar	9/19/2012	207	210
Swedish krona	9/19/2012	415	427
Swiss franc	9/19/2012	560	570
Total contracts sold		8,804	8,953
Total foreign currency exchange contracts		$ 17,657	$ 17,947

The fair value of all derivatives held by OUS is reported as investments on the proprietary funds balance sheet. The change in fair value for all OUS derivatives is reported with investment income on the proprietary funds statement of revenues, expenses, and changes in fund net assets.

Common School Fund

In the Common School Fund (CSF) portfolio, forward currency exchange contracts may be used to gain exposure or hedge against the effects of fluctuations in foreign currency exchange rates. A foreign currency exchange contract is a forward contract that is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Foreign currency forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. Risk associated with such contracts includes movement in the value of foreign currencies and the failure of the counterparty to perform. The change in fair value for all of the CSF's foreign currency exchange contracts for the year ended June 30, 2012, was negative $53 thousand.

The foreign currency exchange contracts within the CSF as of June 30, 2012 (in thousands):

Description	Delivery Dates	Notional Value	Fair Market Value
Foreign currency exchange contracts purchased:			
Australian dollar	9/19/2012	$ 10	$ 11
British pound sterling	9/19/2012	2,629	2,652
Canadian dollar	9/19/2012	6,712	6,778
Hong Kong dollar	9/19/2012	2,604	2,605
Japanese yen	9/19/2012	3,205	3,187
New Zealand dollar	9/19/2012	12	12
Norwegian krone	9/19/2012	764	778
Singapore dollar	9/19/2012	1,339	1,358
Swedish krona	9/19/2012	443	450
Swiss franc	9/19/2012	6,629	6,748
Total contracts purchased		24,347	24,579
Foreign currency exchange contracts sold:			
Australian dollar	9/19/2012	900	879
British pound sterling	9/19/2012	2,630	2,607
Canadian dollar	9/19/2012	77	76
Euro	9/19/2012	8,552	8,406
Hong Kong dollar	9/19/2012	1,138	1,138
Japanese yen	9/19/2012	2,904	2,916
New Zealand dollar	9/19/2012	294	285
Norwegian krone	9/19/2012	764	750
Singapore dollar	9/19/2012	14	14
Swedish krona	9/19/2012	437	424
Swiss franc	9/19/2012	6,629	6,510
Total contracts sold		24,339	24,005
Total foreign currency exchange contracts		$ 48,686	$ 48,584

In the CSF portfolio, rights and warrants are often obtained and held due to existing investments. Rights are the right, but not the obligation, to purchase newly issued equity shares, often in proportion to the number of shares currently owned, in a specified company, at a pre-established price on or within a pre-determined date. A warrant provides the holder the right, but not the obligation, to purchase securities from the issuing entity at a specific price and within a certain period. Rights and warrants are privately transacted in over-the-counter markets. Both are subject to general market risk and liquidity risk. The change in fair value for the CSF’s rights and warrants for the year ended June 30, 2012, was $61.8 thousand. The fair value of rights and warrants within the CSF portfolio as of June 30, 2012 (in thousands):

Type	Expiration Date	Related Number of Shares	Fair Value
Rights	7/19/2012	17,140	$ 14

The fair value of all derivative instruments within the CSF are reported on the governmental funds balance sheet as investments, accounts and interest receivable, and accounts and interest payable. The change in fair value for all CSF derivative instruments is reported with investment income on the governmental funds statement of revenues, expenditures, and changes in fund balances.

C. Investment Derivatives - Primary Government - Oregon Public Employees Retirement Fund (OPERF)

Oregon Investment Council policy allows, with some restrictions, for the use of derivative instruments in the prudent management of the Public Employees Retirement System (PERS) investments. Certain internally and externally managed accounts are allowed, through contract and policy, to invest in derivative instruments in order to carry out their investment management activities. Risks inherent with derivatives are managed through investment management's adherence to contractual and policy prescribed terms that are consistent with the OPERF's investing objectives. All derivatives are considered investments. The fair value of the derivative investments is reported in equity investments, investment sales receivable, and accounts and interest payable on the statement of fiduciary net assets. Changes in fair value during the fiscal year are reported in the net appreciation (depreciation) in fair value of investments line on the statement of changes in fiduciary net assets. The fair values reported in the following PERS tables are not the same as amounts reported as investments in the financial statements because derivatives with net loss positions have been reclassified as liabilities.

Currency Forwards

A foreign currency exchange contract is a forward contract that is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Foreign currency forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. In the PERS portfolio, forward currency exchange contracts may be used to gain exposure or hedge against the effects of fluctuations in foreign currency exchange rates. Risk associated with such contracts includes movement in the value of foreign currencies and the ability of the counterparty to perform. The change in fair value arising from the difference between the original contracts and the closing of such contracts is $26.6 million for the fiscal year ended June 30, 2012.

Foreign currency forward contracts that represent purchase commitments within the PERS portfolio as of June 30, 2012 (in thousands):

Description	**Delivery Dates**	**Notional Value**	**Fair Value**
Australian dollar	8/14/2012 - 9/19/2012	$ 122,560	$ 3,074
Brazilian real	7/3/2012 - 9/5/2012	38,942	552
Canadian dollar	8/14/2012 - 9/20/2012	153,541	1,364
Chinese yuan	7/20/2012 - 9/8/2015	13,431	(395)
Columbian peso	9/19/2012	21	-
Danish krone	9/19/2012	2,532	32
Euro	7/3/2012 - 9/19/2012	313,707	4,272
Hong Kong dollar	7/3/2012 - 9/19/2012	45,277	12
Israeli shekel	9/19/2012	6,983	(13)
Japanese yen	8/14/2012 - 9/19/2012	191,053	(1,730)
Malaysian ringgit	9/19/2012	177	(1)
Mexican peso	7/26/2012 - 9/19/2012	23,751	1,000
New Zealand dollar	8/14/2012 - 9/19/2012	96,617	2,285
Norwegian krone	7/27/2012 - 9/19/2012	202,269	1,381
Philippine peso	10/31/2012	1,284	38
Pound sterling	7/3/2012 - 9/24/2012	271,590	1,258
Singapore dollar	8/3/2012 - 9/19/2012	44,856	498
South Korean won	7/12/2012 - 9/28/2012	2,797	(4)
Swedish krona	8/14/2012 - 9/19/2012	222,561	4,825
Swiss franc	9/19/2012	33,349	519
Thai baht	9/19/2012	351	(3)
Total		$ 1,787,649	$ 18,964

Foreign currency forward contracts that represent sell commitments within the PERS portfolio as of June 30, 2012 (in thousands):

Description	Delivery Dates	Notional Value	Fair Value
Australian dollar	7/18/2012 - 3/20/2013	$ 248,285	$ (4,189)
Brazilian real	7/3/2012 - 9/5/2012	59,085	(396)
Canadian dollar	7/18/2012 - 9/19/2012	107,821	(442)
Chinese yuan	7/20/2012 -10/15/2012	1,981	30
Colombian peso	9/19/2012	1,285	(2)
Danish krone	9/19/2012	5,967	(161)
Euro	7/3/2012 - 3/29/2013	694,896	1,984
Hong Kong dollar	9/19/2012	37,196	(12)
Israeli shekel	9/19/2012	238	2
Japanese yen	7/18/2012 - 9/19/2012	329,763	3,382
Mexican peso	7/26/2012 - 9/20/2012	26,066	(147)
New Zealand dollar	8/14/2012 - 9/19/2012	76,504	(4,713)
Norwegian krone	8/14/2012 - 9/19/2012	83,226	(2,013)
Peruvian nouveau sol	9/19/2012	97	-
Pound sterling	7/3/2012 - 11/29/2013	237,686	(808)
Singapore dollar	9/19/2012	22,199	(321)
South Korean won	7/12/2012 - 9/19/2012	1,563	(15)
Swedish krona	8/14/2012 - 9/19/2012	27,828	(841)
Swiss franc	8/14/2012 - 12/19/2012	129,260	(928)
Turkish lira	7/20/2012	1,284	(1)
Total		$ 2,092,230	$ (9,591)

<u>Futures and Forwards</u>

Futures and forward contracts represent commitments to buy or sell an underlying asset at a future date and at a specified price. Futures contracts have standardized terms and are exchange-traded. Forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. The counterparty credit risk for futures is generally less than privately negotiated forward contracts because the clearing house, which is the issuer of or counterparty to each exchange-traded futures contract, daily settles the net change in the futures contract's value in cash with the broker. In the PERS portfolio, futures and forward contracts may be used to gain exposure to or hedge against the effects of fluctuations in interest rates, currency exchange rates, equity indexes, and other market conditions. The OPERF bears the market risk that arises from changes in the value of these instruments and the imperfect correlation between movements in the price of the futures and forward contracts and movements in the price of the securities hedged or used for cover. The change in fair value resulting from futures contract settlements totaled $84.6 million for the fiscal year ended June 30, 2012. The change in fair value resulting from forward contract settlements totaled $3.4 million for the fiscal year ended June 30, 2012. The fair value of the futures contracts reported within the PERS portfolio is $0.

The balance of the fixed income futures contracts within the PERS portfolio as of June 30, 2012 (dollars in thousands):

Fixed Income Type	Expiration Date	Number of Contracts	Notional Value
Long cash and cash equivalents:			
90 day Euro	3/18/2013 - 3/16/2015	375	$ 93,245
Short cash and cash equivalents:			
90 day Euro	3/17/2014	361	(89,681)
Long fixed income:			
30 year U.S. Treasury bonds	9/19/2012	723	106,981
10 year U.S. Treasury notes	9/19/2012	907	120,971
5 year U.S. Treasury notes	9/28/2012	4,620	572,736
2 year U.S. Treasury notes	9/28/2012	2,158	475,165
Ultra long U.S. Treasury bonds	9/19/2012	960	160,170
UK long gilt bond	9/26/2012	153	28,583
Total long fixed income			1,464,606
Short fixed income:			
30 year U.S. Treasury bonds	9/19/2012	1,096	(162,174)
10 year Australian Treasury bonds	9/17/2012	247	(24,552)
10 year U.S. Treasury notes	9/19/2012	4,268	(569,245)
2 year U.S. Treasury notes	9/28/2012	311	(68,478)
Total short fixed income			(824,449)
Total fixed income futures contracts			$ 643,721

The balance of the index futures contracts within the PERS portfolio as of June 30, 2012 (dollars in thousands):

Index Type	Expiration Date	Number of Contracts	Notional Value
Long purchased indexes:			
AEX	7/20/2012	39	$ 3,041
ASX SPI 200	9/20/2012	92	9,565
CAC 40	7/20/2012	1,755	71,092
DAX	9/21/2012	174	35,394
DJ Euro STOXX 50	9/21/2012	423	12,105
FTSE 100	9/21/2012	1,184	102,565
FTSE MIB	9/21/2012	101	9,162
Hang Seng	7/30/2012	33	4,137
IBEX 35	7/20/2012	315	27,926
OMX 30	7/20/2012	630	9,390
Russell 1000 Mini	9/21/2012	751	56,152
Russell 2000 Mini	9/21/2012	1,831	145,638
S&P 500 E Mini	9/21/2012	2,661	180,469
S&P 500	9/20/2012	80	27,128
S&P Midcap 400 E Mini	9/21/2012	95	8,925
S&P TSE 60	9/20/2012	118	15,311
SGX MSCI Singapore	7/30/2012	38	1,992
Swiss Market	9/21/2012	507	32,455
TOPIX	9/14/2012	515	49,635
Total long purchased indexes			802,082
Short purchased indexes:			
AEX	7/20/2012	58	(4,523)
ASX SPI 200	9/20/2012	615	(63,939)
Hang Seng	7/30/2012	55	(6,895)
S&P 500 E MINI	9/21/2012	772	(52,357)
S&P TSE 60	9/20/2012	323	(41,911)
Total short purchased indexes			(169,625)
Total purchased indexes			$ 632,457

The balance of the forward contracts within the PERS portfolio as of June 30, 2012 (in thousands):

Type of Forward Contract	Expiration Date	Notional Value	Fair Value
Forward assets:			
U.S. Treasury notes	2/15/2022	$ 53,900	$ 55,637
U.S. Treasury strips	1/15/2022	16,018	16,967
Total forward assets		69,918	72,604
Forward liabilities:			
U.S. Treasury TIPS	1/15/2022	(67,500)	(71,499)
Total forward liabilities		(67,500)	(71,499)
Total forward contracts		$ 2,418	$ 1,105

<u>Swaps</u>

A swap is an agreement that obligates two parties to exchange a series of cash flows or the net value of cash flows at specified intervals based upon or calculated by reference to changes in specified prices or rates for a specified amount of an underlying asset. The OPERF may enter into various types of swaps, including credit default, interest rate, and total return swaps. The OPERF may use swaps to obtain efficient investment exposure or to hedge exposure to interest and currency rates and to movements in the debt and equity markets. The payment flows are usually netted against each other, with the difference being paid by one party or another. In addition, collateral may be pledged or received by the OPERF in accordance with the terms of the respective swap agreements to provide value and recourse to the OPERF or its counterparties.

Credit default swaps represent agreements between parties to exchange a fixed rate premium by the buyer of protection in exchange for a contingent payment by the seller of protection equal to the loss in value of an underlying debt instrument triggered by the occurrence of a defined credit event (such as bankruptcy, restructuring, failure to make payments when due, and repudiation/moratorium for sovereign underlying instruments). Under the terms of the swap, the protection seller acts as a “guarantor” receiving a periodic payment that is equal to a fixed percentage applied to a notional principal amount. In return, the seller of protection agrees to pay the notional amount of the underlying instrument, less its distressed value, if a credit event occurs during the term of the swap. Credit default swaps are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. In the PERS portfolio, credit default swap contracts may be used to gain exposure to or hedge against the effects of fluctuations in specific investments, bond markets, and other market conditions. Credit default swaps are subject to general market risk, liquidity risk, credit risk, and the risk that the counterparty fails to perform.

Interest rate swaps represent agreements between two parties to exchange cash flows or the net value of cash flows based on a notional amount and an underlying interest rate. Interest rate swaps are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. The OPERF may elect to pay a fixed rate and receive a floating rate, or, receive a fixed rate and pay a floating rate based on a notional amount and a reference rate. In the PERS portfolio, interest rate swap contracts may be used to gain exposure to or hedge against the effects of fluctuations in interest rates, bond markets, and other market conditions. Risk associated with such contracts includes liquidity risk, interest rate risk, and the risk that the counterparty fails to perform.

Total return swaps are agreements to exchange the return generated by one instrument for the return generated by another instrument. Total return swaps are privately negotiated contracts with customized terms that are transacted in over-the-counter markets. In the PERS portfolio, total return swap contracts may be used to gain exposure to or hedge against the effects of fluctuations in interest rates, bond markets, equity markets, and other market conditions. Total return swaps are subject to general market risk, liquidity risk, and the risk that the counterparty fails to perform.

The change in fair value of swap contracts within the PERS portfolio for the year ended June 30, 2012, was negative $17 million. The balances of the swap contracts as of June 30, 2012 (in thousands):

Description	PERS Receives	PERS Pays	Maturity date	Notional Value	Fair Value
Interest rate swaps -					
pay fixed liability	3 month LIBOR	0.99 - 4.28%	6/20/2016 -4/19/2041	$ 200,230	$ (5,908)
receive fixed asset	0.54% - 10.58%	See note[1]	1/2/2014 - 5/24/2042	135,580	3,957
receive fixed liability	0.54%	3 Month LIBOR	6/26/2014	156,400	(33)
Credit default swaps -					
pay fixed assets	CDP[2]	0.00 - 5.00%	9/20/2012 - 2/17/2052	357,257	23,727
pay fixed liabilities	CDP[2]	0.00 - 5.00%	9/20/2012 - 3/20/2019	91,605	(1,286)
receive fixed assets	0.25 - 4.42%	CDP[2]	9/20/2012 - 6/25/2036	21,966	720
receive fixed liabilities	0.08 - 5.00%	CDP[2]	9/20/2012 - 10/12/2052	294,646	(22,907)
Total equity return swaps	Equity position	3 month LIBOR	5/15/2012	121	9,914
Total swap contracts				$ 1,257,805	$ 8,184

[1] PERS pays/receives counterparty based on 1-month Mexican TIIE rate, 3-month CDOR, 3-month LIBOR, 12-month Brazilian CETIP interbank rate, 12-month BRDCI.

[2] Credit default protection. Represents the difference between the original price of the reference asset and the recovery amount should a credit default event occurs.

The counterparties' credit ratings for swaps contracts within the PERS portfolio as of June 30, 2012 (in thousands):

Counterparty Information	S&P	Moody's	Credit Default Swaps	Interest Rate Swaps	Total Return Swaps	Total
Bank of America Merrill Lynch	A-	Baa2	$ 449	$ -	$ 9,914	$ 10,363
Barclay's Bank	A+	A2	1,936	-	-	1,936
BNP PARIBAS S.A.	AA-	A2	(22)	-	-	(22)
Citibank	A	A3	(72)	-	-	(72)
Citigroup Global Markets	A-	Baa2	2,621	-	-	2,621
CME Group	AA-	NR	362	1,355	-	1,717
Credit Suisse	A+	A1	1,866	-	-	1,866
Deutsche Bank	A+	A2	(1,225)	35	-	(1,190)
Goldman Sachs	A-	A3	(1,928)	(3,399)	-	(5,327)
HBSC Bank	N/A	N/A	(4)	-	-	(4)
JP Morgan Chase	A	A2	(721)	(567)	-	(1,288)
Morgan Stanley	A-	Baa1	214	132	-	346
Royal Bank of Scotland	A	A3	64	-	-	64
UBS AG Stamford	A	A2	(3,286)	460	-	(2,826)
Total swaps subject to credit risk			$ 254	$ (1,984)	$ 9,914	$ 8,184

Options

An option is an instrument that gives one party the right, but not the obligation, to buy or sell an underlying asset from or to another party at a fixed price over a specified period of time. A European option is an option that can only be exercised on the expiration date. A call option gives the purchaser the option to buy (and the seller the obligation to sell) the underlying investment at the contracted exercise price. A put option gives the purchaser the option to sell (and the writer the obligation to buy) the underlying investment at the contracted exercise price. Options can be exchange-traded or private contracts between two or more parties. Exchange-traded options are cleared through and guaranteed by clearing houses. In the PERS portfolio, option and European option contracts may be bought or sold to gain exposure to or hedge against the effects of fluctuations in interest rates, currency exchange rates, bond markets, equity markets, and other market conditions.

In writing an option, the OPERF bears the market risk of an unfavorable change in the price of the underlying investment of the written option. Exercise of an option written by the OPERF could result in the OPERF selling or buying an asset at a price different from the current market value. The risk associated with purchasing an option is that the OPERF pays a premium whether or not the option is exercised. Options and European options may be subject to interest rate risk, general market risk, liquidity risk, credit risk, foreign currency risk and, for non-exchange-traded options, the risk that the counterparty's ability to perform. The change in fair value of option contracts within the PERS portfolio for the year ended June 30, 2012, was $800 thousand.

The balance of the option contracts within the PERS portfolio as of June 30, 2012 (dollars in thousands):

Description	Expiration Date	Contracts	Units	Fair Value
Fixed Income:				
Purchased calls				
FVA USD 3M30Y S ATM	9/19/2012 - 12/10/2012	2,200,000	2,200,000	$ 175
Total purchased calls			2,200,000	175
Written calls				
INF CAP USD CPURNSA	3/4/2015	1,800,000	(1,800,000)	(6)
IRO USD 2Y 1.0562MYC	10/11/2012	30,600,000	(30,600,000)	(292)
IRO USD 2Y 0.915 MYC	11/14/2012	8,800,000	(8,800,000)	(60)
IRO USD 5Y 1.4 C BRC	3/18/2013	25,000,000	(25,000,000)	(393)
IRO USD 5Y C 1.7000	3/18/2013	14,900,000	(14,900,000)	(410)
IRO USD 5Y C 1.7 CBK	3/18/2013	3,300,000	(3,300,000)	(91)
Total written calls			(84,400,000)	(1,252)
Written puts				
INF Floor USD CPURNS	3/4/2015	1,800,000	(1,800,000)	(6)
INF Floor USD CPURNSA	10/13/2020	800,000	(800,000)	(2)
IRO USD 2Y 1.0562 MYC	10/11/2012	30,600,000	(30,600,000)	(4)
IRO USD 2Y 0.915 MYC	11/14/2012	8,800,000	(8,800,000)	(3)
IRO USD 5Y 1.4 P BRC	3/18/2013	25,000,000	(25,000,000)	(156)
IRO USD 5Y P 1.7000	3/18/2013	14,900,000	(14,900,000)	(51)
IRO USD 5Y P 1.7 CBK	3/18/2013	3,300,000	(3,300,000)	(11)
Total written puts			(85,200,000)	(233)
Total fixed income			(167,400,000)	(1,310)
Option futures:				
Calls				
Written:				
10 year Treasury note	8/24/2012	294	(294,000)	(156)
Total calls written			(294,000)	(156)
Total option future calls			(294,000)	(156)
Puts				
Purchased:				
10 year Treasury note	7/27/2012	451	451,000	49
2 year Euro midcurve	9/14/2012 - 12/14/2012	1,252	3,130,000	113
3 year Euro midcurve	12/14/2012	1,448	3,620,000	185
Total puts purchased			7,201,000	347
Written:				
10 year Treasury note	7/27/2012 - 8/24/2012	446	(446,000)	(81)
2 year Euro midcurve	9/14/2012 - 12/14/2012	1,252	(3,130,000)	(42)
3 year Euro midcurve	12/14/2012	1,448	(3,620,000)	(136)
Total puts written			(7,196,000)	(259)
Total option future puts			5,000	88
Total option futures			(289,000)	(68)
Total option contracts			(167,689,000)	$ (1,378)

Swaptions

A swaption is an option to enter into an interest rate swap at an agreed upon fixed rate until or at some future date. Swaption contracts entered into by the OPERF typically represent an option that gives the purchaser the right, but not the obligation, to enter into a swap contract on a future date. If a call swaption is exercised, the purchaser will enter into a swap contract to receive the fixed rate and pay a floating rate in exchange.

Exercising a put swaption would entitle the purchaser to pay a fixed rate and receive a floating rate. Swaptions are privately negotiated contracts with customized terms and are transacted in the over-the-counter markets. In the PERS portfolio, swaption contracts may be bought or sold to gain exposure to or hedge against the effects of fluctuations in interest rates, bond markets, and other market conditions.

In writing a swaption, the OPERF bears the market risk of an unfavorable change in the price of the underlying investment of the written swaption. Exercise of a swaption written by the OPERF could result in the OPERF selling or buying an asset at a price different from the current market value. The risk associated with purchasing a swaption is that the OPERF pays a premium, whether or not the option to enter a swap is exercised. Swaptions may be subject to interest rate risk, liquidity risk, and the risk that the counterparty's ability to perform. The change in fair value of swaption contracts within the PERS portfolio for the year ended June 30, 2012, was negative $1.7 million. The balance of the swaption contracts as of June 30, 2012 (dollars in thousands):

Description	**Expiration Date**	**Contracts**	**Units**	**Fair Value**
Calls				
Purchased				
10-year RTR	12/17/2012 - 4/5/2013	110,700	110,700,000	$ 5,124
Total calls purchased			110,700,000	5,124
Written				
5-year RTR	5/8/2014 - 3/20/2017	103,500	(103,500,000)	(3,757)
30-year RTR	12/17/2012	21,100	(21,100,000)	(974)
Total calls written			(124,600,000)	(4,731)
Puts				
Purchased				
30-year RTP	5/2/2012 - 11/11/2013	76,600,000	76,600,000	340
30-year RTP	9/16/2013	17,000,000	17,000,000	72
10-year RTP	4/5/2013 - 3/16/2017	115,900,000	115,900,000	1,415
Pound sterling	12/15/2015	2,800,000	2,800,000	193
IRO Pound sterling	12/15/2015	6,300,000	6,300,000	435
Payer 0.92	9/19/2012 - 9/20/2012	4,920,000	4,920,000	70
Payer 0.93	7/18/2012 - 9/19/2012	31,860,000	31,860,000	89
Total puts purchased			255,380,000	2,614
Written				
10-year RTP	3/16/2017	54,000,000	(54,000,000)	(704)
IRO Euro	7/1/2014	2,500,000	(2,500,000)	-
Swaption 317U153B3	7/10/2012	3,800,000	(3,800,000)	-
5 Year RPT	5/8/2014 - 3/20/2017	103,500,000	(103,500,000)	(1,625)
Payer 0.87	9/19/2012	4,920,000	(4,920,000)	(26)
Payer 0.88	7/18/2012 - 9/19/2012	31,860,000	(31,860,000)	(10)
Total puts written			(200,580,000)	(2,365)
Total swaption contracts			40,900,000	$ 642

Rights and Warrants

Rights are the right, but not the obligation, to purchase newly issued equity shares, often in proportion to the number of shares currently owned, in a specified company, at a pre-established price on or within a pre-determined date. Rights are privately transacted in over-the-counter markets. In the PERS portfolio, rights are often obtained and held due to existing investments. Rights are subject to general market risk and liquidity risk.

A warrant provides the holder the right, but not the obligation, to purchase securities from the issuing entity at a specific price and within a certain time period. Warrants are privately transacted in over-the-counter markets. In the PERS portfolio, warrants are often obtained and held due to existing investments. Warrants are subject to general market risk and liquidity risk. The change in fair value from rights and warrants for the year ended June 30, 2012, was negative $3.8 million.

The fair value of rights and warrants within the PERS portfolio as of June 30, 2012 (dollars in thousands):

Type	Expiration Date	Related Number of Shares	Fair Value
Rights	7/10/2012 - 7/20/2012	158,491	$ 76
Warrants	10/31/2012 - 1/19/2021	1,352,725	6,952
Total fair value		1,511,216	$ 7,028

D. Hedging Derivatives - Discretely Presented Component Units

Oregon Health and Science University (OHSU)

OHSU interest rate swap agreements (collectively, the swaps) as of June 30, 2012:

	Notional Value	Fair Value
2005 Swap #1	$ 42,725	$ (8,509)
2005 Swap #2	42,700	(8,510)
Total	$ 85,425	$ (17,019)

The notional amounts of the swaps and the principal amounts of the associated debt decline over time and terminate on July 1, 2028. The swaps originated on October 18, 2005 and are callable in 2014. OHSU is currently making fixed rate interest payments of 3.36 percent to the counterparty and receives variable rate payments computed as 62.67 percent of the LIBOR plus 0.18 percent. The fair value represents the estimated amount that OHSU would pay or receive if the swap agreements were terminated at year-end, taking into account current interest rates and the creditworthiness of the underlying counterparty. Total cash payments made to swap counterparties were $4.7 million during the year ended June 30, 2012.

Each of the swaps was established as part of a hedging arrangement during fiscal year 2009, as a hedge of total cash flows associated with the interest payments on the Series 1998A, Series 1998B, Series 2002B, and Series 2009B bonds. As part of the 2012 refinancing, the hedging effectiveness was reevaluated, the swaps reassigned as hedges of the interest payments on the 2012B-1, 2012B-2 and 2012B-3 Series Bonds. Management has evaluated the effectiveness of the current hedges assuming hybrid instruments; each swap consists of a companion debt instrument, representing the value of the swap at the inception of the current hedge, and a hedging instrument, representing the hypothetical value of the swap had it held $0 value at the inception of the hedge. The total value of the companion debt instrument is as follows (in thousands):

Instrument	Hedging Bonds	Beginning Date	Beginning Balance	Ending Date	Ending Balance	Change in Value
2005A	1998B/2002B	6/30/2011	$ 2,817	6/30/2012	$ 2,620	$ (197)
2005A	2012B-1/2012B-2	5/15/2012	5,001	6/30/2012	4,948	(53)
2005B	1998B/2002B	6/30/2011	2,819	6/30/2012	2,621	(198)
2005B	2012B-1/2012B-2	5/15/2012	5,001	6/30/2012	4,947	(54)
2004AB	1998B/2009B	6/30/2011	565	6/30/2012	-	(565)
2004AB	1998A/2009B	6/30/2011	564	6/30/2012	-	(564)

The companion debt instrument for the swaps, as amended for the 2012 refinancing, is reported on the combining balance sheet for discretely presented components units under deferred outflows and derivative instrument liabilities. The liability is being amortized over the remaining term of the swap agreements as an offset to interest expense. The deferred outflow is being amortized according to the same schedule as other debt issuance costs associated with the Series 2005A and Series 2005B bonds as an offset to amortization expense. The liability value is $15.1 million as of June 30, 2012.

The current hedging instruments for the swaps are recorded on the combining balance sheet for discretely presented components units under deferred outflows and derivative instrument liabilities. Subsequent changes to the value of the hedging instruments are recorded by increasing or decreasing these balance sheet accounts. The liability value is $821 thousand as of June 30, 2012.

OHSU is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2012, the counterparties' credit ratings were A+ from Standard & Poor's, A2 from Moody's, and A+ from Fitch. Additionally, the swaps expose OHSU to basis risk, which is the risk that arises when the relationship between the rates on the variable rate bonds and the swap formulas noted above vary 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 is additionally responsible for posting collateral if the total swap liability for swaps with one of the counterparties exceeds a pre-determined value on the reporting date. The collateral posting limit was $30 million compared to a total relevant swap liability value of $17 million as of June 30, 2012, resulting in a requirement that OHSU post zero collateral as of June 30, 2012.

OHSU or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contracts.

4. 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, 2012 (in thousands):

	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Other	Total	Internal Service
Governmental activities								
General accounts	$ 19,253	$ 82,759	$ 13,346	$ 17,399	$ 2,008	$ 87,239	$ 222,004	$ 63,060
Due from federal government	-	116,857	40,265	35,533	-	157,515	350,170	-
Interest	-	-	908	1,440	1,465	2,001	5,814	687
Healthcare providers	-	49,084	-	-	-	-	49,084	-
Broker receivable	-	-	-	-	3,760	-	3,760	-
Notes	-	-	-	100	-	3,290	3,390	47
Contracts	-	-	1,086	280	-	-	1,366	-
Mortgages	-	5,551	-	11	-	-	5,562	-
Benefit recoveries	25,738	659	-	-	-	-	26,397	-
Court fines and fees	-	-	-	-	-	624,544	624,544	-
Collection assessments	-	-	-	-	-	293,903	293,903	-
Child support recoveries	-	-	-	-	-	278,527	278,527	-
Workers' compensation recoveries	-	-	-	-	-	56,885	56,885	-
Other	17,662	-	3,104	15,322	703	37,306	74,097	195
Gross receivables	62,653	254,910	58,709	70,085	7,936	1,541,210	1,995,503	63,989
Allowance for doubtful accounts	(22,234)	(6,383)	(448)	(4,151)	(53)	(1,078,656)	(1,111,925)	(1,703)
Total receivables, net	$ 40,419	$ 248,527	$ 58,261	$ 65,934	$ 7,883	$ 462,554	$ 883,578	$ 62,286

Receivables reported for business-type activities at June 30, 2012 (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
Business-type activities							
General accounts	$ 151	$ 95	$ 20,932	$ 278,058	$173,595	$ 10,409	$ 483,240
Due from federal government	-	-	-	17,139	46,811	917	64,867
Interest	7,336	1,486	-	674	-	14,433	23,929
Broker receivable	-	-	-	-	31	-	31
Mortgages	2,434	-	-	-	-	-	2,434
Loans	-	-	-	-	18,223	-	18,223
Loans - long-term	-	-	-	-	59,148	-	59,148
Benefit recoveries	-	-	-	59,898	-	-	59,898
Other	-	1,082	3,097	30,067	-	67	34,313
Gross receivables	9,921	2,663	24,029	385,836	297,808	25,826	746,083
Allowance for doubtful accounts	(2,434)	-	(263)	(27,835)	(29,087)	(52)	(59,671)
Total receivables, net	$ 7,487	$ 2,663	$ 23,766	$ 358,001	$268,721	$ 25,774	$ 686,412

Receivables reported for fiduciary funds at June 30, 2012 (in thousands):

	Agency
Fiduciary fund activities	
Restitution	$ 464,264
Other	2,733
Gross receivables	466,997
Allowance for doubtful accounts	(373,914)
Total receivables, net	$ 93,083

Receivables reported for the SAIF Corporation (SAIF) at December 31, 2011, and the Oregon Health and Science University (OHSU) at June 30, 2012 (in thousands):

	SAIF	OHSU
Discretely presented component units		
Premiums receivable	$ 299,718	$ -
Broker receivable	1,487	-
Patient accounts	-	217,145
Student loans	-	31,395
Grants and contracts receivable	-	20,749
Due from federal government	-	35,550
Interest	36,663	2,330
Other	14,861	3,566
Gross receivables	352,729	310,735
Allowance for doubtful accounts	(1,405)	(9,838)
Total receivables, net	$ 351,324	$ 300,897

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, 2012 (in thousands):

	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Other	Total	Internal Service
Governmental activities								
General accounts	$ 122,419	$ 165,409	$ 69,638	$ 13,783	$ 1,889	$ 155,536	$ 528,674	$ 26,467
Interest	-	-	-	-	-	-	-	863
Broker payable	-	-	-	-	21,967	-	21,967	-
Taxes	17	-	-	-	-	-	17	-
Contracts payable - retainage	74	-	-	-	-	-	74	158
Total payables	$ 122,510	$ 165,409	$ 69,638	$ 13,783	$ 23,856	$ 155,536	$ 550,732	$ 27,488

Payables reported for business-type activities at June 30, 2012 (in thousands):

	Housing and Community Services	Veterans' Loan	Lottery Operations	Unemployment Compensation	University System	Other	Total
Business-type activities							
General accounts	$ 913	$ 228	$ 8,847	$ 26,362	$137,293	$ 26,852	$ 200,495
Interest	27,844	450	-	-	30,497	5,545	64,336
Broker payable	-	-	-	-	76	-	76
Loans	1,500	-	-	-	-	-	1,500
Contracts	-	-	12	-	35,445	-	35,457
Total payables	$ 30,257	$ 678	$ 8,859	$ 26,362	$203,311	$ 32,397	$ 301,864

Payables reported for fiduciary funds at June 30, 2012 (in thousands):

	Pension and Other Employee Benefit Trust	Private Purpose Trust	Investment Trust	Agency
Fiduciary fund activities				
General accounts	$ 57,902	$ 155	$ -	$ 4
Broker payable	2,209,223	-	93,670	-
Mortgages	-	2,041	-	-
Compensated absences payable	1,564	-	-	-
Total payables	$ 2,268,689	$ 2,196	$ 93,670	$ 4

Payables reported for SAIF Corporation (SAIF) at December 31, 2011, and the Oregon Health and Science University (OHSU) at June 30, 2012 (in thousands):

	SAIF	OHSU
Discretely presented component units		
General accounts	$ 22,896	$ 188,289
Contracts	-	36,420
Retrospective premiums	35,072	-
Reinsurance payable	5,496	-
Commissions payable	9,046	-
Broker payable	4	-
Total payables	$ 72,514	$ 224,709

5. JOINT VENTURE

The Multi-State Lottery Association (MUSL) was established in 1987 to coordinate lottery games with larger prizes than the individual states could offer by themselves. The Oregon Lottery has been a participating member since the inception of MUSL. Each participating state sells its choice of MUSL products and keeps all profits earned. Participating states contribute amounts necessary to fund the estimated and actual prizes won, reserve prize pools, and the operating expenses of MUSL. For fiscal years ended June 30, 2012 and 2011, the Oregon Lottery's share of MUSL's operating expenses was $64.7 thousand and $32.5 thousand, respectively.

MUSL is governed by a board on which each member lottery is represented. Each member lottery has one vote. 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. These officers and consultants serve at the pleasure of the board and the board prescribes their powers, duties, and qualifications. The executive committee carries out the budgeting and financing of MUSL, and the board contracts annually with an independent auditor. Upon termination of the MUSL's existence, if such termination should occur, the member lotteries would receive any proceeds determined available for distribution by the board.

The following schedule presents the summarized financial activity of MUSL as of June 30, 2012 and 2011 (in thousands). Long-term liabilities of MUSL are limited to prize annuities due, which are fully funded through investments in U.S. Government Securities.

	2012	2011
Assets	$ 583,165	$ 641,435
Liabilities	$ 583,010	$ 641,194
Net Assets - unrestricted	155	241
Total liabilitites and net assets	$ 583,165	$ 641,435
Unrestricted revenues	$ 4,783	$ 4,101
Unrestricted expenses	4,869	4,364
Total change in unrestricted net assets	$ (86)	$ (263)

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

6. CAPITAL ASSETS

A. Primary Government

<u>Capital Asset Activity</u>

Capital asset activity for the primary government for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	$ 1,778,293	$ 30,876	$ 26,592	$ 1,782,577
Construction in progress	1,469,843	504,398	721,176	1,253,065
Works of art and other nondepreciable assets	1,924	108	-	2,032
Total capital assets not being depreciated	3,250,060	535,382	747,768	3,037,674
Capital assets being depreciated:				
Buildings, property, and equipment	3,146,327	340,708	218,769	3,268,266
Infrastructure	16,167,440	855,028	477,318	16,545,150
Total capital assets being depreciated	19,313,767	1,195,736	696,087	19,813,416
Less accumulated depreciation for:				
Buildings, property, and equipment	1,345,318	121,391	46,509	1,420,200
Infrastructure	9,552,760	203,514	472,619	9,283,655
Total accumulated depreciation	10,898,078	324,905	519,128	10,703,855
Total capital assets being depreciated, net	8,415,689	870,831	176,959	9,109,561
Total capital assets, net	$ 11,665,749	$ 1,406,213	$ 924,727	$ 12,147,235

The beginning balance has been restated from $11,690,449 to $11,665,749 to reflect prior period adjustments totaling $24,700.

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated:				
Land	$ 132,230	$ 2,958	$ 41	$ 135,147
Construction in progress	332,727	1,888	13,864	320,751
Works of art and other nondepreciable assets	72,450	2,284	6,056	68,678
Total capital assets not being depreciated	537,407	7,130	19,961	524,576
Capital assets being depreciated:				
Buildings, property, and equipment	3,883,143	649,157	253,673	4,278,627
Infrastructure	96,237	8,721	984	103,974
Total capital assets being depreciated	3,979,380	657,878	254,657	4,382,601
Less accumulated depreciation for:				
Buildings, property, and equipment	1,627,516	158,240	21,647	1,764,109
Infrastructure	48,836	3,474	-	52,310
Total accumulated depreciation	1,676,352	161,714	21,647	1,816,419
Total capital assets being depreciated, net	2,303,028	496,164	233,010	2,566,182
Total capital assets, net	$ 2,840,435	$ 503,294	$ 252,971	$ 3,090,758

The beginning balance has been restated from $2,840,994 to $2,840,435 to reflect prior period adjustments totaling $559.

		Beginning Balance		Increases		Decreases		Ending Balance
Fiduciary fund activities								
Capital assets not being depreciated:								
Land	$	958	$	-	$	-	$	958
Construction in progress		165		-		165		-
Total capital assets not being depreciated		1,123		-		165		958
Capital assets being depreciated:								
Buildings, property, and equipment		49,070		3,131		65		52,136
Total capital assets being depreciated		49,070		3,131		65		52,136
Less accumulated depreciation for:								
Buildings, property, and equipment		10,863		2,322		65		13,120
Total accumulated depreciation		10,863		2,322		65		13,120
Total capital assets being depreciated, net		38,207		809		-		39,016
Total capital assets, net	$	39,330	$	809	$	165	$	39,974

Depreciation Expense

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

Governmental activities		**Amount**
Education	$	723
Human services		9,150
Public safety		35,509
Economic and community development		1,743
Natural resources		18,670
Transportation		221,455
Consumer and business services		727
Administration		3,477
Legislative		1,693
Judicial		2,457
Subtotal		295,604
Internal service funds		29,301
Total depreciation expense	$	324,905

Business-type activities		**Amount**
Housing and Community Services	$	1
Veterans' Loan		109
Lottery Operations		26,794
University System		124,963
Other business-type activities		9,847
Total depreciation expense	$	161,714

Fiduciary fund activities:		**Amount**
Pension and Other Employee Benefit Trust	$	2,322
Total depreciation expense	$	2,322

Construction Commitments

The State has active construction projects, which will be funded through either general fund appropriations, federal grants, lottery resources, or other funding sources as noted in the schedule below. The State's construction commitments with contractors as of June 30, 2012 (in thousands):

			Remaining Commitment Source of Funds			
Project	Spent-to-Date	Remaining Commitment	General	Federal	Lottery	Other
Military facilities	$ 34,558	$ 20,995	$ -	$ 20,062	$ -	$ 933
Oregon State Hospital facility	362,732	37,422	-	-	-	37,422
Prison construction and upgrades	45,559	5,282	6	-	-	5,276
University building construction and upgrades	300,573	210,775	7,611	7,801	8,124	187,239
Road and bridge construction	778,478	618,561	-	333,951	-	284,610
State park facilities	4,036	8,307	-	827	6,867	613
Upgrade and maintenance of various facilities	82,883	93,319	54	611	-	92,654
Total Construction Commitments	$ 1,608,819	$ 994,661	$ 7,671	$ 363,252	$ 14,991	$ 608,747

Collections Not Capitalized

Certain collections of historic artifacts and works of art are not reported in the accompanying financial statements. These assets include highway maintenance equipment displayed at various district and regional offices; printing equipment displayed at the Salem print plant; historic documents displayed at the Oregon State Archives; a museum of military artifacts at Camp Withycombe in Clackamas, Oregon; a collection of historic buildings, furniture, paintings, and ancestral artifacts displayed at various state parks; a collection of wildlife mounts displayed at various Department of Fish and Wildlife locations; and a collection of photographs portraying various Oregon locales displayed at the Oregon Liquor Control Commission headquarters. These assets have not been capitalized because they meet the conditions to qualify as collections that are not subject to capitalization. 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 government-wide statement of activities, program revenues include insurance recoveries of the applicable functions (in thousands):

Governmental activities	Amount
Public safety	$ 272
Natural resources	399
Transportation	797
Administration	1,244
Judicial	53
Total insurance recoveries	$ 2,765

Business-type activities	Amount
University System	$ 956
Lottery Operations	75
Other business-type activities	1
Total insurance recoveries	$ 1,032

Idle Impaired Capital Assets

At fiscal year end, the Department of Corrections' Deer Ridge Correctional Institution, a medium security facility with a carrying value of $108.4 million, and the Oregon State Penitentiary minimum security facility with a carrying value of $1.9 million were temporarily idle due to budget constraints and a delay in the implementation of Ballot Measure 57, the Mandatory Prison Sentences for Three or More Felonies Act.

B. Discretely Presented Component Units

Activity for SAIF Corporation for the year ended December 31, 2011 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 3,029	$ -	$ -	$ 3,029
Total capital assets not being depreciated	3,029	-	-	3,029
Capital assets being depreciated:				
Buildings, property, and equipment	42,227	404	1,054	41,577
Total capital assets being depreciated	42,227	404	1,054	41,577
Less accumulated depreciation for:				
Buildings, property, and equipment	27,715	1,277	901	28,091
Total accumulated depreciation	27,715	1,277	901	28,091
Total capital assets being depreciated, net	14,512	(873)	153	13,486
Total SAIF Corporation capital assets, net	$ 17,541	$ (873)	$ 153	$ 16,515

Activity for the Oregon Health and Science University (OHSU) for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 58,770	$ 13,673	$ -	$ 72,443
Construction in progress	59,406	126,203	101,749	83,860
Total capital assets not being depreciated	118,176	139,876	101,749	156,303
Capital assets being depreciated:				
Buildings, property, and equipment	2,098,774	119,523	25,312	2,192,985
Total capital assets being depreciated	2,098,774	119,523	25,312	2,192,985
Less accumulated depreciation for:				
Buildings, property, and equipment	979,795	111,174	24,328	1,066,641
Total accumulated depreciation	979,795	111,174	24,328	1,066,641
Total capital assets being depreciated, net	1,118,979	8,349	984	1,126,344
Total OHSU capital assets, net	$ 1,237,155	$ 148,225	$ 102,733	$ 1,282,647

7. LEASES

A. Operating Leases

The State and its discretely presented component units have entered into various non-cancelable rental agreements that are accounted for as operating leases because the agreements do not meet the criteria to be classified as capital leases. Operating lease payments are chargeable as rent expense and reported in services and supplies. Rental costs for operating leases for the year ended June 30, 2012, were $109.2 million for the primary government and $20.5 million for component units.

Future minimum rental payments for operating leases in effect as of June 30, 2012 (in thousands):

Year Ending June 30,	Primary Government	Component Units
2013	$ 92,066	$ 22,539
2014	75,171	19,087
2015	61,293	17,087
2016	51,317	16,725
2017	43,284	16,628
2018-2022	119,742	58,759
2023-2027	19,356	1,163
2028-2032	4,952	-
2033-2037	1,055	-
2038-2042	460	-
2043-2047	238	-
2048-2052	276	-
2053-2057	319	-
Total future minimum rental payments	$ 469,529	$ 151,988

B. Capital Leases

A capital lease is accounted for similar to a purchase on a long-term contract. The underlying property is capitalized at an amount equal to the present value of the minimum lease payments and a corresponding liability is recorded. The liability for capital leases is reported as obligations under capital lease on the government-wide statement of net assets.

Carrying value of assets acquired through capital leases as of June 30, 2012 (in thousands):

Asset Class	Governmental Activities	Business-type Activities	Component Units
Buildings, property, and equipment	$ 19,676	$ 705	$ 14,759
Less accumulated depreciation	(6,880)	(182)	(8,890)
Total	$ 12,796	$ 523	$ 5,869

Future minimum lease payments for capital leases and the related net present value as of June 30, 2012 (in thousands):

Year Ending June 30,	Governmental Activities	Business-type Activities	Component Units
2013	$ 7,076	$ 107	$ 4,182
2014	2,119	102	419
2015	1,108	100	148
2016	16	97	124
2017	5	93	-
2018-2022	-	235	-
Total future minimum lease payments	10,324	734	4,873
Less amounts representing interest	(1,835)	(178)	(210)
Present value of minimum lease payments	$ 8,489	$ 556	$ 4,663

C. Lease Receivables

The State receives rental income from land, property, and equipment leased to non-state entities. For the year ended June 30, 2012, the State received rental income of $11.9 million on leased assets with a carrying value of $56.2 million, net of $17.3 million in accumulated depreciation.

Future minimum lease revenues for non-cancelable operating leases as of June 30, 2012 (in thousands):

Year Ending June 30,	Primary Government
2013	$ 10,042
2014	6,519
2015	5,184
2016	4,585
2017	3,635
2018-2022	12,631
2023-2027	9,399
2028-2032	8,380
2033-2037	6,430
2038-2042	3,475
2043-2047	1,099
2048-2052	465
2053-2057	306
Total future minimum lease revenues	$ 72,150

8. DONOR-RESTRICTED ENDOWMENTS

Oregon University System

Oregon Revised Statute 351.130 gives the Oregon University System (OUS) authority to use the interest, income, dividends, or profits from donor-restricted endowments for the benefit of the designated institution. The OUS board's current spending policy calls for the annual distribution of 4 percent of the preceding 20-quarter moving average of the market value of the endowment funds. For the year ended June 30, 2012, the amount of net appreciation available for authorization for expenditure was $16.3 million. The amount available for distribution during fiscal year 2013 is estimated to be $2.6 million. The corpus of the endowment funds is reported as nonexpendable net assets restricted for donor purposes on the proprietary funds balance sheet and the government-wide statement of net assets. Expendable endowment funds are reported as part of expendable net assets restricted for education.

Oregon Health and Science University

Oregon Revised Statutes 128.318, 128.322, 128.326, and 128.328 give the Oregon Health and Science University (OHSU) authority to use the net appreciation of restricted endowments, subject to the terms established by the donors. For the year ended June 30, 2012, the amount of net appreciation available for authorization for expenditure was $44.9 million. Of this amount, the OHSU Foundation's board authorized a 4.5 percent distribution based on a three-year moving average of the fair value of the endowment pool. The corpus of the endowment funds is reported as nonexpendable net assets restricted for education on the combining balance sheet of the discretely presented component units. Expendable endowment funds are reported as part of expendable net assets restricted for education.

9. SHORT AND LONG-TERM DEBT

A. Short Term Debt

During the year, the State repaid the tax anticipation notes that were issued in July 2011, to meet seasonal cash management needs within fiscal year 2012. In addition, the Oregon Department of Human Services (DHS) repaid a loan from the Oregon Short-Term Fund made to cover end of biennium cash flow needs.

Short-term debt activity for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Tax anticipation notes	$ -	$ 800,799	$ 800,799	$ -
DHS line of credit	95,000	-	95,000	-
Total short-term debt activity	$ 95,000	$ 800,799	$ 895,799	$ -

B. 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. Article XI-M provides authorization to finance seismic rehabilitation projects for public education buildings and XI-N for emergency services buildings. Article XI-Q provides authorization to finance real or personal property projects to be owned or operated by the state.

The Oregon Constitution also authorizes general obligation debt to be used for business-type activities. Article XI-A authorizes 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.

Debt service requirements for general obligation bonds as of June 30, 2012 (in thousands):

	Governmental Activities		Business-type Activities		Fiduciary Fund Activities	
Year ending June 30,	**Principal [1]**	**Interest**	**Principal [2]**	**Interest**	**Principal**	**Interest**
2013	$ 91,030	$ 155,530	$ 71,237	$ 103,628	$ 535	$ 115
2014	107,536	151,634	74,199	100,385	545	105
2015	119,500	146,706	78,226	95,339	565	88
2016	129,925	140,854	80,151	93,423	585	60
2017	140,575	134,377	78,860	91,783	615	31
2018-2022	896,770	556,802	448,749	376,945	-	-
2023-2027	1,237,030	265,499	441,025	255,261	-	-
2028-2032	93,830	31,807	407,220	154,852	-	-
2033-2037	82,485	9,892	320,400	74,168	-	-
2038-2042	1,520	38	190,125	13,817	-	-
2043-2047	-	-	10,600	218	-	-
2048-2052	-	-	210	7	-	-
Total	$ 2,900,201	$ 1,593,139	$ 2,201,002	$ 1,359,826	$ 2,845	$ 399

[1] Includes $1,984 million in pensions bond debt.

[2] Includes a total of $187.3 million of bonds with variable interest rates adjusted daily or weekly based on the rates determined by the remarketing agent. The interest rates at the end of the fiscal year were 0.16 percent for $85.5 million of these bonds, 0.17 percent for $79.9 million, and 0.23 percent for $21.9 million.

C. Revenue Bonds

Oregon Revised Statutes (ORS) authorize the State to issue revenue bonds. Revenue bonds are secured by a pledge of revenues derived from the operation of the programs funded by the issuance of these obligations. The resulting bond obligations are not general obligations of the State.

ORS 286A.560 through 286A.585, 327.700 through 327.711, and 348.716 authorize the State to issue revenue bonds that are supported by unobligated net lottery proceeds. To date, lottery revenue bonds have been issued for infrastructure improvements, state parks, expansion and refurbishment of school facilities, light rail transportation, improvements to state fair facilities, acquisition of state forestland, watershed project grants, and economic development in rural and distressed communities. Lottery revenue bonds have been issued for both governmental and business-type activities.

ORS 367.605 through 367.665 authorize the Oregon Department of Transportation to issue highway user tax bonds for governmental activities to build and maintain public roads. Debt service payments for these bonds are funded by highway user taxes and vehicle registration fees.

ORS 456.645 authorizes the Oregon Housing and Community Services Department to issue revenue bonds for financing single-family mortgage loans and multi-family housing projects. Mortgage payments and fees and rental revenues support these bonds. ORS 285B.467 through 285B.482 authorize the Oregon Business Development Department to issue revenue bonds for financing infrastructure improvement projects through the Special Public Works Fund, while ORS 285B.572 through 285B.599 authorize the issuance of revenue bonds for financing water projects through the Water Fund. Loan repayments support the bonds associated with these business-type activities.

ORS 353.340 authorizes 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 and the acquisition of equipment in accordance with ORS Chapter 287A. The revenue bonds are payable from the revenues of OHSU.

Debt service requirements for revenue bonds as of June 30, 2012 (in thousands):

	Governmental Activities		Business-type Activities		Discretely Presented Component Units	
Year ending June 30,	**Principal [1]**	**Interest**	**Principal [2,3]**	**Interest**	**Principal [4,5,6]**	**Interest**
2013	$ 128,111	$ 143,760	$ 34,934	$ 49,490	$ 11,794	$ 25,184
2014	125,013	139,082	39,719	48,806	12,152	25,404
2015	126,457	133,166	43,303	47,458	14,006	29,861
2016	114,912	127,834	44,148	45,899	14,700	30,366
2017	129,335	122,063	44,725	44,220	11,016	34,003
2018-2022	659,505	526,088	252,619	191,883	58,318	169,665
2023-2027	764,808	381,759	299,177	131,416	120,955	112,379
2028-2032	699,095	206,624	301,715	71,440	148,335	86,146
2033-2037	417,075	36,417	261,735	33,407	120,680	50,120
2038-2042	-	-	102,310	10,316	130,545	17,141
2043-2047	-	-	13,245	1,565	30,610	72
2048-2052	-	-	2,425	390	-	-
2053-2057	-	-	265	6	-	-
Total	$ 3,164,311	$ 1,816,793	$ 1,440,320	$ 676,296	$ 673,111	$ 580,341

[1] Includes a total of $265.3 million of bonds with variable interest rates adjusted weekly based on the rates determined by the remarketing agent. The interest rate at the end of the fiscal year was 0.63 percent.

[2] Includes bonds with variable interest rates adjusted monthly based on the London Interbank Offered Rate (LIBOR) plus 0.4 percent not to exceed 11 percent for $1.2 million of the bonds and 11.5 percent for $1.7 million. The interest rate at the end of the fiscal year for these bonds was 0.6 percent.

[3] Includes bonds with variable interest rates adjusted weekly based on the rates determined by the remarketing agent, not to exceed 12 percent. The interest rates at the end of the fiscal year were 0.17 percent for $16.1 million of these bonds, 0.18 percent for $64.9 million, 0.20 percent for $60.5 million, 0.23 percent for $95 million, 0.25 percent for $69.7 million, and 0.34 percent for $14.1 million.

[4] Includes bonds with variable rates of interest adjusted daily based on the auction rate. The rate as of fiscal year-end was 0.14 percent for $19.1 million of these bonds and 0.15 percent for $28.5 million.

[5] Includes bonds with variable rates of interest adjusted weekly based on the auction rate. The rate as of fiscal year-end was 0.15 percent for $28.5 million of these bonds and 0.16 percent for $28.5 million.

[6] Includes bonds with variable rates of interest adjusted monthly based on the auction rate. The rate as of fiscal year-end was 0.65 percent for $88.8 million of these bonds.

D. Certificates of Participation

ORS 283.085 through 283.092 authorize 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 and telecommunication systems, and the acquisition, construction, or remodeling of State facilities. Certificates of participation have been issued for governmental, business-type, and fiduciary activities.

Debt service requirements for certificates of participation as of June 30, 2012 (in thousands):

	Governmental Activities		Business-type Activities	
Year ending June 30,	Principal	Interest	Principal	Interest
2013	$ 81,839	$ 44,782	$ 9,366	$ 4,632
2014	70,757	41,280	6,748	4,248
2015	67,547	38,024	5,533	3,937
2016	55,867	35,147	4,938	3,694
2017	48,031	32,810	4,774	3,470
2018-2022	190,706	136,033	22,064	14,444
2023-2027	186,555	90,858	24,505	9,081
2028-2032	174,275	45,240	14,020	3,117
2033-2037	68,320	9,322	4,360	546
2038-2042	6,960	553	-	-
Total	$ 950,857	$ 474,049	$ 96,308	$ 47,169

E. 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.

Debt service requirements for general appropriation bonds as of June 30, 2012 (in thousands):

	Governmental Activities	
Year ending June 30,	Principal	Interest
2013	$ 69,900	$ 3,136
2014	28,195	696
Total	$ 98,095	$ 3,832

F. Changes in Long-Term Debt

Changes in long-term debt for governmental activities for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds/certificates payable:					
General obligation bonds	$ 2,616,800	$ 401,246	$ 117,845	$ 2,900,201	$ 91,030
Revenue bonds	3,281,497	271,102	388,288	3,164,311	128,111
Certificates of participation	1,255,518	28,385	333,046	950,857	81,839
General appropriation bonds	163,195	-	65,100	98,095	69,900
Less deferred amounts:					
For issuance discounts	(3,087)	-	(319)	(2,768)	-
For issuance premiums	179,554	98,250	35,318	242,486	-
On refunding	(24,618)	(37,037)	(5,250)	(56,405)	-
Total bonds/certificates payable	$ 7,468,859	$ 761,946	$ 934,028	$ 7,296,777	$ 370,880

Changes in long-term debt for business-type activities for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Bonds/certificates payable:					
General obligation bonds	$ 2,334,289	$ 125,894	$ 259,181	$ 2,201,002	$ 71,237
Revenue bonds	1,572,998	79,868	212,546	1,440,320	34,934
Certificates of participation	107,457	870	12,019	96,308	9,366
Less deferred amounts:					
For issuance discounts	(1,482)	-	(373)	(1,109)	-
For issuance premiums	65,414	21,594	10,276	76,732	-
On refunding	(18,844)	(8,612)	(1,922)	(25,534)	-
Accreted interest	58,404	5,164	10,504	53,064	-
Total bonds/certificates payable	$ 4,118,236	$ 224,778	$ 502,231	$ 3,840,783	$ 115,537

Changes in long-term debt for fiduciary fund activities for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Fiduciary fund activities					
Bonds/certificates payable:					
General obligation bonds	$ -	$ 2,845	$ -	$ 2,845	$ 535
Certificates of participation	3,580	-	3,580	-	-
Less deferred amounts:					
For issuance premiums	148	319	164	303	-
On refunding	(113)	(80)	(117)	(76)	-
Total bonds/certificates payable	$ 3,615	$ 3,084	$ 3,627	$ 3,072	$ 535

Changes in long-term debt for the Oregon Health and Science University, a discretely presented component unit, for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Discretely presented component unit					
Bonds/certificates payable:					
Revenue bonds	$ 628,522	$ 338,755	$ 294,166	$ 673,111	$ 11,794
Less deferred amounts:					
For issuance discounts	(5,589)	-	(330)	(5,259)	-
For issuance premiums	780	12,601	244	13,137	-
On refunding	(4,005)	5,025	(258)	1,278	-
Accreted interest	32,940	3,161	1,174	34,927	-
Total bonds/certificates payable	$ 652,648	$ 359,542	$ 294,996	$ 717,194	$ 11,794

G. Demand Bonds

Oregon Department of Veterans' Affairs

Included in long-term debt are the following State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, along with selected terms of their standby bond purchase agreements (SBPAs) at June 30, 2012 (dollars in thousands):

Series	Outstanding Amount	Liquidity Provider	Expiration Date	Commitment Fee	Remarketing Agent	Remarketing Fee
73H	$ 21,900	Bayerische Landesbank[1]	11/30/2015	0.0850%	JP Morgan Securities Inc.	0.05%
83	10,965	Bank of Tokyo-Mitsubishi UFJ, Ltd.	10/6/2014	0.4250%	JP Morgan Securities Inc.	0.05%
84	30,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	10/6/2014	0.4250%	JP Morgan Securities Inc.	0.05%
85	15,140	U.S Bank National Association	4/4/2014	0.4500%	JP Morgan Securities Inc.	0.07%
86	31,320	U.S Bank National Association	4/4/2014	0.4500%	JP Morgan Securities Inc.	0.07%
87C	9,045	U.S Bank National Association	4/4/2014	0.4500%	JP Morgan Securities Inc.	0.07%
88B	30,000	U.S Bank National Association	4/4/2014	0.4500%	JP Morgan Securities Inc.	0.07%
90B	38,885	Bank of Tokyo-Mitsubishi UFJ, Ltd.	10/6/2014	0.4250%	JP Morgan Securities Inc.	0.07%

[1] Bayerische Landesbank has the option to terminate its purchase commitment obligations, at its sole discretion, as of June 26, 2013.

These bonds are general obligations of the State 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 Oregon Department of Veterans' Affairs (DVA) remarketing agent is authorized to use its best efforts to sell the repurchased bonds at face value by adjusting the interest rate on a daily or weekly basis based on the applicable mode. The designated remarketing agent for such bonds will determine the interest rate borne by each series of bonds. DVA pays its designated remarketing agent a fee for this service.

In the event the bonds cannot be remarketed, they will be purchased as specified by the respective SBPA. Under the SBPA for Series 73H, Bayerische Landesbank Girozentrale will commit to purchase any Series 73H unremarketed bonds, subject to certain conditions. Under the SBPA for Series 83, 84, and 90B, the Bank of Tokyo-Mitsubishi UFJ, Ltd. will commit to purchase any Series 83, 84, or 90B unremarketed bonds, subject to certain conditions. Under the SBPA for Series 85, 86, 87C, and 88B, U.S. Bank National Association, will commit to purchase any Series 85, 86, 87C, or 88B unremarketed bonds, subject to certain conditions.

If a tender advance does occur under the Series 73H SBPA, it will accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus 0.5 percent, whichever is higher). If the tender advance is in default, interest will accrue at the bank's base rate plus 1 percent. Interest on a tender advance must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be repaid in approximately two years, although they can be repaid earlier if DVA elects to do so. If repayment of any tender advance does not occur within the timeframe specified in the Series 73H SBPA, a default has occurred.

No tender advances or draws have been necessary to purchase any unremarketed bonds under the Series 73H SBPAs. Therefore, no tender advances or draws were outstanding at June 30, 2012.

If a tender advance does occur under the Series 83, 84, and 90B SBPA, it will accrue interest at the bank's base rate (either a prime lending rate plus 1 percent, or the federal funds rate plus 2 percent, or 7.5 percent, whichever is higher) for the time period up to 30 days; at the bank's base rate plus 0.5 percent for the time period covering 31 days up to 60 days; and at the bank's base rate plus 1 percent for the time period thereafter. If the tender advance is in default, interest will accrue at the bank's base rate plus 2 percent. Interest on a tender advance must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be repaid on the earliest of (a) the date the applicable bonds are paid in full; (b) the conversion date of all or a portion of the applicable bonds to a fixed rate, an indexed rate, or a non-covered interest rate, or (c) the effective date of delivery of a substitute alternative liquidity facility. Tendered bonds that are unremarketed by the 91st day after the purchase date of the tender advances must be paid in full over a four year period in eight equal (or nearly equal) semi-annual installments, unless and until the bonds are remarketed or redeemed. If repayment of any tender advance does not occur within the specified timeframe contained in the Series 83, 84, and 90B SBPA, a default has occurred.

During fiscal year 2012, no tender advances or draws have been necessary to purchase unremarketed bonds under the Series 83, 84, and 90B SBPA. Therefore, no tender advances or draws were outstanding as of June 30, 2012.

If a tender advance does occur under the Series 85-88B SBPA, it will accrue interest at the bank's base rate (either a prime lending rate plus 1 percent, the federal funds rate plus 2 percent, the Securities Industry and Financial Markets Association (SIFMA) rate plus 1 percent or 7 percent for the time period 31 days after the purchase date and thereafter, whichever is higher) for the time period up to 30 days; at the bank's base rate plus 1 percent for the time period covering 31 days up to 90 days; and at the bank's base rate plus 1.5 percent for the time period thereafter. If the tender advance is in default, interest will accrue at the bank's base rate plus 3 percent. Interest on a tender advance must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be repaid on the earliest of (a) the date the applicable bonds are paid in full; (b) the conversion date of all or a portion of the applicable bonds to a fixed rate, an indexed rate, or a non-covered interest rate; or (c) the effective date of delivery of a substitute alternative liquidity facility. Tendered bonds that are unremarketed by the 91st day after the purchase date of the tender advance must be paid in full over a four year period in eight equal (or nearly equal) semi-annual installments, unless and until the bonds are remarketed or redeemed. If repayment of any tender advance does not occur within the specified timeframe contained in the Series 85-88B SBPAs, a default has occurred.

During fiscal year 2012, no tender advances or draws have been necessary to purchase unremarketed bonds under the Series 85-88B SBPA. Therefore, no tender advances or draws were outstanding as of June 30, 2012.

<u>Oregon Housing and Community Services Department</u>

Included in Oregon Housing and Community Services Department's (OHCSD) long-term debt is $320.3 million in variable rate demand bonds. OHCSD's variable rate demand bonds are remarketed weekly by a remarketing agent. Bondholders may elect to tender their bonds by providing written notice to the remarketing agent as specified in the official statement for the series. On the date that bonds are tendered, the remarketing agent will use its best effort to sell the bonds or may purchase the bonds for its own account.

OHCSD has entered into standby bond purchase agreements (SBPAs) to provide liquidity in the event that the remarketing agent is unable to sell the tendered bonds and does not choose to buy the bonds for its own account. The SBPAs requires the liquidity provider to provide funds for the purchase of the tendered bonds. On the purchase date, the bonds become known as liquidity provider bonds or bank bonds and bear interest at the bank rate in accordance with the SBPAs. The maximum rate is 12 percent (Bank of America, N.A., State Street Bank and Trust Company, and JPMorgan Chase Bank, N.A.). The bonds remain bank bonds until they are sold by the remarketing agent or the remarketing agent purchases them for its own account. If the bonds are not remarketed or purchased by the remarketing agent for its own account, mandatory redemption in ten equal installments are to be paid on the first business day of January and July, commencing on the first such date to occur after the bonds become liquidity provider bonds (State Street Bank and Trust Company) or at least ninety days after the related purchase date (Bank of America, N.A. and JPMorgan Chase Bank, N.A.). There were no bank bonds on June 30, 2012.

Certain terms of the standby purchase agreements and remarketing agreements are listed below (dollars in thousands):

Series	Outstanding Amount	Liquidity Provider	Expiration Date	Commitment Fee	Remarketing Agent	Remarketing Fee
MF 2004 B	$ 14,115	Bank of America, N.A.	8/27/2014	0.8000%	Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.08%
MRB 2003 L	15,000	State Street Bank and Trust Company	11/1/2014	0.8000%	J.P. Morgan Securities, Inc.	0.07%
MRB 2004 C	15,000	State Street Bank and Trust Company	11/1/2014	0.8000%	CitiGroup Global Markets, Inc.	0.07%
MRB 2004 I	15,000	State Street Bank and Trust Company	11/1/2014	0.8000%	J.P. Morgan Securities, Inc.	0.07%
MRB 2004 L	15,000	State Street Bank and Trust Company	11/1/2014	0.8000%	CitiGroup Global Markets, Inc.	0.07%
MRB 2005 C	10,500	State Street Bank and Trust Company	11/1/2014	0.8000%	J.P. Morgan Securities, Inc.	0.07%
MRB 2005 F	14,885	State Street Bank and Trust Company	11/1/2014	0.8000%	CitiGroup Global Markets, Inc.	0.07%
MRB 2006 C	20,000	State Street Bank and Trust Company	11/1/2014	0.8000%	J.P. Morgan Securities, Inc.	0.07%
MRB 2006 F	20,000	State Street Bank and Trust Company	11/1/2014	0.8000%	CitiGroup Global Markets, Inc.	0.07%
MRB 2006 G	16,105	State Street Bank and Trust Company	11/1/2014	0.8000%	CitiGroup Global Markets, Inc.	0.07%
MRB 2007 E	30,000	JPMorgan Chase Bank, NA	12/31/2014	0.8500%	J.P. Morgan Securities, LLC	0.07%
MRB 2007 H	30,000	JPMorgan Chase Bank, NA	12/31/2014	0.8500%	J.P. Morgan Securities, LLC	0.07%
MRB 2008 C	35,000	JPMorgan Chase Bank, NA	12/31/2014	0.8500%	J.P. Morgan Securities, LLC	0.07%
MRB 2008 F	35,000	JPMorgan Chase Bank, NA	12/31/2014	0.8500%	Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.07%
MRB 2008 I	34,650	JPMorgan Chase Bank, NA	12/31/2014	0.8500%	Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.07%

Discretely Presented Component Unit

The discretely presented component unit, Oregon Health and Science University, entered into multiple credit enhancement facilities, including irrevocable standby letters of credit with Union Bank and US Bank NA, as listed in the table below (dollars in thousands):

Series	Facility Counterparty	Bonds Par	Facility Matures	Average Interest Rate	Reset
2012 B-1	Union Bank	$ 28,525	5/15/2017	0.167%	Weekly
2012 B-2	Union Bank	28,525	5/15/2017	0.167%	Weekly
2012 B-3	Union Bank	28,520	5/15/2017	0.167%	Daily
2012 C	US Bank, NA	19,125	11/15/2015	0.164%	Daily
2012 D	US Bank, NA	88,805	11/1/2016	0.646%	Monthly

The letters of credit will fund any put made by bondholders that is not successfully remarketed. In the event the standby letters of credit fund a put by bondholders, no principal payments are due for 367 days.

H. 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.

No-commitment debt as of June 30, 2012 (in thousands):

Primary Government	Amount
Oregon Business Development Department	$ 402,126
Oregon Facilities Authority	1,631,215
Housing and Community Services Department	203,215
Total No-Commitment Debt	**$ 2,236,556**

I. Debt Refundings

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

Current/advance refunding issues that occurred between July 1, 2011, and June 30, 2012:

On November 9, 2011, the Oregon Department of Administrative Services (DAS) issued $59.9 million in 2011 Series N General Obligation Bonds with an average interest rate of 4.3 percent. These bonds refunded $62.4 million of certain outstanding 2003 Series Opportunity Bonds with an average interest rate of 4.4 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 12 years by $3.2 million and resulted in an economic gain of $3.2 million.

On November 9, 2011, DAS issued $36.3 million in 2011 Series O Certificates of Participation with an average interest rate of 4.4 percent. These certificates refunded $37.7 million of various outstanding series certificates of participation with an average interest rate of 4.8 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 16 years by $2.6 million and resulted in an economic gain of $2.1 million.

On November 9, 2011, DAS issued $5.5 million in 2011 Series P General Obligation Bonds with an average interest rate of 3.7 percent. These bonds refunded $5.5 million of outstanding 2002 Series D Certificates of Participation with an average interest rate of 4.9 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next year by $825.2 thousand and resulted in an economic gain of $646.3 thousand.

On April 4, 2012, DAS issued $28.4 million in 2012 Series A Certificates of Participation with an average interest rate of 4.9 percent. The certificates were issued to refund $30.6 million of outstanding 2002 Series B and 2003 Series B Certificates of Participation with an average interest rate of 5.1 percent. The $27.8 million current refunding and $2.8 million advanced refunding was undertaken to reduce the total debt service payments over the next 6 years by $3.5 million and resulted in an economic gain of $230.1 thousand.

On April 4, 2012, DAS issued $18.3 million in 2012 Series K General Obligation Bonds with an average interest rate of 4.9 percent. The bonds were issued to refund $19.1 million of outstanding 2002 Series B and 2005 Series A Certificates of Participation with an average interest rate of 5.1 percent. The current refunding of $3.1 million and the advanced refunding of $16 million was undertaken to reduce the total debt service payments over the next 11 years by $1.1 million and resulted in an economic gain of $1.2 million.

On April 4, 2012, DAS issued $129.3 million in 2012 Series L General Obligation Bonds with an average interest rate of 4.9 percent. These bonds refunded $143.3 million of various outstanding series certificates of participation with an average interest rate of 5.1 percent. The $122 million current refunding and $21.3 million advanced refunding was undertaken to reduce the total debt service payments over the next 11 years by $22.5 million and resulted in an economic gain of $3.5 million.

On April 4, 2012, DAS issued $7.4 million in 2012 Series M General Obligation Bonds with an average interest rate of 4.9 percent. These bonds refunded $7 million of outstanding 2002 Series E and 2003 Series A Certificates of Participation with an average interest rate of 5.1 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 3 years by $375.9 thousand and resulted in an economic gain of $358.7 thousand.

On April 25, 2012, the Oregon University System issued $100.5 million in 2012 Series A, B, and C General Obligation Bonds with an average interest rate of 4.5 percent. These bonds refunded $106.6 million of various outstanding series general obligation bonds with an average interest rate of 4.8 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 18 years by $12.9 million and resulted in an economic gain of $10.8 million.

On April 25, 2012, DAS issued $53.5 million in 2012 Series B Lottery Revenue Bonds with an average interest rate of 4.5 percent. These bonds refunded $60.5 million of various outstanding series lottery revenue bonds with an average interest rate of 4.5 percent. The $165 thousand current refunding and the $60.4 million advanced refunding was undertaken to reduce the total debt service payments over the next 13 years by $8.2 million and resulted in an economic gain of $4.4 million.

On May 5, 2012, the Oregon Health and Science University, a discretely presented component unit, issued $253.2 million in 2012 Series A, C, and D Revenue Bonds with an average interest rate of 3.6 percent. These bonds refunded $282.7 million of various outstanding series revenue bonds with an average interest rate of 3.5 percent. The combination of current and advanced refunding was undertaken to reduce the total debt service payments over the next 21 years by $38.2 million and resulted in an economic gain of $8.7 million.

On June 26, 2012, the Oregon Department of Transportation (ODOT) issued $130 million in 2012 Series A Revenue Bonds with an average interest rate of 5 percent. These bonds refunded $142.2 million of various outstanding series revenue bonds with an average interest rate of 5 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 17 years by $21.1 million and resulted in an economic gain of $16.7 million.

On June 26, 2012, ODOT issued $70.9 million in 2012 Series B Revenue Bonds with an average interest rate of 2 percent. These bonds refunded $63 million of outstanding 2004 Series B and 2005 Series B Revenue Bonds with an average interest rate of 5.1 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 3 years by $4.8 million and resulted in an economic gain of $4.2 million.

On November 9, 2011, ODOT issued highway user tax revenue subordinate lien notes for $265.3 million in favor of Citibank, N.A., as the initial lender. The proceeds from the issuance were used to refund, in their entirety, the 2006 Series B Bonds and the 2007 Series B Bonds on a current refunding basis. The 2011 Series A Note bears interest at a variable interest rate determined on the basis of a seven-day SIFMA index plus a margin. The 2011 Series A Note is subject to optional, mandatory, and extraordinary prepayment or redemption, and a term-out period. The lender's initial commitment expires on the mandatory prepayment date of November 7, 2014, with the aggregate outstanding principal amount of the loan due in six equal, semiannual installments beginning six months after the anniversary of the mandatory prepayment date (the "term-out period"). On the date the 2011 Series A Note is prepaid, in whole, in accordance with (a) optional prepayment provisions, (b) mandatory prepayment provisions, (c) term-out period requirements or (d) mandatory tender provisions, the Department of Transportation will remarket the 2011 Series A Note. The final maturity for this series is November 2027.

J. Defeased Debt

The State has defeased certain general obligation and revenue bonds, as well as certificates of participations, by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for defeased bonds is not included in the State's financial statements. On June 30, 2012, approximately $915.4 million of bonds outstanding are considered defeased for the primary government. Additionally, approximately $38.5 million is considered defeased for the discretely presented component unit, Oregon Health and Science University, as of June 30, 2012.

10. OTHER LONG-TERM LIABILITIES

A. Changes in Other Long-Term Liabilities

Changes in other long-term liabilities for governmental activities for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences payable	$ 165,454	$ 17,211	$ 7,674	$ 174,991	$ 115,495
Claims and judgments payable	1,062,128	142,523	168,746	1,035,905	131,180
Arbitrage rebate payable	1,502	1,280	1,502	1,280	896
Custodial liabilities	273,047	328,572	372,256	229,363	226,066
Contracts, mortgages, and notes payable	102,182	51,855	99,330	54,707	11,900
Obligations under capital lease	9,638	4,632	5,781	8,489	5,687
Pollution remediation obligation	10,886	182	406	10,662	3,296
Net OPEB obligation	37,187	5,932	-	43,119	-
Total other long-term liabilities	$ 1,662,024	$ 552,187	$ 655,695	$ 1,558,516	$ 494,520

Internal service funds predominantly serve the governmental funds. Therefore, long-term liabilities for internal service funds are included as part of the totals for governmental activities. The compensated absences liability is mainly liquidated through the General Fund, Health and Social Services Fund, and the Public Transportation Fund. The claims and judgments liability is generally liquidated through the Employment Services Fund and the Central Services Fund, an internal service fund. The arbitrage rebate liability is generally liquidated through the Revenue Bond Fund. The custodial liabilities are expected to be liquidated by the Common School Fund. The liability for contracts, mortgages, and notes is generally liquidated through the General Fund, the Public Transportation Fund, and the Health and Social Services Fund. The capital lease obligations are generally liquidated through the Central Services Fund. The pollution remediation obligation will be mainly liquidated through the Environmental Management Fund and the Public Transportation Fund.

Changes in other long-term liabilities for business-type activities for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Compensated absences payable	$ 62,218	$ 13,317	$ 8,344	$ 67,191	$ 58,600
Claims and judgments payable	-	26,345	12,386	13,959	13,959
Lottery prize awards payable	141,109	270,839	257,587	154,361	29,320
Arbitrage rebate payable	13,548	3,069	152	16,465	123
Custodial liabilities	38,004	23,965	18,426	43,543	32,098
Contracts, mortgages, and notes payable	18,133	21,672	2,848	36,957	13,249
Contracts payable to component unit	28,029	-	26,795	1,234	1,234
Obligations under capital lease	615	16	75	556	65
Net OPEB obligation	17,828	3,217	19	21,026	-
Derivative instruments liability	27,218	13,026	-	40,244	-
Total other long-term liabilities	$ 346,702	$ 375,466	$ 326,632	$ 395,536	$ 148,648

Changes in other long-term liabilities for fiduciary fund activities for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Fiduciary fund activities					
Custodial liabilities	$ 1,847,335	$ 8,686,087	$ 8,658,273	$ 1,875,149	$ 58,999
Contracts, mortgages, and notes payable	2,174	31	164	2,041	80
Net OPEB obligation	364	90	7	447	-
Total other long-term liabilities	$ 1,849,873	$ 8,686,208	$ 8,658,444	$ 1,877,637	$ 59,079

Changes in other long-term liabilities for the discretely presented component units, SAIF Corporation for the year ended December 31, 2011, and the Oregon Health and Science University for the year ended June 30, 2012 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Discretely presented component units					
Obligations under life income agreements	$ 17,134	$ 1,862	$ 2,761	$ 16,235	$ -
Reserve for loss and loss adjustment expense	3,004,639	328,879	314,125	3,019,393	225,388
Claims and judgments payable	56,091	6,712	1,575	61,228	18,678
Contracts, mortgages, and notes payable	36,649	5,256	5,485	36,420	1,948
Obligations under capital lease	5,805	-	1,142	4,663	4,034
Advances from primary government	48,648	558	4,375	44,831	2,374
Net OPEB obligation	6,331	1,740	-	8,071	-
Derivative instruments liability	7,776	8,181	-	15,957	-
Total other long-term liabilities	$ 3,183,073	$ 353,188	$ 329,463	$ 3,206,798	$ 252,422

B. Arbitrage Rebate Liability

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

Outstanding arbitrage rebate liabilities as of June 30, 2012 (in thousands):

Primary Government	Amount
Department of Administrative Services	$ 1,280
Department of Veterans' Affairs	15,860
Oregon University System	123
Housing and Community Services Department	482
Total arbitrage rebate liability	$ 17,745

11. POLLUTION REMEDIATION OBLIGATION

Pollution remediation obligations address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities, including pre-cleanup activities, cleanup activities, government oversight and enforcement-related activities, and postremediation monitoring. Excluded from pollution remediation obligations are obligations for pollution *prevention* and *control* activities, fines and penalties, landfill closure and postclosure care, and other future remediation activities required upon retirement of an asset.

The State recognizes a pollution remediation obligation when it can reasonably estimate the range of expected cash outlays. At June 30, 2012, the State recognized an estimated liability of $10.7 million for pollution remediation activities. The liability, which is reported in the government-wide statement of net assets, was recorded at the current value of the costs the State expects to incur to perform the work.

For many projects, the State can reasonably estimate the range of expected outlays early in the process, using the State's remediation history for similar sites as the basis for the calculations. In other cases, the estimated liability is based on the amount specified in a contract for remediation services or the estimate of the cleanup costs provided by an environmental consulting firm. Expected recoveries from responsible parties or potentially responsible parties and insurance recoveries are included in the estimates and reduce the State's expense. No material expected recoveries were included in the measurement of the State's pollution remediation obligation at June 30, 2012.

When new information indicates changes in expected outlays, the liability for pollution remediation is adjusted. Adjustments may occur due to price fluctuations resulting from delays in contracting specific remediation jobs, changes in technology, changes in legal or regulatory requirements, and changes in the remediation plan or operating conditions.

Currently, the Oregon Department of Environmental Quality (DEQ), as a government responsible for sharing costs under federal law, is obligated to clean up two Superfund sites. Both sites are contaminated with chemicals used in the wood-treatment industry. Contamination was found in the soil, groundwater, and sediments of adjacent rivers. The Oregon Department of Transportation (ODOT) also performs ongoing pollution remediation. For example, to facilitate the agency's transportation goals, ODOT voluntarily conducts the cleanup of contaminated soil and ground water found within the footprint of a construction project and removes lead-based paint when performing bridge repairs. In other cases, DEQ has named ODOT as a responsible party or potentially responsible party, or ODOT has entered the contaminated site into the DEQ's Voluntary Cleanup Program as the responsible party.

As of June 30, 2012, the State is involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of contamination in the Portland Harbor Superfund site. There are over 200 parties, private and public, that may eventually bear a share of the costs. It is too early in the Environmental Protection Agency's remedial action process to estimate the total cleanup costs that may be shared by the liable parties and what portion of that, if any, will be assessed against the State. The Portland Harbor Superfund site is discussed in more detail in Note 23.

12. PLEDGED REVENUES

A. Unobligated Net Lottery Proceeds

The State has pledged future unobligated net lottery proceeds to repay $1.1 billion of lottery revenue bonds. Unobligated net lottery proceeds consist of all revenues derived from the operation of the Oregon State Lottery except for revenues used for payment of prizes and expenses of the Lottery. Proceeds from lottery revenue bonds provide financing for economic development within the state, as well as for the improvement and expansion of state parks and school facilities. The bonds are payable solely from the pledged revenues and are payable through 2033. Total principal and interest remaining to be paid on the bonds is $1.6 billion. In fiscal year 2013, principal and interest payments on the bonds are expected to require approximately 23.1 percent of unobligated net lottery proceeds. Principal and interest paid for the current year and total unobligated net lottery proceeds recognized were $134.8 million and $529.6 million, respectively.

B. Highway User Taxes and Vehicle Registration Fees

The State has pledged future highway user taxes and vehicle registration fees, net of administrative expenses, operating transfers, and statutory transfers to counties, to repay $2.1 billion of highway user tax revenue bonds. Proceeds from the bonds provide financing for the construction, reconstruction, improvement, repair, maintenance and operation, and use of public highways, roads, streets, and roadside rest areas for the State. The bonds are payable solely from the pledged revenues and are payable through November 2034. Total principal and interest remaining to be paid on the bonds is $3.4 billion. Fiscal year 2013 principal and interest payments on the bonds are expected to require approximately 25.4 percent of pledged revenues. Principal and interest paid for the current year and total pledged revenues recognized were $150.2 million and $566.9 million, respectively.

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13. INTERFUND TRANSACTIONS

Interfund balances reported in the fund financial statements as of June 30, 2012 (in thousands):

	Due from Other Funds				
Due to Other Funds	**General**	**Health and Social Services**	**Public Transportation**	**Environmental Management**	**Common School**
General	$ -	$ 50,576	$ 90,048	$ 67,008	$ 24
Health and Social Services	16,817	-	-	203	-
Public Transportation	200	-	-	13,147	-
Environmental Management	1,556	-	4,237	-	112
Common School	-	-	-	786	-
Nonmajor Governmental Funds	20,116	8,295	64	137	-
Housing and Community Services	-	-	-	-	-
Lottery Operations	126,123	-	-	-	-
Unemployment Compensation	-	-	-	-	-
Nonmajor Enterprise Funds	75,914	3,238	-	1,350	-
Internal Service Funds	86	-	-	-	-
Fiduciary Funds	10	-	-	-	-
Total	$ 240,822	$ 62,109	$ 94,349	$ 82,631	$ 136

	Advances to Other Funds			
Advances from Other Funds	**Common School**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total**
General	$ -	$ -	$ 648	$ 648
Environmental Management	300	-	-	300
Nonmajor Governmental Funds	19,000	88	-	19,088
University System	-	96,599	-	96,599
Nonmajor Enterprise Funds	-	100	-	100
Internal Service Funds	-	190	-	190
Total	$ 19,300	$ 96,977	$ 648	$ 116,925

Interfund balances result from the time lag between the date a transaction for interfund goods and services or reimbursable expenditures/expenses is recorded and the date the payment between funds is made. Advances to and from other funds are not expected to be repaid within one year.

Due from Other Funds (continued)

Nonmajor Governmental Funds	Housing and Community Services	Veterans' Loan	University System	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
$ 232,200	$ -	$ -	$ 6,857	$ 1,077	$ 1,154	$ -	$ 448,944
468	-	-	-	62	-	-	17,550
3,821	-	-	-	-	-	-	17,168
1,141	-	-	14	-	-	-	7,060
-	-	-	-	-	-	-	786
19,467	33	-	755	-	2,742	-	51,609
7	-	-	-	-	-	-	7
-	-	-	-	-	-	-	126,123
9,139	-	-	-	-	-	-	9,139
4	-	68	-	-	84	506	81,164
51	-	-	-	-	-	-	137
-	-	-	-	37	-	7,707	7,754
$ 266,298	$ 33	$ 68	$ 7,626	$ 1,176	$ 3,980	$ 8,213	$ 767,441

Interfund transfers reported in the fund financial statements as of June 30, 2012 (in thousands):

	Transfers from Other Funds				
Transfers to Other Funds	**General**	**Health and Social Services**	**Public Transportation**	**Environmental Management**	**Common School**
General	$ -	$ 27,503	$ 3,026	$ 107,035	$ 139
Health and Social Services	18,690	-	-	660	-
Public Transportation	5,276	-	-	30,159	-
Environmental Management	20,632	83	1,279	-	11,062
Common School	47,986	-	-	6,718	-
Nonmajor Governmental Funds	159,048	56,338	85,173	729	-
Housing and Community Services	-	-	-	-	-
Veterans' Loan	-	-	-	-	-
Lottery Operations	529,562	-	-	-	-
Unemployment Compensation	-	-	-	-	-
University System	4,269	-	-	-	-
Nonmajor Enterprise Funds	137,859	8,300	-	323	-
Internal Service Funds	16,989	4,107	-	837	-
Subtotal	940,311	96,331	89,478	146,461	11,201
Long-term liability transferred from general governmental activities to a nonmajor enterprise fund	-	-	-	-	-
Total	$ 940,311	$ 96,331	$ 89,478	$ 146,461	$ 11,201

Transfers are used to move (1) revenues collected by one fund to the fund authorized by statute or the State's budget to expend them, (2) receipts restricted to debt service or capital construction to the appropriate funds, and (3) unrestricted revenues collected by the General Fund for various programs accounted for in other funds according to State budget requirements.

During the 2012 legislative session, actions were taken to balance the General Fund budget for the 2011-13 biennium. These actions resulted in resource additions or expenditure reductions in the General Fund. Of the $940.3 million transferred to the General Fund during fiscal year 2012, $100.9 million of Other Funds were transferred as a part of the Legislature's rebalancing plan.

In the fund financial statements, total transfers to other funds of $3,061,946 exceed total transfers from other funds of $3,061,056 due to the transfer of long-term liabilities from general governmental activities to the State Hospital Fund, a nonmajor enterprise fund.

Transfers from Other Funds (continued)

Nonmajor Governmental Funds	Unemployment Compensation	University System	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
$ 512,838	$ -	$ 343,539	$ 144,652	$ 371	$ -	$ 1,139,103
107,186	-	-	37,905	143,163	-	307,604
230,312	-	-	-	-	-	265,747
27,038	-	2,708	-	954	-	63,756
265	-	-	-	-	-	54,969
90,663	487	8,150	179	722	151	401,640
166	-	-	-	-	-	166
229	-	-	-	-	-	229
1,460	-	-	-	-	-	531,022
50,891	-	-	-	-	-	50,891
35,374	-	-	-	-	-	39,643
9,623	-	-	16,430	700	-	173,235
12,008	-	-	-	-	-	33,941
1,078,053	487	354,397	199,166	145,910	151	3,061,946
-	-	-	(890)	-	-	(890)
$ 1,078,053	$ 487	$ 354,397	$ 198,276	$ 145,910	$ 151	$ 3,061,056

14. SEGMENT INFORMATION

Oregon Revised Statutes (ORS) 285B.410 through 285B.482 create the Special Public Works Fund and authorize the Oregon Business Development Department (OBDD) to issue revenue bonds to finance loans to municipalities for infrastructure projects. ORS 285B.560 through 285B.599 establish the Water Fund and authorize OBDD 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.

ORS 456.645 authorizes the Oregon Housing and Community Services Department (OHCSD) to issue revenue bonds to finance single-family mortgage loans and multi-family housing projects. Article XI-I (2) of the Oregon Constitution authorizes OHCSD to finance multi-family housing for elderly and disabled persons. Mortgage payments and fees and rental revenues support these bonds.

Summary financial information for the Special Public Works Fund, the Water Fund, and OHCSD's various bond funds for the year ended June 30, 2012 (in thousands):

Condensed balance sheet	**Special Public Works Fund**	**Water Fund**	**Mortgage Revenue Bonds**	**Homeowner Revenue Bonds**
Assets:				
Interfund receivables	$ -	$ 100	$ -	$ 5
Other current assets	92,768	18,856	36,760	24,008
Noncurrent assets	211,593	96,901	952,929	166,299
Deferred outflows	-	-	35,823	-
Total assets	$ 304,361	$ 115,857	$ 1,025,512	$ 190,312
Liabilities:				
Due to other funds	$ 3	$ -	$ -	$ -
Current liabilities	14,114	4,094	21,765	23,699
Noncurrent liabilities	71,914	37,410	913,008	163,636
Total liabilities	86,031	41,504	934,773	187,335
Net assets:				
Restricted	-	894	90,739	2,977
Unrestricted	218,330	73,459	-	-
Total net assets	218,330	74,353	90,739	2,977
Total liabilities and net assets	$ 304,361	$ 115,857	$ 1,025,512	$ 190,312

Condensed statement of revenues, expenses, and changes in fund net assets	**Special Public Works Fund**	**Water Fund**	**Mortgage Revenue Bonds**	**Homeowner Revenue Bonds**
Operating activities:				
Loan interest income	$ 9,526	$ 4,269	$ 44,406	$ 3,917
Other operating revenue	-	-	17	-
Amortization	-	-	(439)	(91)
Other operating expenses	(8,180)	(3,761)	(45,925)	(5,597)
Operating income (loss)	1,346	508	(1,941)	(1,771)
Total nonoperating revenues (expenses)	478	74	6,121	929
Transfers from other funds	-	13,620	900	1,630
Transfers to other funds	(13,924)	(2,962)	(2,694)	-
Change in net assets	(12,100)	11,240	2,386	788
Beginning net assets (as restated)	230,430	63,113	88,353	2,189
Ending net assets	$ 218,330	$ 74,353	$ 90,739	$ 2,977

Condensed statement of cash flows	Special Public Works Fund	Water Fund	Mortgage Revenue Bonds	Homeowner Revenue Bonds
Net cash provided (used) by:				
Operating activities	$ 15,417	$ 9,534	$ 150,900	$ (60,762)
Noncapital financing activities	(47,248)	(8,821)	(143,996)	25,919
Investing activities	479	74	9,599	47,514
Net increase (decrease)	(31,352)	787	16,503	12,671
Beginning cash and cash equivalents (as restated)	112,952	15,585	16,006	491
Ending cash and cash equivalents	$ 81,600	$ 16,372	$ 32,509	$ 13,162

Condensed balance sheet	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Assets:			
Current assets	$ 8,318	$ 1,244	$ 12,040
Noncurrent assets	178,437	10,304	188,121
Deferred outflows	1,374	-	-
Total assets	$ 188,129	$ 11,548	$ 200,161
Liabilities:			
Interfund payables	$ -	$ -	$ 11
Other current liabilities	7,490	1,158	11,134
Noncurrent liabilities	156,089	2,643	119,809
Total liabilities	163,579	3,801	130,954
Net assets:			
Restricted	24,550	7,747	69,207
Total net assets	24,550	7,747	69,207
Total liabilities and net assets	$ 188,129	$ 11,548	$ 200,161

Condensed statement of revenues, expenses, and changes in fund net assets	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Operating activities:			
Loan interest income	$ 9,671	$ 300	$ 10,464
Other operating revenue	168	-	179
Depreciation and amortization	(119)	(8)	(95)
Other operating expenses	(7,825)	(361)	(8,932)
Operating income (loss)	1,895	(69)	1,616
Total nonoperating revenues (expenses)	2,376	119	2,945
Transfers from other funds	390	-	-
Transfers to other funds	(1,000)	(1,770)	(158)
Change in net assets	3,661	(1,720)	4,403
Beginning net assets (as restated)	20,889	9,467	64,804
Ending net assets	$ 24,550	$ 7,747	$ 69,207

Condensed statement of cash flows	Multifamily Housing Revenue Bonds	Multiple Purpose Bonds	Elderly and Disabled Housing Fund
Net cash provided (used) by:			
Operating activities	$ 15,527	$ 2,511	$ 15,068
Noncapital financing activities	(18,277)	(3,136)	(29,268)
Investing activities	4,520	957	7,088
Net increase (decrease)	1,770	332	(7,112)
Beginning cash and cash equivalents (as restated)	1,333	277	35,182
Ending cash and cash equivalents	$ 3,103	$ 609	$ 28,070

15. EMPLOYEE RETIREMENT PLANS

A. Plan Descriptions

Public Employees Retirement System

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. PERS is administered under the Oregon Revised Statutes (ORS) Chapters 238 and 238A and Internal Revenue Code Section 401(a) by the Public Employees Retirement Board. Plan assets of the defined benefit, defined contribution, postemployment healthcare, and deferred compensation plans may legally be used to pay benefits only to the plan members or plan beneficiaries for whom the assets were accumulated. The PERS defined benefit plans provide pension benefits, death benefits, disability benefits, and postemployment healthcare benefits.

PERS features both a cost-sharing multiple-employer pension plan and an agent multiple-employer pension plan. Participation in the PERS cost-sharing multiple-employer plan is mandatory for state agencies that comprise the primary government, as well as 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, 2012, PERS had 902 employer members consisting of:

State agencies	113
Community colleges	17
School districts	287
Political subdivisions	485

In 1995, the Oregon Legislature passed a bill that created a second tier of benefits for those employees who established membership on or after January 1, 1996. The second tier does not enjoy the Tier One assumed earnings rate guarantee and sets the normal retirement age at 60, compared to 58 for Tier One. As of June 30, 2012, there were 45,629 active and 20,017 inactive members for a total of 65,646 PERS Tier One plan members and 48,150 active and 16,902 inactive members for a total of 65,052 PERS Tier Two plan members.

In 2003, the Oregon Legislature enacted a bill that created the Oregon Public Service Retirement Plan (OPSRP). OPSRP consists of a defined benefit pension program and the defined contribution Individual Account Program (IAP). OPSRP is part of PERS and is administered by the PERS Board. Membership includes public employees hired on or after August 29, 2003. As of June 30, 2012, there were 76,002 active and 5,367 inactive members for a total of 81,369 OPSRP members.

Beginning January 1, 2004, active PERS Tier One and Tier Two plan members became members of the IAP. The Tier One and Tier Two plan members retain their existing PERS accounts; however, member contributions are now deposited into the members' IAP accounts.

The PERS defined benefit and defined contribution retirement plans are reported as pension trust funds in the fiduciary funds combining statements and as part of the Pension and Other Employee Benefit Trust in the fiduciary funds basic financial statements. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information that may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, PO Box 23700, Tigard, OR 97281-3700. The report may also be accessed online at:

http://www.oregon.gov/PERS/Pages/section/financial_reports/financials.aspx

Optional Plans

The 1995 Oregon Legislature enacted legislation that authorized the Oregon University System (OUS) to offer a defined contribution retirement plan as an alternative to PERS. Effective April 1, 1996, OUS established the Optional Retirement Plan (ORP), which was made available to OUS unclassified faculty and staff who are eligible for PERS membership. The ORP consists of three tiers. Membership in ORP Tier One and Tier Two is determined using the same criteria as PERS. The third tier is determined by membership in OPSRP.

In addition to PERS and ORP, eligible unclassified employees hired on or before September 9, 1995, may participate in the Teacher's Insurance and Annuity Association and College Retirement Equities Fund retirement program. This defined contribution plan was closed to new enrollment at the time the ORP became effective in 1996.

Effective July 1, 1996, the Oregon Health and Science University (OHSU), which is a discretely presented component unit, 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 three- to four-year period.

B. Summary of Significant Accounting Policies

The financial statements for the PERS retirement plans are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Expenses are recognized when incurred. Benefits and refunds are recognized when due and payable.

Plan investments are reported at fair value. The fair value of publicly traded debt and equity securities in active markets is determined by the custodian's pricing agent using nationally recognized pricing services. The custodian's pricing agent values equity securities traded on a national or international exchange at the last reported sales price and, generally, values debt securities by using evaluated bid prices. The fair value of publicly traded real estate investment trust (REIT) securities is determined by the custodian's pricing agent using recognized pricing services. For securities that do not have an active market, such as private placements or commingled investment vehicles, the custodian's pricing agent or investment manager uses a similar benchmark security to estimate fair value. The benchmark used to value a debt security, for example, typically has a coupon rate and maturity date comparable to the debt security being valued, as well as similar market risk.

Investments in private equities are recorded at fair value, as of June 30, 2012, as determined by PERS management based on valuation information provided by the general partner. Investments in private equities representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to information including, but not limited to, the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Investments in real estate, with the exception of publicly traded REITs, for which observable market prices in active markets do not exist, are reported at fair value as of June 30, 2012, as determined by PERS management based on valuation information provided in good faith by the general partner. Direct investments in real estate are appraised every two to three years, and between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. In the absence of observable market prices, general partners determine the fair value by using valuation methods considered most appropriate. A variety of factors are considered, including the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment.

Investments in the PERS Opportunity and Alternative Equity portfolios are recorded at fair values as of June 30, 2012, as determined by the respective general partner or account manager. (The Opportunity portfolio is an investment portfolio within the PERS Fund that utilizes innovative investment approaches across a wide range of investment opportunities while investments in the Alternative Equity portfolio represent alternative investment strategies, including infrastructure, natural resources, natural resource commodities, and absolute return or hedge fund strategies.) Investments in these portfolios represent publicly traded securities that are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner or account manager determines fair value based on the best information available and by reference to information including, but not limited to, the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Due to the inherent uncertainty and the degree of judgment involved in determining certain private equity, Opportunity, Alternative Equity, and real estate investment portfolio valuations, the fair values reflected in the accompanying financial statements may differ significantly from values that would have been used had a readily determinable market value for the investments existed, and the difference could be material. In addition, these investments are generally considered to be illiquid long-term investments; the recorded fair values may materially differ from the amounts eventually realized from the sale or other disposition of these investments.

C. Funding

Primary Government

To pay for PERS pension benefits, state agencies make required contributions based on a percentage of employee payrolls. The retirement contribution rates include an actuarially determined employer rate and a member contribution rate. The PERS Board updates the employer rates every two years, effective July 1 of each odd-numbered year. Currently, the member contribution, known as the 6 percent pick-up, is set by statute and is paid by state agencies. These two contributions are paid to the State's pension system and are invested at an acceptable level of investment risk as determined by the Oregon Investment Council.

The PERS employer contribution rates for state agencies for the biennium beginning July 1, 2011, and ending June 30, 2013, expressed as a percentage of covered payroll:

Tier One - Tier Two Employer Rates		**OPSRP Employer Rates**	
General Service	Police and Fire	General Service	Police and Fire
8.80%	16.65%	7.44%	10.15%

State agencies' employer contributions to PERS for fiscal years ended June 30, 2012, 2011, and 2010, totaled approximately $214.4 million, $79.5 million, and $66.4 million, respectively. Member contributions for the year ended June 30, 2012, were $139.2 million. The actual contribution equaled the contractually required contribution in each fiscal year. The contractually required contribution rates for the biennium ending June 30, 2013, are significantly higher than the required contribution rates for the prior biennium.

In fiscal year 2004, the State issued $2 billion in pension obligation bonds to reduce the PERS pension liability. As a result, the actual contribution exceeded the annual required contribution in that fiscal year, creating a net pension asset that is being amortized using the level dollar closed method over 22 years and an assumed interest rate of 8 percent. The primary government's employer cost for the PERS pension plan for fiscal year 2012 was $276.1 million and included $61.7 million of amortization. State agencies pay an additional assessment to cover the annual debt service requirements attributable to the pension bonds.

Oregon University System's Optional Retirement Plan (ORP)

Under the ORP, the employee contribution rate is 6 percent and is paid by OUS. The employer contribution rates for fiscal year 2012 were 16.1 percent for ORP Tier One and ORP Tier Two and 6.2 percent for the OPSRP equivalent. Total OUS employer contributions to the ORP for the years ended June 30, 2012, 2011, and 2010, were approximately $27.8 million, $21.6 million, and $21 million, respectively. The OUS employee contributions to the ORP for the years ended June 30, 2012, 2011, and 2010, were approximately $14.9 million, $14.3 million, $13.6 million, respectively.

Discretely Presented Component Units

The SAIF Corporation's employer contributions to PERS for years ended December 31, 2011, 2010, and 2009, were approximately $3.2 million, $1.3 million, and $2.6 million, respectively. Employer contributions to PERS for the Oregon Health and Science University (OHSU) for fiscal years ended June 30, 2012, 2011, and 2010, were approximately $33.5 million, $12.5 million, and $11.7 million, respectively. For both component units, the actual contribution equaled the annual required contribution in each year.

The OHSU board of directors determines the contribution rate for OHSU's University Pension Plan (UPP). Employer contributions to the plan are 6 percent of salary and employee contributions are an additional 6 percent. Currently, OHSU is funding employee contributions. OHSU's employer contributions to the UPP for the years ended June 30, 2012, 2011, and 2010, were approximately $24.2 million, $21.6 million, $18.4 million, respectively, and were equal to the employees' share for each year.

16. OTHER POSTEMPLOYMENT BENEFIT PLANS

A. Public Employees Retirement System

Plan Descriptions

The Public Employees Retirement System (PERS) board contracts for health insurance coverage on behalf of the members of PERS. Eligible retirees pay their own age-adjusted premiums. To help retirees defray the cost of these premiums, PERS also 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 902 employers participate. Established under Oregon Revised Statute (ORS) 238.420, the plan provides a payment of up to $60 toward the monthly cost of health insurance for eligible PERS members. To be eligible to receive 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 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 Legislature has sole authority to amend the benefit provisions and employer obligations for the RHIA plan. The number of RHIA plan members receiving benefits was 41,467 as of June 30, 2012.

The RHIPA is a single-employer OPEB plan established under ORS 238.415. The plan provides payment of the average difference between the health insurance premiums paid by retired state employees under contracts entered into by the PERS board and health insurance premiums paid by state employees who are not retired. PERS members are qualified to receive the RHIPA subsidy if they have eight or more years of qualifying service in PERS at the time of retirement or receive 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 Legislature has sole authority to amend the benefit provisions and employer obligations of the RHIPA plan. The number of RHIPA plan members receiving benefits was 1,136 as of June 30, 2012.

Both RHIA and RHIPA are closed to employees hired on or after August 29, 2003, who had not established membership prior to that date.

The RHIA and RHIPA defined benefit OPEB plans are reported separately under Other Employee Benefit Trust Funds in the fiduciary funds combining statements and as part of the Pension and Other Employee Benefit Trust in the fiduciary funds basic financial statements. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. The report may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, PO Box 23700, Tigard, OR 97281-3700. The report may also be accessed online at:

http://oregon.gov/PERS/section/financial_reports/financials.shtml

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. Expenses are recognized when incurred. Benefits and refunds are recognized when due and payable.

Plan investments are reported at fair value. The fair value of publicly traded debt and equity securities in active markets is determined by the custodian's pricing agent using nationally recognized pricing services. The custodian's pricing agent values equity securities traded on a national or international exchange at the last reported sales price and, generally, values debt securities by using evaluated bid prices. The fair value of publicly traded real estate investment trust (REIT) securities is determined by the custodian's pricing agent using recognized pricing services. For securities that do not have an active market, such as private placements or commingled investment vehicles, the custodian's pricing agent or investment manager uses a similar benchmark security to estimate fair value. The benchmark used to value a debt security, for example, typically has a coupon rate and maturity date comparable to the debt security being valued, as well as similar market risk.

Investments in private equities are recorded at fair value, as of June 30, 2012, as determined by PERS management based on valuation information provided by the general partner. Investments in private equities representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to information including, but not limited to, the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Investments in real estate, with the exception of publicly traded REITs, for which observable market prices in active markets do not exist, are reported at fair value as of June 30, 2012, as determined by PERS management based on valuation information provided in good faith by the general partner. Direct investments in real estate are appraised every two to three years and, between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. In the absence of observable market prices, general partners determine the fair value by using valuation methods considered most appropriate. A variety of factors are considered, including the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment.

Investments in the PERS Opportunity and Alternative Equity portfolios are recorded at fair values as of June 30, 2012, as determined by the respective general partner or account manager. (The Opportunity portfolio is an investment portfolio within the PERS Fund that utilizes innovative investment approaches across a wide range of investment opportunities while investments in Alternative Equity portfolio represent alternative investment strategies, including infrastructure, natural resources, natural resource commodities, and absolute return or hedge fund strategies.) Investments in these portfolios represent publicly traded securities that are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner or account manager determines fair value based on the best information available and by reference to information including, but not limited to, the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include (1) the market approach, whereby fair value is derived by reference to observable valuation measures for comparable companies or assets, and (2) the income approach (e.g., the discounted cash flow method).

Due to the inherent uncertainty and the degree of judgment involved in determining certain private equity, Opportunity, Alternative Equity, and real estate investment portfolio valuations, the fair values reflected in the accompanying financial statements may differ significantly from values that would have been used had a readily determinable market value for the investments existed, and the difference could be material. In addition, these investments are generally considered to be illiquid long-term investments; the recorded fair values may materially differ from the amounts eventually realized from the sale or other disposition of these investments.

Funding

Both of the OPEB plans administered by PERS are funded through actuarially determined employer contributions. For the biennium ending June 30, 2013, state agencies contribute 0.09 percent of PERS-covered payroll for Tier One and Tier Two plan members to fund the normal cost portion of RHIA benefits. In addition, state agencies contribute 0.5 percent of all PERS-covered payroll to amortize the unfunded actuarial accrued liability over a fixed period with new unfunded actuarial accrued liabilities amortized over 20 years. The required employer contributions were approximately $12.9 million, $5.8 million, and $5.8 million for years ended June 30, 2012, 2011, and 2010, respectively. The actual contribution equaled the annual required contribution in each fiscal year. (See Note 15 for details concerning Tier One, Tier Two, and OPSRP membership in PERS.)

The funded status of the RHIA postemployment healthcare plan as of the most recent actuarial valuation date (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)
12/31/2011	$239.6	$461.1	$221.5	52%	$8,550.5	2.6%

For the biennium ending June 30, 2013, state agencies contribute 0.05 percent of PERS-covered payroll for Tier One and Tier Two plan members to fund the normal cost portion of RHIPA benefits. In addition, state agencies contribute 0.11 percent of all PERS-covered payroll to amortize the unfunded actuarial accrued liability over a fixed period with new unfunded actuarial accrued liabilities amortized over 20 years. The required employer contributions were approximately $3.4 million, $1.4 million, and $1.5 million for the years ended June 30, 2012, 2011, and 2010, respectively. The actual contribution equaled the annual required contribution in each fiscal year.

The funded status of the RHIPA postemployment healthcare plan as of the most recent actuarial valuation date (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)
12/31/2011	$4.5	$34.4	$29.9	13.2%	$2,376.9	1.3%

Actuarial Methods and Assumptions

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, 2011, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include an 8 percent per annum rate of return on the investment of present and future assets and projected payroll growth of 3.75 percent for both the RHIA and RHIPA plans. The RHIPA plan uses a healthcare cost inflation adjustment graded from 7 percent in 2011 to 4.5 percent in 2029. The RHIPA plan's inflation assumption is 2.75 percent, which is a subcomponent of the payroll growth rate. There is no inflation assumption for RHIA postemployment benefits because the payment amount is set by statute and is not adjusted for increases in healthcare costs. The unfunded actuarial accrued liability is being amortized as a level percentage of combined valuation payroll over a closed period of 10 years. The actuarial value of plan assets for both the RHIA and the RHIPA is equal to the asset's fair market value on the valuation date. The amount of net assets available for other postemployment benefits for RHIA and RHIPA at June 30, 2012, was $266.6 million and $4.6 million, respectively.

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). This plan offers healthcare assistance to eligible retired employees and their beneficiaries. Chapter 243 of the Oregon Revised Statutes gives the board the authority to establish and amend the benefit provisions of the PEBB Plan. Eleven employers participate in the PEBB Plan, which is considered an agent multiple-employer plan for financial reporting purposes. As of June 30, 2012, PEBB Plan members consisted of 49,415 active employees and 1,672 retired employees and beneficiaries receiving benefits. PEBB does not issue a separate, publicly available financial report.

The PEBB Plan allows qualifying retired employees to continue their "active" health insurance coverage on a self-pay basis until they are eligible for Medicare. Participating retirees pay their own monthly premiums. However, the premium amount is based on a blended rate that is determined by pooling the qualifying retirees with active employees, thus, creating an "implicit rate subsidy."

Summary of Significant Accounting Policies

The PEBB plan's implicit rate subsidy, if not fully funded, represents an obligation of the State, the net OPEB obligation. The net OPEB obligation for the year ended June 30, 2012, is $64.6 million and is allocated to the participating funds based on each fund's proportionate share of annual health insurance premium costs. The portion of the net OPEB obligation related to governmental activities is reported in the internal service funds balance sheet and the government-wide statement of net assets; the portion related to business-type activities is reported in the proprietary funds balance sheet and the government-wide statement of net assets. The portion related to fiduciary activities is reported in the statement of fiduciary net assets.

Funding

The PEBB's funding policy provides for employer contributions in amounts sufficient to fund the cost of active employee health benefits, including the retiree rate subsidy, on a pay-as-you-go basis. Administrative costs of the PEBB Plan are financed by up to 2 percent of employer and plan member contributions. For the year, ended June 30, 2012, retired plan members contributed $24.3 million through their required contributions. The average monthly contribution was $1,210. Active employees do not contribute to the plan.

The funded status of the PEBB postemployment healthcare plan as of the most recent actuarial valuation date (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)
7/1/2011	-	$154.7	$154.7	-	$2,647	5.8%

The schedule of funding progress, which is included in the required supplementary information that immediately follows the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The PEBB postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by the PEBB consulting actuary at July 1, 2011, using the entry age normal cost method. The State's annual OPEB expense is based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over thirty years. Significant assumptions used in the actuarial valuation include a 3.5 percent per annum rate of return on the investment of present and future assets and projected payroll growth of 3.5 percent. The plan uses a medical healthcare cost inflation adjustment of 4.03 percent in fiscal year 2012, 8.4 percent in fiscal year 2013, 7.9 percent in fiscal year 2014, 6.6 percent in 2015, an average of 6.1 percent between fiscal years 2016 and 2040, and the rate grades down from 6 percent to 5.5 percent between fiscal years 2041 and 2061. The dental healthcare cost inflation adjustment was graded from an average of 2.73 percent in fiscal year 2012 to an average of 5 percent for all subsequent fiscal years. The plan's inflation assumption is 2.75 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll using an open 15-year period.

For fiscal years ended June 30, 2012, 2011, and 2010, the components of the PEBB Plan's annual OPEB cost, the amounts actually contributed, and changes to the net OPEB obligation (in millions):

	June 30, 2012	June 30, 2011	June 30, 2010
Annual required contribution	$ 20.0	$ 17.4	$ 16.7
Interest on net OPEB obligation	1.9	1.9	1.6
ARC adjustment	(3.7)	(2.7)	(2.3)
Annual OPEB cost (expense)	18.2	16.6	16.0
Contributions made	(9.0)	(8.9)	(8.4)
Increase in net OPEB obligation	9.2	7.7	7.6
Net OPEB obligation - beginning of year	55.4	47.7	40.1
Net OPEB obligation - end of year	$ 64.6	$ 55.4	$ 47.7
Percent of annual OPEB cost contributed	49.5%	53.6%	52.5%

C. Discretely Presented Component Units

SAIF Corporation

SAIF Corporation (SAIF) administers a single-employer defined benefit healthcare plan. SAIF employees retiring under Oregon PERS are eligible to receive medical coverage for the employee and eligible dependents until age 65. Retirees must pay the premium for the coverage elected. Premiums for coverage are identical for active and retired employees, except to the extent that SAIF pays all or a portion of its active employees' premiums. 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. Benefit provisions are established by SAIF Corporation. The plan does not issue a separate, publicly available financial report.

SAIF's funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. For the year ended December 31, 2011, retired plan members made $851 thousand in required contributions. The required contribution rate per member was an average of $717 per month.

The funded status of the SAIF plan as of the most recent actuarial valuation date (dollars in thousands):

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)
1/1/2011	-	$6,980	$6,980	-	$56,948	12.3%

The postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by a consulting actuary as of January 1, 2011, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include a 5.5 percent investment rate of return. The annual medical healthcare cost trend rate is expected to increase 6.75 percent in the first year, 6.5 percent in the second year, 6 percent in the third, 5.75 percent for the fourth through twenty-fifth year, 5.5 percent for the twenty-sixth through thirtieth year, and 5.25 percent thereafter. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis for 15 years.

For the years ended December 31, 2011, 2010, and 2009, the components of SAIF's annual OPEB cost, the amounts actually contributed to the plan, and changes in SAIF's net OPEB obligation (in thousands):

	December 31, 2011	December 31, 2010	December 31, 2009
Annual required contribution	$ 875	$ 762	$ 730
Interest on net OPEB obligation	69	49	26
ARC adjustment	(96)	(68)	(36)
Annual OPEB cost (expense)	848	743	720
Contributions made	(468)	(376)	(299)
Increase in net OPEB obligation	380	367	421
Net OPEB obligation - beginning of year	1,260	893	472
Net OPEB obligation - end of year	$ 1,640	$ 1,260	$ 893
Percent of annual OPEB cost contributed	55.2%	50.6%	41.5%

Oregon Health and Science University

The Oregon Health and Science University (OHSU) administers a single-employer defined benefit healthcare plan. OHSU retiring employees are eligible to receive medical coverage for themselves and spouses until age 65. Retirees must pay the full premium for the coverage elected. The plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Full-time active employees also 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. The plan does not issue a separate, publicly available financial report.

The funded status of the OHSU plan as of the most recent actuarial valuation date (dollars in thousands):

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)
1/1/2012	-	$19,894	$19,894	-	$791,382	2.5%

The actuarial valuation as of January 1, 2012, used an assumed discount rate of 3.5 percent. The assumed healthcare cost trend rate is 9 percent in 2012, declining gradually to 4 percent in 2032, and remaining at 4 percent thereafter. The actuarial cost method used is the projected unit credit method.

For fiscal years ended June 30, 2012, 2011, and 2010, the components of OHSU's annual OPEB cost, the amounts actually contributed to the plan, and changes in OHSU's net OPEB obligation (in thousands):

	June 30, 2012	June 30, 2011	June 30, 2010
Annual required contribution	$ 2,207	$ 1,719	$ 2,262
Interest on net OPEB obligation	173	145	102
Annual OPEB cost (expense)	2,380	1,864	2,364
Contributions made	(1,020)	(1,008)	(1,064)
Increase in net OPEB obligation	1,360	856	1,300
Net OPEB obligation - beginning of year	5,071	4,215	2,915
Net OPEB obligation - end of year	$ 6,431	$ 5,071	$ 4,215
Percent of annual OPEB cost contributed	43%	54%	45%

D. Using Actuarial Valuations

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

17. DEFERRED COMPENSATION PLANS

A. Primary Government

The Oregon Savings Growth Plan (OSGP) is a deferred compensation plan available to eligible state employees. Employee contributions are deposited into the Deferred Compensation Fund established by Oregon Revised Statute 243.411. To participate, an employee enters into an individual agreement with the State to defer current earnings to be paid at a future date. The Public Employees Retirement System (PERS) administers the plan. As trustee of the assets, PERS contracts with ING to maintain OSGP participant records. The Office of the State Treasurer, as custodian of the assets, contracts with State Street Bank and Trust Company to provide financial services. PERS may assess a charge to participants not to exceed 2 percent on amounts deferred, both contributions and investment earnings, to cover costs incurred for administering the program. Actual charges to participants, including investment charges, for the year ended June 30, 2012, averaged 0.23 percent of amounts deferred.

Participants direct the selection of investment options and bear any market risk. Although the State has no liability for losses under the OSGP, the State does have the prudent investor responsibility of due care. Activity of the OSGP is reported under the Deferred Compensation Plan in the fiduciary funds combining financial statements. As of June 30, 2012, the fair value of the investments was $1.1 billion.

B. Discretely Presented Component Units

SAIF Corporation

SAIF Corporation (SAIF), a discretely presented component unit, administers a deferred compensation plan (SAIF Plan) that is available to eligible SAIF employees. Employees may enter into an individual agreement with SAIF to defer 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. SAIF does not perform the investing function and has no fiduciary accountability for the plan. Therefore, plan assets and any related liability to plan participants are not reported in the SAIF financial statements as of December 31, 2011.

The OSGP and the SAIF Plan are administered in compliance with Internal Revenue Code Section 457. Participants 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 occurs: termination due to death, disability, resignation, or retirement; unforeseeable emergency; or by requesting a *de minimus* distribution from inactive accounts valued at less than $5,000.

Oregon Health and Science University

The Oregon Health and Science University, a discretely presented component unit, offers all eligible employees the option to participate in one of two tax deferred savings plans through the University Voluntary Savings Program. One plan is administered under Internal Revenue Code Section 403 and the other under Section 457. The contribution and investment earnings under these plans are tax deferred and accumulated for distribution at a future date.

18. TERMINATION BENEFITS

A. Voluntary Early Retirement Plans

Oregon University System

Portland State University (PSU) offered a retirement incentive program to eligible faculty and staff. In exchange for relinquishing tenure and/or resignation, PSU will provide financial assistance either through a one-time cash incentive or by offsetting postretirement healthcare costs. Thirty-five employees chose the one-time incentive payment. PSU will pay these employees a total of $884 thousand in fiscal year 2013. Twelve employees accepted the health benefit subsidy, resulting in a $428 thousand liability to be paid out through fiscal year 2015.

The Oregon Institute of Technology offered an early retirement incentive program to faculty and staff that closed on October 31, 2011. Two employees accepted the offer to receive fixed health benefit subsidies until age 65 through 2019.

Oregon State University (OSU) offered a voluntary tenure relinquishment plan from May 1 to December 1, 2010. Tenured faculty had to meet specific length of service and retirement eligibility criteria to qualify. In exchange for relinquishing tenure, participating faculty members receive subsidy payments for health benefits for a term not to exceed 36 months following retirement. The subsidy payment is adjusted annually based on specified premium rates. Thirty-four faculty members entered into a contractual agreement with OSU to participate in this plan.

Eastern Oregon University offered a tenure relinquishment plan that closed November 30, 2011. Faculty members who accepted the plan retired December 31, 2011. In exchange for early retirement, faculty members receive a fixed subsidy amount for health benefits until age 65. Two faculty members will continue to receive payments under this plan through 2018.

Since 1998, Southern Oregon University (SOU) has offered a voluntary tenure relinquishment and early retirement program to tenured faculty at least 55 years of age. Faculty members 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 will subsidize health and dental benefits up to a specified dollar amount for up to seven years after the employee’s retirement date. As of June 30, 2012, nine retirees were participating in the health and dental benefits option of this plan.

The liability for early retirement benefits is reported in contracts, mortgages, and notes payable on the proprietary funds balance sheet under the University System Fund. The current and noncurrent portions of the liability are $1.8 million and $924 thousand, respectively. The amount of the liability was determined by calculating the present value of expected future benefit payments using discount rates ranging from 0.25 to 6 percent.

B. Involuntary Early Termination

Oregon University System

The Oregon University System has severance agreements with three former employees related to early termination of their employment contracts. The future payout period under each severance agreement ranges from one to six years. The liability for early termination benefits is reported in contracts, mortgages, and notes payable on the proprietary funds balance sheet under the University System Fund. The current and noncurrent portions of the liability are $865 thousand and $1.4 million, respectively. The amount of the liability was determined by calculating the present value of expected future benefit payments using discount rates ranging from 3.4 to 3.8 percent.

19. RISK FINANCING

A. Property, Liability, and Workers' Compensation Coverage for State Government

The Department of Administrative Services, Enterprise Goods and Services, Risk Management section (Risk Management) administers the State's property, liability, and workers' compensation insurance program. Risk Management has found it is more economical to manage the risk of loss internally and, therefore, minimizes the purchase of commercial insurance policies to the extent possible. The moneys set aside by Risk Management under Chapter 278 of the Oregon Revised Statutes are used to service the following 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

Risk Management purchases commercial insurance for specific insurance needs not covered by self-funding. For example, the self-insured property and liability program is backed by an excess property policy with a limit of $400 million and a blanket commercial crime policy with a limit of $20 million. 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 self-insured property and liability program. Risk Management 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.

Risk Management purchases workers' compensation insurance for the State from SAIF Corporation, a discretely presented component unit, utilizing retrospective paid loss plans. These plans are ten years in length and have cash flow and investment earnings advantages. The accumulated claim loss liability for the plans was approximately $56 million as of June 30, 2012. Independent actuaries determine biennial loss forecasts.

Periodically, Risk Management reevaluates claims liabilities taking into consideration recently settled claims, the frequency of claims, and other economic and social factors. Contracted actuaries estimate claims and allocated and unallocated expenses using the last 20 to 25 years of State claims experience and the projected numbers of employees, payroll, vehicles, and other property. Liabilities include an amount for claims and legal expenses that have been incurred but not reported and are discounted at an annual rate of two percent. The actuaries forecast ultimate losses by line of coverage.

Changes in the balance of aggregate claims liabilities for the property, liability, and workers' compensation insurance program for the years ended June 30, 2012 and 2011 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2012	$ 136,168	$ 24,696	$ (41,231)	$ 119,633
2011	126,051	43,840	(33,723)	136,168

The June 30, 2012, balance of claims liabilities is included in claims and judgments payable on the combining balance sheet of the internal service funds under Central Services.

B. State Self-insured Healthcare Plans

Chapter 243 of the Oregon Revised Statutes authorizes the Public Employees' Benefit Board (PEBB) to establish and maintain medical, dental, and vision insurance plans for the benefit of PEBB members. Currently, the State provides these benefits through four self-insured plans.

PEBB is responsible for controlling expenditures, stabilizing benefit premium rates, and minimizing the risk of loss. Funds set aside in a stabilization fund may be used to offset any actual premium deficiencies in the self-funded plans. The reserve is considered adequate to cover catastrophic losses due to large claims in the self-insured plans, as well as unexpected increases in trend, utilization, or other potential fluctuations. PEBB has not purchased stop-loss coverage on any of the plans.

Contracted actuaries and consultants estimate the claims liability. Incurred but not reported expenses are estimated by using claims lag triangles from the plans to develop completion factors. For the most recent months, incurred claims are estimated based upon reviewing the most recent claims experience per employee and adjusting for trend and seasonality to the projection month. Since most of the claims will be paid out within the year, the estimated amounts are not discounted. Specific adjustments for subrogation or other anticipated recoveries are not included. Overall, these adjustments are not expected to be significant.

In fiscal year 2011, settlements exceeded coverage for the vision plan. The amount of claims for the medical and dental plans did not exceed the self-insured coverage for the past three years.

Changes in the balance of aggregate claims liabilities for the self-insured healthcare plans for the years ended June 30, 2012 and 2011 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2012	$ 57,412	$ 582,408	$ (569,899)	$ 69,921
2011	83,502	573,549	(599,639)	57,412

The June 30, 2012, balance of claims liabilities is included in claims and judgments payable on the combining balance sheet of the internal service funds under Central Services.

C. Supplemental Workers' Compensation Insurance

The Department of Consumer and Business Services operates several supplemental workers' compensation benefit programs. These programs are accounted for in 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, and investment and interest earnings pay for the programs. Long-term liabilities were actuarially computed as of June 30, 2012, using a 6 percent discount rate.

Changes in the balance of aggregate claims liabilities for supplemental workers' compensation insurance for the years ended June 30, 2012 and 2011 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2012	$ 863,334	$ -	$ (16,983)	$ 846,351
2011	900,553	-	(37,219)	863,334

The June 30, 2012, balance of claims liabilities is included in claims and judgments payable on the government-wide statement of net assets under governmental activities.

D. SAIF Corporation Workers' Compensation Insurance

The Legislature created SAIF Corporation (SAIF) to transact workers' compensation insurance and reinsurance business. SAIF is an independent public corporation, a discretely presented component unit of the State, and the largest workers' compensation insurer in Oregon.

SAIF has established a reserve for both reported and unreported insured events, which includes estimates of future payments of losses and related loss adjustment expenses. In estimating the liability for loss and loss adjustment expense, SAIF considers prior experience, industry information, currently recognized trends affecting data specific to SAIF, and other factors relating to workers' compensation insurance underwritten by SAIF.

The liability for loss and loss adjustment expense increased $14.7 million in calendar year 2011, which was net of favorable development of $126.7 million. Loss reserves decreased $21 million. Favorable loss reserve development in prior accident years offset loss reserves for the 2011 calendar accident year. The favorable development is attributed to the more recent accident years, as permanent total disability and permanent partial disability medical reserves had lower loss development than was expected. Indemnity loss reserves were virtually unchanged. Loss adjustment expense reserves increased $35.7 million. The unfavorable development was largely attributed to an increase in selected loss adjustment expense for the calendar year 2011.

SAIF discounts the indemnity reserve for known unpaid fatal and permanent total disability losses on a tabular basis, using a discount rate of 3.5 percent. SAIF does not discount any incurred but not reported reserves, medical unpaid losses, or unpaid loss adjustment expense. The gross reserve subject to tabular discounting for calendar year 2011 was $260.3 million. The related discount was $90 million as of December 31, 2011.

Anticipated salvage and subrogation of $29.6 million was included as a reduction of the reserve for loss and loss adjustment expense at December 31, 2011.

As of December 31, 2011, SAIF had provided reserves of $27.6 million for loss and loss adjustment expense related to asbestos claims. SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies.

Changes in the balance of the liability for loss and loss adjustment expense related to workers' compensation insurance underwritten by SAIF for 2011 and 2010 (in thousands):

Calendar Year	Beginning Balance	Incurred Losses and Loss Adjustment Expenses	Loss and Loss Adjustment Expense Payments	Ending Balance
2011	$ 3,004,639	$ 328,879	$ (314,125)	$ 3,019,393
2010	2,958,911	365,150	(319,422)	3,004,639

This liability is reported as the reserve for loss and loss adjustment expense on the combining balance sheet of the discretely presented component units under SAIF Corporation.

E. Oregon Health and Science University Self-funded Insurance Programs

The Oregon Health and Science University (OHSU), which is a discretely presented component unit of the State, maintains several self-funded insurance programs. Coverage for professional, general, automobile, directors and officers, cyber, and employment practices liabilities is provided through OHSU's solely owned captive insurance company, OHSU Insurance Company. OHSU has contracted with independent actuaries to estimate the ultimate cost of settlements related to the coverage provided by OHSU Insurance Company. The liability reported for fiscal year 2012 was calculated using a 3 percent discount rate. Excess insurance coverage is provided by a variety of insurers for claims that may exceed coverage limits up to an annual aggregate of $105 million. Coverage is written on a claims made basis.

In addition, OHSU is self-insured for its risk of loss related to costs to insure its employees for medical, dental, and vision coverage. OHSU utilizes a third-party actuary to assist in the estimation of OHSU's liability for the employee health programs related to claims payable and those claims incurred but not yet paid or reported of approximately $13.8 million as of June 30, 2012.

OHSU also purchases workers' compensation coverage from SAIF. The SAIF policy is written as a paid loss retrospective plan. Six months after the policy term, and every 12 months thereafter, a retrospective evaluation is completed to determine any additional amounts to be paid, including outstanding reserves, for claims relating to the policy year.

In December 2007, the Oregon Supreme Court found unconstitutional certain provisions of the Oregon Tort Claims Act that limited OHSU's liability for the acts of its employees and agents in large damages cases. The impact of this decision has been included in the liability for self-funded insurance programs in the accompanying financial statements.

The amount of claims settlements did not exceed OHSU's self-insurance and commercial insurance coverage for the past three years.

The total liability reported for OHSU's self-funded insurance programs was $61.2 million and $56.1 million for fiscal years ended June 30, 2012 and 2011, respectively. This liability is reported as claims and judgments payable on the combining balance sheet of the discretely presented component units under Oregon Health and Science University.

20. 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. Discounts and allowances in proprietary funds for the year ended June 30, 2012 (in thousands):

Primary Government

Proprietary Funds	Type of Revenue	Amount
Lottery Operations	Sales	$ 1,126
Unemployment Compensation	Assessments	(101)
Unemployment Compensation	Fines and forfeitures	2,618
University System	Charges for services	185,500
Nonmajor Enterprise Funds	Charges for services	6,079
Nonmajor Enterprise Funds	Other	25
Nonmajor Enterprise Funds	Sales	5,524
Internal Service Funds	Other	60
Total primary government		$ 200,831

Discretely Presented Component Units

Component Units	Type of Revenue	Amount
SAIF Corporation	Charges for services	$ (168)
Oregon Health and Science University	Charges for services	1,151,280
Oregon Health and Science University	Gifts, grants and contracts	(434)
Total discretely presented component units		$ 1,150,678

21. FUND EQUITY

A. Net Assets Restricted by Enabling Legislation

The following schedule summarizes the State's net assets at June 30, 2012, that are restricted by enabling legislation (in thousands). All of the legislative restrictions are in governmental activities.

	Restricted Net Assets
Expendable Net Assets Restricted for:	
Health and social service programs	$ 138,473
Education	257,288
Community protection	12,307
Consumer protection	69,113
Employment services	119,504
Residential assistance	47,066
Other programs	96,648
Nonexpendable Net Assets Restricted for:	
Education	868
Residential assistance	23,424
Workers' compensation	250
Total Net Assets Restricted by Enabling Legislation	$ 764,941

B. Changes to Beginning Fund Balance

As of June 30, 2012, the beginning fund balances were restated as follows (in thousands):

	Beginning Balance	Prior Period Adjustments	Beginning Balance-Restated
Governmental funds and activities			
General	$ 244,154	$ 3,730	$ 247,884
Health and Social Services	589,792	(108,895)	480,897
Public Transportation	767,013	18,112	785,125
Environmental Management	787,600	5,246	792,846
Common School	945,289	(905)	944,384
Other (nonmajor)	1,612,669	(69,029)	1,543,640
Capital assets, net of depreciation	11,399,106	196,129	11,595,235
Other noncurrent assets	1,714,102	-	1,714,102
Long-term liabilities	(7,502,789)	(1,080)	(7,503,869)
Internal service funds	271,844	(24,706)	247,138
Total governmental funds and activities	$ 10,828,780	$ 18,602	$ 10,847,382
Proprietary funds and business-type activities			
Housing and Community Services	$ 209,961	$ -	$ 209,961
Veterans' Loan	133,291	543	133,834
Lottery Operations	136,598	-	136,598
Unemployment Compensation	1,258,692	18,605	1,277,297
University System	1,554,413	-	1,554,413
Other (nonmajor)	946,150	(559)	945,591
Internal service funds adjustment	5,648	-	5,648
Total proprietary funds and business-type activities	$ 4,244,753	$ 18,589	$ 4,263,342
Fiduciary funds			
Pension and Other Employee Benefit Trust	$ 61,189,775	$ -	$ 61,189,775
Private Purpose Trust	28,674	-	28,674
Investment Trust	4,196,110	-	4,196,110
Total fiduciary funds	$ 65,414,559	$ -	$ 65,414,559
Discretely presented component units			
SAIF Corporation	$ 1,167,152	$ -	$ 1,167,152
Oregon Health and Science University	1,870,088	-	1,870,088
Oregon University System Foundations	1,378,687	123	1,378,810
Total discretely presented component units	$ 4,415,927	$ 123	$ 4,416,050

Significant prior period adjustments were made in four governmental funds or activities. Adjustments totaling $108.9 million were made in the Health and Social Services Fund and were largely the result of revenues that were recognized in the incorrect period. In fiscal year 2011, $18.1 million in expenditures of the Capital Projects Fund, which is a nonmajor fund, were incorrectly recorded in the Public Transportation Fund. A current year prior period adjustment was made to correct the error. In fiscal year 2011, the activity of Oregon Affordable Housing Assistance Corporation (OAHAC) was reported in a governmental fund. It has since been determined that the activity should be reported as a discretely presented component unit. To make this correction, a prior period adjustment of $47.4 million was recorded in the Other (nonmajor) Fund. In addition, several agencies made corrections to their capital asset accounts, including a $189 million adjustment to capitalize highway infrastructure costs that were previously considered as maintenance costs.

In the Unemployment Compensation Fund, prior period adjustments of $18.6 million were made to record income that should have been recognized in the prior fiscal year.

C. Fund Balances – Governmental Funds

The following table displays in detail the June 30, 2012, fund balances that are reported in the aggregate on the governmental funds balance sheet (in thousands).

Fund balances	General	Health and Social Services	Public Transportation	Environmental Management	Common School	Other	Total
Nonspendable:							
Not in spendable form	$ 33,342	$ 644	$ 25,911	$ 25,754	$ 3	$ 3,175	$ 88,829
Required to be maintained intact	19	52	40	250	-	27,162	27,523
Restricted for:							
Health and social service programs	1,279	308,436	-	-	-	-	309,715
Transportation programs	-	-	780,615	-	-	-	780,615
Natural resource programs	8,409	-	-	754,368	-	-	762,777
Education	-	-	-	-	899,397	175,481	1,074,878
Education stabilization	-	-	-	-	-	120,488	120,488
Community protection	-	-	-	-	-	174,468	174,468
Consumer protection	-	-	-	-	-	68,516	68,516
Employment services	-	-	-	-	-	124,206	124,206
Residential assistance	-	-	-	-	-	104,256	104,256
Debt service	-	-	-	-	-	348,014	348,014
Capital projects	-	-	-	-	-	53,543	53,543
Other purposes	99,770	-	-	-	-	76,478	176,248
Committed to:							
Health and social service programs	-	125,532	-	-	-	-	125,532
Natural resource programs	-	-	-	59,551	-	-	59,551
Education	-	-	-	-	-	14,158	14,158
Business development	-	-	-	-	-	27,737	27,737
Community protection	-	-	-	-	-	70,423	70,423
Consumer protection	-	-	-	-	-	27,388	27,388
Employment services	-	-	-	-	-	74,504	74,504
Residential assistance	-	-	-	-	-	144,233	144,233
Stabilization	61,534	-	-	-	-	-	61,534
Other purposes	-	-	-	-	-	1,514	1,514
Assigned to:							
Health and social service programs	-	15,292	-	-	-	-	15,292
Natural resource programs	-	-	-	5,311	-	-	5,311
Education	-	-	-	-	-	3,327	3,327
Community protection	-	-	-	-	-	5,292	5,292
Employment services	-	-	-	-	-	3,137	3,137
Other purposes	-	-	-	-	-	5,117	5,117
Unassigned:	(162,867)	-	-	-	-	-	(162,867)
Total fund balances	$ 41,486	$ 449,956	$ 806,566	$ 845,234	$ 899,400	$ 1,652,617	$ 4,695,259

Nonspendable fund balances include inventories and prepaid items, which are not in spendable form, and fund balances associated with the corpus of revolving funds and permanent fund principal, which are legally or contractually required to be maintained intact.

Restricted fund balances result from constraints imposed on 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. Enabling legislation authorizes the State to levy, assess, charge, or otherwise mandate payment from external resource providers and includes a legally enforceable requirement that those resources be used only for specific purposes stipulated by the legislation.

Committed fund balance results from constraints imposed by bills passed by the Legislature and signed into law by the Governor. The constraints on the use of resources are separate from the authorization to raise the underlying revenue and may be modified or rescinded only by passing additional legislation.

Assigned fund balance represents amounts that are constrained by the State's intent to use them for specific purposes, which are neither restricted nor committed. Intent is expressed by state officials to whom the State has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balance is the residual amount in governmental funds, other than the General Fund.

D. Stabilization Arrangements

Oregon maintains two stabilization funds – the Oregon Rainy Day Fund and the Education Stability Fund.

Established by the 2007 Legislature, the Oregon Rainy Day Fund is funded from the General Fund's ending balance up to 1 percent of General Fund appropriations for the prior biennium. The Legislature may deposit additional funds as it did to create the fund, using surplus corporate income tax revenues from the 2005-07 biennium. The Rainy Day Fund also earns interest on the moneys in the fund. Fund balance is capped at 7.5 percent of General Fund revenues in the prior biennium.

Stabilization amounts in the Oregon Rainy Day Fund may be spent if approved by three-fifths of the members of the Legislative Assembly and one of the following conditions exists:

- The last quarterly economic and revenue forecast for a biennium indicates that moneys available to the General Fund for the next biennium will be at least 3 percent less than appropriations from the General Fund for the current biennium;
- There has been a decline for two or more consecutive quarters in the last 12 months in seasonally adjusted nonfarm payroll employment; or
- A quarterly economic and revenue forecast projects that revenues in the General Fund in the current biennium will be at least 2 percent below what the revenues were projected to be in the revenue forecast on which the legislatively adopted budget for the current biennium was based.

For any one biennium, the Legislative Assembly may not appropriate more than two-thirds of the amount that is in the Oregon Rainy Day Fund at the beginning of that biennium. If the appropriation is for a biennium that has not yet begun, the Legislative Assembly may use as the base the most recent estimate of the amount that will be in the Oregon Rainy Day Fund at the beginning of the biennium for which the appropriation is made. The fund balance of the Oregon Rainy Day Fund as of June 30, 2012, was $61.5 million.

The Education Stability Fund is authorized in the Oregon Constitution, Article XV. Section 4, part (4)(d), requires that 18 percent of net lottery proceeds be deposited in the fund. Earnings on moneys in the fund are retained by the fund or continuously appropriated to finance public education under Oregon Revised Statute 348.696. The balance in the fund may not exceed 5 percent of General Fund revenues of the prior biennium.

Amounts in the Education Stability Fund may be spent under the same conditions as those required for spending moneys in the Oregon Rainy Day Fund. However, if none of the conditions is met, the Education Stability Fund can also be used by the Legislature for public education. The Governor must declare an emergency and the expenditure must be approved by a three-fifths majority in each chamber. The fund balance of the Education Stability Fund as of June 30, 2012, was $120.5 million.

22. COMMITMENTS

The State has significant commitments as of June 30, 2012, in addition to the construction contract commitments disclosed in Note 6. Commitments are defined as existing arrangements to enter into future transactions or events, such as contractual obligations with vendors for future purchases or services at specified prices and sometimes at specified quantities. Commitments may also include agreements to make grants and loans.

Commitments in effect as of June 30, 2012, and the anticipated sources of funding (in thousands):

Purpose	General Funds	Federal Funds	Lottery Funds	Other Funds	Total
Community services contracts	$ 172,179	$ 30,316	$ 139	$ 13,476	$ 216,110
Grant & loan commitments	240,853	247,595	60,795	278,976	828,219
Personal services contracts	110,908	22,551	808	26,662	160,929
Equipment purchases	22	81	4,643	20	4,766
Public defense contracts	121,697	-	-	-	121,697
Systems development	750	1,697	-	16,675	19,122
Total commitments	$ 646,409	$ 302,240	$ 66,385	$ 335,809	$ 1,350,843

Encumbrance balances as of June 30, 2012, in the governmental funds (in thousands):

Governmental Funds	Amount
General	$ 16,995
Environmental Management	1,633
Health and Social Services	7,006
Other Nonmajor	15,279
Total	$ 40,913

The Oregon Investment Council has entered into agreements that commit the investment managers for the Oregon Public Employees Retirement Fund (OPERF), the Common School Fund (CSF), and the Oregon University System (OUS) Endowment Fund, upon request, to make additional investment purchases up to a predetermined amount. The Oregon Growth Account (OGA) Board makes similar commitments for investment purchases. As of June 30, 2012, the OPERF had $7.5 billion in commitments to purchase private equity investments, $2.3 billion to purchase real estate investments, and $304.5 million to purchase Opportunity Fund investments, and $532.4 million to purchase Alternative Equity portfolio investments. As of June 30, 2012, the CSF, OUS Endowment Fund, and the OGA had $90.9 million, $4 million, and $28 million, respectively, in commitments to purchase private equity investments. These amounts are unfunded and are not recorded in the financial statements.

23. CONTINGENCIES

A. Litigation

<u>Public Employees Retirement System</u>

Several Oregon employees filed lawsuits challenging various aspects of the 2003 legislation that enacted significant changes to Public Employees Retirement System (PERS). The PERS legislation, among other things, reduces the earnings credited to certain members' accounts. The initial challenges to the PERS legislation were consolidated and decided by the Oregon Supreme Court in 2005 and the federal courts in 2008.

The PERS legislation, however, also provided a statutory remedy to a prior case filed by the City of Eugene and other public employers. Several cases were filed challenging, among other things, the settlement, the adjustment of crediting to member accounts, and the recovery of over-credited amounts from retirees. In December 2011, the Oregon Supreme Court issued opinions in those cases that upheld all but one of the Board's actions. The Court held that it did not have enough information to determine whether transferring $61 million from a contingency reserve to employer accounts was reasonable and remanded that issue back to the trial court to decide whether the amount of the transfer was consistent with the Board's fiduciary duty. The expected trial date is March 2013.

The most recent actuarial valuations of the PERS system take into account the court decisions in existence when the valuations were completed.

Portland Harbor Superfund

Two state agencies are involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of costs associated with the investigation and cleanup of sediment contamination in the Portland Harbor, a ten-mile stretch of the lower Willamette River area that the U.S. Environmental Protection Agency (EPA) has listed as a Superfund site under the federal Superfund law (CERCLA). Over 200 parties, private companies and public entities, may eventually be found liable for a share of the costs related to investigation and cleanup of the site.

The Oregon Department of Transportation (ODOT) and the Oregon Department of State Lands (DSL) have received General Notice Letters from the EPA informing them that the State, by and through those agencies, is a potentially responsible party (PRP) under CERCLA for cleanup costs at the site. It is too early in the process to estimate the total amount of the cleanup costs that will be shared by liable parties. A draft feasibility study outlines eleven alternative options, ranging in costs from $269 million to $1.8 billion. It is also too early to estimate the proportionate share of the liability for cleanup costs, if any, that may ultimately be assessed against either of the State agencies. When the mediation will end is not known but it could be as late as 2016 – 2017.

The Portland Harbor Superfund will also involve a separate allocation of liability for injuries to natural resources caused by contamination at the site, which is an additional type of recovery under the Superfund law known as natural resource damages (NRD). The NRD claim will be asserted against all PRPs, including ODOT and DSL, by the Portland Harbor natural resource trustees, a group composed of five tribes, two federal agencies, and the State. The trustees have initiated a cooperative injury assessment process that provides an opportunity for early settlement of the NRD claim. The allocation of liability for the NRD claim will take place at the same time as the allocation of liability for remedial costs. It is too early to estimate what, if any, share of the liability the State may ultimately bear for natural resource damages.

Another potential risk for the state involves the Superfund law's orphan share obligations. When the EPA negotiates a settlement with the liable parties for the Portland Harbor Superfund, it may agree to pay some portion of the financial responsibility assigned to potentially responsible parties who are insolvent or defunct, and unaffiliated with any other viable liable party (the orphan share). The EPA may request, as authorized by the Superfund law, that the State pay 10 percent of any orphan share payment made by the EPA, plus the costs of continuing operation and maintenance of the orphan site. At this time, whether the State would enter into such an agreement and the amount the State would pay are unknown and will depend on the outcome of negotiations with the EPA.

Community Mental Health Programs

The State is engaged in discussions with the United States Department of Justice (USDOJ) concerning the State's community mental health programs. The USDOJ is conducting an ongoing investigation to determine if the State has complied with the federal Americans with Disabilities Act. Currently, the State has no specific information on the cost of implementing any changes that may result from the investigation. The State expects that if the USDOJ determines there are violations of federal law, the USDOJ will issue written findings that specify the nature of any violations. At that time, the State will be in a better position to estimate the costs to remedy any asserted violations. It is possible that the costs of changes, if any, to the State's community mental health programs could reach or exceed $50 million.

Multistate Tax Compact

The Oregon Tax Court has a case pending that challenges the State's departure from provisions in the Multistate Tax Compact (Compact) when apportioning income attributable to corporations operating in more than one state. Under the Compact, the income of a multi-state corporation is apportioned to a state using an equally weighted three-factor formula. The formula compares in-state payroll, property, and sales to the corporation's overall payroll, property, and sales. Currently, the State uses only sales in Oregon and does not use the other two factors to apportion corporate income. The taxpayer in Health Net v. Dept. of Revenue asserts that the Compact is a binding contractual arrangement that cannot be unilaterally changed by a participating state and, therefore, the State must allow taxpayers to apportion multi-state corporate income based only on the formula in the Compact. If the taxpayer prevails and a court determines the State must use the Compact formula, other corporations may seek refunds using the same theory and the State may collect less corporate income taxes in the future. The State has insufficient data to predict accurately the amounts it could be required to refund or the overall impact on future revenues. Those amounts would depend on the circumstances of individual corporations that may, or may not, seek refunds and actions taken by the Legislative Assembly in response to an adverse ruling. Such actions could include withdrawing from the Compact or adopting legislative changes to apportionment statutes. Preliminary estimates, however, indicate the potential maximum refund liability and reductions in corporate income tax revenues, without any legislative action, would exceed $50 million. The State anticipates that the Oregon Tax Court's ruling will be appealed to the Oregon Supreme Court by either the State or the taxpayer.

B. Debt Guarantees

Article XI-K of the Oregon Constitution authorizes the State to guarantee the general obligation bonded debt issued by Oregon school districts, community colleges, and education service districts. The Article authorizes the issuance of state general obligation bonds to satisfy the guarantee. The State has not issued, nor does it expect to issue, any bonds under this authorization. Several other sources of State funds are expected to be used to pay debt service on any defaulting bonds prior to issuing State general obligation bonds for this purpose. As of June 30, 2012, Oregon school districts, community colleges, and education service districts had issued a total of $3.2 billion of bonds that are 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. The amount of future benefit payments to claimants and the resulting liability to the State cannot be reasonably estimated. Consequently, this potential obligation is not reported in the accompanying financial statements. Expenditures relating to these benefits for the year ended June 30, 2012, totaled approximately $20.4 million.

D. Federal Issues

The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlement to these resources is 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 these regulations may result in the disallowance of related direct and indirect charges claimed under the grant agreements.

24. SUBSEQUENT EVENTS

A. Long-term Debt Issues

Long-term debt issued, including refundings, since July 1, 2012 (in thousands):

Type of Debt	Amount
General Obligation Bonds	
Department of Environmental Quality	$ 10,975
Department of Administrative Services	7,155
Department of Energy	11,910
Revenue Bonds	
Housing and Community Services Department	$ 36,760

B. Bond Calls

Bond calls that have occurred since July 1, 2012 (in thousands):

Type of Call	Amount
Revenue Bonds	
Housing and Community Services Department	$ 93,170

C. Interest Rate Swaps

On July 1, 2012, Oregon Housing and Community Services Department terminated notional amounts of swaps related to Mortgage Revenue Bonds 2004 Series C and Mortgage Revenue Bonds 2004 Series I by $690,000 and $160,000, respectively. These terminations were made pursuant to optional par termination provisions included in each of these swap agreements.

D. Tax Anticipation Notes Issuance

On July 10, 2012, the State issued $639.5 million of full faith and credit Tax Anticipation Notes, 2012 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 2011-2013 biennium.

E. Debt Guarantees

Under Article XI-K of the Oregon Constitution, $371.2 million in bonds for school districts were issued and guaranteed following the fiscal year ended June 30, 2012, as noted below (in thousands). Debt service payments remain the ultimate responsibility of the respective district.

School District	Series	Amount
Washington County School District 48J (Beaverton)	2012A	$ 33,075
Washington County School Disctric 48J (Beaverton)	2012B	126,325
Washington County School District 1J (Hillsboro)	2012	98,950
Lane County School District 1 (Pleasant Hill)	2012	2,455
Tillamook County School District 56 (Neah-Kah-Nie)	2012	9,390
Coos County School District 41 (Myrtle Point)	2012	2,000
Multnomah County School District 40 (David Douglas)	2012	2,386
Washington County School District 13 (Banks)	2012A	785
Washington County School District 13 (Banks)	2012B	2,740
Washington County School District 13 (Banks)	2012C	6,972
Multnomah County School District 40 (David Douglas)	2012A	17,940
Multnomah County School District 40 (David Douglas)	2012B	29,172
Lane Community College	2012	38,000
Douglas County School District 22 (North Douglas)	2012	960
Total Debt Guarantees		$ 371,150

25. VIOLATION OF LEGAL PROVISION

The Public Employees Retirement System (PERS) is in violation of ORS 238.660, which requires that all moneys paid to PERS “shall be deposited with the State Treasurer.” PERS has transferred monthly premiums paid by PERS Health Insurance Program participants, as well as Early Retiree Reinsurance Program funds, to insurance carriers for payment of claims. Amounts transferred exceeded claims by approximately $75 million at June 30, 2012. PERS is determining the most effective method of redirecting these moneys to the State Treasurer.

APPENDIX C

INFORMATION RELATING TO THE OREGON UNIVERSITY SYSTEM

General

The Oregon University System ("OUS" or the "System") was created by State statute in 1929 and is governed by the State Board of Higher Education (the "Board"). The Governor, subject to confirmation by the State Senate, appoints the fifteen members of the Board. The Board is made up of (i) two students who at the time of their appointment are attending different Oregon public universities; (ii) one member of the faculty at Oregon State University, Portland State University or University of Oregon; (iii) one member of the faculty at Eastern Oregon University, Oregon Institute of Technology, Southern Oregon University or Western Oregon University; and (iv) eleven members of the general public who are not students or faculty members at the time of appointment. Members of the Board hold office for a term of four years except for directors who are students or faculty members at the time of appointment, whose terms shall be two years.

The current members of the Board are: Matthew W. Donegan, Board President, Jill W. Eiland, Board Vice President, Lynda M. Ciuffetti, Brianna R. Coulombe, Dr. Orcillia Forbes, Allyn C. Ford, James L. Francesconi, Farbodd Ganjifard, Paul Kelly, Jr., Dr. James Middleton, Dr. Emily J. Plec, Kirk E. Schueler and David V. Yaden. OUS and the Board exercise their administrative authority under the provisions of ORS chapters 351 and 352. OUS is organized into divisions representing each of the seven institutions of higher education included in the System, which are shown in Table 1 below, plus centralized activities.

A Chancellor, appointed by the Board, is chief executive officer of OUS and is responsible for all higher education operations. The Chancellor is George Pernsteiner. Other members of the central administrative staff are the Vice Chancellor for Finance and Administration, the Vice Chancellor for Academic Strategies, the Legal Counsel, the Associate Vice Chancellor for Finance and Administrative and Controller, the Chief Auditor, and the Board Secretary. This central administration is complemented by the president of each of the seven institutions shown in Table 1 below.

Under Oregon law, bonds for OUS projects, including general obligation bonds authorized by Article XI-F(1) and Article XI-G and revenue bonds, are to be issued by the State Treasurer at the request of the Board. The Board is authorized by ORS 351.062 to delegate any of its powers, duties or functions (except the power to prescribe enrollment fees) to a committee of the Board. Pursuant to this authority, the Board has delegated certain responsibilities to its Finance and Administration Committee, including the responsibility to approve bond sales on behalf of the Board.

Capitalized terms used but not otherwise defined in this Appendix C shall have the meaning given in the forepart of this Official Statement.

Recent Developments and Pending Legislation

The 2011 Legislative Assembly enacted new laws that changed some facets of OUS's operations. Pursuant to Oregon Laws 2011, chapter 637 ("Senate Bill 242"), OUS is granted broader authority over its own affairs while the State maintains oversight through the measurement of student outcomes. The key provisions of Senate Bill 242 can largely be found in Oregon Revised Statutes Chapters 351 and 352 and include: exemption for state spending authority limitation, authority to handle its own legal affairs and risk management, and authority to retain all interest earned. In addition to the existing State constitutional bonding authority under Article XI-F(1) and Article XI-G, Senate Bill 242 authorizes the development of a revenue bond program, which may be secured by and payable from all or a portion of "higher education revenues" as determined by the System when the program is developed. Senate Bill 242 defines "higher education revenues" to include tuition, fees and charges imposed or collected by the Oregon University System, or by one of the public universities in the System; and moneys appropriated, allocated or otherwise made available to the Oregon University System, or to one of its universities, by the Legislative Assembly, if those moneys are lawfully available to pay the bond-related costs of higher education revenue bonds.

As described in "RECENT DEVELOPMENTS—Governor's Recommended Budget for 2013-2015 Biennium—Changes to Higher Education Governance Structure and Capital Construction Funding," the Governor's Balanced Budget proposes certain changes in the governing structure of the Oregon University System, community colleges and Oregon Health & Science University. The State and the System expect many legislative proposals to be introduced during the 2013 Legislative Session that, if adopted, could affect the operations or finances of the System. The State and the System cannot predict whether the Legislative Assembly will enact any legislation that is introduced, the potential effect on the operations or finances of the System of any proposed legislation if enacted, or whether any legislation, if adopted, would withstand any legal challenges.

Educational Program Scope and Scale

The System consists of the programs, activities and institutions of higher education under the jurisdiction of the Board, including the seven universities described below and various centers and distance learning programs. By enrollment, the largest institutions in the System are Portland State University, located in Portland, Oregon; Oregon State University, located in Corvallis, Oregon and in Bend, Oregon; and the University of Oregon, located in Eugene, Oregon. Table 1 summarizes information for each institution included in OUS.

TABLE 1
OREGON UNIVERSITY SYSTEM INSTITUTIONS

Name	Location	Date Founded	Primary Curriculum
Eastern Oregon University (EOU)	La Grande	1929	Liberal arts, pre-professional, education
Oregon Institute of Technology (OIT)	Klamath Falls	1947	Engineering, other technical
Oregon State University (OSU)	Corvallis & Bend	1868	Liberal arts, pre-professional, technical, agriculture, education
Portland State University (PSU)	Portland	1955	Liberal arts, pre-professional, technical, education
Southern Oregon University (SOU)	Ashland	1926	Liberal arts, education
University of Oregon (UO)	Eugene	1872	Liberal arts, pre-professional, education
Western Oregon University (WOU)	Monmouth	1882	Liberal arts, education

Actual Fall Enrollment[1]

	2010-11	2011-12	2012-13[2]
EOU	4,137	4,298	4,208
OIT	3,797	3,911	4,001
OSU	24,439	25,741	27,194
PSU	28,522	28,958	28,731
SOU	6,443	6,744	6,481
UO	23,389	24,447	24,591
WOU	6,233	6,217	6,187
Total	96,960	100,316	101,393

(1) Includes full-time and part-time headcount and all extended enrollment as of the fourth week of the Fall term.
(2) As of October 30, 2012.
Source: Oregon University System.

The core functions of the System are instruction, research and public service, along with auxiliary functions such as bookstores, student housing, athletic activities, dining and parking. OUS and the Board regularly assess facility and equipment needs throughout the System. Requests for facilities and related equipment are submitted to the Director of Capital Planning and Construction and to the Vice Chancellor for Finance and Administration and are programmed into a six-year capital improvement plan that is reviewed and approved by the Board. The capital improvement plan establishes priorities for projects and is updated regularly.

Budget

OUS prepares a budget request which becomes part of the statewide biennial budget process. The Oregon Education Investment Board considers proposals from all education sectors (K-12, community colleges, and the OUS) and makes recommendations to the Governor. The Governor's Recommended Budget summarizes the final decisions and is presented to the Legislature for approval. The budget bills that are enacted into law make up the Legislatively Adopted Budget.

Appropriations approved by the Legislative Assembly during the 2011 Regular Session (and as amended during the 2012 Session) for the 2011-2013 biennium, including debt service but excluding capital construction, provided a $668.3 million State General Fund appropriation and $23.0 million appropriated from lottery funds, for a combined appropriation of $691.3 million. The State Board of Higher Education subsequently approved an annual operating budget for Fiscal Year 2012-2013, excluding capital construction, for all funds of $2.85 billion, which includes an annual allocation of State funding (State General Fund plus lottery funds) of $351.9 million.

For information concerning the 2013-2015 budget, see "RECENT DEVELOPMENTS—Governor's Recommended Budget for 2013-2015 Biennium."

Summary Financial Position

The System maintains an accounting system in which all financial transactions are recorded and reported by activities or objectives within fund groups to observe limitations and restrictions placed on the use of the resources available to the institutions. Each fund is an independent fiscal and accounting entity with a self-balancing set of books.

Financial accounting records are maintained in accordance with generally accepted accounting principles applicable to OUS and as prescribed in applicable pronouncements of the Governmental Accounting Standards Board. Below is summary financial information derived from the System's Annual Financial Report for the fiscal year ended June 30, 2012 (the "Fiscal Year 2012"). Clifton Larsen Allen LLP (the "Auditor") audited OUS financial statements and component units for Fiscal Year 2012. OUS did not request its auditors to consent to the inclusion of the summary financial information set out in this Appendix.

Statement of Net Assets

For the fiscal year ended June 30, 2012, Total Assets of the System decreased $243 million, or 6 percent, and Total Liabilities decreased $254 million, or 10 percent during Fiscal Year 2012. Total Net Assets increased $11 million, or 1 percent during the same period. Table 2 presents the Statement of Net Assets of the System for the fiscal years ended June 30, 2012 and 2011.

TABLE 2
STATEMENT OF NET ASSETS
OREGON UNIVERSITY SYSTEM

As of June 30,		**2012**		**2011**
		(In thousands)		
ASSETS				
Current Assets				
Cash and Cash Equivalents	$	268,040	$	395,755
Collateral from Securities Lending		58,388		253,626
Accounts Receivable, Net		208,170		194,174
Accounts Receivable from Component Units		18,187		22,095
Notes Receivable, Net		19,381		16,753
Inventories		7,606		7,033
Prepaid Expenses		25,675		24,413
Total Current Assets	$	605,447	$	913,849
Noncurrent Assets				
Cash and Cash Equivalents		265,769		458,038
Investments		357,894		248,097
Notes Receivable, Net		93,627		103,344
Capital Assets, Net of Accumulated Depreciation		2,630,338		2,473,203
Total Noncurrent Assets		3,347,628		3,282,682
Total Assets	$	3,953,075	$	4,196,531
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Liabilities	$	179,927	$	177,377
Deposits		16,447		18,429
Obligations Under Securities Lending		58,388		253,626
Current Portion of Long-Term Liabilities		127,354		126,234
Unearned Revenue		121,389		122,269
Total Current Liabilities		503,505		697,935
Noncurrent Liabilities				
Long-Term Liabilities		1,884,936		1,944,183
Total Noncurrent Liabilities		1,884,936		1,944,183
Total Liabilities	$	2,388,441	$	2,642,118
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$	927,735	$	833,522
Restricted For:				
Nonexpendable Endowments		16,546		16,387
Expendable:				
Gifts, Grants and Contracts		76,195		83,443
Student Loans		83,274		84,159
Capital Projects		61,999		100,632
Debt Service		53,119		87,314
Unrestricted Net Assets		345,766		348,956
Total Net Assets	$	1,564,634	$	1,554,413

Source: Oregon University System.

In addition to the operations of the System, there are eight supporting foundations that exist for the benefit of OUS institutions. For the fiscal year ended June 30, 2012, Total Assets of these component units increased $15 million, or 1 percent, and Total Liabilities decreased $2.4 million, or 1 percent during the fiscal year ended June 30, 2012. Total Net Assets increased $14 million, or 1 percent during the same period. Table 3 below presents a Statement of Financial Position of the component units of the System for the fiscal years ended June 30, 2012 and 2011.

TABLE 3
STATEMENT OF FINANCIAL POSITION
COMPONENT UNITS

As of June 30,	**2012**	**2011**
	(In thousands)	
ASSETS		
Cash and Cash Equivalents	$ 31,493	$ 37,861
Contributions, Pledges and Grants Receivable, Net	182,241	212,317
Investments (Note 2)	1,278,683	1,229,268
Prepaid or Deferred Expenses, and Other Assets	37,609	38,264
Property and Equipment, Net	52,316	49,651
Total Assets	$ 1,582,342	$ 1,567,361
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 20,120	$ 7,423
Accounts Payable to Universities	4,624	15,396
Obligations to Beneficiaries of Split-Interest Agreements	72,895	76,564
Deposits and Deferred Revenue	11,766	12,071
Long-Term Liabilities	76,848	77,220
Total Liabilities	$ 186,253	$ 188,674
NET ASSETS		
Unrestricted	$ 3,089	$ 16,529
Temporarily Restricted	650,774	655,490
Permanently Restricted	742,226	706,668
Total Net Assets	$ 1,396,089	$ 1,378,687

Source: Oregon University System.

Statement of Revenues, Expenses and Changes in Net Assets

Operating Revenues increased $105 million in 2012, or 7 percent over 2011, to $1.7 billion. This change is primarily due to increases in Student Tuition and Fees, Grants and Contracts and Auxiliary Enterprises Revenues.

Operating Expenses increased $146 million in 2012, or 7 percent, over 2011, to $2.3 billion. This moderate increase resulted from increases in all expense categories except Other Operating Expenses.

Due to the classification of certain revenues as Nonoperating Revenues, OUS shows a loss from operations. State Government Appropriations and nonexchange Grants are considered Nonoperating Revenues under Governmental Accounting Standards Board (GASB) 35 and are reflected accordingly in the nonoperating section of the Statement of Revenue, Expenses and Changes in Net Assets for the System, even though these moneys are used solely for operating purposes.

Tables 4 and 5 on the following pages present a Statement of Revenues, Expenses and Changes in Net Assets for the System and a consolidated Statement of Activities for the component units of the System, respectively, for the fiscal years ended June 30, 2012 and 2011.

TABLE 4
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
OREGON UNIVERSITY SYSTEM

For the Years Ended June 30,	**2012**	**2011**
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Scholarship Allowances of $170,102 and $147,038, respectively)	$ 794,444	$ 719,852
Federal Grants and Contracts	343,709	335,573
State and Local Grants and Contracts	25,250	19,039
Nongovernmental Grants and Contracts	40,497	44,758
Educational Department Sales and Services	54,707	56,396
Auxiliary Enterprises Revenues (Net of Scholarship Allowances of $13,698 and $13,020, respectively)	365,914	349,303
Other Operating Revenues	32,804	27,406
Total Operating Revenues	1,657,325	1,552,327
OPERATING EXPENSES		
Instruction	682,611	626,267
Research	301,046	297,065
Public Service	142,583	141,545
Academic Support	154,337	143,416
Student Services	88,663	79,826
Auxiliary Programs	399,302	366,157
Institutional Support	175,990	163,030
Operation and Maintenance of Plant	97,917	97,735
Student Aid	95,377	94,511
Other Operating Expenses	112,021	94,327
Total Operating Expenses	2,249,847	2,103,879
Operating Loss	(592,522)	(551,552)
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations	307,832	386,745
Grants	167,684	152,537
Investment Activity	31,385	31,513
Gain (Loss) on Sale of Assets, Net	(1,338)	(201)
Interest Expense	(82,959)	(76,765)
Other Nonoperating Items	96,989	115,093
Net Nonoperating Revenues	519,593	608,922
Income Before Other Nonoperating Revenues	(72,929)	57,370
Capital and Debt Service Appropriations	49,116	36,686
Capital Grants and Gifts	33,875	46,563
Changes to Permanent Endowments	159	0
Total Other Nonoperating Revenues	83,150	83,249
Increase In Net Assets	10,221	140,619
NET ASSETS		
Beginning Balance	1,554,413	1,413,794
Ending Balance	$ 1,564,634	$ 1,554,413

Source: Oregon University System.

TABLE 5
STATEMENT OF ACTIVITIES
COMPONENT UNITS

For The Years Ended June 30,	**2012**	**2011**
	(In thousands)	
REVENUES		
Grants, Bequests and Gifts	$ 189,850	$ 194,717
Interest and Dividends	17,242	15,510
Investment Income, Net	(10,161)	121,976
Change in Value of Life Income Agreements	8	12,490
Other Revenues	24,412	23,746
Total Revenues	221,351	368,439
EXPENSES		
General and Administrative	27,769	27,334
Development Expenses	6,842	6,043
University Support	162,195	154,525
Other Expenses	7,266	8,444
Total Expenses	204,072	196,346
Increase In Net Assets Before Other Changes in Net Assets	17,279	172,093
Other Changes in Net Assets	123	-
Increase In Net Assets	17,402	172,093
NET ASSETS		
Beginning Balance	1,378,687	1,206,594
Ending Balance	$ 1,396,089	$ 1,378,687

Source: Oregon University System.

Capital Assets and Related Financing Activities

Capital Assets and Commitments

As of June 30, 2012, OUS had $4.2 billion in Capital Assets, less accumulated depreciation of $1.6 billion, for Net Capital Assets of $2.6 billion. OUS is committed to a comprehensive program of capital initiatives combined with a comprehensive approach to facility maintenance which includes addressing current maintenance needs and minimizing OUS's deferred maintenance backlog. State, Federal, private, borrowed, and internal OUS funding combine to accomplish OUS's capital objectives.

OUS has outstanding capital commitments on partially completed and planned but not yet started construction projects authorized by the Legislative Assembly of $211 million as of June 30, 2012.

Debt Administration

During fiscal years 2012 and 2011, OUS issued debt totaling $4 million and $249 million, respectively, with the proceeds earmarked for construction and acquisition of Capital Assets. The remainder of the debt issued was the result of refundings. Fiscal year 2012 saw many large construction projects completed and placed into service. During fiscal years 2012 and 2011, capital expenditures exceeded debt proceeds as debt proceeds from prior fiscal years, as well as gifts and other funding sources, were used to pay for construction.

The System manages its debt in accordance with a Debt Policy approved by the Board. This policy is reviewed periodically and was last updated on March 1, 2010. The policy outlines the System's philosophy on debt, establishes a control framework for approving and managing debt, defines reporting guidelines, and establishes debt management guidelines. The policy also caps the System's annual debt obligations to 7 percent of adjusted operating expenses. When the System last issued new debt, the resulting debt obligation was 4.8 percent of adjusted operating expenses.

Outstanding Article XI-F(1) and Article XI-G debt obligations of the System are shown in the following tables:

TABLE 6
DEPARTMENT OF HIGHER EDUCATION
ARTICLE XI-F(1) BONDED INDEBTEDNESS[(1)(2)]
As of December 31, 2012

Bond Issue	Dated	Original Amount	Outstanding at December 31, 2012	Final Maturity
1989 A&B	September 27, 1989	$ 30,115,661	$ 1,919,660	2019
1990 B	October 30, 1990	25,419,300	346,185	2014
1993 A	October 28, 1993	31,413,916	556,563	2013
1996 A&C	May 2,1996	44,636,896	2,285,449	2016
1997 A&B	May 16,1997	26,997,064	2,855,338	2019
1998 A&B	February 25, 1998	30,176,193	2,318,779	2017
1998 D&E	October 21, 1998	60,344,095	2,595,013	2016
1999 A&B	October 1, 1999	66,545,542	1,954,920	2017
2001A	December 19, 2001	156,196,151	10,196,747	2021
2004AB	February 12, 2004	88,465,000	4,500,000	2014
2004D	March 18, 2004	80,355,000	69,275,000	2027
2005A	March 24, 2005	137,175,000	56,955,000	2030
2005C	March 24, 2005	27,400,000	24,195,000	2035
2006A	April 18, 2006	38,440,000	31,185,000	2036
2006C	April 18, 2006	1,430,000	1,205,000	2036
2007A	April 12, 2007	161,735,000	154,400,000	2037
2007F	November 20, 2007	21,305,000	17,005,000	2024
2008A	June 26, 2008	200,000,000	193,695,000	2038
2009A	March 18, 2009	85,685,000	79,270,000	2038
2010ABC	April 29, 2010	224,835,000	218,400,000	2039
2011EFG	May 19, 2011	109,185,000	106,550,000	2041
2012AC	February 22, 2012	73,830,000	73,510,000	2028
		$1,721,684,818	$1,055,173,654	

Total Par Value of Article XI-F(1) Bonds Outstanding as of December 31, 2012	$1,055,173,654
Constitutional Debt Limitation (.075% of True Cash Value)[(3)]	$3,258,219,357

(1) Deferred Interest/Zero Coupon Bonds are shown at their original issue amounts; no accreted interest is included.
(2) Excludes 2013 Bonds, but includes Refunded Bonds.
(3) True Cash Value is based on the market value of statewide property as of January 1, 2011.
Source: Oregon University System.

TABLE 7
DEPARTMENT OF HIGHER EDUCATION
ARTICLE XI-G BONDED INDEBTEDNESS[(1)(2)]
As of December 31, 2012

Bond Issue	Dated	Original Amount	Outstanding at December 31, 2012	Final Maturity
1989 A&C	September 27, 1989	$ 11,092,500	$ 1,046,190	2019
1996 A&B	May 2, 1996	11,346,092	594,306	2016
1997 C	May 16, 1997	10,000,000	1,065,646	2019
1998 C	February 25,1998	14,122,702	2,093,509	2017
1998 F	October 21, 1998	14,730,258	586,285	2016
1999 C&D	October 1, 1999	24,736,346	1,896,672	2017
2001BC	December 19, 2001	39,891,292	479,653	2021
2003A	June 5, 2003	31,725,000	825,000	2013
2004C	February 12, 2004	12,515,000	945,000	2015
2004E	March 18, 2004	20,765,000	20,765,000	2029
2005B	March 24, 2005	27,785,000	22,400,000	2035
2005D	March 24, 2005	10,000,000	8,820,000	2035
2006B	April 18, 2006	23,230,000	19,370,000	2036
2006D	April 18, 2006	1,695,000	1,540,000	2036
2007B	April 12, 2007	68,770,000	63,845,000	2037
2007CE	November 20, 2007	10,305,000	9,045,000	2037
2007G	November 20, 2007	7,465,000	6,630,000	2024
2008B	July 30, 2008	31,195,000	27,315,000	2038
2009B	March 18, 2009	50,485,000	46,675,000	2038
2010DE	April 29, 3010	52,765,000	50,775,000	2039
2011H	May 19, 2011	68,905,000	67,605,000	2041
2012B	February 22, 2012	26,650,000	26,650,000	2030
		$570,174,190	$380,967,261	

Total Par Value of Article XI-G Bonds Outstanding as of December 31, 2012[(3)]

OUS	$ 380,967,261
Community Colleges	111,945,000
Total	$ 492,912,261

Constitutional Debt Limitation (.075% of True Cash Value)[(4)] $3,258,219,357

[(1)] Deferred Interest/Zero Coupon Bonds are shown at their original issue amounts; no accreted interest is included.
[(2)] Excludes 2013 Bonds, but includes Refunded Bonds.
[(3)] Article XI-G Bonds may be issue for Community Colleges and OUS.
[(4)] True Cash Value is based on the market value of statewide property as of January 1, 2011.
Source: Oregon University System.

Investment of OUS Debt Service Accounts

Pursuant to Oregon law, the Oregon University System Fund is established in the State Treasury, separate and distinct from the General Fund. All moneys received by the Board or the System are required by law to be paid into the State Treasury and credited to the Oregon University System Fund ("OUS Fund"). All moneys in the fund are continuously appropriated to the Board for purposes authorized by law. The Board may establish accounts and subaccounts within the OUS Fund when it determines that accounts or subaccounts are needed or desirable. The Board maintains accounts within the OUS Fund to provide for the payment of debt service upon Article XI-F(1) Bonds and Article XI-G Bonds (the "OUS Debt Service Accounts").

The State Treasurer is responsible for investing moneys of the OUS Fund which includes the OUS Debt Service Accounts, described above. As of November 30, 2012, the OUS Fund totaled approximately $584 million and included approximately $38 million in funds earmarked for debt service. Moneys from the OUS Fund are generally divided into two primary investment portfolios: the Oregon Short Term Fund (approximately $333 million) and other investments (approximately $251 million).

The investment policies of the System have been approved by the Oregon Investment Council. The investment policy related to the OUS Fund was last updated in April 2010. The OUS Fund investment policy, used by the State Treasurer, requires that:

1. All investments must be fixed-income and U.S. dollar-denominated.

2. Securities must be rated at investment grade or higher at the time of purchase (Baa3/BBB- as rated by any Rating Agencies – see "RATINGS").

3. No more than 5 percent of the monies may generally be invested in any single issuer (excluding U.S. Government and Agency obligations including Agency backed mortgages).

There can be no assurance that these investment policy guidelines will not be changed in the future.

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APPENDIX D

FORM OF BOND COUNSEL OPINION

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February ___, 2013

State Treasurer of the State of Oregon
Salem, Oregon

State Board of Higher Education
Corvallis, Oregon

$_________
State of Oregon General Obligation Bonds
(Oregon University System)
2013 Series A (Tax-Exempt), 2013 Series B (Federally Taxable),
2013 Series C (Tax-Exempt) and 2013 Series D (Federally Taxable)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the State of Oregon (the "State"), acting by and through its State Treasurer ("Treasurer," together with the State, the "Issuer"), at the request of the State Board of Higher Education (the "Board"), acting through its Finance and Administration Committee (the "Finance Committee"), for the Oregon University System in connection with issuance of $__________ State of Oregon General Obligation Bonds (Oregon University System), 2013 Series A (Tax-Exempt) (the "2013 Series A Bonds"), $__________ State of Oregon General Obligation Bonds (Oregon University System), 2013 Series B (Federally Taxable) (the "2013 Series B Bonds"), $__________ State of Oregon General Obligation Bonds (Oregon University System), 2013 Series C (Tax-Exempt) (the "2013 Series C Bonds" and together with the 2013 Series A Bonds, the "2013 Tax-Exempt Bonds") and $__________ State of Oregon General Obligation Bonds (Oregon University System), 2013 Series D (Federally Taxable) (the "2013 Series D Bonds" and together with the 2013 Series B Bonds, the "2013 Federally Taxable Bonds"). Collectively, the 2013 Series A Bonds, the 2013 Series B Bonds, the 2013 Series C Bonds and the 2013 Series D Bonds are referred to herein as, the "Bonds." The Bonds are issued pursuant to Oregon Revised Statutes chapters 286A and 351, as amended, provisions of the Oregon Constitution that specifically allow the issuance of general obligation bonds for the Oregon University System, Resolutions of the Finance Committee adopted on December 21, 2012 (the "Resolutions") and an Issuance Certificate, dated February ___, 2013 (the "Issuance Certificate") executed and delivered by the Treasurer and acknowledged by the Board. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Issuance Certificate.

In such connection, we have reviewed the Oregon Constitution, Oregon Revised Statutes chapters 286A and 351, as amended, the Resolutions, the Issuance Certificate, the Tax Certificate, dated the date hereof (the "Tax Certificate"), certificates of the Issuer, the Board, the Fiscal Agent and others, and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Issuance Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Issuance Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), arbitration, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding general obligations of the Issuer.

2. The Issuance Certificate has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer.

3. The Bonds are direct general obligations of the State, and the full faith and credit and property taxing power of the State are irrevocably pledged to the punctual payment of the principal of and interest on the Bonds when due. The State has power and is obligated to levy annually, as provided by law, a direct *ad valorem* tax upon all the taxable property within the State without limitation as to rate or amount for the payment of the principal of and interest on the Bonds in any fiscal year in which other amounts available are not sufficient.

4. Interest on the 2013 Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2013 Federally Taxable Bonds is not excluded from gross income for federal income tax purposes. Interest on the Bonds is exempt from State of Oregon personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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FORM OF CONTINUING DISCLOSURE CERTIFICATE

$__________
State of Oregon
General Obligation Bonds
(Oregon University System)

$________	$________	$________	$________
2013 Series A (Tax-Exempt)	**2013 Series B (Federally Taxable)**	**2013 Series C (Tax-Exempt)**	**2013 Series D (Federally Taxable)**

This Continuing Disclosure Certificate (the "Certificate") is executed and delivered by the State of Oregon, acting by and through the State Treasurer (the "State") at the request of the State Board of Higher Education (the "Board") acting through its Finance and Administration Committee (collectively, the "Issuer") in connection with the issuance of its General Obligation Bonds, 2013 Series A (Tax-Exempt), its General Obligation Bonds, 2013 Series B (Federally Taxable), its General Obligation Bonds, 2013 Series C (Tax-Exempt) and its General Obligation Bonds, 2013 Series D (Federally Taxable) (collectively, the "Bonds"), which are in the collective aggregate principal amount of $__________. The Bonds are being issued pursuant to the provisions of the Oregon Constitution authorizing general obligation bonds for higher education building projects, institutions and activities, Oregon Revised Statutes Chapters 286A and 351, as amended, and an Issuance Certificate of the State dated the date of delivery of the Bonds (the "Issuance Certificate").

The State covenants and agrees as follows:

SECTION 1. Purpose of Certificate. This Certificate is being executed and delivered by the State for the benefit of the Registered Owners and Beneficial Owners of the Bonds and to assist the Participating Underwriters in complying with Securities and Exchange Commission ("S.E.C.") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Issuance Certificate, which apply to any capitalized term used in this Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean the annual financial information defined in Section 3(a) provided by the State pursuant to, and as described in, Section 3 of this Certificate.

"Dissemination Agent" shall mean the State, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the State a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access ("EMMA") website of the MSRB, which as of the date of this Certificate is located at http://emma.msrb.org.

"Listed Events" shall mean any of the events listed in Section 4(a) or 4(b) of this Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through EMMA.

"Official Statement" shall mean the Official Statement, dated January ___, 2013, prepared and distributed in connection with the initial sale of the Bonds.

"Participating Underwriters" shall mean the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Financial Information.

(a) The State, as the "obligated person" for purposes of the Rule, hereby agrees to provide or cause to be provided at least annually to the MSRB, the financial information regarding the State of the type set forth (i) in Tables 11 through 16, 18 through 21, and 24 through 27 of Appendix A "General Information Relating to the State of Oregon" of the Official Statement, (ii) in the Basic Financial Statements for the State for the Year Ended June 30, 2012 (which are presented in Appendix B of the Official Statement in audited form) and (iii) the financial and operating data of the type presented in Tables 1 through 7 of Appendix C—"Information Relating to the Oregon University System" of the Official Statement.

(b) The Annual Report described above will be available no later than nine (9) months after the end of the preceding fiscal year, beginning with the State's fiscal year ending June 30, 2013. Such information will include audited financial statements prepared in accordance with generally accepted accounting principles as established by the Government Accounting Standards Board as in effect from time to time; provided, however, that if audited financial statements are not available within nine (9) months after the end of the preceding fiscal year, unaudited financial statements will be provided with audited financial statements to follow when available.

(c) The Annual Report must be submitted in electronic format in compliance with applicable MSRB rules, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information previously provided to the MSRB.

SECTION 4. Reporting of Material Events.

(a) The State agrees to give, or cause to be given, notice to the MSRB of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

(1) Principal and interest payment delinquencies;

(2) Unscheduled draws on debt service reserves reflecting financial difficulties;

(3) Unscheduled draws on credit enhancements reflecting financial difficulties;

(4) Substitution of credit or liquidity providers, or their failure to perform;

(5) Adverse tax opinions, issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(6) Tender offers;

(7) Defeasances;

(8) Rating changes; or

(9) Bankruptcy, insolvency, receivership or similar event of the obligated person.

For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The State agrees to give, or cause to be given, notice to the MSRB of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

(1) Unless described in Section 4(a)(5) of this Certificate, other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(2) Modifications to rights of Bondholders;

(3) Bond calls;

(4) Release, substitution, or sale of property securing repayment of the Bonds;

(5) Non-payment related defaults;

(6) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(7) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the State obtains knowledge of the occurrence of a Listed Event described in Section 4(b) of this Certificate, the State shall determine if such event would be material under applicable federal securities laws.

(d) If the State learns of the occurrence of a Listed Event described in Section 4(a) of this Certificate, or determines that knowledge of a Listed Event described in Section 4(b) of this Certificate would be material under applicable federal securities law, the State shall file, or shall cause to be filed, in a timely manner not in excess of ten business days of occurrence, a notice of such occurrence with the MSRB.

(e) Nothing in this Certificate shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Certificate, in addition to that which is required by this Certificate. If the State chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Certificate, the State shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 5. Failure to File Annual Reports. The State agrees to provide or cause to be provided, in a timely manner, to the MSRB, notice of a failure by the State to provide the Annual Report described in Section 3 above on or prior to the time set forth in Section 3.

SECTION 6. Termination of Reporting Obligation. Pursuant to paragraph (b)(5)(iii) of the Rule, the State's obligations under this Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. In addition, and notwithstanding the provisions of Section 8 below, the State may rescind its obligations under this Certificate, in whole or in part, if (i) the State obtains an opinion of nationally recognized bond counsel that those portions of the Rule that required the execution and delivery of this Certificate are invalid, have been repealed, or otherwise do not apply to the Bonds, and (ii) the State notifies and provides the MSRB a copy of such legal opinion.

SECTION 7. Dissemination Agent. The State may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Certificate. The State may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State pursuant to this Certificate. The initial Dissemination Agent shall be the State.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Certificate, the State may amend this Certificate, and any provision of this Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver is made only in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interest of holders of the Bonds, as determined either by parties unaffiliated with the State (such as nationally recognized bond counsel), or by approving vote of holders representing at least sixty percent (60%) of the aggregate outstanding principal amount represented by the Bonds, as applicable.

In the event of any amendment or waiver of a provision of this Certificate, the State shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 10. Submitting Information Through EMMA. So long as the MSRB continues to approve the use of the EMMA continuing disclosure service, any information required to be provided to the MSRB under this Certificate may be provided through EMMA.

SECTION 11. Default. In the event of a failure of the State to comply with any provision of this Certificate, any Registered Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State to comply with its obligations under this Certificate; provided, that any such action may be instituted only in Marion County Circuit Court or if a federal forum is required, in the federal courts of the State of Oregon. The sole remedy under this Certificate in the event of any failure of the State to comply with this Certificate shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the State, the Participating Underwriters, Registered Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Choice of Law. This Certificate shall be governed by and construed in accordance with the laws of the State of Oregon without regard to principles of conflicts of laws, provided that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

SECTION 14. Counterparts. This Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

Dated as of the ___ day of February 2013.

STATE OF OREGON

By: ____________________________________
Laura Lockwood-McCall
Director, Debt Management Division

STATE BOARD OF HIGHER EDUCATION

By: ____________________________________
Michael J. Green
Associate Vice Chancellor for Finance and Administration and Controller

APPENDIX F

DESCRIPTION OF DTC AND ITS BOOK-ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2013 Bonds. The 2013 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each series of the 2013 Bonds, each in the aggregate principal amount of such series, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2013 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2013 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2013 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2013 Bonds, except in the event that use of the book-entry system for the 2013 Bonds is discontinued.

To facilitate subsequent transfers, all 2013 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2013 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2013 Bonds, such as prepayments, tenders, defaults, and proposed amendments to the security documents relating to the 2013 Bonds. For example, Beneficial Owners of 2013 Bonds may wish to ascertain that the nominee holding the 2013 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Certificate Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2013 Bonds within a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2013 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments represented by the 2013 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2013 Bonds at any time by giving reasonable notice to the State or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

To the extent permitted by law, the State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

THE ABOVE INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE STATE BELIEVES TO BE RELIABLE, BUT THE STATE TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE STATE NOR THE FISCAL AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES OR BENEFICIAL OWNERS WITH RESPECT TO DTC'S RECORD KEEPING, PAYMENTS BY DTC OR PARTICIPANTS, NOTICES TO BE DELIVERED BY DTC, OR ANY OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE 2013 BONDS.

So long as Cede & Co. is the registered owner of the 2013 Bonds, as nominee for DTC, references herein to the holders or registered owners of the 2013 Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2013 Bonds. When reference is made to any action, which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given the State or the Fiscal Agent shall send them to DTC only.

For every transfer and exchange of the 2013 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

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