

PRELIMINARY OFFICIAL STATEMENT DATED MARCH 24, 2017

This Official Statement has been prepared on behalf of the State of Oregon, acting by and through the Office of the Oregon State Treasurer, to provide information on the 2017 Bonds. Selected information presented on this cover page is for the convenience of the users. To make an informed decision regarding the 2017 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”



\$295,500,000*
STATE OF OREGON
GENERAL OBLIGATION BONDS
(HIGHER EDUCATION)
VARIOUS SERIES

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 2017 Series I Bonds, the 2017 Series J Bonds and the 2017 Series L Bonds (collectively, the “2017 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 2017 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 2017 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 amount, accrual or receipt of interest on, the 2017 Bonds. See “TAX MATTERS” herein.

Purpose and Authority

The 2017 Bonds are being issued to pay a portion of the costs of various State projects, as described herein, to refund certain outstanding general obligation bonds issued by the State, as described herein, and to pay costs of issuing the 2017 Bonds, as described herein. The 2017 Bonds are being issued pursuant to provisions of the Oregon Constitution that specifically authorize the issuance of general obligation bonds for projects that benefit higher education institutions or activities or community colleges authorized by law to receive state aid, Oregon Revised Statutes chapters 286A, 341 and 352, as amended, Oregon Laws 2014, chapter 121, section 3, as amended by Oregon Laws 2015, chapter 685, sections 1 and 5-6, and Oregon Laws 2016, chapter 66, section 1, and as may be further amended from time to time, and an Issuance Certificate executed by the State Treasurer.

Security

The 2017 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 principal of and interest on the 2017 Bonds when due, including the power to levy an *ad valorem* property tax.

Interest Payment Dates

Interest on the 2017 Bonds is payable semiannually on February 1 and August 1, commencing August 1, 2017.

Denominations

The 2017 Bonds will be available in denominations of \$5,000 and integral multiples thereof.

Redemption

The 2017 Bonds are subject to redemption prior to maturity at the times, under the conditions and at the prices described herein.

Closing/Settlement

The 2017 Bonds are expected to be available for delivery through the facilities of DTC in New York, New York on or about May __, 2017.

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 Trust Company, N.A., as the State of Oregon’s Fiscal Agent.

Citigroup
J.P. Morgan
Goldman, Sachs & Co.

BofA Merrill Lynch
Fidelity Capital Markets

Morgan Stanley
D.A. Davidson & Co.
Piper Jaffray

* Preliminary, subject to change.

SUMMARY OF VARIOUS SERIES TO BE ISSUED

\$295,500,000*
STATE OF OREGON
GENERAL OBLIGATION BONDS
(HIGHER EDUCATION)

	\$114,270,000* 2017 SERIES I	\$38,125,000* 2017 SERIES J	\$143,105,000* 2017 SERIES L
Tax Status:	Tax-Exempt	Tax-Exempt	Tax-Exempt
Constitutional Authority and Purpose:	Article XI-F(1) University Projects	Article XI-G Community College Projects	Article XI-G University Projects
Interest Payment Dates:	February 1 and August 1 of each year, commencing August 1, 2017	February 1 and August 1 of each year, commencing August 1, 2017	February 1 and August 1 of each year, commencing August 1, 2017
First Optional Redemption:	August 1, 20__	August 1, 20__	August 1, 20__

* Preliminary, subject to change.

MATURITY SCHEDULES

\$114,270,000*
STATE OF OREGON
GENERAL OBLIGATION BONDS
(HIGHER EDUCATION)
2017 SERIES I
(ARTICLE XI-F(1) UNIVERSITY PROJECTS)
(TAX-EXEMPT)

\$114,270,000* 2017 Series I Serial Bonds

Maturity Date* (August 1)	Principal Amount*	Interest Rate	Yield	CUSIP** (_____)
2018	\$ 1,910,000			
2019	2,005,000			
2020	2,100,000			
2021	2,205,000			
2022	5,220,000			
2023	6,895,000			
2024	7,245,000			
2025	6,650,000			
2026	6,995,000			
2027	5,605,000			
2028	6,365,000			
2029	8,750,000			
2030	9,195,000			
2031	12,500,000			
2032	6,245,000			
2033	6,555,000			
2034	6,720,000			
2035	7,070,000			
2036	1,970,000			
2037	2,070,000			

\$ _____ * % Series I Term Bond maturing _____ *
 Price to Yield % (CUSIP No. _____)**

* Preliminary, subject to change.

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MATURITY SCHEDULES

\$38,125,000*
STATE OF OREGON
GENERAL OBLIGATION BONDS
(HIGHER EDUCATION)
2017 SERIES J
(ARTICLE XI-G COMMUNITY COLLEGE PROJECTS)
(TAX-EXEMPT)

\$30,805,000* 2017 Series J Serial Bonds

Maturity Date* (August 1)	Principal Amount*	Interest Rate	Yield	CUSIP** (_____)
2018	\$ 905,000			
2019	935,000			
2020	970,000			
2021	995,000			
2022	1,035,000			
2023	1,080,000			
2024	1,130,000			
2025	1,175,000			
2026	3,545,000			
2027	3,695,000			
2028	3,330,000			
2029	3,505,000			
2030	885,000			
2031	935,000			
2032	985,000			
2033	1,025,000			
2034	1,085,000			
2035	1,140,000			
2036	1,190,000			
2037	1,260,000			

\$7,320,000* __. __ % Series J Term Bond maturing August 1, 2042*
Price to Yield __. __ % (CUSIP No. _____)

* Preliminary, subject to change.

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MATURITY SCHEDULES

\$143,105,000*
STATE OF OREGON
GENERAL OBLIGATION BONDS
(HIGHER EDUCATION)
2017 SERIES L
(ARTICLE XI-G UNIVERSITY PROJECTS)
(TAX-EXEMPT)

\$120,640,000* 2017 Series L Serial Bonds

Maturity Date* (August 1)	Principal Amount*	Interest Rate	Yield	CUSIP** (_____)
2018	\$ 3,250,000			
2019	3,420,000			
2020	3,575,000			
2021	3,755,000			
2022	6,075,000			
2023	7,195,000			
2024	7,505,000			
2025	7,170,000			
2026	7,510,000			
2027	9,610,000			
2028	8,415,000			
2029	8,685,000			
2030	7,065,000			
2031	8,470,000			
2032	4,670,000			
2033	4,910,000			
2034	4,265,000			
2035	4,475,000			
2036	5,175,000			
2037	5,445,000			

\$22,465,000* __. __% Series L Term Bond maturing August 1, 2042*
Price to Yield __. __% (CUSIP No. ____)**

* Preliminary, subject to change.

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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 information set forth herein has been obtained from sources that are believed to be reliable. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions and such summaries are qualified by references to the entire contents of the summarized documents. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof.

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 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 2017 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 2017 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 2017 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 2017 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.

The 2017 Bonds will not be registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such Act. The 2017 Bonds have not been registered or qualified under the securities laws of any state, the 2017 Bonds have not been recommended by any federal or state securities commission or regulatory authority, and the foregoing authorities have neither reviewed nor confirmed the accuracy of this document.

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\$295,500,000*
STATE OF OREGON
GENERAL OBLIGATION BONDS
(HIGHER EDUCATION)
VARIOUS SERIES

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 (Higher Education), 2017 Series I (Article XI-F(1) University Projects) (Tax-Exempt) (the “2017 Series I Bonds”), the State of Oregon General Obligation Bonds (Higher Education), 2017 Series J (Article XI-G Community College Projects) (Tax-Exempt) (the “2017 Series J Bonds”), and the State of Oregon General Obligation Bonds (Higher Education), 2017 Series L (Article XI-G University Projects) (Tax-Exempt) (the “2017 Series L Bonds”). The 2017 Series I Bonds, the Series 2017 Series J Bonds and the 2017 Series L Bonds are collectively referred to herein as the “2017 Bonds.”

The 2017 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 principal of and interest on 2017 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 2017 Bonds will be issued by the State, acting by and through the State Treasurer (the “State Treasurer”) pursuant to the constitutional and statutory authority and an Issuance Certificate executed and delivered by the State Treasurer, as described herein. See “AUTHORITY FOR ISSUANCE—Other Authority.”

The 2017 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 2017 Bonds will be included in adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. The 2017 Bonds will bear interest that is exempt from Oregon personal income taxation. See “TAX MATTERS.”

The 2017 Bonds are being issued to (i) finance or refund bonds that financed projects that benefit higher education institutions or activities, (ii) finance or refund bonds that financed projects that benefit community colleges authorized by law to receive state aid, and (iii) pay costs of issuing the 2017 Bonds. See “PLAN OF FINANCE” herein.

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 \$6.085 billion of State general obligation bonds were outstanding as of March 15, 2017. This amount does not include the 2017 Bonds or the State of Oregon General Obligation Bonds, 2017 Series H (Article XI-G Higher Education Project) (Tax-

* Preliminary, subject to change.

Exempt) (the “OHSU Bonds”) expected to be issued in the principal amount of \$84,880,000 on March 29, 2017. 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 24 through 28 therein for a summary of the State’s outstanding debt obligations, including outstanding general obligation bonds. Certain tables in Appendix A related to the State’s outstanding debt obligations are generally updated on an annual basis following the close of each fiscal year.

The Oregon Constitution authorizes the issuance of two types of general obligation bonds, pursuant to Article XI-F(1) and Article XI-G of the Oregon Constitution, specifically for the benefit of higher education institutions or activities. In addition, Article XI-G of the Oregon Constitution authorizes the issuance of general obligation bonds for the benefit of community colleges. Both types of general obligation bonds are direct general obligations of the State, payable from any legally available funds of the State.

Article XI-F(1). The 2017 Series I Bonds are being issued under authority granted by Article XI-F(1) of the Oregon Constitution (“Article XI-F(1)”). 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 higher education institutions benefiting from the borrowing, exclusive of moneys appropriated from the General Fund of the State (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. General obligation bonds issued pursuant to Article XI-F(1) shall be referred to in this Official Statement as “Article XI-F(1) Bonds.”

The Oregon Constitution limits Article XI-F(1) Bonds 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, 2015, the true cash value of nonexempt real and personal property in the State was approximately \$506 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 excludes the 2017 Series I Bonds. See APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—DEBT AUTHORITY AND BOND ISSUANCE” and Table 25 therein.

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

	March 15, 2017
Article XI-F(1) Bonded Debt Constitutional Limit	\$3.796 billion ⁽¹⁾
Article XI-F(1) Bonds Outstanding	\$1.169 billion ⁽²⁾
Percent of Remaining Authority Under Constitutional Limit, XI-F(1) Bonds	69.2%

⁽¹⁾ The limit on Article XI-F(1) Bonds is based on the true cash value of statewide property of \$506 billion as of January 1, 2015.

⁽²⁾ This figure does not include the 2017 Series I Bonds. All zero-coupon/deferred-interest bonds are shown as of their original issue amount without accreted interest.

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

Article XI-G. The 2017 Series J Bonds and the 2017 Series L Bonds (collectively, the “2017 XI-G Bonds”) are being issued under authority granted by Article XI-G of the Oregon Constitution (“Article XI-G”). Article XI-G 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 or community colleges authorized by law to receive state aid, and 2) refund general obligation indebtedness incurred under Article XI-G; however, the State may issue Article XI-G Bonds (other than refunding bonds) only if the amount of indebtedness issued under Article XI-G is matched by at least an equal amount of available moneys 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 indebtedness incurred by the State under any other provision of the Oregon Constitution. The 2017 Series J Bonds are being issued for the purposes of financing or refunding Article XI-G Bonds that financed projects for community colleges, and are referred to herein, together with all other outstanding bonds issued under Article XI-G on behalf of community colleges, as “Community College XI-G Bonds.” The 2017 Series L Bonds are being issued for the purposes of financing or refunding Article XI-G Bonds that financed projects for higher education institutions or activities, and are referred to herein, together with all other outstanding bonds issued under XI-G on behalf of higher education institutions or activities, as “Higher Education XI-G Bonds.” References in this Official Statement to “Article XI-G Bonds” include all bonds authorized under Article XI-G, i.e., both Higher Education XI-G Bonds and Community College XI-G Bonds.

The Oregon Constitution limits Article XI-G Bonds 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, 2015, the true cash value of nonexempt real and personal property in the State was approximately \$506 billion. Table 2 below shows the total approximate amount of outstanding Higher Education XI-G Bonds and Community College XI-G Bonds, and the approximate percentage of remaining bonding authority under Article XI-G. The amount of outstanding Article XI-G Bonds shown in Table 2 excludes the 2017 XI-G Bonds and the OHSU Bonds expected to be issued in the principal amount of \$84,880,000 on March 29, 2017, before the issuance of the 2017 XI-G Bonds and includes the amount of Refunded Bonds outstanding as of March 15, 2017. See APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—DEBT AUTHORITY AND BOND ISSUANCE” and Table 25 therein.

**TABLE 2
ARTICLE XI-G BOND DEBT OUTSTANDING AND
REMAINING AUTHORITY UNDER CONSTITUTIONAL LIMIT**

	March 15, 2017
Article XI-G Bonded Debt Constitutional Limit	\$3.796 billion ⁽¹⁾
Higher Education XI-G Bonds Outstanding	\$512.3 million ⁽²⁾
Community College XI-G Bonds Outstanding	\$161.8 million ⁽²⁾
Percent of Remaining Authority Under Constitutional Limit, XI-G Bonds	82.2%

⁽¹⁾ The limit on Article XI-G Bonds is based on the true cash value of statewide property of \$506 billion as of January 1, 2015.

⁽²⁾ This figure does not include the OHSU Bonds expected to be issued on March 29, 2017 in the principal amount of \$84,880,000 or the 2017 XI-G Bonds. This figure includes the Refunded Bonds. All zero-coupon/deferred-interest bonds are shown as of their original issue amount without accreted interest.

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

Legislative Authority

2015-2017 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. There is no limit on the amount of bonds that may be issued for refunding purposes. The total amount of general obligation bonds authorized for the 2015-2017 biennium by the Legislative Assembly in the 2015 legislative session, which adjourned on July 6, 2015 (the “2015 Legislative Session”), was approximately \$1.35 billion. This amount was increased to approximately \$1.44 billion in the 2016 legislative session, which adjourned on March 3, 2016 (the “2016 Legislative Session”). See “RECENT DEVELOPMENTS—2015-2017 Biennial Budget.” Since July 1, 2015, the State has issued approximately \$824.6 million in general obligation bonds under that authority, not including the OHSU Bonds expected to be issued in the principal amount of \$84,880,000 on March 29, 2017, the 2017 Bonds, or any refunding bonds.

The table below summarizes the amount of new money general obligation bonds authorized by the Legislative Assembly to be issued under Article XI-F(1) and Article XI-G of the Oregon Constitution, as well as the total amount of new money general obligation bonds issued by the State through March 15, 2017 for the 2015-2017 biennium. This table does not include the OHSU Bonds expected to be issued on March 29, 2017 in the principal amount of \$84,880,000, the 2017 Bonds, or general obligation bonds issued to refund prior general obligation bonds issued by the State. Additionally, the amount issued as shown in the table below does not include general obligation bonds expected to be issued by the State in the remainder of the 2015-2017 biennium. See “AUTHORITY FOR ISSUANCE—Constitutional Authority and Limits” above 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 2015-2017 ISSUANCE AUTHORITY**

	<u>Authorized</u>	<u>Issued⁽¹⁾</u>
Total General Obligation Bond Issuance Authority	\$1,435,361,600	\$824,550,000
Article XI-F(1) Bond Issuance Authority	74,225,000	38,865,000
Article XI-G Bond Issuance Authority	350,886,600	83,325,000

⁽¹⁾ Does not include the OHSU Bonds expected to be issued on March 29, 2017, the 2017 Bonds, or general obligation bonds issued to refund prior general obligation bonds expected to be issued by the State in the remainder of the 2015-17 biennium. See Table 24 of APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON.”

Source: Debt Management Division, Office of the State Treasurer, dated as of March 15, 2017.

Other Authority

The 2017 Bonds are also issued by the State Treasurer pursuant to Oregon Revised Statutes (“ORS”) chapters 286A, 341 and 352, as amended, and Oregon Laws 2014, chapter 121, section 3, as amended by Oregon Laws 2015, chapter 685, sections 1 and 5-6 and Oregon Laws 2016, chapter 66, section 3, and as may be further amended from time to time (the “Authorizing Legislation”). Together, Article XI-F(1) and Article XI-G of the Oregon Constitution, the statutes of the State of Oregon, including without limitation ORS chapter 286A and the Authorizing Legislation, all as amended from time to time, inclusive, are referred to herein as the “Act.” The 2017 Bonds are issued by the State Treasurer with the concurrence of the Oregon Department of Administrative Services (“DAS”), at the request of the Higher Education Coordinating Commission (“HECC”) for the benefit of Oregon’s public universities (the “Public Universities”) and Oregon’s community colleges (the “Community Colleges”).

The Treasurer will execute and deliver an issuance certificate to be dated the date of delivery of the 2017 Bonds (the “Issuance Certificate”).

SECURITY AND SOURCES OF PAYMENT

Pledge of Full Faith and Credit

The 2017 Bonds are direct general obligations of the State and the full faith and credit and taxing power of the State are irrevocably pledged to pay the principal of and interest on the 2017 Bonds when due, including the power to levy an *ad valorem* property tax upon all taxable property within the State.

In the Issuance Certificate, the State covenants to punctually pay or cause to be paid the principal (whether at maturity or upon redemption) or purchase price of, premium, if any, and interest on the 2017 Bonds, in conformity with the terms of the 2017 Bonds, the Issuance Certificate and the Act.

Sources of Payment

The 2017 Series I Bonds

Institution Revenues. Although the 2017 Series I Bonds are not secured by a pledge of, security interest in or lien on, revenues from any of the Public Universities (“Institution Revenues”), the State expects the 2017 Series I Bonds to be paid from Institution Revenues. The State and each of the Public Universities have entered into a debt service payment agreement that addresses the use of Institution Revenues for the payment of debt service on the Article XI-F(1) Bonds, including the 2017 Series I Bonds. Institution Revenues include any lawfully available source of funds available to the Public Universities, but do not include moneys appropriated to Public Universities from the State’s General Fund. For information about the Public Universities, see “INFORMATION RELATING TO HIGHER EDUCATION COORDINATING COMMISSION, PUBLIC UNIVERSITIES AND COMMUNITY COLLEGES.”

Payment from Other Sources. To the extent Institution Revenues are ever expected to be insufficient to pay the 2017 Series I 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 2017 Series I 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 RELATING TO THE STATE OF OREGON—THE STATE OF OREGON GOVERNMENTAL ORGANIZATION—The Legislative Branch” and “—STATE FINANCIAL OPERATIONS—Budgetary Process.”

Property Taxes. If DAS determines that amounts available during a fiscal year will not be sufficient to pay the 2017 Series I 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 decades and does not expect that property taxes would be levied to pay the 2017 Series I Bonds. Instead, the State expects that the Legislative Assembly or the Emergency Board would provide revenues to pay the 2017 Series I Bonds.

The 2017 XI-G Bonds

General Fund Appropriations. The 2017 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 DAS determines that amounts available during a fiscal year will not be sufficient to pay the 2017 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 decades and does not expect that property taxes would be levied to pay the 2017 XI-G Bonds. Instead, the State expects that the Legislative Assembly or the Emergency Board would provide revenues to pay the 2017 XI-G Bonds.

Bond Debt Service*

The table below shows annual fiscal year debt service on all general obligation bonds of the State outstanding as of March 15, 2017, including the Refunded Bonds. The debt service on the 2017 Bonds, the OHSU Bonds, and other general obligation bonds authorized to be issued during the remainder of the 2015-17 biennium is not reflected. See APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—DEBT AUTHORITY AND BOND ISSUANCE—Table 25—State of Oregon Outstanding Long-Term Financial Obligations and Constitutional and Statutory Provisions.”

* Preliminary, subject to change.

TABLE 4*
STATE OF OREGON
GENERAL OBLIGATION BOND DEBT SERVICE

Fiscal Year Ending June 30	Outstanding General Obligation Bonds ^{(1) (2)}			2017 Bonds			Combined Total ⁽²⁾ Bond Debt Service
	Principal	Interest	Debt Service	Principal	Interest	Debt Service	
2017	\$ 149,965,000.00	\$ 90,371,844.19	\$240,336,844.19	\$	\$	\$	
2018	301,145,239.65	300,277,514.84	601,422,754.49				
2019	329,675,074.25	277,497,937.08	607,173,011.33				
2020	352,588,965.75	262,557,767.47	615,146,733.22				
2021	377,476,352.10	242,711,360.95	620,187,713.05				
2022	371,295,186.50	224,021,382.60	595,316,569.10				
2023	391,115,000.00	204,234,273.66	595,349,273.66				
2024	402,910,000.00	184,539,710.61	587,449,710.61				
2025	411,595,000.00	163,740,615.77	575,335,615.77				
2026	439,795,000.00	141,912,151.26	581,707,151.26				
2027	459,095,000.00	118,417,469.75	577,512,469.75				
2028	191,925,000.00	93,862,896.14	285,787,896.14				
2029	191,035,000.00	85,053,229.47	276,088,229.47				
2030	189,030,000.00	76,161,774.96	265,191,774.96				
2031	181,055,000.00	67,515,745.80	248,570,745.80				
2032	176,310,000.00	59,378,714.99	235,688,714.99				
2033	165,675,000.00	51,568,429.25	217,243,429.25				
2034	163,815,000.00	44,094,879.88	207,909,879.88				
2035	155,205,000.00	36,743,682.34	191,948,682.34				
2036	150,270,000.00	29,572,492.05	179,842,492.05				
2037	128,660,000.00	22,729,148.80	151,389,148.80				
2038	101,120,000.00	16,824,176.41	117,944,176.41				
2039	100,495,000.00	11,988,447.75	112,483,447.75				
2040	68,650,000.00	7,787,007.90	76,437,007.90				
2041	49,470,000.00	5,156,184.75	54,626,184.75				
2042	43,885,000.00	3,015,196.75	46,900,196.75				
2043	17,345,000.00	1,502,629.50	18,847,629.50				
2044	16,090,000.00	734,632.75	16,824,632.75				
2045	5,045,000.00	266,687.75	5,311,687.75				
2046	3,010,000.00	99,178.50	3,109,178.50				
2047	530,000.00	23,782.50	553,782.50				
2048	210,000.00	7,481.25	217,481.25				
TOTAL	\$6,085,485,818.25	\$2,824,368,427.67	\$8,909,854,245.92				

* Preliminary, subject to change.

Note: Totals may not add due to rounding.

⁽¹⁾ Includes all outstanding general obligation bonds of the State as of March 15, 2017, including the Refunded Bonds. This table does not reflect debt service on the OHSU Bonds that priced on March 16, 2017 and are anticipated to be issued on March 29, 2017, prior to the issuance of the 2017 Bonds, in a principal amount of \$84,880,000. When issued, the OHSU Bonds are expected to have annual debt service of approximately \$5.95 million from FY 2018 through FY 2043. The debt service for the OHSU Bonds will be incorporated into the final Official Statement for the 2017 Bonds.

⁽²⁾ The interest calculation on variable rate obligations is determined twice each year, on June 30 and December 31, by multiplying the most recent 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 that receive appropriations or are subject to periodic expenditure limitations. 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. In addition, certain discrete component units of the State submit funding requests for the portion of their operations that are State-funded each biennium to be included as part of the Governor's biennial budget. Examples of component units that submit certain budget requests include Oregon Health and Science University and the Public Universities. For more information concerning the budget process, see APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—STATE FINANCIAL OPERATIONS—Budgetary Process."

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—STATE FINANCIAL OPERATIONS" for a detailed description of sources of General Fund revenues and other sources of revenues available to the State.

The table below presents actual State General Fund Revenues for the 2009-2011, 2011-2013, and 2013-2015 biennia and forecast General Fund Revenues for the 2015-2017 biennium. See "RECENT DEVELOPMENTS—Revenue and Economic Information" and APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—STATE FINANCIAL OPERATIONS."

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. The most

recent State Economic and Revenue Forecast was released on February 22, 2017 (the “March 2017 Forecast”). The next State Economic and Revenue Forecast is expected to be released on or about May 16, 2017 (the “June 2017 Forecast”). See “RECENT DEVELOPMENTS—Revenue and Economic Information.”

If amounts budgeted or expected to pay any general obligation bonds of the State, including the 2017 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. The loan may only be made if the borrowing fund is expected to be able to repay the borrowed funds, before the borrowed funds are needed by the lending fund, and if the 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.

TABLE 5
STATE OF OREGON
GENERAL FUND REVENUE STATEMENT
(\$ In Thousands)⁽¹⁾

	2009-2011 Actuals⁽²⁾	2011-2013 Actuals⁽³⁾	2013-2015 Actuals⁽⁴⁾	2015-2017 Forecast⁽⁵⁾
Taxes				
Personal Income	\$ 10,467,225	\$ 12,118,187	\$ 13,958,289	\$ 15,709,815
Corporate Excise and Income	827,614	883,912	1,116,529	1,136,178
Other Taxes ⁽⁶⁾	386,021	437,917	452,897	569,080
Fines and Fees⁽⁷⁾	171,137	266,854	256,354	246,352
Additional Revenues⁽⁸⁾	222,316	272,865	271,320	310,758
One-time Transfers	447,383	176,229	49,581	138,422
Gross General Fund Revenues	<u>12,521,696</u>	<u>14,155,964</u>	<u>16,104,970</u>	<u>18,110,605</u>
Offsets and Transfers	0	(12,098)	(74,215)	(44,353)
Net General Fund Revenues	<u>12,521,696</u>	<u>14,143,866</u>	<u>16,030,755</u>	<u>18,066,252</u>
Beginning Balance	0	0	475,651	528,793
Interest on Tax Anticipation Notes	(8,200)	(4,294)	(3,327)	(14,018)
Transfers to Rainy Day Fund	0	0	(136,721)	(158,328)
Available Resources	<u>12,513,496</u>	<u>14,139,572</u>	<u>16,366,358</u>	<u>18,422,699</u>
Appropriations	13,432,875	13,688,614	15,889,470	18,074,634
Reversion	0	(24,694)	(51,905)	0
Administrative Actions	(954,613) ⁽⁹⁾	0	0	0
Projected Expenditures	<u>12,478,261</u>	<u>13,663,920</u>	<u>15,837,565</u>	<u>18,074,634</u>
Ending Balance	<u>35,235⁽¹⁰⁾</u>	<u>475,651</u>	<u>528,793</u>	<u>348,065</u>

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 2011 Economic and Revenue Forecast.

⁽³⁾ December 2013 Economic and Revenue Forecast, as adjusted by OEA.

⁽⁴⁾ September 2015 Economic and Revenue Forecast, as adjusted by OEA.

⁽⁵⁾ March 2017 Economic and Revenue Forecast.

⁽⁶⁾ Other Taxes include insurance, estate, cigarette, other tobacco products, and other miscellaneous taxes.

⁽⁷⁾ Fines and Fees include State court fees, Secretary of State corporation fees, criminal fines and assessments, and securities fees.

⁽⁸⁾ Additional Revenues include central service charge, liquor apportionment, interest earnings, and miscellaneous revenues.

⁽⁹⁾ Allotment reductions to agencies.

⁽¹⁰⁾ The ending balance for 2009-11 was transferred to the Rainy Day Fund so the beginning balance for 2011-13 was assumed to be -0-.

Source: State of Oregon, Chief Financial Office, and Oregon Office of Economic Analysis Revenue Forecasts.

Budgetary 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—STATE FINANCIAL OPERATIONS—Reserve Funds.” 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—2015-2017 Biennial Budget” for information regarding balances in the Rainy Day Fund and ESF.

Pension Benefit Programs

The State is one of many participants in the statewide Oregon Public Employees’ Retirement System (“PERS” or the “System”). 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 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 current PERS actuary is Milliman, Inc. (“Milliman”). The actuarial valuations are based on actuarial methods and assumptions adopted by the Public Employees Retirement Board (the “PERS Board”). For a discussion of actions taken by the Legislative Assembly with respect to the System in 2013 (the “2013 PERS Bills”) and the decision of the Oregon Supreme Court in April 2015 relating to the 2013 legislative changes, see “—*Invalidated 2013 Changes to PERS*” below. For a description of the most recently adopted actuarial methods and assumptions used by the PERS actuary following action by the PERS Board in July 2015, see “—*2015 PERS Board Actions*” below and APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—TABLE OF ACTUARIAL ASSUMPTIONS AND METHODS.”

Funding Levels. Milliman released its valuation report for the System as of December 31, 2013 (the “2013 System Report”) on September 29, 2014, its valuation report for the System as of December 31, 2014 (the “2014 System Report”) on November 12, 2015, and its valuation report for the System, as of December 31, 2015 (the “2015 System Report”) on September 27, 2016. Milliman released the State’s individual valuation report as of December 31, 2013 (the “2013 State Report”) on October 2, 2014, the State’s individual valuation report as of December 31, 2014 (the “2014 State Report”) on November 13, 2015, and the State’s individual valuation report as of December 31, 2015 (the “2015 State Report”) on September 27, 2016. The following table provides summary information and a comparison of the System and State funding levels.

TABLE 6
SUMMARY OF SYSTEM AND STATE FUNDING LEVELS
(\$ In Millions)

Calendar Year	SYSTEM ⁽¹⁾				STATE			
	Market Value of Assets ⁽²⁾	Actuarial Value of Liability	Unfunded Actuarial Liability	Funded Ratio	Market Value of Assets ⁽³⁾	Actuarial Value of Liability	Unfunded Actuarial Liability	Funded Ratio
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	50,168.2	61,198.4	11,030.2	82.0	13,208.2	15,660.0	2,451.8	84.3
2012 ⁽⁴⁾	54,784.1	60,405.2	5,621.1	90.7	14,532.1	15,713.6	1,181.5	92.5
2013 ⁽⁴⁾	60,014.1	62,593.6	2,579.5	95.9	16,212.3	16,699.9	487.6	97.1
2014 ⁽⁵⁾	61,395.1	73,458.9	12,063.8	83.6	16,889.9	19,978.2	3,088.2	84.5
2015 ⁽⁶⁾	60,000.1	76,196.6	16,196.5	78.7	16,497.3	20,845.5	4,348.2	79.0

⁽¹⁾ System funding levels composed of Tier 1 and Tier 2 and OPSRP pensions but excluding retiree healthcare subsidies of RHIA and RHIPAA.

⁽²⁾ Includes proceeds of pension bonds issued by Oregon local governments and the State.

⁽³⁾ Includes State Pension Bonds proceeds. The Judge Retirement Program is not included in these numbers. The PERS actuary reported that as of December 31, 2015 the Judge Retirement Program has an unfunded actuarial liability of \$41.5 million and a funded ratio of 85%.

⁽⁴⁾ Reflects the legislative changes of the 2013 PERS Bills, showing savings that were anticipated from the 2013 PERS Bills, but will not be realized because most of the 2013 PERS Bills were invalidated. See “—Invalidated 2013 Changes to PERS.” Also reflects other changes made by the PERS Board in 2013. See “—2013 PERS Board Changes.” See also 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.”

⁽⁵⁾ Reflects the Oregon Supreme Court decision discussed below. See “—Invalidated 2013 Changes to PERS.” Also reflects changes made by the PERS Board in 2015. See “—2015 PERS Board Actions.”

⁽⁶⁾ Reflects the Oregon Supreme Court decision discussed below. See “—Invalidated 2013 Changes to PERS.” Also reflects changes made by the PERS Board in 2015 and actual investment returns during 2015. See “—2015 PERS Board Actions” and “—2015 Oregon Public Employees Retirement Fund Earnings.”

Source: PERS.

The funded status of the System and of the State as reported by Milliman will change over time depending on a variety of factors, including the market performance of the securities in which the Oregon Public Employees Retirement Fund is invested, future changes in compensation and benefits of covered employees, demographic characteristics of members, methodologies and assumptions used by the actuary in estimating the assets and liabilities of PERS, and other actions taken by the PERS Board and the Legislative Assembly.

As reflected in its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016, and in accordance with applicable standards issued by the Governmental Accounting Standards Board (“GASB”), the State, excluding discretely presented component units, reported a net pension liability of \$1.1 billion and recognized pension expenses of \$1.1 billion. The net pension liability was measured as of June 30, 2015 based on an actuarial valuation as of December 31, 2013. See APPENDIX B—“BASIC FINANCIAL STATEMENTS FOR THE STATE FOR THE YEAR ENDED JUNE 30, 2016.” Such information, however, does not reflect the changes incorporated into subsequent actuarial valuation reports due to GASB’s timing rules. Based on the net pension liability reported for the System for the fiscal year ended June 30, 2016, using a measurement date of June 30, 2016 and an actuarial valuation date of December 31, 2014, which includes the impacts of the Oregon Supreme Court decision discussed below, the State estimates it will report a net pension liability of approximately \$3.0 billion for the fiscal year ending June 30, 2017.

Invalidated 2013 Changes to PERS. In 2013, the Legislative Assembly enacted the 2013 PERS Bills that were expected to: limit annual benefits cost of living adjustments (“COLAs”) for PERS retirees, eliminate a benefit increase for out-of-state retirees based on Oregon income tax, exclude certain salary increases from the pension benefits calculation, and reduce legislators’ participation in PERS. The 2013 PERS Bills were expected to reduce future benefit payments, resulting in a reduction of the System’s

unfunded actuarial liability by approximately \$5 billion. Lawsuits were filed challenging provisions of the 2013 PERS Bills, including the changes to the COLA adjustment and the elimination of a benefit increase for out-of-state retirees based on Oregon income tax. In April 2015, the Oregon Supreme Court announced a decision that upheld the elimination of the benefit increase for out-of-state retirees. The COLA reductions were declared unconstitutional as applied to benefits earned prior to the June 1, 2013 effective date of the 2013 PERS Bills. However, the reduced COLA could be applied to the benefits earned after the 2013 PERS Bills became effective.

2013 PERS Board Changes. During 2013, the PERS Board reduced employer contribution rates for the 2013-2015 biennium by 4.28% of payroll on a System-wide average basis, reduced the assumed earnings rate of the investment fund from 8.00% to 7.75% and changed the actuarial cost method used to allocate benefit costs over a member's working lifetime from Projected Unit Credit to Entry Age Normal. See APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—TABLE OF ACTUARIAL ASSUMPTIONS AND METHODS."

2015 PERS Board Actions. At its July 31, 2015 meeting, the PERS Board adopted revisions to the actuarial assumptions and methods used as the basis for actuarial valuations (the "2015 Board Changes"). These 2015 Board Changes include: (a) lowering the assumed earnings rate from 7.75% to 7.50%; (b) reducing the inflation rate from 2.75% to 2.50%; (c) reducing the payroll growth rate from 3.75% to 3.50%; and (d) updating the mortality assumptions to increase projections of life expectancy. See APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—TABLE OF ACTUARIAL ASSUMPTIONS AND METHODS."

2015 Oregon Public Employees Retirement Fund Earnings. As reported by the Office of the State Treasurer, actual investment returns for the Oregon Public Employees Retirement Fund ("OPERF") for calendar year 2015 were 2.1%, substantially below the 7.5% assumed earnings rate. For additional information about the investment returns of the OPERF, see APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—TABLE 17 OREGON PUBLIC EMPLOYEES RETIREMENT FUND INVESTMENT RETURNS."

Impact on Employer Contribution Rates. The 2015 State Report includes State employer contribution rates for the 2017-2019 biennium adopted by the PERS Board at its September 2016 meeting. The 2015 State Report indicates that the State's 2017-19 employer contribution rates will be as follows: Tier 1/Tier 2 17.68%, OPSRP General Service 9.97% and OPSRP Police and Fire 14.74%. For a discussion on the State's current employer contribution rates for the 2015-2017 biennium, see APPENDIX A—"GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—State Employer Contribution Rates."

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 46,147 retirees receive healthcare benefits through PERS health insurance programs and approximately 818 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 2017 BONDS

Generally

When issued, the 2017 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 2017 Bonds will be calculated on the basis of a 360-day year comprising twelve 30-day months. Interest on the 2017 Bonds will be payable on February 1 and August 1 of each year, commencing August 1, 2017. The 2017 Bonds are issuable in fully registered form, in denominations of \$5,000 and integral multiples thereof, without coupons. The State's fiscal agent, The Bank of New York Mellon Trust Company, N.A. (the "Fiscal Agent"), is to serve as paying agent and registrar for the 2017 Bonds.

When issued, the 2017 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 2017 Bonds. Individual purchases may be made only in book-entry form. Purchasers will not receive certificates representing their interests in the 2017 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 2017 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 2017 Bonds. References in this Official Statement to "Owners," "Bondholders" or "Registered Owners" mean Cede & Co. or DTC and not the Beneficial Owners of the 2017 Bonds. In this Official Statement, the term "Beneficial Owner" means the person for whom its DTC participant acquires an interest in the 2017 Bonds. See APPENDIX E—"DESCRIPTION OF DTC AND ITS BOOK-ENTRY SYSTEM."

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

If the 2017 Bonds are no longer issued in book-entry form, the Fiscal Agent will be required to mail each 2017 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 2017 Bond payment date (the "Record 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 Provisions*

Optional Redemption. The 2017 Bonds maturing on or after August 1, 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 August 1, 20__* (with the 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.

Mandatory Redemption. The 2017 Series I Bonds maturing on August 1, 20__* are term bonds subject to mandatory redemption in the principal amounts on August 1 of the years shown below, at a redemption price equal to 100 percent of the principal amount thereof, plus interest accrued to the date fixed for redemption:

* Preliminary, subject to change.

2017 Series I Term Bonds
Due August 1, 20__

Year (August 1)	Principal Amount
†	\$

†Final maturity.

The 2017 Series J Bonds maturing on August 1, 20__* are term bonds subject to mandatory redemption in the principal amounts on August 1 of the years shown below, at a redemption price equal to 100 percent of the principal amount thereof, plus interest accrued to the date fixed for redemption:

2017 Series J Term Bonds
Due August 1, 20__

Year (August 1)	Principal Amount
†	\$

†Final maturity.

The 2017 Series L Bonds maturing on August 1, 20__* are term bonds subject to mandatory redemption in the principal amounts on August 1 of the years shown below, at a redemption price equal to 100 percent of the principal amount thereof, plus interest accrued to the date fixed for redemption:

2017 Series L Term Bonds
Due August 1, 20__

Year (August 1)	Principal Amount
†	\$

†Final maturity.

To the extent the State redeems by optional redemption or purchases for cancellation any 2017 Bonds subject to mandatory redemption, in part, the State may reduce the mandatory redemption requirements of such 2017 Bonds of the same maturity in like aggregate principal amount in the year or years as directed by the State. In the absence of such direction with respect to a partial optional redemption or cancellation of any 2017 Bonds subject to mandatory redemption, the mandatory redemption requirements for such bond will be reduced ratably in each year by multiples of \$5,000.

Selection for Redemption; Notice and Effect of Redemption

Selection for Redemption of 2017 Bonds. If fewer than all of the 2017 Bonds of a maturity are to be redeemed prior to maturity, then (i) if the 2017 Bonds of such maturity are in book-entry form at the time of such redemption, the Fiscal Agent shall select the 2017 Bonds of such maturity to be redeemed, from the outstanding 2017 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 2017 Bonds of such 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 2017 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.

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 2017 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 2017 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 2017 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 2017 Bonds, rescind and cancel such notice of redemption by written request of the State to the Fiscal Agent, and any optional redemption of 2017 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 2017 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 2017 Bonds called for optional redemption and such failure to optionally redeem the 2017 Bonds called for redemption shall not be a default under the Issuance Certificate.

INFORMATION RELATING TO HIGHER EDUCATION COORDINATING COMMISSION, PUBLIC UNIVERSITIES AND COMMUNITY COLLEGES

Generally

The State Treasurer, with the concurrence of the Director of DAS, may issue Higher Education general obligation bonds for the benefit of a Public University or Community College, at the request of the HECC pursuant to the applicable Articles of the Oregon Constitution and provisions of Oregon law which establish the terms on which Higher Education general obligation bonds may be issued.

Higher Education Coordinating Commission

HECC was created by legislation enacted by the 2011 Legislative Assembly. HECC is charged with advising the Legislative Assembly, the Governor, Community Colleges, Public Universities and other state boards on higher education policy. Under Oregon law, HECC is authorized to, among other things, develop biennial budget recommendations, make funding allocations to Community Colleges and Public Universities and approve new academic programs in the public education system. HECC works with the State Board of Higher Education, Community College districts, Public Universities, and independent for-profit and not-for-profit institutions of higher education to carry out education goals of the State set out in Oregon law.

The Office of Community Colleges and Workforce Development (“OCCWD”) is an office within HECC and functions under the direction and control of HECC. Under ORS 350.160, the Executive Director of HECC appoints the Director of the OCCWD who serves as an administrative officer for community college matters and reports directly to the Executive Director of HECC for duties set out in ORS chapter 341.

Public Universities

Under Oregon law, each of the seven public higher education institutions are established as a Public University defined as an “independent public body with statewide purposes and missions and without territorial boundaries.” The seven Public Universities are set out below.

**TABLE 7
OREGON PUBLIC UNIVERSITIES**

Name	Location	Date Founded
Eastern Oregon University (EOU)	La Grande	1929
Oregon Institute of Technology (OIT)	Klamath Falls	1947
Oregon State University (OSU)	Corvallis & Bend	1868
Portland State University (PSU)	Portland	1955
Southern Oregon University (SOU)	Ashland	1926
University of Oregon (UO)	Eugene	1872
Western Oregon University (WOU)	Monmouth	1882

The governing board of each Public University is vested with broad powers and specific duties and rights, including the power to enter into certain kinds of borrowings and the power to establish a process for determining tuition and enrollment fees and the collection, management and expenditure of revenues derived from tuition and enrollment fees. Any increase in resident undergraduate tuition and mandatory enrollment fees at any Public University may not exceed five percent annually unless the governing board of the Public University receives approval from HECC or the Legislative Assembly.

Community College Districts

Community college districts are districts formed under ORS Chapter 341 to operate one or more community colleges or to secure educational services available at a community college. At the district level, each community college is governed by an independent board composed of seven members who are elected by voters within the boundaries of the community college district. There are currently 17 community college districts, with campuses and centers located throughout Oregon. Community colleges are the largest provider in Oregon of postsecondary education via distance technology, which includes online classes and other distance learning services. Community colleges serve students through a variety of programs and courses designed to strengthen academic knowledge and skills, prepare students for entry into and advancement in the workplace, complete undergraduate coursework toward a baccalaureate degree and provide employers with specialized training for their employees. The following table lists the 17 community college districts and their primary campus locations.

**TABLE 8
COMMUNITY COLLEGE DISTRICTS**

Name	Location
Blue Mountain Community College	Pendleton
Central Oregon Community College	Bend
Chemeketa Community College	Salem
Clackamas Community College	Oregon City
Clatsop Community College	Astoria
Columbia Gorge Community College	The Dalles
Klamath Community College	Klamath Falls
Lane Community College	Eugene
Linn-Benton Community College	Albany
Mt. Hood Community College	Gresham
Oregon Coast Community College	Newport
Portland Community College	Portland
Rogue Community College	Grants Pass
Southwestern Oregon Community College	Coos Bay
Tillamook Bay Community College	Tillamook
Treasure Valley Community College	Ontario
Umpqua Community College	Roseburg

PLAN OF FINANCE*

The 2017 Projects

The State plans to use a portion of the proceeds to be received from the sale of the 2017 Bonds to pay a portion of the costs of the following projects (the “Projects”). The tables below list the Projects expected to be financed with the proceeds of the 2017 Bonds. Other authorized projects may be substituted for these Projects.

**TABLE 9*
EXPECTED 2017 SERIES I BOND PROJECTS**

University	Projects	Estimated Project Fund Deposit
Southern Oregon University	Jefferson Public Radio Addition	\$1,500,000
Southern Oregon University	Science Building Renovation	1,650,000
TOTAL		\$3,150,000

* Preliminary, subject to change.
Source: DAS.

* Preliminary, subject to change.

TABLE 10*
EXPECTED 2017 XI-G BOND PROJECTS

<u>University/Community College</u>	<u>Projects</u>	<u>Estimated Project Fund Deposit</u>
Portland Community College	American Manufacturing Innovation District Building	\$ 5,000,000
Rogue Community College	Health & Science Center	8,000,000
Blue Mountain Community College	Animal Science Education Center	3,331,350
Klamath Community College	Student Success & Career/Tech Center	7,850,000
Southwestern Oregon Community College	Health & Science Building	8,000,000
Oregon Institute of Technology	Center for Excellence in Engineering & Tech-Phase 1	750,000
Oregon State University	Forest Science Complex	29,702,970
Oregon State University	Marine Studies Campus Phase I	24,752,475
University of Oregon	Chapman Hall Renovation	2,500,000
University of Oregon	College and Careers Building	17,000,000
University of Oregon	Klamath Hall Renovation	6,250,000
Portland State University	Neuberger Hall Renovation	10,000,000
TOTAL		\$ 123,136,795

* Preliminary, subject to change.
Source: DAS.

Plan of Refunding

To effect debt service savings, the State expects to use a portion of the proceeds to be received from the sale of the 2017 Series I Bonds to refund all or a portion of certain Outstanding Article XI-F(1) Bonds shown in Table 11 below (the “Outstanding Article XI-F(1) Bonds to be Refunded”). To effect debt service savings, the State expects to use a portion of the proceeds to be received from the sale of the 2017 Series J Bonds and the 2017 Series L Bonds (collectively, the “Article XI-G Refunding Bonds”) to refund all or a portion of certain Outstanding Article XI-G Bonds shown in Table 12 below (the “Outstanding Article XI-G Bonds to be Refunded”). The Refunded Article XI-F(1) Bonds and the Refunded Article XI-G Bonds are collectively referred to herein as 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 Outstanding Article XI-F(1) Bonds or Outstanding Article XI-G Bonds if market conditions warrant.

A portion of the proceeds of the 2017 Bonds are to be used to pay interest on the Refunded Bonds and to prepay or redeem all or a portion of the Refunded Bonds on the respective dates shown in the tables that follow, and at the prices (expressed as a percentage of the principal amounts to be redeemed) set forth in the tables below. For this purpose, the State intends to establish one or more escrow deposit accounts (the “Escrow Deposit Accounts”) with MUFG Union Bank, N.A., as escrow agent for the Refunded Bonds. 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 Accounts together with cash or cash equivalents, if necessary, in an amount sufficient to provide for the prepayment and redemption of the Refunded Bonds.

TABLE 11*
OUTSTANDING XI-F(1) BONDS TO BE REFUNDED
WITH PROCEEDS OF THE 2017 SERIES I BONDS

Bonds to be Refunded 2007 Series A	Maturity Date	Principal Amount⁽¹⁾	Redemption Date	CUSIP Number
	8/1/2018	\$ 1,250,000	8/1/2017	68609BAN7
	8/1/2019	1,305,000	8/1/2017	68609BAP2
	8/1/2020	1,370,000	8/1/2017	68609BAQ0
	8/1/2021	1,430,000	8/1/2017	68609BAR8
	8/1/2022	4,390,000	8/1/2017	68609BAS6
	8/1/2023	5,160,000	8/1/2017	68609BAT4
	8/1/2024	5,390,000	8/1/2017	68609BAU1
	8/1/2025	5,630,000	8/1/2017	68609BAV9
	8/1/2026	5,895,000	8/1/2017	68609BAW7
	8/1/2027	6,165,000	8/1/2017	68609BAX5
	8/1/2032†	37,920,000	8/1/2017	68609BAY3
	8/1/2033	7,050,000	8/1/2017	68609BAZ0
	8/1/2037†	19,725,000	8/1/2017	68608KBH0

*Preliminary, subject to change.

⁽¹⁾ To be redeemed at par.

† Term Bond

Bonds to be Refunded 2007 Series F	Maturity Date	Principal Amount⁽¹⁾	Redemption Date	CUSIP Number
	8/1/2018	\$ 565,000	8/1/2017	68608KJW9
	8/1/2018	690,000	8/1/2017	68608KJX7
	8/1/2019	1,090,000	8/1/2017	68608KJY5
	8/1/2019	225,000	8/1/2017	68608KJZ2
	8/1/2020	1,360,000	8/1/2017	68608KKA5
	8/1/2021	1,425,000	8/1/2017	68608KKB3
	8/1/2022	1,490,000	8/1/2017	68608KKC1
	8/1/2023	965,000	8/1/2017	68608KKD9
	8/1/2024	1,025,000	8/1/2017	68608KKE7

*Preliminary, subject to change.

⁽¹⁾ To be redeemed at par.

Bonds to be Refunded 2010 Series A	Maturity Date	Principal Amount⁽¹⁾	Redemption Date	CUSIP Number
	8/1/2021	\$ 315,000	8/3/2020	68608KYZ5
	8/1/2022	330,000	8/3/2020	68608KZA9
	8/1/2023	1,935,000	8/3/2020	68609BJ24
	8/1/2024	2,050,000	8/3/2020	68609BJ32
	8/1/2025	2,150,000	8/3/2020	68609BJ40
	8/1/2026	2,285,000	8/3/2020	68609BJ57
	8/1/2027	1,010,000	8/3/2020	68609BJ65
	8/1/2028	1,065,000	8/3/2020	68609BJ73
	8/1/2033†	765,000	8/3/2020	68608KZH4

*Preliminary, subject to change.

⁽¹⁾ To be redeemed at par.

† Term Bond

Bonds to be Refunded 2011 Series E	Maturity Date	Principal Amount⁽¹⁾	Redemption Date	CUSIP Number
	8/1/2022	\$ 1,350,000	8/2/2021	68608K3G1
	8/1/2023	1,395,000	8/2/2021	68608K3H9
	8/1/2024	1,445,000	8/2/2021	68608K3J5
	8/1/2025	1,500,000	8/2/2021	68608K3K2
	8/1/2026	1,565,000	8/2/2021	68608K3L0
	8/1/2027	1,625,000	8/2/2021	68608K3M8
	8/1/2028	1,690,000	8/2/2021	68608K3N6
	8/1/2029	1,760,000	8/2/2021	68608K3P1
	8/1/2030	1,835,000	8/2/2021	68608K3Q9
	8/1/2031	1,910,000	8/2/2021	68608K3R7
	8/1/2036†	2,580,000	8/2/2021	68608K3S5
	8/1/2036†	5,680,000	8/2/2021	68608K3U0
	8/1/2041†	6,810,000	8/2/2021	68608K3T3
	8/1/2041†	3,660,000	8/2/2021	68608K3V8

[†]Preliminary, subject to change.

⁽¹⁾ To be redeemed at par.

† Term Bond

Bonds to be Refunded 2011 Series G	Maturity Date	Principal Amount⁽¹⁾	Redemption Date	CUSIP Number
	8/1/2022	\$ 1,385,000	8/2/2021	68608K4B1
	8/1/2023	1,455,000	8/2/2021	68608K4C9
	8/1/2024	1,525,000	8/2/2021	68608K4D7
	8/1/2025	1,105,000	8/2/2021	68608K4P0
	8/1/2025	500,000	8/2/2021	68608K4E5
	8/1/2026	1,690,000	8/2/2021	68608K4F2
	8/1/2027	1,780,000	8/2/2021	68608K4G0
	8/1/2028	1,850,000	8/2/2021	68608K4H8
	8/1/2029	1,945,000	8/2/2021	68608K4J4
	8/1/2030	2,050,000	8/2/2021	68608K4K1
	8/1/2031	2,155,000	8/2/2021	68608K4L9
	8/1/2036†	12,535,000	8/2/2021	68608K4M7
	8/1/2041†	16,000,000	8/2/2021	68608K4N5

[†]Preliminary, subject to change.

⁽¹⁾ To be redeemed at par.

† Term Bond

TABLE 12*
OUTSTANDING XI-G BONDS TO BE REFUNDED
WITH PROCEEDS OF THE 2017 XI-G REFUNDING BONDS

Bonds to be Refunded 2007 Series B	Maturity Date	Principal Amount⁽¹⁾	Redemption Date	CUSIP Number
	8/1/2018	\$ 650,000	8/1/2017	68609BBP1
	8/1/2019	675,000	8/1/2017	68609BBQ9
	8/1/2020	705,000	8/1/2017	68609BBR7
	8/1/2021	740,000	8/1/2017	68609BBS5
	8/1/2022	1,490,000	8/1/2017	68609BBT3
	8/1/2023	1,550,000	8/1/2017	68609BBU0
	8/1/2024	1,630,000	8/1/2017	68609BBV8
	8/1/2025	1,700,000	8/1/2017	68609BBW6
	8/1/2026	1,780,000	8/1/2017	68609BBX4
	8/1/2027	1,185,000	8/1/2017	68609BBY2
	8/1/2027	675,000	8/1/2017	68609BBZ9
	8/1/2032†	9,035,000	8/1/2017	68609BCA3
	8/1/2037†	6,775,000	8/1/2017	68609BCB1

* Preliminary, subject to change.

⁽¹⁾ To be redeemed at par.

† Term Bond

Bonds to be Refunded 2007 Series G	Maturity Date	Principal Amount⁽¹⁾	Redemption Date	CUSIP Number
	8/1/2018	\$ 535,000	8/1/2017	68608KKN7
	8/1/2019	555,000	8/1/2017	68608KKP2
	8/1/2020	580,000	8/1/2017	68608KKQ0
	8/1/2021	610,000	8/1/2017	68608KKR8
	8/1/2022	635,000	8/1/2017	68608KKS6
	8/1/2023	665,000	8/1/2017	68608KKT4
	8/1/2024	690,000	8/1/2017	68608KKU1

* Preliminary, subject to change.

⁽¹⁾ To be redeemed at par.

Bonds to be Refunded 2008 Series B	Maturity Date	Principal Amount⁽¹⁾	Redemption Date	CUSIP Number
	8/1/2033†	\$ 1,065,000	8/1/2018	68609BPH5
	8/1/2038†	1,590,000	8/1/2018	68609BDM6

* Preliminary, subject to change.

⁽¹⁾ To be redeemed at par.

† Term Bond

Bonds to be Refunded 2009 Series C	Maturity Date	Principal Amount⁽¹⁾	Redemption Date	CUSIP Number
	8/1/2020	\$ 1,990,000	8/1/2019	68608KUS5
	8/1/2021	2,070,000	8/1/2019	68608KUT3
	8/1/2026	2,530,000	8/1/2019	68608KUY2
	8/1/2027	2,635,000	8/1/2019	68608KUZ9
	8/1/2028	2,745,000	8/1/2019	68608KVA3
	8/1/2029	2,860,000	8/1/2019	68608KVB1
	8/1/2030	2,985,000	8/1/2019	68608KVC9
	8/1/2031	3,115,000	8/1/2019	68608KVD7
	8/1/2033†	6,645,000	8/1/2019	68608KVE5

* Preliminary, subject to change.

⁽¹⁾ To be redeemed at par.

† Term Bond

Bonds to be Refunded 2010 Series D	Maturity Date	Principal Amount⁽¹⁾	Redemption Date	CUSIP Number
	8/1/2023	\$ 350,000	8/3/2020	68608KA40
	8/1/2024	370,000	8/3/2020	68608KA57
	8/1/2025	385,000	8/3/2020	68608KA65
	8/1/2026	405,000	8/3/2020	68608KA73
	8/1/2027	2,220,000	8/3/2020	68608KA81
	8/1/2028	2,340,000	8/3/2020	68608KA99
	8/1/2029	2,030,000	8/3/2020	68608KB23
	8/1/2039†	10,430,000	8/3/2020	68608KB31

* Preliminary, subject to change.

⁽¹⁾ To be redeemed at par.

† Term Bond

Bonds to be Refunded 2011 Series D	Maturity Date	Principal Amount⁽¹⁾	Redemption Date	CUSIP Number
	8/1/2022	\$ 1,345,000	8/2/2021	68608K2A5
	8/1/2025	1,555,000	8/2/2021	68608K2D9
	8/1/2026	1,620,000	8/2/2021	68608K2E7
	8/1/2027	1,685,000	8/2/2021	68608K2F4
	8/1/2028	1,760,000	8/2/2021	68608K2G2
	8/1/2029	1,835,000	8/2/2021	68608K2H0
	8/1/2030	1,920,000	8/2/2021	68608K2J6
	8/1/2031	2,005,000	8/2/2021	68608K2K3
	8/1/2032	2,100,000	8/2/2021	68608K2M9
	8/1/2035†	6,955,000	8/2/2021	68608K2L1

* Preliminary, subject to change.

⁽¹⁾ To be redeemed at par.

† Term Bond

Bonds to be Refunded 2011 Series H	Maturity Date	Principal Amount⁽¹⁾	Redemption Date	CUSIP Number
	8/1/2022	\$ 1,445,000	8/2/2021	68608K5Q7
	8/1/2022	500,000	8/2/2021	68608K5A2
	8/1/2023	2,035,000	8/2/2021	68608K5B0
	8/1/2024	2,130,000	8/2/2021	68608K5C8
	8/1/2025	2,245,000	8/2/2021	68608K5D6
	8/1/2026	2,365,000	8/2/2021	68608K5E4
	8/1/2027	2,455,000	8/2/2021	68608K5F1
	8/1/2028	2,585,000	8/2/2021	68608K5G9
	8/1/2029	2,725,000	8/2/2021	68608K5H7
	8/1/2030	2,865,000	8/2/2021	68608K5J3
	8/1/2031	3,015,000	8/2/2021	68608K5K0
	8/1/2036†	12,710,000	8/2/2021	68608K5L8
	8/1/2041†	16,230,000	8/2/2021	68608K5M6

* Preliminary, subject to change.

⁽¹⁾ To be redeemed at par.

† Term Bond

Verification

Causey Demgen & Moore P.C. (the “Verification Agent”) is expected to deliver to the State on or before the date the 2017 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, when due, prepayment price, the principal of, and interest and premium on the Refunded Bonds, and (ii) any mathematical computations required by Bond Counsel related to the yield on the 2017 Bonds and certain escrow investments purchased with the 2017 Bonds, if applicable.

Bond Counsel may also rely upon such information in concluding that, 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, interest on the 2017 Bonds is not includible in gross income of the owners thereof for federal income tax purposes, and will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations. See “TAX MATTERS.”

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the 2017 Bonds are shown below.

	2017 Series I Bonds	2017 Series J Bonds	2017 Series L Bonds
Sources of Funds:			
Principal Amount of 2017 Bonds			
Original Issue [Premium/Discount]			
Total Sources			
Uses of Funds:			
Deposit for Projects			
Escrow Deposit Account			
Underwriters’ Discount			
Costs of Issuance ⁽¹⁾			
Total Uses			

⁽¹⁾ Includes legal fees, municipal advisor fees, the rating agencies fees and other expenses.

RECENT DEVELOPMENTS

2017-2019 Biennial Budget Process

The proposed 2017-2019 biennial budget was released by Governor Kate Brown on December 1, 2016 (the “Governor’s Budget”) for consideration by the Legislative Assembly during the legislative session which convened on February 1, 2017 (the “2017 Legislative Session”). The Governor’s Budget assumes, for the General Fund and Lottery Funds combined, \$20.822 billion in available resources and proposes \$20.645 billion in expenditures, leaving ending fund balances of approximately \$177 million.

The proposed Governor’s Budget anticipates certain revenue increases to maintain core government functions as well as certain program and policy changes, all of which are subject to review and modification by the Legislative Assembly. The Governor has proposed four revenue increases: \$530 million in increased hospital and insurer assessments, \$183 million from the elimination of the partnership pass-through and exporter benefit, \$144 million in increased cigarette and tobacco taxes, and \$39 million in increased liquor taxes and fees. The Governor also proposes several program changes, including: investing \$70 million into family affordable housing projects, investing \$365 million in capital commitments to higher education, reopening the Oregon State Penitentiary in Salem to address overcrowding, closing a small juvenile justice facility on the coast, closing the Junction City campus of the Oregon State Hospital, investing \$225 million for seismic rehabilitation to various emergency and state buildings, expanding health care coverage to an additional 400,000 Oregonians and investing \$100 million into rural Oregon jobs and infrastructure.

The Governor’s Budget for combined General Fund and Lottery Fund expenditures, divided primarily by major program areas, is described below.

**TABLE 13
2017-2019 BIENNIUM GOVERNOR’S BUDGET PROPOSAL**

Amount	Program Area
\$10.713 billion	Education, including: <div style="margin-left: 20px;">\$7.938 billion for the K-12 State School Fund</div> <div style="margin-left: 20px;">\$1.962 billion for Higher Education</div> <div style="margin-left: 20px;">\$ 812 million for other education programs</div>
\$5.367 billion	Human Services
\$2.456 billion	Public Safety
\$ 735 million	Judicial
\$ 429 million	Natural Resources
\$ 266 million	Administration
\$ 680 million	All Other Program Areas

Note: Totals may not add due to rounding.
Source: 2017-2019 Governor’s Budget.

The Governor’s Budget is subject to review and modification by the Legislative Assembly during the 2017 Legislative Session. The Oregon Constitution requires the Legislative Assembly to balance the State’s General Fund budget. 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 would be necessary to balance the budget which may include reducing proposed spending levels, increasing revenues or some combination thereof.

On January 19, 2017, the co-chairs of the Legislative Assembly’s Joint Ways and Means Committee released their proposed Existing Resources Budget Framework for the 2017-2019 biennial budget (the “Co-Chairs’ Budget Framework”). The proposals in the Co-Chairs’ Budget Framework and the 2017-2019 Governor’s Budget are the basis upon which committees of the Legislative Assembly will review particular agency budgets to arrive at an over-all State budget for the 2017-2019 biennium. The Co-Chairs’ Budget Framework proposes \$20.3 billion in expenditures for the General Fund and Lottery Funds combined. It includes \$7.7 billion for K-12 schools, \$2.8 billion for all other Education, \$5.3 billion for Human Services, \$3.2 billion for Public Safety/Judicial, \$387 million for General Government, \$405 million for Natural Resources, and \$376 million for Transportation/Economic Development. The budgets finally adopted by the Legislative Assembly for state agencies will be the result of review and adjustments between the 2017-19 Governor’s Budget and the Co-Chairs’ Budget Framework during the 2017 Legislative Session.

Proposed 2017-2019 Biennial Bond Legislation

Senate Bill 5505 has been introduced for consideration during the 2017 Legislative Session to establish biennial issuance authority for general obligation bonds and revenue bonds. Senate Bill 5505 proposes authority for maximum issuance in the 2017-2019 biennium of: \$1.2 billion in general obligation bonds and \$549.9 million in direct revenue bonds. These recommended issuance authority levels are subject to approval during the 2017 Legislative Session.

2015-2017 Biennial Budget

Budget Actions. During the 2015 Legislative Session, the Legislative Assembly adopted a balanced budget for the 2015-2017 biennium (the “Legislatively Adopted Budget” or “LAB”) as required by the State Constitution. The LAB was based on projected revenues from the State Economic and Revenue Forecast that was released on May 14, 2015 (the “May 2015 Forecast”), which forecasted General Fund resources of \$17.9 billion and Lottery resources of \$1.1 billion to be available in the 2015-2017 biennium. At the close of its 2015 Legislative Session, the Legislative Assembly adopted a balanced budget of approximately \$18.9 billion in combined General Fund and Lottery Fund expenditures.

The 2016 Legislative Session began on February 1, 2016 and adjourned on March 3, 2016. Actions that the Legislative Assembly took during the 2016 Legislative Session included revising the balanced budget for the 2015-2017 biennium, as required by the Oregon Constitution. To address changes in projected revenues and expenditures since the close of the 2015 Legislative Session, the Legislative Assembly enacted the omnibus budget reconciliation bill, Senate Bill 5701 (Oregon Laws 2016, Chapter 82, referred to herein as “SB 5701”). The net effect to the overall 2015-2017 budget was a \$90.0 million increase in General Fund expenditures and a \$43.7 million increase in Lottery Fund expenditures.

As of the close of the September 2016 Emergency Board meetings, the combined General Fund and Lottery Fund expenditures in the 2015-2017 Legislatively Approved Budget total \$19.0 billion and are primarily divided among the agencies and program areas described in the table below. The March 2017 Forecast projects a General Fund ending balance for the 2015-2017 biennium of approximately \$348.1 million. See “STATE FINANCIAL INFORMATION—General Fund Revenues—Table 5 State of Oregon General Fund Revenues Statement” above.

TABLE 14
2015-2017 LEGISLATIVELY APPROVED BUDGET⁽¹⁾

Amount	Program Area
\$9.820 billion	Education, including: \$7.373 billion for the K-12 State School Fund \$2.447 billion for Higher Education and Other Education Programs
\$4.933 billion	Human Services
\$2.376 billion	Public Safety
\$ 709 million	Judicial
\$ 412 million	Natural Resources
\$ 264 million	Administration
\$ 519 million	All Other Program Areas

⁽¹⁾ As of October 15, 2016.

Source: 2015-2017 Legislatively Approved Budget, Department of Administrative Services, Chief Financial Office.

As presented in the March 2017 Forecast, as of the end of the 2015-2017 biennium, the ending balance of the Rainy Day Fund is projected to be \$388.1 million and the ending balance of the ESF is projected to be \$383.2 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. There are no scheduled withdrawals out of either the ESF or the Rainy Day Fund for the 2015-2017 biennium.

Other Legislative Actions. During the 2015 and 2016 Legislative Sessions, the Legislative Assembly enacted a number of measures related to revenues, budget and expenditure authority and other financial matters. Senate Bill 501 (Oregon Laws 2015, chapter 840), among other things, shifts certain revenue previously planned to accrue to Other Fund accounts to the General Fund for general governmental purposes in the 2015-2017 biennium. These one-time transfers increased General Fund revenues for the 2015-2017 biennium by \$154.1 million. The largest single transfer is \$120 million from the Public Employees Revolving Fund, which represents reserves accumulated by the Public Employees' Benefit Board Stabilization Fund in excess of the target level set by PEBB's actuary which accumulated as a result of PEBB's management of health care costs.

House Bill 5202 (Oregon Laws 2016, Chapter 66, referred to herein as "HB 5202") authorized an additional \$86.2 million in general obligation bonds to be paid from the General Fund, \$3.2 million in general obligation bonds to be paid from Other Funds and \$11.3 million in lottery revenue bonds for the 2015-2017 biennium. The largest projects authorized by HB 5202 were \$30.5 million for repairs and improvements to the Oregon Capitol Building and \$20.3 million to complete the implementation of the Department of Transportation State Radio Project.

Senate Bill 1532 (Oregon Laws 2016, Chapter 12) took effect on July 1, 2016, increasing Oregon's minimum wage from a base rate of \$9.75 per hour incrementally through June 30, 2023, with the rate determined by geographical region. After June 30, 2023, the base rate (of \$13.50) will be adjusted for inflation, with the Portland rate set at \$14.75 (\$1.25 above the base) and the nonurban county rate set at \$12.50 (\$1.00 below the base). Although the minimum wage increase does not directly affect state income tax revenue, the State estimates the total increase in general fund revenues based on an increase in overall wage and salary income in the State will gradually equalize over time as employers shift to labor saving technologies.

Revenue and Economic Information

According to the March 2017 Forecast, the OEA projects General Fund revenues to be \$18.1 billion for the 2015-2017 biennium. This represents an increase of approximately \$102.7 million from the State Economic and Revenue Forecast that was released on November 16, 2016 (the "December 2016 Forecast") and an increase of approximately 12.7% in General Fund revenues from the 2013-2015 biennium. Also, in the March 2017 Forecast, lottery revenues for the 2015-2017 biennium are expected to

total approximately \$1.2 billion, essentially unchanged from the December 2016 Forecast. The combined General Fund and Lottery Fund revenues are projected to be \$19.3 billion in the 2015-2017 biennium.

As noted in the March 2017 Forecast, Oregon's General Fund revenue outlook remains on track with expectations. General Fund revenues for the 2015-2017 biennium are projected to be within \$113 million (0.6%) of the 2015 Legislative session Close of Session forecast. Corporate income tax revenues for 2015-2017 are expected to end the biennium 3.3% higher than what was projected in the Close of Session forecast; therefore, a \$36.2 million corporate income tax kicker is expected to be dedicated to K-12 education spending in the 2017-2019 biennium.

Oregon's economy continues to improve, although jobs are being added at a slower pace than the rates seen in 2014 and 2015. Oregon employment continues to outpace the nation, and job gains are more than enough to keep up with a growing population. OEA forecasts employment growth of 2.4% in calendar year 2017 and 2.3% in calendar year 2018. Personal income is expected to increase by 5.3% in calendar year 2017 and 5.8% in calendar year 2018.

In the March 2017 Forecast, OEA noted that revenue growth in Oregon and other states 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 and general sales taxes will become less effective, and revenue growth will fail to match the pace seen in the past. Furthermore, OEA noted that while federal policy uncertainty is not currently weighing on the outlook, such potential policy changes could impact Oregon to the same degree as most other states, or to a greater degree relative to the typical state, depending on the nature of such policy changes.

Any forecast is subject to uncertainties. Inevitably, some assumptions may not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results and these differences could be material.

The next State Economic and Revenue Forecast is expected to be released on or about May 16, 2017. If a decrease in projected revenues is forecast and the General Fund budget is not balanced based on estimated revenues in the forecast, Oregon law requires the Governor or the Legislative Assembly to take action to rebalance the budget prior to the end of the biennium.

During the biennium, agencies and the DAS Chief Financial Officer monitor expenditures through the quarterly allotment process. The Governor may further administratively reduce expenditure authority for state agencies through the allotment process. Additionally the Legislative Assembly may rebalance the budget during a special Legislative Session, when necessary. See Appendix A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—STATE FINANCIAL OPERATIONS.”

Effects of General Economic Situation and Federal Government Actions. As described herein and in Appendix A, economic conditions have had, and may continue to have, significant effects on the finances and operations of the State and its revenues and no assurance can be given that further impacts will not occur. Federal statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries and funding restrictions, whether taken as part of federal budgetary actions, including the series of automatic federal deficit resolution spending cuts commonly known as sequestration, or otherwise, may reduce funds available for, or increase costs of State programs. At the same time, the federal government may maintain or increase the responsibilities of the State in certain areas, notwithstanding reductions in federal funding for such activities. It is difficult for the State to predict the occurrence of such economic or federal government changes or the potential effect on the finances and operations of the State and its revenues until the extent and duration of such changes are known.

Oregon Public Employees' Retirement System

For recent developments related to the Oregon Public Employees' Retirement System, including the April 2015 Oregon Supreme Court decision related to the 2013 PERS Bills, see "STATE FINANCIAL INFORMATION—Pension Benefit Programs."

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.

November 2016 Election – Initiated Measures

The following initiated measures were approved by voters of the State at the November 2016 election, which impact state expenditures:

Ballot Measure 98 requires state funds to be distributed to public school districts for approved plans under which high schools will establish or expand career and technical education, college-level educational opportunities programs and drop-out prevention strategies. The measure directs the Legislative Assembly to appropriate at least \$800 per enrolled high school student per school year for distributions to school districts with approved plans, which is estimated to result in a minimum increase of \$147 million annually to expenditures. Under the terms of Measure 98, if the State's General Fund does not increase by at least \$1.5 billion in the next budget period (2017-19 biennium), initial funding for the measure would be reduced and phased in over three years. Distributions to school districts under the measure must be in addition to other funds provided to school districts by the State.

Ballot Measure 99, which is another school funding measure, dedicates up to an additional \$22 million each year of the state's net lottery proceeds to providing a week long outdoor school opportunity to all fifth and sixth graders in the state. This amount is in addition to net lottery proceeds already dedicated to education and will allocate to this program net lottery proceeds available to the Legislative Assembly for economic development purposes.

Ballot Measure 96 also re-allocates net lottery proceeds by dedicating 1.5% of net lottery proceeds to a fund to be used for veterans' services. The State estimates that, during the 2017-2019 biennium this measure will result in re-allocation of approximately \$9.3 million annually from economic development and education expenditures of net lottery proceeds.

LITIGATION

No Litigation Challenging the 2017 Bonds

No litigation is pending against the State or, to the knowledge of the officers of the State charged with issuing the 2017 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 2017 Bonds, (2) questioning or affecting the validity of the 2017 Bonds or (3)

questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the 2017 Bonds.

Pending or Threatened Litigation Against the State

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 obligations offered for sale; for the 2017 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 United States Department of Justice ("USDOJ") has investigated whether the State's programs for persons with serious and persistent mental illness ("SPMI") comply with the federal Americans with Disabilities Act ("ADA"). The focus of the investigation has been the State's community mental health services, particularly as those services impact persons with SPMI. In November 2012, the State and the USDOJ entered into a four-year agreement, under which the State agreed to, among other things, share data and discuss system gaps and outcome measures that could be adopted by the State. In July 2016, the parties completed lengthy negotiations regarding the terms of a performance plan, with performance outcome measures used to measure improvements to mental health services in Oregon. A broad range of metrics are used, including various forms of treatment and support, crisis services, housing, avoiding the law enforcement system, discharges from the State Hospital and other psychiatric hospitals in Oregon, and other metrics. The performance plan provides for completion of the outcomes by July 2019. USDOJ reserves the right to resume its investigation if the State does not comply with this plan. Were USDOJ to determine that, given the State's performance under the plan, there are violations of federal law, USDOJ could issue written findings that specify the nature of any violations. The State would then be in a better position to estimate the costs to remedy any asserted violations. In the last two biennia, the State has increased its investments in community mental health services by tens of millions of dollars, and the costs of further changes to the State's community mental health programs imposed as a result of this process could reach or exceed \$50 million.

Lawsuit Seeking to Expand Coverage of Hepatitis C

Oregon Law Center ("OLC") demands that the Oregon Health Authority ("OHA") expand Oregon's Medicaid coverage for Hepatitis C ("HVC") treatment medication. Currently, with some narrow exceptions, HVC medications are covered under Oregon's Medicaid programs only after the patient has reached very advanced stages of the disease. OLC asserts that the coverage criteria currently in place in Oregon for HVC medications is illegal under state and federal law and must be changed to provide access to Medicaid participants at the earliest stage of the disease. Initial information from OHA indicates that to meet OLC's demands would cost the State approximately \$50 million – \$100 million per year for the first few years, with a significant decrease thereafter (a 12-week drug regimen will result in a cure for the vast majority of patients treated early, reducing the population requiring later-stage treatment and reducing the potential for patients infecting others). Some of this money will be covered as part of

the federal match for the expansion population, some will come from OHA's general fund. The Governor's budget provides for some additional funding to provide treatment at an earlier stage than currently covered, but not at the earliest phases of the disease, as demanded by OLC.

Claims Against the State of Oregon Exceeding \$50 Million

Disability Rights Oregon v. ODOT

Disability Rights Oregon ("DRO") has filed a lawsuit against Oregon Department of Transportation ("ODOT") alleging that ODOT has failed to comply with the requirements of the federal ADA in its road resurfacing projects since January 1992. DRO alleges that ODOT has erroneously interpreted the ADA by not including curb ramps to provide access for persons with disabilities on many projects, and that ODOT has generally failed to make the state roadway system accessible in the way the ADA requires with respect to curb ramps and pedestrian signals. The parties engaged in settlement discussions that have resulted in an agreement that must be approved by the federal court. Under the settlement agreement, ODOT will initially commit \$5 million towards improving more than 10,000 curb ramps and 1,500 pedestrian signals. An additional \$18 million has been programmed into ODOT's State Transportation Improvement Program for spending on curb ramps and other ADA features beginning in the 2018 program cycle. Under the schedule provided for in the agreement, ODOT will remediate at least 30% of the curb ramps by 2022, 75% by 2027 and have completed the remediation by the end of 2032.

Forest Management Rules Challenge

On March 10, 2016, Linn County filed a complaint for a class action lawsuit against the State regarding the rules under which timber is harvested on State forest lands. The county claims that actions taken under a 1998 rule adopted by the State's Department of Forestry breaches a statutory contract between the State and the counties under which the State received donations of forest lands from the counties. The State has managed the lands pursuant to forest management plans that the counties allege have reduced the revenues paid to counties because of conservation measures. On behalf of the class, the county seeks to recover lost revenues of approximately \$528.6 million since 2001 and future damages of \$881 million. The court has certified the class, but the Court has not yet approved the notice that will go to the class. The class on whose behalf the county has filed suit consists of 15 counties and approximately 130 government taxing districts that share or receive revenues for the State forest lands. It is too early for the State to estimate the actual liability that might be imposed due to the lawsuit, but the State plans to vigorously defend against the lawsuit.

Suit related to Video LotterySM

A player of Video LotterySM poker filed a lawsuit alleging that the Oregon State Lottery (the "Lottery") misled players into believing they had the best chances of winning certain video poker games if they used an automatic feature that suggests which cards to hold. The lawsuit was filed against the Lottery and several manufacturers of its game, purportedly on behalf of other individuals who played certain Video LotterySM poker games between 2008 and 2013. The lawsuit alleged that the class suffered damages in an amount not less than \$134 million. The Multnomah County judge dismissed the lawsuit. The plaintiff has appealed. The State continues to believe that the assertions in the lawsuit are without merit, and is vigorously defending the appeal. Briefing in the Court of Appeals is complete, and oral arguments took place on August 26, 2016.

Cover Oregon

In 2011, the State hired a private contractor, Oracle America, Inc. ("Oracle"), both to modernize its social services systems and to develop a health insurance exchange website through which Oregonians

would shop for and obtain the insurance coverage required in the federal Affordable Care Act. In early 2013, the State transitioned the development of the health insurance exchange website to “Cover Oregon,” a statutorily-created public corporation charged with implementing the health insurance exchange. On October 1, 2013, when the website was scheduled to be fully operational for the public, it did not work. Despite further efforts, and the fact that the State and Cover Oregon paid more than \$240 million for Oracle products and services, the website was never able to be launched to the public. On April 25, 2014, the Cover Oregon Board voted to move to the federal health insurance exchange website for certain services. In November 2014, Cover Oregon completed the transition to the federal website. In addition, the State’s project to modernize its social services systems was also placed on hold in 2013.

As a result of the failure of the website to become fully functional and the failure of the modernization of the social services systems, the State and Cover Oregon sued Oracle in state court setting forth multiple claims for relief, and Oracle filed counterclaims and additional lawsuits in state court, including seeking specific performance of certain alleged settlement agreements between the State and Oracle. In addition, Oracle filed a lawsuit against Cover Oregon and the State in federal court claiming breach of contract and copyright violations. The Legislative Assembly dissolved Cover Oregon effective June 30, 2015, and the State by and through the Department of Consumer and Business Services (“DCBS”) has substituted for Cover Oregon in the litigation with Oracle.

On September 15, 2016, the parties announced a global settlement involving all of the litigation between Oracle and the State. The settlement is valued at more than \$100 million and includes payments by Oracle to the Oregon Community Foundation, an Oregon nonprofit corporation, of \$10 million to fund science, technology, engineering and math programs in Oregon schools, and \$25 million to the State to reimburse it for litigation costs. The settlement also permits agencies and instrumentalities of the State government to acquire at no cost, through June 30, 2022, specified Oracle products and customer services, and to acquire those same products and services for a period of three years after that date at significantly discounted prices.

Oregon’s health exchange is also the subject of federal inquiries: the U.S. Government Accountability Office is investigating the development of health insurance exchanges by a number of states, including Oregon; several Congressional committees have issued document requests, requested written answers to questions and held hearings regarding the investigation of health insurance exchanges, including Oregon’s; and the United States Grand Jury for the District of Oregon issued subpoenas to the State and Cover Oregon in connection with an investigation into the use of federal grant funds on the health insurance exchange project. It is possible that the federal government could determine that certain expenditures for Oregon’s health insurance exchange were improper. If that occurs, it is possible the federal government may seek repayment from the State for any disallowed amounts, up to the full amount the federal government paid the State, approximately \$300 million. It is too early, however, to predict what the investigation will find, if the federal government would take any action as a result of the investigations, or the nature of any action the federal government might take.

Foster Home Cases

Complaints were filed against the State’s Department of Human Services, and a number of its employees, on behalf of at least 18 children who were placed in the foster homes of two separate couples between 2007 and 2012. One of the cases originally sought treble damages that could have exceeded \$50 million. That case has been settled for a payment of \$15 million by the State. In the remaining case, plaintiffs allege that the children were starved, isolated and physically, mentally, and emotionally abused by the foster care providers. Plaintiffs seek awards for damages based on abuse of a vulnerable person that may be trebled to over \$50 million, as well as additional economic and noneconomic damages and an award of attorney fees and costs. If the case is not settled for a lower amount, the State cannot predict whether the amount of damages that may ultimately be awarded in the case could exceed \$50 million. It

is likely, however, that if the plaintiffs prevail, some or all of the damages awarded by the court would be paid from the State's Insurance Fund (a self-insurance fund). See Appendix A for an explanation of the State Insurance Fund.

Tobacco Cases – Non-participating Manufacturer Claims

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.

The MSA contains a number of payment adjustment mechanisms. The non-participating manufacturers' 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 2016, Oregon has received approximately 8 to 15% 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 participated in a nationwide arbitration regarding whether the State “diligently enforced” its model escrow statutes during calendar year 2003. In September 2013, the arbitration panel ruled that Oregon had satisfied its diligent enforcement obligation and is entitled to its entire payment for 2003. Oregon received the remainder of its 2003 payment in April 2014. The State is now engaged in an arbitration with the PMs regarding whether it “diligently enforced” its model escrow statutes during the calendar year 2004. If the arbitration panel determines that the State did not diligently enforce its model escrow statutes during 2004, 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 participating 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.

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 storm water 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 administered by DSL.

On January 6, 2017, EPA issued its final cleanup plan for the Portland Harbor Superfund site in a document called the Record of Decision (“ROD”). The ROD requires a mix of cleanup actions – dredging, capping, enhanced natural recovery and monitored natural recovery – and is estimated to cost \$1.05 billion and take approximately 13 years to complete. Liable parties under CERCLA are responsible for funding the cleanup plan. The Portland Harbor Superfund mediation will allocate the ROD’s cleanup costs among all liable parties. If the mediation is successful, it will culminate in a settlement proposal, which if accepted by EPA will be memorialized in a Consent Order filed in the Oregon federal district court.

It is too early to estimate the proportionate share of liability for cleanup costs, if any, that may ultimately be allocated to the State agencies in the course of the mediation process. When the mediation will end is not known, but it may be as late as 2019.

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 thirty parties including the State. 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, although parties may alternatively elect to seek an earlier settlement with the trustees. The State will seek a settlement of its NRD liabilities in 2017. It is too early to evaluate what, if any, share of liability either ODOT or DSL may ultimately bear for this NRD claim.

The State is pursuing claims for insurance coverage of its Portland Harbor defense costs and for any future liabilities for cleanup costs and NRD. These claims are based on commercial general liability insurance policies the state held from 1968 to 1972, and on insurance policies that listed DSL as an additional insured. These insurance carriers have agreed to participate in funding the State’s defense in Portland Harbor proceedings, but have reserved their rights to deny indemnity coverage. In October 2015, the State filed suit in state court against its primary insurance carrier, Pacific Indemnity Co., asserting that Pacific Indemnity is obligated to fund a greater proportion of the State’s defense costs in Portland Harbor than it has so far.

Multistate Tax Compact

A case was filed in the Oregon Tax Court challenging 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. The Compact includes a provision whereby a taxpayer may elect between the Compact apportionment formula and a different state apportionment formula. Many states, including Oregon, have diverged from equally weighting each of the three elements to determine the amount of income in a particular state. Oregon began double-weighting the sales factor in 1991, and currently, the State uses only sales in Oregon and does not use the other two factors to apportion corporate income. See APPENDIX A—“GENERAL INFORMATION RELATING TO THE STATE OF OREGON—STATE FINANCIAL OPERATIONS—General Fund Revenues – Taxes – Corporate Excise and Income Taxes.” In 1993, Oregon barred the Compact apportionment election by separate statute. 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 elect to apportion multi-state corporate income based 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 allow the Compact formula election, other corporations may seek refunds based on the same theory and the State may be liable for additional refunds of corporate excise and 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. 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. In 2013, the State withdrew from the Compact and then re-enacted the Compact without the apportionment election provisions. This legislative action is intended to cut off the future effects of an adverse decision in Health Net. On September 9, 2015, the Oregon Tax Court ruled in favor of the State in Health Net, holding that the State's apportionment statute does not violate the Oregon or federal constitution and no refund is owed to the taxpayer. The taxpayer has appealed the court's decision to the Oregon Supreme Court, which held oral argument in September 2016.

Taxpayers in other states that participate in the Compact have made claims similar to those raised in Health Net. Decisions in the courts of other states generally are not binding on the Oregon courts. However, on December 31, 2015, the California Supreme Court ruled in favor of the State of California in *Gillette Co. v. Franchise Tax Board*, S206587. In June 2016, the Michigan Supreme Court and the Minnesota Supreme Court issued rulings in favor of those states. The United States Supreme Court denied the California and Minnesota taxpayers' petitions. The taxpayers in the Michigan case filed a petition to the United States Supreme Court in November 2016. An adverse decision from the United States Supreme Court reversing another state supreme courts' ruling in favor of the state may affect the outcome in Health Net or similar refund claims.

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

2017 Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP ("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 2017 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the 2017 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. Bond Counsel is also of the opinion that interest on the 2017 Bonds is exempt from State of Oregon personal income taxation. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the 2017 Bonds is less than the amount to be paid at maturity of such 2017 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2017 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 2017 Bonds which is excluded from gross income for federal income tax purposes and State of Oregon personal income taxes. For this purpose, the issue price of a particular maturity of the 2017 Bonds is the

first price at which a substantial amount of such maturity of the 2017 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 2017 Bonds accrues daily over the term to maturity of such 2017 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 2017 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2017 Bonds. Beneficial Owners of the 2017 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2017 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2017 Bonds in the original offering to the public at the first price at which a substantial amount of such 2017 Bonds is sold to the public.

2017 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 2017 Bonds”) will be treated as having amortizable 2017 Bond premium. No deduction is allowable for the amortizable 2017 Bond premium in the case of 2017 Bonds, like the Premium 2017 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 2017 Bond, will be reduced by the amount of amortizable 2017 Bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium 2017 Bonds should consult their own tax advisors with respect to the proper treatment of amortizable 2017 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 2017 Bonds. The Issuer has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2017 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 2017 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2017 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 2017 Bonds may adversely affect the value of, or the tax status of interest on, the 2017 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of Parks Bauer Sime Winkler & Fernety LLP, Counsel to Salem Health, a potential user of those Projects originally financed by the Refunded Bonds to benefit Oregon Health and Science University (“OHSU”), regarding the current qualification of Salem Health as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of Salem Health concerning Salem Health’s “unrelated trade or business” activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor Counsel to the Salem Health has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor Counsel to Salem Health can give or has given any opinion or assurance about the future activities of Salem Health, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure of Salem Health to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Refunded Bonds in a manner that is substantially related to Salem Health’s charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the

2017 Bonds being included in federal gross income, possibly from the date of the original issuance of the 2017 Bonds.

Although Bond Counsel is of the opinion that interest on the 2017 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of Oregon personal income taxation, the ownership or disposition of, or the accrual or receipt of interest on, the 2017 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 2017 Bonds to be subject, directly or indirectly, 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. For example, the prior administration's budget proposals in recent years have proposed legislation that would have limited the exclusion from gross income of interest on the 2017 Bonds to some extent for high-income individuals. Prospective purchasers of the 2017 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 2017 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 2017 Bonds ends with the issuance of the 2017 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 2017 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 2017 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 2017 Bonds for audit, or the course or result of such audit, or an audit of 2017 Bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2017 Bonds, and may cause the Issuer or the Beneficial Owners to incur significant expense.

Investor Considerations Concerning Tax-Exempt Status of the 2017 Bonds

The tax-exempt status of the 2017 Bonds is based on the continued compliance by the State, Oregon Health and Science University, and any other users of property financed with proceeds of the 2017 Bonds with various covenants, including but not limited to the use of the facilities financed with the proceeds of the 2017 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 2017 Bonds to become subject to federal income taxation retroactively to the original date of issuance of the 2017 Bonds. In such event, the 2017 Bonds are not subject to redemption solely as a consequence of such adverse tax determination.

RATINGS

Fitch Ratings (“Fitch”), Moody’s Investors Service, Inc. (“Moody’s”) and S&P Global Ratings (“S&P”) have assigned their municipal bond ratings of “AA+,” “Aa1,” and “AA+,” respectively, to the 2017 Bonds.

A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. 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.

MUNICIPAL ADVISOR

The State has retained Public Resources Advisory Group (the “Municipal Advisor”), as the municipal advisor in connection with the preparation of this Official Statement and with respect to the issuance of the 2017 Bonds. The Municipal 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 2017 Bonds are being purchased by Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Fidelity Capital Markets, a division of National Financial Services, LLC, D.A. Davidson & Co., Goldman, Sachs & Co., and Piper Jaffray & Co. (collectively, the “Underwriters” and each an “Underwriter”).

The purchase agreement relating to the 2017 Bonds (the “2017 Purchase Agreement”) provides that the Underwriters will purchase all of the 2017 Bonds, if they are purchased. The purchase price of the 2017 Bonds is \$_____ (the principal amount of the 2017 Bonds (\$_____)), [plus/less] a net original issue [premium/discount] of \$_____, and less an Underwriters’ discount of \$_____).

The obligation to make such purchase is subject to certain terms and conditions set forth in the 2017 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 2017 Bonds to the public. The Underwriters may offer and sell the 2017 Bonds to certain dealers (including dealers depositing the 2017 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.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the State for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the State.

Citigroup Global Markets Inc., an underwriter of the 2017 Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. (“UBSFS”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for its selling efforts with respect to the 2017 Bonds.

Morgan Stanley & Co. LLC, an underwriter of the 2017 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2017 Bonds.

J.P. Morgan Securities LLC (“JPMS”), one of the underwriters of the 2017 Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase 2017 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2017 Bonds that such firm sells.

CERTAIN LEGAL MATTERS

The validity of the 2017 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 C hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Orrick, Herrington & Sutcliffe LLP also represents the State in certain other bond, disclosure and other matters and also represents the Underwriters in connection with certain other State bond matters and other unrelated matters. Orrick, Herrington & Sutcliffe LLP also represents Oregon Health and Science University in certain other unrelated bond, disclosure and other matters.

In connection with the 2017 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, with respect to each Series of the 2017 Bonds will undertake in a Continuing Disclosure Certificate for the benefit of registered and beneficial Owners of each Series of the 2017 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, 2017, certain specified financial information and operating data. In addition, the State will undertake for the benefit of registered and beneficial Owners of the 2017 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 D.

The State has determined that in connection with its State of Oregon Department of Administrative Services Refunding Certificates of Participation, 2012 Series A (Tax-Exempt) (the “2012 COPS”) a table setting out the Payment Schedule for Appropriation Credits was omitted from the annual

financial information that the State timely filed on EMMA for the 2012 COPS. An amendment has been made to the original EMMA filing to include such a Payment Schedule for Appropriation Credits.

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 2017 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
Tobias Read
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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INTRODUCTION

Information presented in this “Appendix A – General Information Related to the State of Oregon” contains information on the basic structure of the State’s governmental organization, economic and demographic information, finances, including details on the budget process, revenues, expenditures and reserves, cash management, pension programs, outstanding indebtedness, and other information.

The State examines the economic, demographic and financial data (collectively, the “Economic Data”) presented in Appendix A, and includes detailed citations as to the source and “as of date” of the data presented. The State monitors the sources of the Economic Data presented, and updates such Economic Data in a timely manner when new data is available from the cited sources.

Certain information in Appendix A is derived from the quarterly economic and revenue forecast (the “Forecast”) that is prepared and provided by the Oregon Office of Economic Analysis pursuant to Oregon law (ORS 291.342). See “STATE FINANCIAL INFORMATION – Revenue Forecasting” herein. Information derived from the Forecast and presented in Appendix A is updated by the State in a timely manner following the release of each Forecast.

As a result of continuing updates to Appendix A described in the foregoing paragraphs, there may be variations in the information presented in this Appendix A as compared to prior Official Statements of the State.

The State issues bonds from time to time during the course of its fiscal year. Appendix A includes certain financial information related to outstanding indebtedness of the State, which is presented and updated annually as of the State’s fiscal year end (June 30). Material information related to the authority for, offering and sale of bonds is found in the forepart of each Official Statement. Material changes to information related to the State’s finances, including revenue and budgetary matters, not yet updated in Appendix A is provided in the “Recent Developments” section of the forepart of the Official Statement.

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 money 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. Kate Brown became Governor on February 18, 2015, succeeding John Kitzhaber upon his resignation, and she was elected at the November 2016 general election to complete the term ending December 31, 2018. 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 \$1.47 billion as of December 31, 2016. 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, which 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 by fund.

Employee Relations

For the 2013-15 biennium, there were approximately 50,000 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. China is a top destination for Oregon exports, with the state of the Chinese economy affecting the Oregon economy more than most other countries, but significantly less of an impact than the health of the U.S. economy.

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, generally its values declined less than several other western states including California, Nevada, and Arizona. The Great Recession caused severe damage that has taken years to repair. Growth in employment and tax revenues have steadily increased over the past three years, as Oregon's labor market healed itself from the recession of 2009. However, more sustainable growth is anticipated for the future. Recently, growth in jobs and in personal income tax withholdings have both decelerated, with personal income tax withholdings at nearly the lowest point it has been over the past three years. While Oregon's labor market growth is slowing somewhat, the State is at or near full employment and broader measures of economic well-being, such as median household income, the poverty rate and needs-based caseloads are improving.

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)

<u>Year</u>	<u>Total Civilian Labor Force</u>				<u>Unemployment Rate as %</u>	
	<u>Oregon</u> ¹	<u>Percent Change (%)</u>	<u>U.S.</u> ¹	<u>Percent Change (%)</u>	<u>Oregon</u>	<u>U.S.</u>
2007	1,922	1.9	153,124	1.1	5.2	4.6
2008	1,955	1.7	154,287	0.8	6.5	5.8
2009	1,977	1.1	154,142	(0.1)	11.3	9.3
2010	1,984	0.4	153,889	(0.2)	10.6	9.6
2011	1,994	0.5	153,617	(0.2)	9.5	8.9
2012	1,953	(2.1)	154,975	0.9	8.8	8.1
2013	1,907	(2.42)	155,389	0.3	7.9	7.4
2014	1,938	1.6	155,922	0.3	6.8	6.2
2015	1,978	2.1	157,130	0.8	5.6	5.3
2016	2,055	3.9	159,187	1.3	4.9	4.9

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
NON-FARM EMPLOYMENT
OREGON AND THE UNITED STATES

	<u>2011</u>				<u>2016</u>			
	<u>Oregon</u>		<u>United States</u>		<u>Oregon</u>		<u>United States</u>	
	<u># of Jobs</u>	<u>% of Total</u>	<u># of Jobs</u>	<u>% of Total</u>	<u># of Jobs</u>	<u>% of Total</u>	<u># of Jobs</u>	<u>% of Total</u>
Mining and logging	7,000	0.4	788,000	0.6	7,700	0.4	677,000	0.5
Construction	68,600	4.2	5,533,000	4.2	90,600	4.9	6,711,000	4.7
Durable goods manufacturing	118,600	7.3	7,273,000	5.5	130,900	7.1	7,719,000	5.3
Nondurable goods manufacturing	49,500	3.1	4,453,000	3.4	56,900	3.1	4,629,000	3.2
Wholesale Trade	67,700	4.2	5,543,100	4.2	75,000	4.1	5,866,800	4.1
Retail trade	184,800	11.4	14,667,800	11.1	205,800	11.2	15,820,200	11.0
Transportation, warehousing, and utilities	53,400	3.3	4,854,200	3.7	60,400	3.3	5,546,500	3.8
Information	31,700	2.0	2,674,000	2.0	33,500	1.8	2,772,000	1.9
Financial activities	91,700	5.7	7,697,000	5.8	96,800	5.3	8,285,000	5.7
Professional and business services	195,200	12.1	17,332,000	13.1	238,300	13.0	20,136,000	14.0
Educational services	32,900	2.0	3,249,600	2.5	35,900	2.0	3,559,700	2.5
Health care and social assistance	201,200	12.4	17,068,600	12.9	230,900	12.6	19,056,300	13.2
Leisure and hospitality	165,600	10.2	13,353,000	10.1	199,000	10.9	15,620,000	10.8
Other services	56,800	3.5	5,360,000	4.1	63,700	3.5	5,685,000	3.9
Government	295,000	18.2	22,860,000	17.3	307,000	16.8	22,223,000	15.4
Total Nonfarm jobs ¹	1,619,700		131,932,000		1,832,700		144,306,000	

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

⁽¹⁾ Totals may not agree with sum of components due to categorization and rounding.

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 2010 to 2015 five-year period.

TABLE 3
OREGON GROSS DOMESTIC PRODUCT
(IN MILLIONS)

<u>Industry</u>	<u>2010 (\$)</u>	<u>% of Total</u>	<u>2015 (\$)</u>	<u>% of Total</u>
Agriculture, forestry, fishing and hunting	3,198	1.7	4,048	1.9
Mining	258	0.1	223	0.1
Utilities	2,501	1.3	2,992	1.4
Construction	5,592	2.9	8,078	3.7
Manufacturing	56,318	29.5	49,734	22.9
Wholesale trade	10,651	5.6	11,393	5.2
Retail trade	8,875	4.6	10,656	4.9
Transportation and warehousing	4,514	2.4	5,649	2.6
Information	5,867	3.1	6,827	3.1
Finance, insurance, real estate, rental, and leasing	31,406	16.4	38,003	17.5
Professional and business services	15,838	8.3	23,596	10.8
Educational services, healthcare, and social assistance	14,783	7.7	18,613	8.6
Arts, entertainment, recreation, accommodation, and food services	5,280	2.8	7,830	3.6
Other Services, except government	3,647	1.9	4,513	2.1
Government	<u>22,339</u>	11.7	<u>25,575</u>	11.7
Total Oregon GDP	191,120		217,629	

Source: U.S. Department of Commerce, Bureau of Economic Analysis. Based on the 2007 North American Industry Classification System (NAICS) as of March 23, 2017.

Residential Construction

The following table shows the number of Oregon residential building permits issued from 2006-2015.

**TABLE 4
OREGON RESIDENTIAL BUILDING PERMITS**

Calendar Year	Single-Family Dwellings	Percent Change (%)	Multi-Family Dwellings	Percent Change (%)
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
2012	6,342	30.7	4,266	51.9
2013	8,417	32.7	6,426	50.6
2014	8,573	1.9	8,072	25.6
2015	10,255	19.6	7,255	-10.1
2016 ⁽¹⁾	10,600	3.4	8,369	15.4

Source: U.S. Census Bureau, March 2017.

(1) Preliminary, subject to change

TABLE 5 RESERVED

TABLE 6 RESERVED

Income

The following two tables compare Oregon and the United States with respect to personal income and per capita income from 2006 to 2015.

**TABLE 7
PERSONAL INCOME
(IN MILLIONS)**

Calendar Year	Oregon (\$)	Percent Change (%)	U.S. (\$)	Percent Change (%)	Oregon as a % of U.S.
2006	126,816	8.2	11,381,350	7.3	1.11
2007	132,696	4.6	11,995,419	5.4	1.11
2008	138,500	4.4	12,492,705	4.1	1.11
2009	134,787	(2.7)	12,079,444	(3.3)	1.12
2010	137,332	1.9	12,459,613	3.1	1.10
2011	145,084	5.6	13,233,436	6.2	1.10
2012	152,371	5.0	13,904,485	5.1	1.10
2013	154,869	1.6	14,064,468	1.2	1.10
2014	163,653	5.7	14,683,147	4.4	1.11
2015	173,170	5.8	15,324,109	4.4	1.13

Source: U.S. Bureau of Economic Analysis, March 24, 2016.

**TABLE 8
PER CAPITA INCOME**

Calendar Year	Oregon (\$)	Percent Change (%)	U.S. (\$)	Percent Change (%)	Oregon as a % of U.S.
2006	34,546	6.5	38,144	6.2	90.6
2007	35,648	3.2	39,821	4.4	89.5
2008	36,750	3.1	41,082	3.2	89.5
2009	35,390	(3.7)	39,376	(4.2)	89.9
2010	35,791	1.1	40,277	2.3	88.9
2011	37,512	4.8	42,453	5.4	88.4
2012	39,083	4.2	44,266	4.3	88.3
2013	39,426	0.9	44,438	0.4	88.7
2014	41,220	4.6	46,049	3.6	89.5
2015	42,974	4.3	47,669	3.5	90.2

Source: U.S. Bureau of Economic Analysis March 24, 2016.

Population

The 2010 U.S. Census ranked Oregon as the 27th most populous state with a population of 3.84 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**

<u>Year</u>	<u>Oregon</u>	<u>Percent Change (%)</u>	<u>United States</u>	<u>Percent Change (%)</u>
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)	4,290,700	11.8	334,503,000	8.3

Sources: Office of Economic Analysis, May 2015 Oregon Economic and Revenue Forecast; U.S. Census Bureau. US 2020 projected population, 2012 National Population Projection: Summary Tables, as of May 2015.

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 end 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, Legislative and Judicial Branches, and some of the State’s component units, such as universities or public corporations (the “Budget Bills”). (For more information regarding State component units, see Component Units below.) 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, the Department of Administrative Services (“DAS” or the “Department”) 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 and component units 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.

Component Units

The Legislative Assembly has authorized the creation of, recognized and provided funding for certain public or non-profit corporations that are closely tied to certain statewide functions or agencies (the "Component Units"). See, *State of Oregon Comprehensive Financial Report for the Fiscal Year ended June 30, 2016* Note 1. captioned "Summary of Significant Accounting Policies." Included among these Component Units are the State Accident Insurance Fund (SAIF) Corporation, the Oregon Health and Science University ("OHSU"), and the Oregon University System (OUS) Foundations. These entities generally perform statewide functions that are authorized by the Legislative Assembly, but are not required to comply with many of the budgeting, purchasing and other requirements imposed on State agencies. For instance, in 1995 the Legislative Assembly transferred the duties and powers of the OHSU to an independent public corporation with statewide purposes and missions and without territorial boundaries. The State entered into a Debt Service Payment Agreement with OHSU pursuant to which OHSU assumed the repayment obligation for all bonds issued by the State for the original university. OHSU submits its funding request for each biennium to DAS, which includes such request as part of the Governor's biennial recommended budget. As of July 1, 2015, the State's seven public universities, Eastern Oregon University, Oregon Institute of Technology, Oregon State University, Portland State University, Southern Oregon University, University of Oregon, and Western Oregon University became independent universities, each governed by an independent board and be considered a public body with statewide purposes and without territorial boundaries. Each independent university may submit a funding request for each biennium that requests appropriations for various operations and state-funded debt service. This funding request is made through the Higher Education Coordinating Commission to the Governor and made a part of the Governor's biennial recommended budget. Any moneys appropriated to pay debt service for state bonds must be held by the State Treasurer pursuant to an agreement entered into by the State Treasurer and an independent university.

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 each March, June, September and December, with their posting dates varying slightly. 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. The State uses an econometric model to forecast the Oregon economy

and personal and corporate income taxes (over 90 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 IHS Economics.

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 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. Oregon's financial statements are prepared in conformity with generally accepted accounting principles 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.

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 Department of Administrative Services, Enterprise Goods and Services, Risk Management section 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 section works to prevent or pay include 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, and faithful performance bonds for key positions as required by law and additional positions as determined by agency policy. 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. Both self-insurance losses and commercial insurance premiums are paid from the Fund. For each separate category of potential loss, DAS 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 17 of the Basic Financial Statements for the State for the fiscal year ended June 30, 2016.

Seismic Activity

The State is located in an area of seismic activity along the Pacific coast. The current scientific consensus is that the State and the Pacific Northwest region is subject to periodic great earthquakes along the

Cascadia Subduction Zone, a large fault that runs offshore from Northern California to British Columbia. Geologists are predicting the Pacific Northwest is due for a major earthquake magnitude (8.7 to 9.1). Such an earthquake would cause widespread damage to structures and infrastructure in western Oregon, and total damage in coastal areas inundated by a possible accompanying tsunami. It is likely the infrastructure damage would be sufficient to disrupt transportation, communication, water and sewer systems, power and gas delivery and fuel supplies for weeks to months for much of Western Oregon. This kind of regional disaster is unprecedented and could result in a significant permanent loss of population and business. Other natural disasters occur occasionally, including volcanic eruptions, mudslides and wind storms but with less damage that is more localized than is predicted to occur from a major earthquake.

Affordable Care Act

In recent years the State has reformed its Medicaid system to a network of coordinated care organizations and expanded Medicaid enrollment in response to the federal Affordable Care Act (“ACA”). The coordinated care organizations are intended to provide better and more integrated care to Medicaid recipients and to lower the costs of health care. Under the ACA, the federal government has reimbursed 100% of the costs of additional Medicaid recipients. That percentage will begin to decrease in the 2017 fiscal year to 90% reimbursement by 2020. The difference between the federal reimbursement and the costs to provide Medicaid coverage is anticipated to be paid by the State’s General Fund. The amount required from the General Fund is difficult to estimate because it will depend on the number of new people that enroll in Medicaid, including people transferring from prior coverage that was not federally reimbursed to coverage under the ACA with federal reimbursement, and also the amount of savings that may be realized through the coordinated care organizations. The State has begun the budgeting process to account for increased costs under the ACA and preliminarily estimates that Medicaid related costs will increase from approximately \$1.2 billion in the current biennium to approximately \$2.9 billion in the 2019-21 biennium. However, these projections may change based on factors such as the numbers of new and transferred enrollees, increases in medical costs, efforts to control those costs and any amendments to the ACA. Also, reducing the numbers of uninsured may increase employment and spending in the medical field, resulting in some off-setting increases in State tax receipts.

The President and certain Congressional leaders have included a repeal of all or a portion of the ACA in early 2017 in statements concerning their respective legislative agendas, and Congress has already taken certain steps to repeal and replace the ACA. It is not possible to predict with any certainty whether or when the ACA or any specific provision or implementing measure will be repealed, withdrawn or modified in any significant respect, but a unified Administration and majority in both chambers of Congress could enact legislation, withdraw, modify or promulgate rules, regulations and policies, or make determinations affecting the health care industry, any of which individually or collectively could have a material adverse effect on the financial condition of the State.

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.

Beginning with the 2014 tax year rates for single filers are graduated between 5 percent for income under \$3,300 to 9.9 percent plus \$11,019 for income over \$125,000. The amount of applicable income is doubled for joint returns and head-of-household. The income amount to which a certain rate applies is indexed to changes in the Consumer Price Index. Beginning in tax year 2015, individuals with non-passive income from partnerships or S-corporations may be taxed at rates of 7 percent for income of \$250,000 or less up to 9.9 percent of income of \$5 million or more.

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 less than \$1 million and 7.6 percent of income over \$1 million. However, there is a minimum tax of \$150 for corporations with Oregon sales of less than \$500,000, with increasing minimum tax amounts for C-corporations up to a maximum of \$100,000 for companies with Oregon sales of \$100 million or more.

The corporate income tax is imposed on any corporation 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 for both income taxes and excises taxes. 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 estate 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 \$0.066 per cigarette (\$1.32 for a pack), scheduled to increase by \$0.01 per pack on January 1, 2018. The tax rate on the other tobacco products is 65 percent of the wholesale price, capped at \$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 fund health-related programs, including the Oregon Health Plan and tobacco use reduction,

another portion goes to the state general fund, and the balance is distributed equally among cities, counties and the Department of Transportation.

Other Taxes. A portion of the moneys collected from several forest harvest taxes and the Amusement Device Tax are allocated to the General Fund.

Raising Taxes. Article IV, Section 25 of the Oregon Constitution requires a three-fifths majority of all members elected to each House to pass bills for raising revenue and that the presiding officer of each respective house sign the bill or resolution.

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 110 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 personal taxes, by more than two percent, a tax credit is issued to individual 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 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.

In November 2012, voters approved Measure 85, amending the Oregon Constitution and allocating the corporate kicker, (actual biennium revenue from corporations that exceed the Close of Session revenue forecast more than two percent) to increase K through 12 public education spending.

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 Oregon 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. Beginning July 1, 2017, pursuant to Measure 96, approved by the voters in the November 2016 election, 1.5% of net lottery proceed transfers shall be constitutionally dedicated to veterans' services. Debt service payments, State school funding, and economic development efforts are the primary uses for the remainder.

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 three-fifths of the Legislative Assembly approves, the Legislative Assembly may appropriate two-thirds of the beginning balance of the biennium in 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. Under state law, the Oregon Growth Account generally receives 5 percent of that amount.

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

Fiscal Year Biennium	Education Stability Fund ^{1,2} (\$)	Rainy Day Fund (\$)	Total (\$)
2005-07	178.9	0.0	178.9
2007-09	0.0	112.5	112.5
2009-11	5.1	10.4	15.5
2011-13	7.6	61.9	69.4
2013-15	179.4	211.8	391.2
2015-17 ³	383.2	388.1	771.2
2017-19 ³	583.9	632.0	1,215.9

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 Education Stability Fund, exclusive of funds held in the Oregon Growth Account that may be illiquid and any subsequent transfers by the Legislative Assembly.
- (3) Projected by March 2017 Economic and Revenue Forecast. Additional historic detail and long range projections may be found in Table B.10 of the Forecast.

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, \$0.22 out of the \$1.31 per pack cigarette tax goes to the general fund and \$0.8564 goes towards the Oregon Health Plan. 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.

Recreational Marijuana Taxes. Oregon voters legalized recreational use of marijuana under Measure 91 and designated the OLCC as the state agency to regulate the commercial growing and selling of recreational marijuana. During the 2015 session of the Legislative Assembly, technical changes were made to Measure 91 including the way recreational marijuana is taxed. Instead of the OLCC imposing the tax at the grower level, it will now be imposed at the retail level and collected by the Department of Revenue. When recreational marijuana is sold in recreational stores, the taxes will range from 17 to 20 percent. The Legislative Assembly set the base tax rate at 17 percent; however, they made provisions under certain circumstances for cities and counties to add up to an additional 3 percent tax. The tax will be imposed on sales after January 4, 2016. Measure 91 provides for the distribution of taxes after costs to the following: 40% to Common School Fund; 20% to Mental Health Alcoholism and Drug Services; 15% to State Police; 10 % to Cities for enforcement of the Measure; 10% to Counties for enforcement of the Measure; 5% to the Oregon Health Authority for alcohol and drug abuse prevention.

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 and are displayed in the State's CAFR as a proprietary fund. However, legislation passed in the 2011 and 2013 legislative sessions, removed the Oregon University System from most of the budgetary processes and approvals applicable to other agencies. Beginning with the 2013-15 biennium, the State will budget for General Fund moneys appropriated to the university system and for bond issuance, but will not budget in its Other Funds for the university system. The sale of State Forest Lands and Common School Lands also provide income in this category of the CAFR, as well as revenue from veterans' home loan repayments and retirement system contributions and, 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 four biennia and the 2015-17 biennia forecast.

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

	2007-09	2009-11	2011-13	2013-15	2015-17
Taxes	<u>Actuals ² (\$)</u>	<u>Actuals ³ (\$)</u>	<u>Actuals ⁴ (\$)</u>	<u>Actuals ⁵ (\$)</u>	<u>Forecast ⁶ (\$)</u>
Personal Income	11,174,799 ⁷	10,467,225	12,118,187	13,958,289	15,709,815
Offsets, Transfers and Shred Service Fund	0	0	(12,098)	(62,253)	(32,642)
Corporate Income	684,485	827,614	883,912	1,116,529	1,136,178
Rainy Day Fund Transfer (Minimum Tax)	0	0	0	(11,962)	(11,711)
Insurance	93,328	90,496	99,017	121,022	125,651
Estate	196,820	168,864	203,629	196,485	307,789
Cigarette	81,649	76,837	74,615	73,261	70,931
Other Tobacco Products	34,518	47,328	58,255	60,108	62,936
Other	1,477	2,496	2,401	2,021	1,773
Fines and Fees					
State Court Fees	55,625	50,464	106,833	119,448	114,111
Secretary of State Corp. Fees	22,496	41,950	52,428	58,217	63,061
Criminal Fines and Assessments	72,855	59,460	87,727	55,163	45,189
Securities Fees	19,576	19,263	19,866	23,526	23,991
Central Service Charge	8,713	8,174	11,582	8,723	9,266
Liquor Apportionment	184,326	198,283	232,907	246,716	271,592
Interest Earnings	84,344	4,927	16,131	9,010	19,535
Miscellaneous Revenues	11,976	10,932	12,246	6,871	10,365
One-time Transfers	86,104	447,383	176,230	49,581	138,422
Gross General Fund Revenues	12,813,091	12,521,696	14,155,964	16,104,970	18,110,605
Total Kicker Refunds/Offsets and Transfers	(1,084,201)	0	(12,098)	(74,215)	(44,353)
Net General Fund Revenues	11,728,890	12,521,696	14,143,866	16,030,755	18,066,252
Beginning Balance	1,436,710	0	0	475,651	528,793
Anticipated Administrative Actions ⁸	(42,140)	(8,200)	(4,294)	(3,327)	(14,018)
Legislative Adopted Actions	(319,288) ⁹	0	0	(136,721)	(158,328)
Available Resources	<u>12,804,172</u>	<u>12,513,496</u>	<u>14,139,572</u>	<u>16,366,358</u>	<u>18,422,699</u>
Appropriations (Legislatively Adopted Budget)	12,793,534	13,432,875	13,688,614	15,889,471	18,074,634
Reversions	(762)	0	(24,694)	(51,905)	0
Administrative Actions	0	(954,613) ¹⁰	0	0	0
Projected Expenditures	<u>12,792,772</u>	<u>12,478,261</u>	<u>13,663,920</u>	<u>15,837,565</u>	<u>18,074,634</u>
Ending Balance	<u>11,400</u> ¹¹	<u>35,235</u> ¹¹	<u>475,651</u>	<u>528,793</u>	<u>348,065</u>

Source: State of Oregon, Chief Financial Office, 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) December 2009 Oregon Economic and Revenue Forecast, as adjusted through June 2010.

(3) September 2011 Oregon Economic and Revenue Forecast.

(4) December 2013 Oregon Economic and Revenue Forecast, as adjusted through October 2014.

(5) December 2015 Oregon Economic and Revenue Forecast.

(6) March 2017 Oregon Economic and Revenue Forecast.

(7) Not reduced by \$1,084,201 Kicker.

(8) Interest expense associated with the Tax Anticipation Notes program, and is exclusive of any internal borrowing.

(9) Equals 2005-07 portion of corporate surplus designated for the Rainy Day Fund.

(10) Allotment reductions to agencies.

(11) 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 2007-09 through the 2015-17 biennia.

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

<u>Biennium</u>		<u>Budget at Close of Session (\$) ¹</u>	<u>Actual (\$) ²</u>	<u>Difference (\$)</u>	<u>Percent Difference (%)</u>
2007-09	Personal Income Tax	11.183	10.091	(1.092)	(9.8)
	Corporate Income Tax	0.921	0.685	(0.236)	(25.6)
	Other Revenues	0.889	0.954	0.065	7.3
	Total	12.993	11.730	(1.263)	(9.7)
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)
2011-13	Personal Income Tax	12.194	12.118	(0.076)	(0.6)
	Corporate Income Tax	0.894	0.884	(0.011)	(1.1)
	Other Revenues	0.944	1.153	0.209	22.1
	Total	14.032	14.155	0.123	0.9
2013-15	Personal Income Tax	13.501	13.958	0.457	3.4
	Corporate Income Tax	0.993	1.117	0.124	12.5
	Other Revenues	1.028	0.956	(0.072)	(7.0)
	Total	15.522	16.031	0.509	3.3
2015-17 ⁽³⁾	Personal Income Tax	15.681	15.677	(0.004)	(0.0)
	Corporate Income Tax	1.090	1.125	0.035	3.2
	Other Revenues	1.184	1.265	0.080	6.8
	Total	17.955	18.066	0.111	0.6

Source: Oregon Economic and Revenue Forecasts.

⁽¹⁾ "Budget at Close of Session" reported in the September Oregon Economic and Revenue Forecasts.

⁽²⁾ "Actuals" are reported the following biennium in the September Oregon Economic and Revenue Forecasts.

⁽³⁾ 2015-17 information is estimated as of 03-01-2017.

Table 13 presents historical and forecasted Lottery Revenues and Distributions for the 2007-09 through the 2015-17 biennia.

TABLE 13
LOTTERY RESOURCES AND ALLOCATION OF RESOURCES
(IN MILLIONS)

	<u>2007-09</u> <u>Actual (\$)</u> ²	<u>2009-11</u> <u>Actual (\$)</u> ³	<u>2011-13</u> <u>Actual (\$)</u> ⁴	<u>2013-15</u> <u>Actual (\$)</u> ⁵	<u>2015-17</u> <u>Forecast (\$)</u> ⁶
LOTTERY EARNINGS ¹					
Traditional Lottery	132.2	134.1	119.4	139.1	138.5
Video Lottery	1,091.2	922.7	952.2	993.3	1,151.5
Video Lottery Terminal Replacement	-	-	-	(71.2)	(59.2)
Other Earnings / Administrative Savings	103.5	29.3	8.0	(0.1)	0.9
Total Available to Transfer	<u>1,326.9</u>	<u>1,086.1</u>	<u>1,079.6</u>	<u>1,061.1</u>	<u>1,231.8</u>
ECONOMIC DEVELOPMENT FUND					
Beginning Balance	64.1	1.4	0.3	3.5	20.5
Transfers from Lottery	1,326.9	1,086.1	1,079.6	1,061.1	1,231.8
Other Resources ⁷	9.3	1.1	2.1	1.4	9.4
Total Available Resources	<u>1,400.2</u>	<u>1,088.6</u>	<u>1,082.1</u>	<u>1,066.0</u>	<u>1,261.7</u>
Allocation of Resources					
County Economic Development ⁸	40.0	30.5	36.3	33.8	39.1
Education Stability Fund ⁹	238.8	195.5	194.3	191.0	221.7
Parks and Natural Resources Fund ¹⁰	199.0	162.9	161.9	159.2	184.8
HECC Collegiate Ath. & Scholarships ¹¹	11.7	9.7	8.4	8.0	8.2
Gambling Addiction ¹¹	12.1	8.7	10.4	10.6	11.3
County Fairs	3.6	2.8	3.5	3.7	3.9
Debt Service on Lottery Bonds ¹²	161.7	216.4	259.4	232.2	230.9
Other Legislatively Adopted Allocations ¹³	<u>732.9</u>	<u>461.7</u>	<u>404.1</u>	<u>408.2</u>	<u>515.2</u>
Total Distributions	<u>1,399.9</u>	<u>1,088.3</u>	<u>1,078.4</u>	<u>1,046.7</u>	<u>1,215.1</u>
Ending Balance/Discretionary Resources	<u>0.4</u>	<u>0.2</u>	<u>3.6</u>	<u>19.3</u>	<u>46.6</u>

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 May 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 May 2013 Oregon Economic and Revenue Forecast.
- (5) Reported in the May 2015 Oregon Economic and Revenue Forecast.
- (6) Reported in the March 2017 Oregon Economic and Revenue Forecast.
- (7) Includes interest earnings of Economic Development Fund and reversions.
- (8) County Economic Development includes \$1,023,139 for the Economic Revitalization Team.
- (9) 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.
- (10) The Parks and Natural Resources Fund constitutional amendment requires the transfer of 15% of net proceeds to this fund.
- (11) Approximately one percent of net lottery proceeds are dedicated to Collegiate Athletics and Gambling Addiction programs, respectively. Certain limits were imposed by HB 5035 for 2011-13.
- (12) Figures reflect gross debt service of outstanding lottery bonds for the respective end of the biennium and do not include future issuance.
- (13) Includes allocations to State School Fund and Other Agency Allocations

Table 14 summarizes Other Funds and Lottery Distributions by revenue source for the 2011-13 through the 2017-19 biennia.

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

TAXES	2011-13 ¹	2013-15 ²	2015-17 ²	2017-19 ²
	Actuals (\$)	Actual (\$)	Legislatively Approved Budget (\$)	Governor's Budget (\$)
SELECTIVE SALES AND USE TAXES				
Tobacco Taxes	386,657,524	380,521,727	372,997,411	505,761,716
Motor Fuels Taxes	978,647,632	1,003,001,575	1,087,115,619	1,161,604,620
Weight-Mile Taxes	506,868,237	554,620,727	608,108,654	632,833,231
Privilege Taxes	25,579,680	16,543,960	39,793,960	144,670,976
Other Selective Sales and Use Taxes	867,887,106	1,066,467,275	1,085,450,581	1,754,128,619
GROSS RECEIPTS BUSINESS TAXES				
Other Gross Receipts Business Taxes	3,660,542	4,798,961	4,000,000	5,600,000
Amusement Taxes	0	0	3,280,000	3,800,000
Public Utilities Taxes	154,435,236	177,643,925	164,857,693	151,932,201
Insurance Taxes	111,588,498	24,378,077	0	0
EMPLOYER-EMPLOYEE TAXES				
Employment Taxes	2,117,546,966	2,145,819,527	2,169,234,815	2,092,715,141
Workers' Compensation Insurance Taxes	99,930,338	115,689,094	135,198,476	108,272,395
Other Employer-Employee Taxes	143,287,181	177,823,513	874,878,148	993,034,648
SEVERANCE TAXES				
Eastern Oregon Severance Taxes	0	0	0	8,000
Western Oregon Severance Taxes	0	0	1,018,000	780,000
Other Severance Taxes	0	0	237,000	237,000
OTHER TAXES				
Forest Protection Taxes	40,077,958	40,870,547	107,148,596	49,339,905
Other Taxes	27,683,583	576,397	164,949,466	167,258,530
LICENSES AND FEES				
BUSINESS LICENSES AND FEES	301,830,787	308,991,533	343,313,186	386,758,381
NONBUSINESS LICENSES AND FEES				
Park User Fees	43,958,242	47,759,802	45,231,678	52,145,721
Vehicle Licenses	562,728,351	594,786,781	604,511,664	638,755,114
Drivers Licenses	71,197,039	81,173,086	72,402,951	81,540,099
Transportation Licenses and Fees	86,396,158	2,973,872	95,063,943	96,506,790
Hunter and Angler Licenses	99,544,673	94,810,340	108,173,000	119,244,000
Commercial Fish Licenses and Fees	0	9,733,007	9,948,000	10,042,728
Power and Water Fees	0	8,190,588	8,085,138	9,447,423
Fire Marshal Fees	0	22,930,217	26,167,475	27,450,673
Other Non-business Licenses and Fees	85,294,721	167,316,905	83,506,263	80,800,245
State Court Fees	17,475,251	20,359,423	20,192,678	24,274,853
FEDERAL FUNDS AS OTHER FUNDS	990,569,663	937,169,039	790,932,404	1,139,066,002
OTHER REVENUES				
CHARGES FOR SERVICES				
Other Charges for Services	1,781,439,160	3,103,866,051	5,022,530,612	5,644,759,441
FINES, RENTS, AND ROYALTIES				
Fines and Forfeitures	220,272,380	220,560,384	189,937,872	190,723,671
Rents and Royalties	113,733,588	126,885,054	121,582,784	126,468,399

TABLE 14 (Continued)

<u>OTHER REVENUES (continued)</u>	2011-13 ¹ <u>Actual (\$)</u>	2013-15 ² <u>Actual (\$)</u>	2015-17 ² Legislatively Approved <u>Budget (\$)</u>	2017-19 ² Governor's <u>Budget (\$)</u>
BOND SALES				
General Fund Obligation Bonds	93,281,171	416,704,725	1,266,937,032	1,319,434,854
Dedicated Fund Obligation Bonds	0	35,965,000	134,229,941	241,192,375
Lottery Bonds	51,345,886	103,594,228	184,038,816	201,956,732
Certificates of Participation	80,176,683	1,750,000	17,335	0
Revenue Bonds	183,218,198	855,358,157	645,000,000	330,000,000
Refunding Bonds	1,476,780,665	1,364,686,847	185,285,000	0
INTEREST EARNINGS				
Interest Income	8,212,949,355	12,378,515,645	14,889,141,388	14,860,669,214
SALES INCOME				
Liquor Sales	285,211,074	330,239,307	354,782,067	438,165,584
Pari-mutuel Receipts	3,081,158	3,260,709	3,594,819	4,142,433
State Forest Lands	144,533,662	178,927,446	178,720,000	190,360,328
Common School Land	14,056,569	9,590,460	9,586,000	4,689,000
Other Sales Income	31,479,248	57,512,319	50,712,163	27,463,021
DONATIONS AND CONTRIBUTIONS				
Donations and Grants (Non-Fed)	35,339,467	23,982,937	33,063,124	35,843,794
Retirement System Contribution	2,885,006,153	3,312,348,727	3,532,290,966	4,785,800,000
LOAN REPAYMENTS				
Housing Division Loan Repayment	338,964,584	274,051,009	239,300,000	227,756,310
Senior Citizen Property Tax Repayments	0	0	38,497,653	0
Veterans' Loan Repayments	92,116,963	78,204,229	80,000,000	86,000,000
Other Loan Repayments	307,642,249	207,829,975	176,109,398	179,859,181
Loan Proceeds	221,000,000	70,099,490	0	0
INSURANCE PREMIUMS				
	0	484,786,711	0	0
LOTTERY DISTRIBUTIONS				
	1,079,642,644	1,061,129,097	1,184,579,256	1,232,210,881
OTHER REVENUES				
	2,714,749,152	2,839,824,500	2,573,363,269	2,243,609,454
TRANSFERS IN/OUT				
	0	469,467,873	413,365,621	511,739,528
TOTAL OTHER FUNDS & LOTTERY DISTRIBUTIONS				
	<u>28,094,787,377</u>	<u>36,014,090,778</u>	<u>40,532,461,915</u>	<u>43,320,853,211</u>

Source: State of Oregon, Department of Administrative Services, Chief Financial Office.

⁽¹⁾ Reported in 2015-17 Governor's Budget, Schedule II.

⁽²⁾ Reported in 2017-19 Governor's Budget, Schedule II.

Table 15 summarizes expenditures by statewide program area for all fund types for the 2011-13 through the 2017-19 biennia.

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

Program Area	2011-13 Actual Expenditures ¹					2013-15 Actual Expenditures ²					2015-17 Legislatively Approved Budget ³					2017-19 Governor's Budget ³				
	General	Lottery	Other	Federal	Total	General	Lottery	Other	Federal	Total	General	Lottery	Other	Federal	Total	General	Lottery	Other	Federal	Total
	Fund	Funds	Funds	Funds	Funds	Fund	Funds	Fund	Funds	Funds	Funds	Funds	Funds	Funds	Funds	Funds	Funds	Funds	Funds	Funds
Education	\$6,723	\$ 630	\$ 231	\$ 1,393	\$8,978	\$6,869	\$ 370	\$ 259	\$ 1,253	\$8,751	\$9,308	\$512	\$1,270	\$1,557	\$12,647	\$10,218	\$495	\$1,253	\$1,580	\$13,545
Human Services	3,878	10	5,628	10,974	20,490	4,266	11	5,882	15,582	25,740	4,920	11	6,460	19,829	31,220	5,354	12	7,160	19,201	31,728
Public Safety	1,953	7	895	403	3,258	2,122	7	530	326	2,985	2,362	8	698	524	3,592	2,448	8	773	547	3,776
Judicial Branch	596	---	52	1	649	651	---	66	1	718	708	---	152	2	862	735	---	303	1	1,039
Economic & Community Develop.	27	140	2,904	1,957	5,028	38	121	2,496	649	3,304	64	125	3,604	533	4,326	90	145	3,791	516	4,543
Natural Resources	134	161	959	264	1,518	233	161	1,026	213	1,633	234	174	1,254	301	1,963	214	215	1,128	312	1,869
Transportation	2	73	3,042	135	3,251	13	93	4,422	117	4,645	23	107	3,344	140	3,614	52	121	3,608	130	3,911
Consumer and Business Services	11	---	559	7	577	11	---	573	7	591	15	---	646	20	680	13	---	651	17	681
Administration	224	14	9,180	11	9,429	198	15	10,471	7	10,692	240	21	11,473	11	11,746	240	26	12,615	10	12,892
Legislative Branch	77	---	5	---	82	84	---	51	---	134	104	---	42	---	146	107	---	9	---	117
Miscellaneous-(Incl. E-Board)	---	---	---	---	---	---	---	---	---	---	95	---	---	---	95	152	---	---	---	152
Statewide Total Expenditures⁴	\$13,625	\$1,034	\$23,454	\$15,145	\$53,258	\$14,485	\$777	\$25,775	\$18,156	\$59,193	\$18,075	\$958	\$28,942	\$22,917	\$70,892	\$19,623	\$1,022	\$31,292	\$22,315	\$74,252

Source: State of Oregon, Department of Administrative Services, Chief Financial Office.

⁽¹⁾ Reported in 2015-17 Governor's Budget.

⁽²⁾ Reported in 2017-19 Governor's Budget.

⁽³⁾ Reported in 2017-19 Governor's Budget.

⁽⁴⁾ 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. The OSTF Financial Statements for the year ended June 30, 2016 reported net assets of approximately \$14.6 billion.

The guidelines 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 by Standard & Poor’s. Reference the OSTF guidelines for full details. Eligible investments may include 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
 - 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.
- Asset-Backed Securities with minimum long-term ratings of AAA, Aaa or AAA or minimum short-term ratings of A-1, P-1 or F1 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.

- Up to \$250 million in the Oregon Local Government Intermediate Fund (“OLGIF”)

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 Bank of America 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.

<u>Year of General Election</u>	<u>Number of Initiatives that Qualified ¹</u>	<u>Number of Initiatives that Passed</u>
2006	10	3
2008	8	0
2010	4	2
2012	7	2
2014	4	2
2016	4	3

Source: Elections Division, Oregon Secretary of State.

(1) The number of initiatives shown identify only the citizen initiated petitions that are on the ballot and do not include legislative referrals.

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")).¹ Most public employers in Oregon, including State government employers, participate in PERS. 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.

¹ Members of the Oregon state judiciary participate in the Judge Retirement Program, a separate pension benefit program under PERS. Employer contributions for the Judge Retirement Program are paid from the State General Fund. Information relating to the Judge Retirement Program will be footnoted herein.

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. The current PERS actuary is Milliman, Inc. (“Milliman”). 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. On September 27, 2016, Milliman released the valuation report for the System as of December 31, 2015 (the “2015 System Valuation Report”). The following discusses PERS actuarial methods and assumptions.

The System Valuations include actuarial valuations for the T1/T2 Pension Programs and OPSRP. 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 releases the State’s individual valuations report near the end of each calendar year. These annual valuation reports provide the State’s portion of the unfunded actuarial liabilities of the SLGRP and OPSRP based on the State’s proportionate share of SLGRP and System covered payroll, respectively, as of the valuation date. Milliman released the State’s individual valuation report as of December 31, 2015 (the “2015 State Valuation Report”) on September 27, 2016.

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 table shows a series of actions that have been taken by the PERS Board that have impacted the funded status of the System.

ACTUARIAL ASSUMPTIONS AND METHODS

<u>Assumption/Method</u>	Previous; Pre-2013 PERS Board Changes (2011 Valuation)	Previous; 2013 PERS Board Changes (2012 and 2013 Valuations)	Current; 2015 PERS Board Changes (2014 and 2015 Valuation)
Actuarial Cost Method	Projected Unit Credit	Entry-Age Normal	Unchanged
T1/T2 Programs UAL Amortization Method	Level Percentage of Payroll over 20 years (fixed)	Unchanged ⁽¹⁾	Unchanged
OPSRP UAL Amortization Method	Level Percentage of Payroll over 16 years (fixed)	Unchanged	Unchanged
Asset Valuation Method	Market Value ⁽²⁾	Unchanged	Unchanged
Investment Rate of Return	8.00%	7.75%	7.50%
Payroll Growth Rate	3.75%	Unchanged	3.5%
Inflation Level	2.75%	Unchanged	2.5%
Contribution Rate Stabilization Method (Rate Collar)	Contribution rate may increase or decrease by 3% 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.	Contribution rate may increase or decrease by 3% of payroll or by 20% of the previous rate, whichever is greater when an employer's funded status is between 70% and 130%. At a funded status of 60% or less, or 140% or more, the limitation doubles to 6% of payroll or 40% of the previous rate, whichever is greater. At a funded status between 60% and 70% or 130% and 140% the limitation increases in increments between 3%-6% of payroll or 20%-40% of the previous rate, whichever is greater.	Unchanged

⁽¹⁾ Although the UAL Amortization method remains unchanged, the PERS Board directed Milliman to re-amortize the UAL for the T1/T2 Programs from the 2007, 2009 and 2011 valuations to restart the 20-year amortization period for those UALs effective with the 2013 valuation report.

⁽²⁾ 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 Systemwide market value of assets and actuarial value of liabilities, the UALs and surpluses and funded ratios for PERS pension plans for the past ten years for which actuarial valuations were performed. 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
(IN MILLIONS) ¹

Calendar Year Ending	Market Value of Assets² (\$)	Actuarial Value of Liability (\$)	Unfunded Actuarial Liability (\$)	Funded Ratio (%)
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	50,168.2	61,198.4	11,030.2	82.0
2012 ³	54,784.1	60,405.2	5,621.1	90.7
2013 ³	60,014.1	62,593.6	2,579.5	95.9
2014 ⁴	61,395.1	73,458.9	12,063.8	83.6
2015 ⁵	60,000.1	76,196.6	16,196.5	78.7

Sources: Actuarial valuations of the System.

⁽¹⁾ Composed of Tier 1/Tier 2 and 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⁾ Reflects the legislative changes of the 2013 PERS Bills, showing savings that were anticipated from the PERS Bills but will not be realized because most of the bills were invalidated. See “STATE FINANCIAL INFORMATION — *Invalidated 2013 Changes to PERS*.” Also, reflects other changes made by the PERS Board in 2013. See “STATE FINANCIAL INFORMATION — *2013 PERS Board Changes*.” See also “GENERAL INFORMATION RELATING TO THE STATE OF OREGON—PENSION AND POST EMPLOYMENT BENEFITS—System Pension Programs—*System Pension Plan Asset and Liabilities Valuations*” herein.

⁽⁴⁾ Reflects the Oregon Supreme Court decision discussed in “STATE FINANCIAL INFORMATION — *Invalidated 2013 Changes to PERS*” and the changes to the actuarial assumptions and methods made by the PERS Board in 2015. See “—Table of Actuarial Assumptions and Methods” herein.

⁽⁵⁾ Reflects the Oregon Supreme Court decision discussed in “STATE FINANCIAL INFORMATION — *Invalidated 2013 changes to PERS*” and the changes to the actuarial assumptions and methods made by the PERS Board in 2015. Also reflects the actual investment returns during 2015. See Table 17 “OREGON PUBLIC EMPLOYEES RETIREMENT FUND INVESTMENT RETURNS” herein.

The Oregon State Treasury is the investment officer for the state of Oregon. Investment standards are established in ORS 293.726 and require funds to be managed as a prudent investor would do. The Oregon Investment Council (“OIC”) establishes policies for the investment and reinvestment of moneys in PERS investment funds. Policies are established based on the primary investment asset class of each investment manager. The OIC has approved the following asset classes for the OPERF: Oregon Short-Term Fund (for cash balance), Fixed Income, Real Estate, Public and Private Equities, and Alternative Investments. In addition, OPERF invests in the Opportunity Portfolio, which may be populated with investment approaches across a wide range of investment opportunities with no limitation as to asset classes or strategies. The target investment portfolio mix at fair market value was revised at the OIC meeting of June 3, 2015, to 37.5 percent public equity, 17.5 percent private equity, 20 percent debt securities, 12.5 percent real estate, and 12.5 percent alternative equity.

The following table shows the prior ten years of investment returns for the OPERF.

**TABLE 17
OREGON PUBLIC EMPLOYEES
RETIREMENT FUND INVESTMENT RETURNS**

Calendar Year	Net ¹
<u>Ending</u>	<u>Returns (%)</u>
2007	9.7
2008	-27.0
2009	19.4
2010	12.6
2011	2.2
2012	14.3
2013	15.6
2014	7.3
2015	2.1
2016	6.9

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, 2016* Note 1.D., captioned “Summary of Significant Accounting Policies - Deposits and Investments” and the *Oregon Public Employees’ Retirement System Comprehensive Financial Report for the Fiscal Year Ended June 30, 2016*, Note 1.E. captioned “Investments”.

State of Oregon Share of PERS

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

TABLE 18
ACTIVE STATE PERS MEMBERS

Calendar Year <u>Ending</u>	Active T1/T2 <u>Members</u>	Active OPSRP <u>Members¹</u>	<u>Total</u>	Percent <u>Change (%)</u>
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
2012	23,935	20,983	44,918	-1.0
2013	22,034	22,437	44,471	-1.0
2014	20,626	25,776	46,402	4.3
2015 ¹	19,010	28,321	47,331	2.0

Source: Oregon PERS.

⁽¹⁾ As of December 31, 2015, there were 188 active members of the Judge Retirement Program.

State Pension Plan Asset and Liabilities

The following table shows the State's portion of the market value of assets and the actuarial value of liabilities, UALs and surpluses and funded ratios for PERS pension programs for the past eleven 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 the SLGRP's covered payroll (as of December 31, 2015, approximately 50 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, 2015, approximately 30 percent). The State's proportionate liability may increase if other participants fail to pay their full employer contributions.

TABLE 19
STATE OF OREGON - PENSION¹
HISTORICAL ACTUARIAL FUNDED RATIOS
(IN MILLIONS)

Calendar Year Ending	Market Value of Assets² (\$)	Actuarial Accrued Liability (\$)	Unfunded Actuarial Liability (\$)	Funded Ratio (%)
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
2012 ³	14,532.1	15,713.6	1,181.5	92.5
2013 ³	16,212.3	16,699.9	487.6	97.1
2014 ⁴	16,889.9	19,978.2	3,088.2	84.5
2015 ⁵	16,497.3	20,845.5	4,348.2	79.0

Source: State Actuarial Valuation Reports; Oregon PERS.

- ⁽¹⁾ The Judge Retirement Program is not included in these numbers. The PERS actuary reported that as of December 31, 2015 the Judge Retirement Program has an unfunded actuarial liability of \$41.5 million and a funded ratio of 85%.
- ⁽²⁾ Includes State Pension Bonds.
- ⁽³⁾ Reflects the legislative changes of the 2013 PERS Bills, showing savings that were anticipated from the PERS Bills but will not be realized because most of the bills were invalidated. See “STATE FINANCIAL INFORMATION — *Invalidated 2013 Changes to PERS*.” Also reflects other changes made by the PERS Board in 2013. See “STATE FINANCIAL INFORMATION — *2013 PERS Board Changes*.” See also 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*” herein.
- ⁽⁴⁾ Reflects the Oregon Supreme Court decision discussed in “STATE FINANCIAL INFORMATION — *Invalidated 2013 Changes to PERS*” and the changes to the actuarial assumptions and methods made by the PERS Board in 2015. See “—Table of Actuarial Assumptions and Methods” herein.
- ⁽⁵⁾ Reflects the Oregon Supreme Court decision discussed in “STATE FINANCIAL INFORMATION — *Invalidated 2013 changes to PERS*” and the changes to the actuarial assumptions and methods made by the PERS Board in 2015. Also reflects the actual investment returns during 2015. See Table 17 “OREGON PUBLIC EMPLOYEES RETIREMENT FUND INVESTMENT RETURNS” herein.

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. Pursuant to Oregon Revised Statutes 238.225, all employers participating in PERS are required to make their contribution to PERS based on the employer contribution rates set by the PERS Board. Due to the contribution rate stabilization method (“Rate Collar”) described under “ACTUARIAL METHODS AND ASSUMPTION,” above, the PERS Board-approved employer contribution rates for some employers, including the State, are currently less than the actuarially required contribution (ARC). The Rate Collar is an actuarially sound methodology that stabilizes contribution rates by spreading large rate increases over multiple biennia.

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 2015-17 biennium based on the 2013 State Valuation and based on the methodology adopted by the PERS Board in 2013 as described in “STATE FINANCIAL INFORMATION –2013 PERS Board Changes”. The table also shows the State’s employer contribution rate for the upcoming 2017-19 biennium based on the 2015 State Valuation.

TABLE 20
STATE CONTRIBUTION RATES

<u>Payrolls Paid</u> ¹	<u>2015-17 (%)</u>	<u>2017-19 (%)</u>
T1/T2	13.81	17.68
OPSRP General Service	7.31	9.97
OPSRP Police and Fire	11.42	14.74
Blended Rate ⁽²⁾	10.36	13.81

Sources: Oregon PERS; 2013 State Valuation and 2015 State Valuation.

⁽¹⁾ The employee contribution rate for the Judge Retirement Program is calculated separately. For the 2015-17 biennium the rate is 15.03% and for the 2017-19 biennium the rate is 18.05%. According to the 2015 System Valuation and the State Judiciary Valuation as of December 31, 2015, the value of the covered payroll of the judiciary as of December 31, 2014 is approximately \$23.6 million, compared to the value of the covered payroll of all Pension Programs of approximately \$9,544.1 million as of December 31, 2015.

⁽²⁾ The Blended Rate is calculated by the PERS actuary. It is a weighted average of the three separate payroll rates based on the proportion of estimated State payroll in each rate category. The Blended Rate is an estimate provided for budgeting purposes only, and is not adopted by the PERS Board.

State Contributions

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

TABLE 21
STATE CONTRIBUTIONS TO PERS AND PERS-RELATED DEBT SERVICE
(IN MILLIONS)

Fiscal Year Ended 6/30	State Employer Contribution to PERS ¹ (\$)	Percent Change (%)	Employee Contribution Paid by State ² (\$)	POB Debt Service ³ (\$)	Total (\$)	Percent Change (%)
2006	107.1	-27.2	109.6	118.8	335.5	-9.3
2007	199.1	85.9	116.8	120.8	436.7	30.2
2008	177.0	-11.1	124.8	126.0	427.8	-2.0
2009	155.3	-12.3	133.1	131.3	419.7	-1.9
2010 ⁴	73.7	-52.5	142.3	136.9	352.9	-15.9
2011	86.7	17.6	142.8	142.7	372.2	5.5
2012	230.7	166.1	139.2	148.8	518.7	39.4
2013	232.7	0.9	141.4	155.1	529.2	2.0
2014	249.4	7.2	150.5	161.7	561.6	6.1
2015 ⁵	169.6	-32.0	129.4	168.6	467.6	-16.7
2016	224.5	32.4	129.6	175.7	529.8	13.3

Sources: *State of Oregon Comprehensive Annual Financial Report (CAFR), Note Disclosure 12 and 13 for Fiscal Year (FY) 2006 and 2007; Note Disclosure 13 and 14 for FY 2008; Note Disclosure 14 & 15 for FY 2009 and FY 2016; Note Disclosure 15 and 16 for FY 2010 through 2015; and Oregon State Treasurer. Covered payroll amounts used to derive employee contributions for FY 2006 through FY 2011 are from the RHIPA Schedule of Funding Progress in the State's CAFR for each fiscal year.*

- (1) Amount includes employer contributions for the primary government, but excludes discretely presented component units. Amount includes employer contributions for RHIA and RHIPA, but excludes all other retirement plans other than PERS and does not include employer paid employee contributions.
- (2) The State pays employee contributions into the Individual Account Program (IAP). Amounts for FY 2006 through FY 2011 are estimates derived from PERS covered payroll for the calendar year ended within the fiscal year reported, based on 6 percent employee contribution rate. Amounts for FY 2012 through FY 2016 are sourced from Employee Retirement Plans note disclosures in the State's CAFR for each fiscal year.
- (3) Fiscal Year State Pension Bonds debt service. The State issued Pension Bonds October 31, 2003. As of June 30, 2016, \$1.77 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.
- (5) Beginning with FY 2015, three public universities (OSU, UO & PSU) were reported as component units, which contributed to a significant decrease in the State's employer contributions. In addition, employer rates declined from the 2013-15 to 2015-17 biennium, which also contributed to the reduction.

Other Post-Employment Benefits

In addition to pension benefits provided through PERS, the State provides healthcare benefits (medical, vision and dental) through two PERS health insurance programs and through PEBB. At the time of retirement, State employees can choose whether to obtain post-employment benefits through PERS or through PEBB. Approximately 46,147 retirees received healthcare benefits through PERS health insurance programs and approximately 818 retirees receive healthcare benefits 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 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 2015-17 biennium is 0.53 percent of payroll and is a component of the estimated State blended employer contribution rate of 10.36 percent for the 2015-17 biennium. As of December 31, 2015 the RHIA program has an unfunded actuarial liability of approximately \$46.3 million representing a funded ratio of approximately 90.0 percent, of which \$13.6 million is allocable to the State.

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

Calendar Year	Program	Program	State Share of
<u>Ending</u>	<u>UAL (\$)</u>	<u>Funded</u>	<u>UAL (\$)</u>
		<u>Ratio(%)</u>	
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
2012	180.2	61.8	50.6
2013	120.1	74.7	34.7
2014	72.5	84.5	21.4
2015	46.3	90.0	13.6

Source: Actuarial valuations of System and State actuarial valuation reports; 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 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 program for the 2015-17 biennium is 0.44 percent of payroll and is a component of the estimated State blended employer contribution rate of 10.36 percent for the 2015-17 biennium. As of December 31, 2015, the RHIPA program had an unfunded actuarial liability of approximately \$56.6 million, representing a funded ratio of approximately 16.5 percent, all of which is allocable to the State.

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

Calendar		
Year Ending	Program UAL (\$)	Program Funded Ratio (%)
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	13.2
2012	55.9	7.3
2013	55.9	8.6
2014	63.3	10.2
2015	56.6	16.5

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 explicit pension and healthcare benefits provided to retired State employees through PERS, the State provides an implicit rate subsidy for healthcare benefits (medical, vision and dental) through PEBB to approximately 953 retirees (as of June 30, 2015) who do not receive healthcare benefits through PERS and are not yet eligible for Medicare. This PEBB's rate subsidy is considered a State obligation for accounting purposes to comply with OPEB standards (GASB 43 and GASB 45). The PEBB OPEB obligation exists because the State is providing an implicit rate subsidy to retirees to purchase healthcare through the PEBB at the same premium amount as active employees.

The State's actuary for PEBB prepared an actuarial valuation as of July 1, 2013 (the "2013 PEBB Valuation") for purposes of complying with the OPEB standards. The valuation was prepared using the Entry Age Normal actuarial cost method. Significant assumptions used in the actuarial valuation include a 3.5 percent rate of return on the investment of assets and projected payroll growth of 3.5 percent. The plan uses a medical healthcare cost inflation adjustment of 3.58 percent in fiscal year 2014, 5.9 percent in fiscal year 2015, 5.6 percent in fiscal year 2016, 6.9 percent in 2017, an average of 6.1 percent between fiscal years 2018 and 2042, and the rate grades down from 5.9 percent to 5.4 percent between fiscal years 2043 and 2063. The dental healthcare cost inflation adjustment was graded from 2.21 percent in fiscal year 2014 to 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. The State's unfunded actuarial accrued liability in the 2013 PEBB Valuation for post-employment benefits provided through PEBB was estimated at \$105.1 million. There is no contractual obligation for this pooled healthcare program, but it is being recorded in the Valuation as a means to comply with OPEB standards.

For fiscal year 2015, the Annual Required Contribution (ARC) for post-employment benefits provided through PEBB, was \$13.3 million, plus interest on the net OPEB obligation of \$2.8 million, less the ARC adjustment of \$5.3 million. Because the State pays the PEBB OPEB benefit on a pay-as-you-go basis, the net OPEB obligation reported at the end of fiscal year 2015 in the State's financial statements was \$83.6 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, agencies typically 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 \$1,000,000) or major construction and acquisition projects (greater than \$1,000,000). 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.

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 Tables 26 and 27 for a summary of aggregate general obligation debt outstanding and debt service for the State.

The following active general obligation bond programs, identified in Table 25, are primarily supported by the State's General Fund: Higher Education Facilities and Community College Bonds, Pollution Control 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. Additionally, the Oregon Constitution authorizes the State to incur indebtedness to provide funds to school districts through the Department of Education to assist in financing capital costs of school districts.

The following general obligation bond programs are either partially 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 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.

Tax Anticipation Notes

ORS 286A.045 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:

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
2015-17 BIENNIUM
OBLIGATION ISSUANCE LIMITS
As of March 15, 2016

State Agency or Authority	Constitutional / Statutory / Laws	General Obligation Bond Limits (\$)
General Fund Obligations		
	HB5005/HB5202A	
Department of Administrative Services (OHSU)	Article XI-G	200,035,000
Higher Education Coordinating Commission (HECC)	Article XI-G	92,450,000
Oregon State University		55,295,000
Portland State University		10,220,000
University of Oregon		26,150,000
Oregon Institute of Technology		785,000
HECC - Community Colleges		58,401,600
Blue Mountain Community College		3,331,350
Columbia Gorge Community College		7,320,000
Klamath Community College		7,850,000
Mt. Hood Community College		8,000,000
Portland Community College		5,070,000
Rogue Community College		8,000,000
Southwestern Oregon Community College		8,000,000
Treasury Valley Community College		2,830,250
Umpqua Community College		8,000,000
Oregon Business Development Department	Article XI-M	176,870,000
Oregon Business Development Department	Article XI-N	30,440,000
Department of Education	Article XI-P	126,210,000
Department of Administrative Services	Article XI-Q	450,735,000
Department of Transportation	Article XI, section 7	35,475,000
Dedicated Fund Obligations		
	HB5005/HB5202A	
Department of Veterans' Affairs	Article XI-A	100,000,000
Higher Education Coordinating Commission	Article XI-F(1)	74,225,000
Portland State University		63,900,000
Oregon State University		7,085,000
Southern Oregon University		3,240,000
Department of Environment Quality	Article XI-H	10,000,000
Water Resources Department	Article XI-I(1)	30,520,000
Housing and Community Services Department	Article XI-I(2)	25,000,000
Department of Energy	Article XI-J	25,000,000
Total General Obligation Bonds		<u>1,435,361,600</u>
Revenue Bond		
Limits (\$)		
Direct Revenue Bonds		
Housing and Community Services Department	ORS 456.661	300,000,000
Department of Transportation Highway User Tax	ORS 367.025	393,160,000
Oregon Business Development Department	ORS 285B.473	30,000,000
Department of Administrative Services Lottery	Various	213,125,000
Department of Energy		0
Total Direct Revenue Bonds		<u>936,285,000</u>
Pass Through Revenue Bonds		
Oregon Business Development Department		
Industrial Development Revenue Bonds	ORS 285B.344	200,000,000
Beginning and Expanding Farmer Loan Program		10,000,000
Oregon Facilities Authority	ORS 289.200	950,000,000
Housing and Community Services Department	ORS 456.692	250,000,000
Total Pass Through Revenue Bonds		<u>1,410,000,000</u>
Certificates of Participation		
Department of Administrative Services	ORS 286A.035	46,500,000

Sources: SB 5005, OREGON LEGISLATIVE ASSEMBLY – 2015 Regular Session, and HB5202A, 2016 Regular Session, the Oregon Constitution and Oregon Revised Statutes.

TABLE 25
STATE OF OREGON OUTSTANDING LONG-TERM FINANCIAL OBLIGATIONS
AND CONSTITUTIONAL AND STATUTORY PROVISIONS
As of June 30, 2016 ¹

Program	Legal Provision	Constitutional Debt Limit (% of RMV) ²	Constitutional Debt Limit (\$) ³	Outstanding Debt (\$) ⁴	Authorization Remaining (\$) ⁵
General Obligation Bonds					
General Purpose	Article XI Sec 7		50,000	0	50,000
State Highway	Article XI Sec 7	1.00	5,061,754,636	0	5,061,754,636
Veteran's Welfare	Article XI-A	8.00	40,494,037,092	300,250,000	40,193,787,092
State Power Development	Article XI-D	1.50	7,592,631,955	0	7,592,631,955
Forest Rehabilitation	Article XI-E	.1875	949,078,994	0	949,078,994
Higher Ed. Building XI-F	Article XI-F(1)	.75	3,796,315,977	1,213,834,349	2,582,481,628
Community College	Article XI-G			167,060,000	
Higher Ed. Facilities XI-G	Article XI-G	.75	3,796,315,977	527,704,632	3,101,551,346
Pollution Control	Article XI-H	1.00	5,061,754,636	36,650,000	5,025,104,636
Water Resources	Article XI-I(1)	1.50	7,592,631,955	0	7,592,631,955
Elderly & Disabled Housing	Article XI-I(2)	.50	2,530,877,318	50,810,000	2,480,067,318
Alternate Energy Projects	Article XI-J	.50	2,530,877,318	194,020,000	2,336,857,318
Oregon School Bond Guarantee	Article XI-K	.50	2,530,877,318	0	2,530,877,318
Oregon Opportunity Bonds (OHSU) ⁵	Article XI-L	.50	2,530,877,318	97,905,000	2,432,972,318
Seismic Rehab – Public Education Bldgs.	Article XI-M	.20	1,012,350,927	70,782,500	941,568,427
Seismic Rehab – Emergency Service Bldgs.	Article XI-N	.20	1,012,350,927	21,962,500	990,388,427
Pension Obligations	Article XI-O	1.00	5,061,754,636	1,766,270,000	3,295,484,636
School District Capital Cost	Article XI-P	.50	2,530,877,318	0	2,530,877,318
General Purpose	Article XI-Q	1.00	5,061,754,636	1,230,525,000	3,831,229,636
Total General Obligations				\$5,677,773,981	
Revenue Bonds					
Direct Revenue					
Lottery	ORS 286.563 - 585			1,088,615,000	
Transportation Infrastructure Bank	ORS 367.030			0	
Highway User Tax	ORS 367.620			2,257,365,000	
Single-Family & Multi-Family Housing	ORS 456.661			883,235,000	
Economic Development – Bond Bank	ORS 285B			56,470,000	
Total Direct Revenue				\$4,285,685,000	
Appropriate Credits					
Certificates of Participation	ORS 283 & 286			331,055,000	
Total Appropriation Credits				\$331,055,000	

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 or other issuances after June 30, 2016. 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, 2015 Real Market Value of \$506,175,463,644.
- (4) Outstanding Department of Veterans' Affairs and State Board of Higher Education general obligation debt reflect the proceeds amount of any original issue discount and deferred interest bonds.
- (5) Authorized by statute 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.

TABLE 26
STATE OF OREGON
GENERAL OBLIGATION DEBT OUTSTANDING SUMMARY
(As of June 30, 2016)

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Gross General Obligation Debt ¹	\$5,162,578,275	\$5,237,615,915	\$5,360,831,855	\$5,579,665,415	\$5,677,773,981
Revenue Supported GO Debt	\$3,155,216,223	\$3,063,633,104	\$3,126,895,296	\$3,187,147,931	\$3,119,248,899
Net GO Debt	\$2,007,362,052	\$2,173,982,811	2,233,936,559	\$2,392,517,484	\$2,558,525,082
Population ²	3,883,735	3,919,020	3,962,710	4,013,845	4,072,100
Gross Debt per Capita	\$1,329	\$1,336	\$1,353	\$1,390	\$1,394
Net Debt per Capita	\$517	\$555	\$564	\$597	\$628
Real Market Value (RMV) ³	\$434,429,247,553	\$421,591,001,829	\$433,473,027,209	\$469,478,740,724	\$506,175,463,644
Gross Debt as Percent of RMV	1.19%	1.24%	1.24%	1.19%	1.12%
Net Debt as Percent of RMV	0.46%	0.52%	0.52%	0.51%	0.51%
Total Personal Income ⁴	\$152,400,000,000	\$154,900,000,000	\$163,700,000,000	\$173,200,000,000	\$182,700,000,000
Revenue Supported GO Debt as Percent of Total Personal Income	2.07%	1.98%	1.91%	1.84%	1.71%
Net GO Debt as Percent of Total Personal Income	1.32%	1.40%	1.36%	1.38%	1.40%

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

Source: Oregon Department of Administrative Services, Office of Economic Analysis, June 2016 State Economic & Revenue Forecast, Tables A.4 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 or other issuances after June 30, 2016. 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 real market value of statewide property as of January 1, of the prior calendar year.
- ⁽⁴⁾ Total personal income includes all classes of income.

TABLE 27
STATE OF OREGON
AGGREGATE GENERAL OBLIGATION DEBT SERVICE
(As of June 30, 2016)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 264,090,162	\$ 281,026,352	\$ 545,116,514
2017-2018	283,732,240	268,735,614	552,467,854
2018-2019	306,278,074	252,804,388	559,082,462
2019-2020	328,394,966	238,722,116	567,117,081
2020-2021	352,513,352	219,780,714	572,294,066
2021-2022	345,695,187	202,237,304	547,932,491
2022-2023	369,970,000	183,718,649	553,688,649
2023-2024	380,845,000	165,072,511	545,917,511
2024-2025	388,505,000	145,400,640	533,905,640
2025-2026	415,630,000	124,777,755	540,407,755
2026-2027	433,425,000	102,577,911	536,002,911
2027-2028	171,435,000	79,426,341	250,861,341
2028-2029	168,565,000	71,731,799	240,296,799
2029-2030	165,315,000	64,053,812	229,368,812
2030-2031	156,025,000	56,570,521	212,595,521
2031-2032	149,990,000	49,659,283	199,649,283
2032-2033	139,255,000	43,146,670	182,401,670
2033-2034	136,175,000	36,983,032	173,158,032
2034-2035	126,260,000	31,004,062	157,264,062
2035-2036	120,005,000	25,266,175	145,271,175
2036-2037	97,640,000	19,918,648	117,558,648
2037-2038	96,415,000	15,323,316	111,738,316
2038-2039	95,610,000	10,736,413	106,346,413
2039-2040	63,660,000	6,799,332	70,459,332
2040-2041	44,525,000	4,439,256	48,964,256
2041-2042	38,065,000	2,565,440	40,630,440
2042-2043	16,790,000	1,373,996	18,163,996
2043-2044	15,660,000	639,325	16,299,325
2044-2045	4,515,000	201,628	4,716,628
2045-2046	2,380,000	64,492	2,444,492
2046-2047	200,000	17,100	217,100
2047-2048	210,000	7,481	217,481
Totals	\$5,677,773,981	\$2,704,782,074	\$8,382,556,055

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

Note 1: Does not reflect the impact, if any, of the issuance of obligations offered by this Official Statement or other issuances after June 30, 2016.

Note 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.

TABLE 28
STATE OF OREGON
AGGREGATE APPROPRIATION CREDIT PAYMENT SCHEDULE
(As of June 30, 2016)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 49,320,000.00	\$ 16,182,129.64	\$ 65,502,129.64
2017-2018	40,935,000.00	14,155,624.72	55,090,624.72
2018-2019	29,960,000.00	12,490,305.96	42,450,305.96
2019-2020	22,365,000.00	11,227,673.10	33,592,673.10
2020-2021	15,145,000.00	10,380,328.42	25,525,328.42
2021-2022	15,740,000.00	9,628,379.21	25,368,379.21
2022-2023	15,150,000.00	8,830,263.22	23,980,263.22
2023-2024	15,130,000.00	8,051,669.96	23,181,669.96
2024-2025	9,730,000.00	7,414,904.62	17,144,904.62
2025-2026	10,050,000.00	6,894,575.00	16,944,575.00
2026-2027	10,290,000.00	6,306,264.00	16,596,264.00
2027-2028	10,730,000.00	5,694,654.00	16,424,654.00
2028-2029	11,170,000.00	5,062,250.50	16,232,250.50
2029-2030	11,640,000.00	4,406,674.50	16,046,674.50
2030-2031	11,715,000.00	3,719,931.00	15,434,931.00
2031-2032	12,205,000.00	3,023,049.00	15,228,049.00
2032-2033	12,715,000.00	2,297,058.00	15,012,058.00
2033-2034	13,255,000.00	1,540,781.00	14,795,781.00
2034-2035	13,810,000.00	752,298.00	14,562,298.00
Total	\$331,055,000.00	\$138,058,813.85	\$469,113,813.85

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

Note: Does not reflect the impact, if any, of the issuance of obligations offered by this Official Statement or other issuances after June 30, 2016.

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APPENDIX B

**BASIC FINANCIAL STATEMENTS FOR
THE STATE OF OREGON FOR
THE YEAR ENDED JUNE 30, 2016**

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Oregon

Comprehensive Annual Financial Report



For the Fiscal Year Ended June 30, 2016

Oregon

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2016



**Kate Brown
Governor**

**Katy Coba
State Chief Operating Officer
Director, Department of Administrative Services**

**George Naughton
State Chief Financial Officer**

Report Prepared by:

**Statewide Accounting and Reporting Services
Chief Financial Office, Department of Administrative Services**

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Year Ended June 30, 2016**

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Introductory Section



Oregon

Kate Brown, Governor

Department of Administrative Services

Chief Financial Office
155 Cottage Street NE U10
Salem, OR 97301

December 23, 2016

To the Honorable Governor Kate Brown, 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, 2016. 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, 2016. 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 2016 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, 2017.

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, 12 entities are reported as discretely presented component units to emphasize that they are legally separate from the State. Refer to 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. Refer to the notes to the required supplementary information for additional information about the budget process and budgetary monitoring.

Local Economy

The economic slowdown has reached Oregon. Job growth in recent months has decelerated somewhat from the full-throttle rates seen in the past couple of years. Oregon continues to outpace the nation and the expansion endures. However, the State today is now past its peak in terms of growth rates. Like other states, goods-producing industries are weakening. Oregon's manufacturers have cut jobs in recent months. Growth in retail trade has decelerated as well. Most other sectors are adding jobs at similar rates to recent past, which is good news.

While Oregon's labor market growth is slowing somewhat, the State is at or near full employment. This means progress is beginning to be seen and felt in broader measures of economic well-being like median household income, the poverty rate and needs-based caseloads and the like. In fact, recently released Census data showed that 2015 brought the largest increase in median household income in more than a decade. And since 2012, the strongest increases in household income have actually been for those at the bottom of the income distribution. The main driver of these gains is the stronger economy where more Oregonians have jobs and wages are rising.

Even so, incomes for the majority of households in Oregon today remain lower than prior to the Great Recession after adjusting for inflation. Similarly, poverty rates across the State remain higher today than back in the mid-2000s even as they are beginning to improve. Statewide, the poverty rate is effectively halfway back down to where it was prior to the Great Recession.

Economic anxiety has been front and center this election cycle. The problem with job polarization is when a worker loses his or her middle-wage job and is only able to find a low-wage job to replace it, if he or she finds a job at all. This represents a clear downgrade in his or her financial situation and broader quality of life.

To a certain degree, the housing boom last decade was able to mask some of these issues for men without college degrees, but that proved temporary. And even as the high-tech sector has replaced the timber industry statewide, the composition of the workforce and the geographic location of the jobs are different. Further complicating the issue are the stagnant or declining wages for the middle-wage jobs that remain. This is evident in the timber industry where average wages in the 1970s were 30-35 percent higher than in the average industry across the state. Today, wages within the timber industry are lower after adjusting for inflation and now pay the statewide average. This is equally true for manufacturing overall, at least outside of the high-tech sector. There is no manufacturing wage premium like there used to be.

The outlook for middle-wage jobs overall depends on a number of factors. Some, like teachers and construction workers, are driven more by population and demographics. Others, like office support staff and truck drivers, are more business-support oriented. Wage growth itself, of any occupation, generally relies upon full employment where firms must compete more on price to attract and retain the best workers.

Spending on education as reported by the State's governmental funds during fiscal year 2016 increased \$869.7 million, or 18.5 percent, compared to fiscal year 2015 and over the last ten years, education spending has increased 48 percent. Human services spending by the State's governmental funds was up \$695.8 million, or 6 percent, compared to fiscal year 2015, but is more than double the amount spent in fiscal year 2007. Governmental fund expenditures for economic and community development in fiscal year 2016 increased \$24.7 million, or 6.3 percent, compared to fiscal year 2015, and are 25.4 percent higher than in fiscal year 2007. Spending on capital improvements in fiscal year 2016 decreased \$4.5 million, or 6.9 percent from fiscal year 2015, and is down 50.3 percent from fiscal year 2007. Public safety expenditures increased \$144.4 million from fiscal year 2015, or 11.3 percent, and are 40.2 percent higher than in fiscal year 2007. The increased education funding is the result of historic levels of funding for the State School Fund and the transition of the State's public universities to independent status, which modified how the universities were funded. The rapid growth rate in expenditures for human services reflects the expansions in Medicaid enrollment under the Affordable Care Act. Governmental fund expenditures related to debt service, have increased as the State expands its use of low-cost capital financing. Debt service expenditures in fiscal year 2016 doubled compared to fiscal year 2007 debt service expenditures.

During this same ten-year period, tax revenues, while increasing in amount overall, decreased 4.6 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 are 9.8 percent higher than they were ten years ago, evidence of the State's continuing reliance on federal assistance programs.

Long-term Financial Planning

Budget for the 2015-17 Biennium

The legislatively approved budget for the 2015-17 biennium, as adjusted during the 2016 regular session, and including authorized executive branch administrative actions is \$70.9 billion total funds, an increase of \$1.9 billion from the 2015-17 budget adopted at the end of the 2015 session. The budget increase since the 2015 session was comprised of about \$1.4 billion Federal Funds, mostly in human services programs, \$419.1 million Other Funds, and \$133.7 million in combined General Fund and Lottery Funds. Lottery Funds, while up almost \$120 million since the 2013-15 biennium, continue to be less than the 2011-13 biennium, primarily due to the use of \$182 million of Education Stability Fund resources in the 2011-13 budget. Combined General Fund and Lottery Funds are up by \$2.3 billion over the 2013-15 budget, an increase of 13.8 percent. Federal Funds also increased substantially, up by \$3.5 billion, or an increase of 18.1 percent. The other component of the state budget, Other Funds, recorded a decrease of \$972 million between the 2015-17 biennium and the 2013-15 biennium, a loss of 3.2 percent.

The March 2016 revenue forecast from the Office of Economic Analysis projected total 2015-17 biennium lottery resources of \$1.2 billion, a \$58.6 million (or 5.1 percent) increase over the May 2015 forecast level used during the 2015 session to develop the legislatively adopted budget. With this revised lottery resource forecast, current biennium lottery resources are now projected to total \$147.3 million (or 13.8 percent) above the prior biennium level.

The December 2016 economic and revenue forecast projects \$18 billion of General Fund gross revenues for the 2015-17 biennium. The projected General Fund ending balance for 2015-17 is \$245.3 million. General Fund resources are forecasted to increase by 11.8 percent in the 2015-17 biennium and 8.4 percent in the 2017-19 biennium.

State Bonding

In January 2016, the State Debt Policy Advisory Commission updated its recommended capacity limits for General Fund and Lottery Funds debt based upon the December 2015 revenue forecast, new estimated interest rates, and the amount of bonds that were approved during the 2015 session. The new recommended remaining capacity was \$167 million for General Fund and \$13 million for Lottery revenue bonds.

The Legislature increased the Higher Education Coordinating Commission Article XI-G general obligation bond authorization for community colleges by \$5.1 million. The increase provides funding for Portland Community College to finance the acquisition of, and improvements to, land and the acquisition, construction, or alteration of the American Manufacturing Innovation Building.

The Legislature increased the Department of Administrative Services' Article XI-Q general obligation bond authority by \$91.1 million. The approved projects are: \$2.6 million for repairs and improvements to the Oregon State Fair facilities, \$7.6 million for the Department of Human Services to implement a multi-program integrated eligibility determination system, \$1.8 million for the Department of Forestry East Lane Warehouse, \$3.2 million to continue implementation of the Child Support Enforcement Automated System, \$2.1 million for the McNeal Hall project at Southern Oregon University, \$5.1 million for the repairs of a utility corridor and storm drain at the Oregon Institute of Technology, \$30.5 million for repairs and improvements to the Oregon Capitol building, \$20.3 million to complete implementation of the State Radio Project, \$1.4 million for planning and design of a new Lane County Courthouse, and \$6.6 million for the Oregon Military Department to refurbish existing buildings in Umatilla to serve as the new Regional Training Institute.

The Legislature increased the Department of Administrative Services' lottery revenue bond limit by \$11.3 million. The increased authorization provides funding for the following projects: \$2.8 million for grants to preserve existing affordable housing with expiring subsidies, \$3.4 million to finance the rebuilding of a dock in Warrenton, Oregon, which was destroyed by a fire, \$2.3 million for distribution to Harney County to improve Juntura Road in Harney and Malheur counties, and \$2.8 million to support a collaborative effort between government, industry, and academic organizations to invest in manufacturing infrastructure to promote advanced manufacturing.

The direct revenue bond authority for the Department of Energy was reduced by \$20 million to zero, as the Department has no plans to issue revenue bonds during the 2015-17 biennium.

Estimated debt service will total \$20.8 million General Fund and \$2.2 million Lottery Funds during the 2015-17 biennium for the new projects.

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 a portion of the state corporate income tax and 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. 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 are 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. The fund balance is capped at 5 percent of General Fund revenues collected in the prior biennium.

The Rainy Day Fund starts the 2015-17 biennium with a cash balance of \$211.8 million. Because the General Fund's ending balance for 2013-15 was positive, 1 percent of budgeted appropriations, or \$158.3 million, will be deposited in the Rainy Day Fund. Additionally, \$11.5 million will be deposited due to the increase in corporate tax rates from Measure 67 which directs revenue collected from corporate income and excise tax rates above 6.6 percent to be deposited in the Rainy Day Fund. The December 2016 economic and revenue forecast projects the Rainy Day Fund will end the 2015-17 biennium with a cash balance of \$387.6 million.

The Education Stability Fund started the 2015-17 biennium with a cash balance of \$179.4 million. The December 2016 economic and revenue forecast projects the Education Stability Fund will end the current biennium with a cash balance of \$383.2 million, which includes deposits of \$203.8 million based on lottery sales. No withdrawals are projected at this time.

Major Initiatives

Of the major projects and related efforts included in the 2015-17 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:

- Department of Revenue's Core Systems Replacement Project
- Child Support Enforcement Automated System Project
- Oregon Health Insurance Marketplace

Department of Revenue Core System Replacement Project

The Department of Revenue originally sought legislative approval for this project during the 2011 legislative session. A budget note directed that the agency report to the 2012 Legislature with completed foundational work to ensure project readiness and to re-evaluate the assumptions behind its benefits-based revenue model.

The Department of Revenue was interested in a software product used by a variety of other states to provide automated support for statewide tax, revenue collection, and management activities. However, the 2013 Legislature took a different direction and approved funding for a different project referred to as the Core Systems Replacement Project. The Legislature also changed the funding model from a benefits-based model to the standard funding model used for issuing Article XI-Q bonds.

The 2015-17 biennium includes funding for the second and third of the four-phase project. The second and third phases are considered the most critical as they include the replacement of the personal income tax applications. Both the second and third phases have now been successfully completed. The approved budget for 2015-17 totals \$30.8 million.

Child Support Enforcement Automated System Project

Since 2010, the Division of Child Support at the Department of Justice (DOJ) has been working with federal oversight on a multi-year, federally prescribed process to replace its current antiquated COBOL-based mainframe child support case management and financial system. In 2012, upon completion of a comprehensive business case (i.e., feasibility study report) and submission of the required "Implementation – Advanced Planning Document (IAPD) documentation" to the federal government, DOJ received approval to move forward with the replacement of the current Child Support System. Long term, the new system will allow the Division of Child Support to remain in compliance with federal requirements, to compete for federal incentives, and to keep up with increasing caseload demands. The legislatively adopted budget for the 2015-17 biennium for this project was \$45.2 million total funds.

Oregon Health Insurance Marketplace

The Oregon Health Insurance Marketplace is a program established in the 2015-17 biennium at the Department of Consumer and Business Services (DCBS). The program was authorized under Senate Bill 1 (2015) and is a result of Cover Oregon and subsequent transfer of the portion of Cover Oregon operations related to the evaluation, presentation, and enrollment of consumers in qualified health plans as required under the Affordable Care Act. In administering the state health insurance exchange, Senate Bill 1 requires DCBS to do the following: facilitate community-based assistance with enrollment by awarding grants to entities certified as navigators/in-person assisters and application counselors; operate a call center to facilitate enrollment; and plan, develop and implement a Small Business Health Options Program (SHOP). The legislatively adopted budget for the 2015-17 biennium for this project is \$30.5 million total funds.

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, 2015. This was the twenty-fourth 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 Oregon State Treasury, and the staff of the Secretary of State Audits Division.

Respectfully submitted,



George Naughton
Chief Financial Officer
State of Oregon



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

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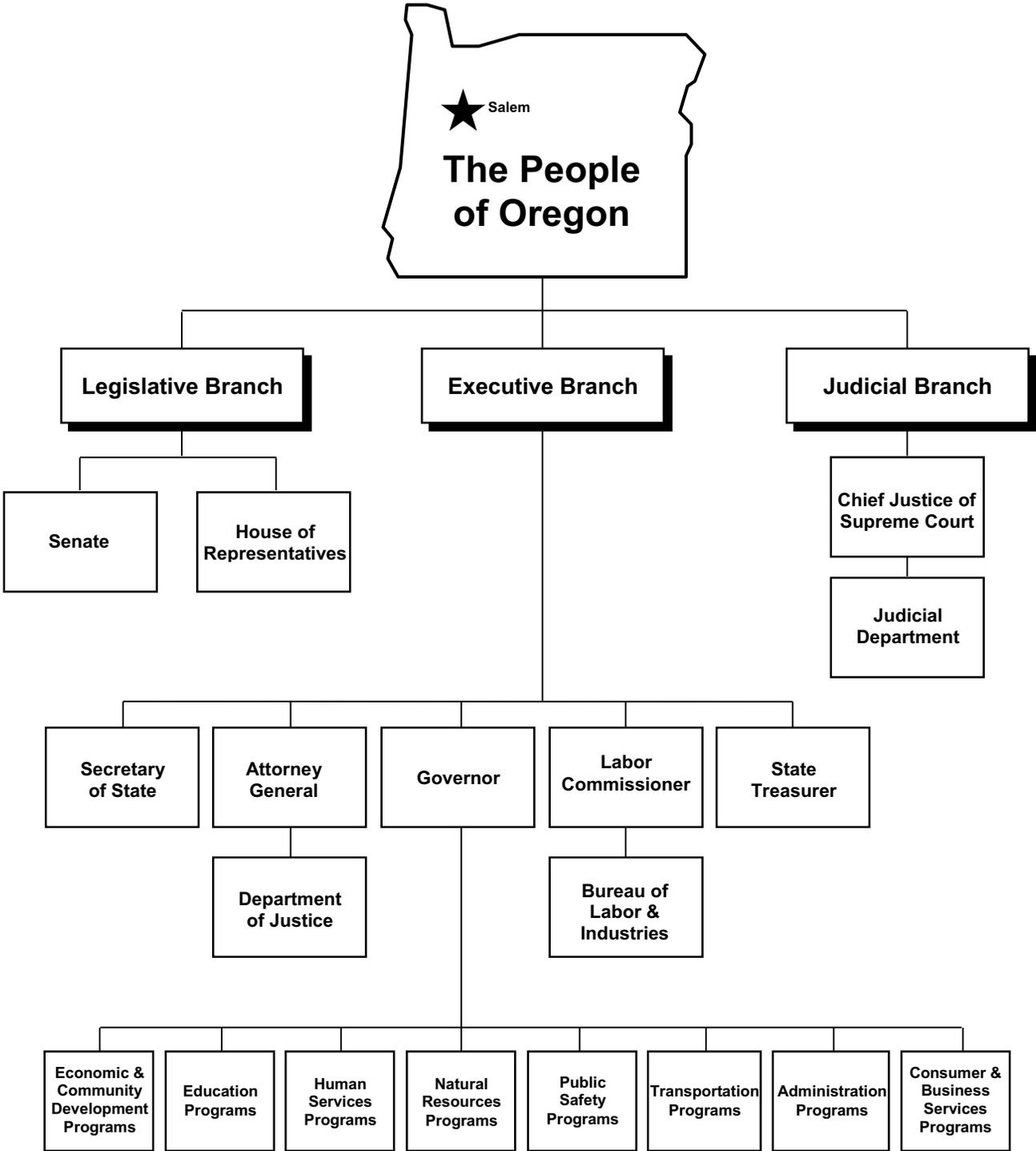
State of Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

STATE OF OREGON ORGANIZATION CHART



Principal State Officials



EXECUTIVE

Kate Brown, Governor

Jeanne P. Atkins, Secretary of State

Ted Wheeler, State Treasurer

Ellen F. Rosenblum, Attorney General

Brad Avakian, Commissioner, Labor and Industries

LEGISLATIVE

Peter Courtney, Senate President

Tina Kotek, Speaker of the House of Representatives

JUDICIAL

Thomas A. Balmer, Chief Justice of the Supreme Court

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Financial Section

Jeanne P. Atkins
Secretary of State

Robert Taylor
Deputy Secretary of State



Mary Wenger
Interim Director

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

(503) 986-2255

INDEPENDENT AUDITOR'S REPORT

The Honorable Kate Brown
Governor of Oregon

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the State of Oregon's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the SAIF Corporation, University of Oregon, Oregon State University, Portland State University, Western Oregon University, Southern Oregon University, and Oregon Health and Science University, which are discretely presented component units. We also did not audit the financial statements of the Common School Fund or the Public Employees Retirement System. Those financial statements represent the following percentage of the assets, liabilities, and revenues/additions of opinion units as indicated below:

<u>Opinion Unit</u>	<u>Percent of Assets</u>	<u>Percent of Liabilities</u>	<u>Percent of Revenues/ Additions</u>
Governmental Activities	6%	2%	0%
Business Type Activities	1%	1%	6%
Discretely Presented Component Units	98%	98%	98%
Common School - Major Governmental Fund	100%	100%	100%
Aggregate Remaining Funds:			
Public Employees Retirement System	86%	55%	33%

Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above opinion units, is based solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Oregon, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

For the year ended June 30, 2016, the State of Oregon implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. As a result, the State reported a restatement of beginning net position due to a change in accounting principle of \$50 million for governmental activities. See Note 1 section Q for further information. Our opinion is not modified with respect to these matters.

Due to changes in legislation, four universities are reported as discretely presented component units for the year ended June 30, 2016, instead of as part the State of Oregon. As a result of this change, the State recognized a loss of \$335 million, reported as a special item for business-type activities. In addition, effective July 1, 2015, legislation also abolished the Oregon Health Insurance Exchange Corporation and transferred all assets

and liability to the State. As a result of this change, the State reported a restatement of beginning net position due to a change in the reporting entity of \$17 million for governmental activities. See Note 21 for further information. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules and information, pension plan schedules and information, and other postemployment benefits schedule, as listed in the 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.

Supplementary and Other Information

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 and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 procedures performed as described above, and the report of the other auditors, the combining fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section have 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue our report dated December 22, 2016, on our consideration of the State of Oregon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters 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* in considering the State of Oregon's internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
December 22, 2016

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, 2016. 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, 2016, the State's net position on a government-wide basis was over \$15.7 billion. Of this amount, the unrestricted portion was \$1.3 billion. The amount restricted for specific uses was \$4.3 billion. The State's net investment in capital assets was \$10.2 billion.
- The State's net position decreased \$89.9 million compared to the prior year. Net position for governmental activities decreased 8.6 percent, while net position for business-type activities increased 22.1 percent.
- As of June 30, 2016, the State's governmental funds reported combined ending fund balances of \$8 billion. Of this total, approximately 1.2 percent was considered nonspendable and included amounts related to inventories, prepaid amounts, and permanent fund principal.
- Approximately 76.7 percent of ending governmental fund balances were 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 \$6.2 billion.
- The remaining 22.1 percent of ending fund balances were 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, while assigned fund balances express legislative intent as indicated through the budget process. Unassigned fund balances may be spent at the government's discretion. Total unrestricted fund balances equaled \$1.8 billion. Additional information on the classification of governmental fund balances may be found in Notes 1 and 19 in the notes to the financial statements.
- At fiscal year-end, unrestricted fund balance (committed, assigned, and unassigned categories) in the General Fund was \$1.1 billion.
- The State implemented GASB Statement No. 72, which addresses accounting and financial reporting issues related to fair value measurements. Under the new standard, the State, excluding discretely presented component units, reported accounting changes totaling \$50 million.
- On July 1, 2015, Western Oregon University, Southern Oregon University, Eastern Oregon University, and Oregon Institute of Technology became entities legally separate from the State of Oregon, and are now reported as discretely presented component units of the State. The State continues to report any bonded and certificate of participation debt associated with the universities. For certain issuances, the State has entered into a debt management agreement with the independent universities, requiring each university to pay the principal and interest related to those issuances to the State.
- Outstanding debt (bonds and certificates of participation) decreased by \$206.4 million during fiscal year 2016. As part of an overall plan to reduce borrowing costs, the State was involved in five separate debt refunding issuances and refunded \$492.9 million of previously existing debt with \$345 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 position* presents information on all of the State's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual balance reported as *net position*.
- The *statement of activities* presents information showing how the State's net position changed during the fiscal year. All of the changes in net position 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 position is one measure of the State's financial health, or financial position. Over time, increases or decreases in the State's net position 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, community colleges and universities, 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 unemployment compensation program are also reported under business-type activities.
- *Component units*. The State includes 12 other entities in its report: SAIF Corporation, Oregon Health and Science University, Oregon State University, Portland State University, University of Oregon, Western Oregon University, Southern Oregon University, Eastern Oregon University, Oregon Institute of Technology, Oregon University System Foundations, the State Fair Council, 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 30-33 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 19 individual governmental funds. Information is presented separately in the governmental fund financial statements for the six major governmental funds, including the General Fund. Data from the other 13 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 34-41 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 four major proprietary funds. Data from the other ten 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 42-51 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 position and a statement of changes in fiduciary net position. 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 aggregated investment trust funds, the agency fund, and aggregated data for the State's pension and other employee benefit trust funds. Individual fund data for the separate investment trust funds and each of the pension and other employee benefit trust funds is provided in separate combining statements presented later in this report. The basic fiduciary fund financial statements can be found on pages 52-53 of this report.

Discretely Presented Component Units

The State reports four major discretely presented component units (DPCU) and eight nonmajor DPCUs. Within the basic financial statements on pages 54-59, the major DPCUs, SAIF Corporation, University of Oregon, Oregon State University, and Portland State University are presented separately while the nonmajor DPCUs are combined and reported in the aggregate. Individual information for each of the nonmajor DPCUs is provided in the combining statements presented later in this report. In the government-wide statements, the activities of the DPCUs are aggregated into a single column.

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 61-156 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 two schedules related to the State's pension plan, which is a cost-sharing multiple-employer plan: the Schedule of Proportionate Share of the Net Pension Liability/(Asset) and the Schedule of Defined Benefit Pension Plan Contributions. Lastly, this section includes the Schedule of Funding Progress and accompanying notes for the Public Employees Benefit Board Plan and the Retiree Health Insurance Premium Account, both are defined benefit single-employer postemployment healthcare benefit plans.

The combining financial statements referred to earlier are presented immediately following the required supplementary information beginning on page 174 of this report. These combining statements provide details about the nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and nonmajor discretely presented component units 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 investment trust funds and 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 position. The State's net position on a government-wide basis at June 30, 2016, was over \$15.7 billion as shown in Table 1. Most of this balance was invested in capital assets, with infrastructure being the largest component. The net investment in capital assets was \$10.2 billion. Restricted net position represents resources that are subject to external restrictions on how they may be used. At June 30, 2016, restricted net position totaled \$4.3 billion. The remaining balance of \$1.3 billion was classified as unrestricted net position.

Table 1
State of Oregon's Net Position
(In Millions)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Capital assets	\$ 13,288.8	\$ 13,042.3	\$ 612.4	\$ 972.7	\$ 13,901.2	\$ 14,015.0
Other assets	12,068.4	10,268.6	6,574.5	7,500.7	18,643.0	17,769.3
Total assets	25,357.3	23,310.9	7,186.9	8,473.4	32,544.2	31,784.3
Total deferred outflows	444.2	291.9	35.6	80.7	479.8	372.6
Long-term liabilities	11,668.3	8,779.7	1,771.8	3,760.8	13,440.2	12,540.5
Other liabilities	3,203.3	2,406.2	353.8	537.7	3,557.1	2,943.9
Total liabilities	14,871.6	11,185.9	2,125.6	4,298.5	16,997.3	15,484.4
Total deferred inflows	251.9	732.1	29.1	104.8	281.0	836.9
Net investment in capital assets	9,563.0	11,116.3	612.1	633.9	10,175.1	11,750.2
Restricted	4,052.2	3,812.0	222.4	311.6	4,274.6	4,123.6
Unrestricted	(2,937.3)	(3,243.5)	4,233.3	3,205.3	1,296.0	(38.2)
Total net position	\$ 10,678.0	\$ 11,684.8	\$ 5,067.8	\$ 4,150.8	\$ 15,745.7	\$ 15,835.6

Changes in net position. The State's total net position decreased \$89.9 million compared to the prior year. The net position of governmental activities decreased 8.6 percent, while the net position of business-type activities increased 22.1 percent.

The ending net position of governmental activities for fiscal year 2016 was \$10.7 billion compared to \$11.7 billion reported in fiscal year 2015. Expenses increased \$2.9 billion, or 13.6 percent, while revenues increased \$1.2 billion, or 5.4 percent.

Both personal and corporate income tax revenues were up in fiscal year 2016. This increase was due to a combination of factors, including an improving labor market as Oregon continues to emerge from the recession, strong growth in the investment income of individual taxpayers, and enhanced collection efforts. Year over year, charges for services increased \$291.9 million or 18.1 percent. The primary increase is for drug rebate revenues associated with Medicaid which have been steadily increasing since fiscal year 2013. This increase follows similar increases in special payments that are largely attributed to increases under the Affordable Care Act.

Governmental activities expenses increased \$2.9 billion, or 13.6 percent from fiscal year 2015. This increase was largely due to a combination of increases in expenses in education and human services. Education expenses increased \$895.2 million, or 19.1 percent, due to an increase in distributions to local school districts and the Higher Education Coordinating Commission (HECC) supporting the universities, which as of July 1, 2015 are all independent. In the prior year, the expenses were reported as administration expenses because the program classification is determined by the state agency that record the expense, and the Department of Administrative Services, the central administrative agency, distributed the state support to the universities. Administration expenses in fiscal year 2016 decreased \$234.6 million, or 34.3 percent. In fiscal year 2016, the support for the universities was moved to HECC which classifies expenses as education. Human services expenses increased \$960 million, or 8.3 percent, due primarily to expansions in Medicaid enrollment under the Affordable Care Act. GASB Statement Nos. 68 and 71 which impacted all governmental activities, increased expenses by \$906.9 million. The expense was due to the State reporting a net pension liability in the current year of \$1.1 billion. While these standards impacted all governmental activities, they are the primary cause of increases in consumer and business services, economic and community development, natural resources, transportation, public safety, and judicial programs from the prior year. GASB Statement Nos. 68 and 71 only affect the accounting and financial reporting of employers participating in defined benefit pension plans, and it does not impact the employer contributions to the pension plan.

As shown in Table 2, the ending net position of business-type activities for fiscal year 2016 was \$5.1 billion, compared to \$4.2 billion reported in fiscal year 2015. This is caused primarily by the change occurring at the Oregon University System and Oregon's slowly improving unemployment rate. Western Oregon University, Southern Oregon University, Eastern Oregon University, and Oregon Institute of Technology became independent public entities, separate from the Oregon University System, a state agency, on July 1, 2015. The State reported a special item expense of \$335.6 million related to this transition. 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 unemployment compensation expenses, which dropped \$26.7 million, or 4.7 percent.

Table 2
State of Oregon's Changes in Net Position
(In Millions)

	Governmental		Business-type		Total	
	Activities	Activities	Activities	Activities	2016	2015
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 1,905.7	\$ 1,613.8	\$ 3,186.3	\$ 3,309.7	\$ 5,091.9	\$ 4,923.5
Operating grants and contributions	10,797.4	10,371.7	131.9	182.0	10,929.3	10,553.7
Capital grants and contributions	18.4	17.6	0.5	7.6	19.0	25.2
General revenues:						
Personal income taxes	7,611.7	7,292.6	-	-	7,611.7	7,292.6
Corporate income taxes	633.9	595.3	-	-	633.9	595.3
Other taxes	2,648.0	2,522.1	18.3	17.7	2,666.3	2,539.8
Unrestricted investment earnings	12.2	7.4	-	-	12.2	7.4
Total revenues	23,627.2	22,420.5	3,337.0	3,517.0	26,964.2	25,937.5
Expenses:						
Education	5,588.7	4,693.5	-	-	5,588.7	4,693.5
Human services	12,516.8	11,556.8	-	-	12,516.8	11,556.8
Public safety	1,683.1	1,179.3	-	-	1,683.1	1,179.3
Economic & community development	444.6	375.5	-	-	444.6	375.5
Natural resources	845.6	661.4	-	-	845.6	661.4
Transportation	1,614.2	1,437.6	-	-	1,614.2	1,437.6
Consumer and business services	364.4	204.6	-	-	364.4	204.6
Administration	450.1	684.7	-	-	450.1	684.7
Legislative	48.3	39.6	-	-	48.3	39.6
Judicial	455.7	331.3	-	-	455.7	331.3
Interest on long-term debt	403.8	321.0	-	-	403.8	321.0
Housing and community services	-	-	48.1	49.4	48.1	49.4
Veterans' loan	-	-	18.5	-	18.5	-
Lottery operations	-	-	595.7	522.2	595.7	522.2
Unemployment compensation	-	-	547.3	574.0	547.3	574.0
University system	-	-	-	352.0	-	352.0
State hospitals	-	-	399.8	269.6	399.8	269.6
Liquor control	-	-	424.9	400.7	424.9	400.7
Other business-type activities	-	-	315.7	362.3	315.7	362.3
Total expenses	24,415.2	21,485.3	2,350.0	2,530.2	26,765.3	24,015.5
Increase (decrease) before contributions, special and extraordinary items, and transfers	(788.0)	935.2	987.0	986.8	199.0	1,922.0
Contributions to permanent funds	-	0.5	-	-	-	0.5
Special Items	-	(3.3)	(335.6)	(1,956.1)	(335.6)	(1,959.4)
Transfers	(230.6)	285.4	230.6	(285.4)	-	-
Increase (decrease) in net position	(1,018.6)	1,217.8	881.9	(1,254.7)	(136.6)	(36.9)
Net position – beginning	11,684.8	12,399.6	4,150.8	5,635.6	15,835.6	18,035.2
Prior period adjustments	(55.7)	236.4	35.1	(136.0)	(20.6)	100.4
Cumulative effect of accounting change	50.0	(2,169.0)	-	(94.1)	50.0	(2,263.1)
Cumulative effect of reporting entity change	17.4	-	-	-	17.4	-
Net position – beginning – as restated	11,696.5	10,467.0	4,185.8	5,405.5	15,882.4	15,872.5
Net position – ending	\$10,678.0	\$11,684.8	\$ 5,067.8	\$ 4,150.8	\$15,745.7	\$15,835.6

Figure 1 below illustrates fiscal year 2016 revenues of the State as a whole, by source. Approximately 40.5 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 30.6 percent of total revenues, while charges for services accounted for 18.9 percent.

Figure 1
State of Oregon's Revenue by Source
For the Year Ended June 30, 2016

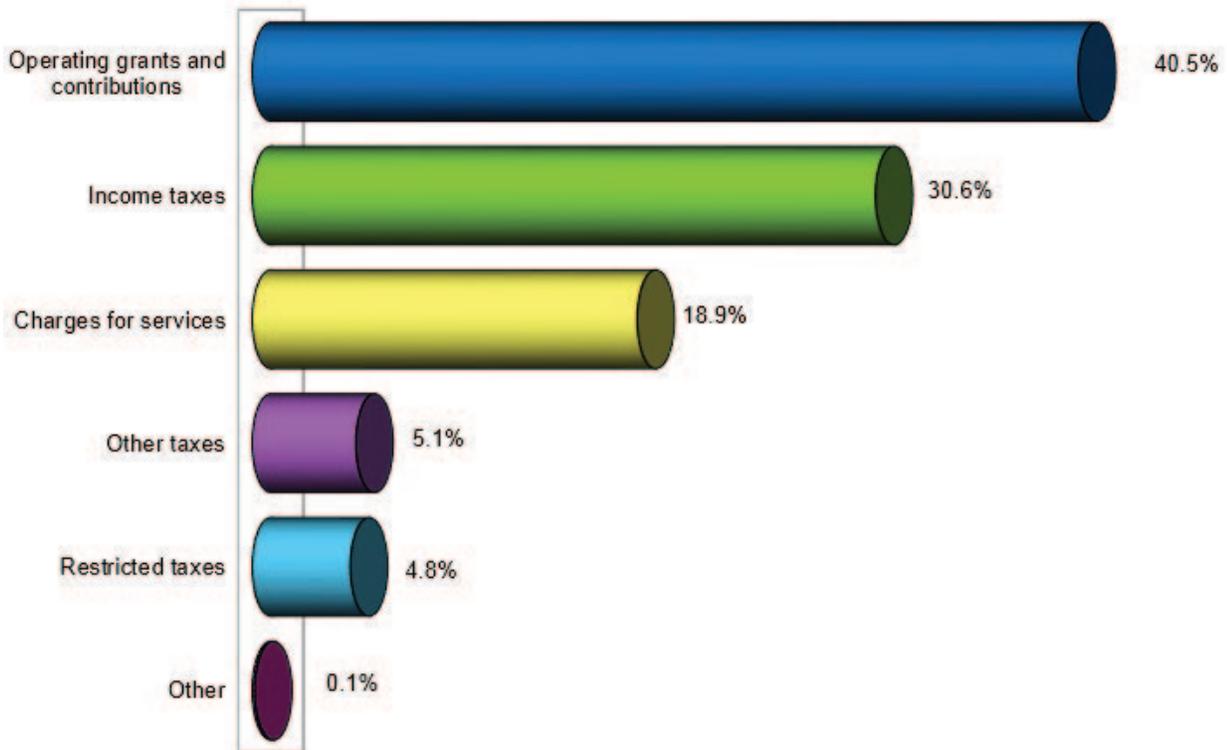
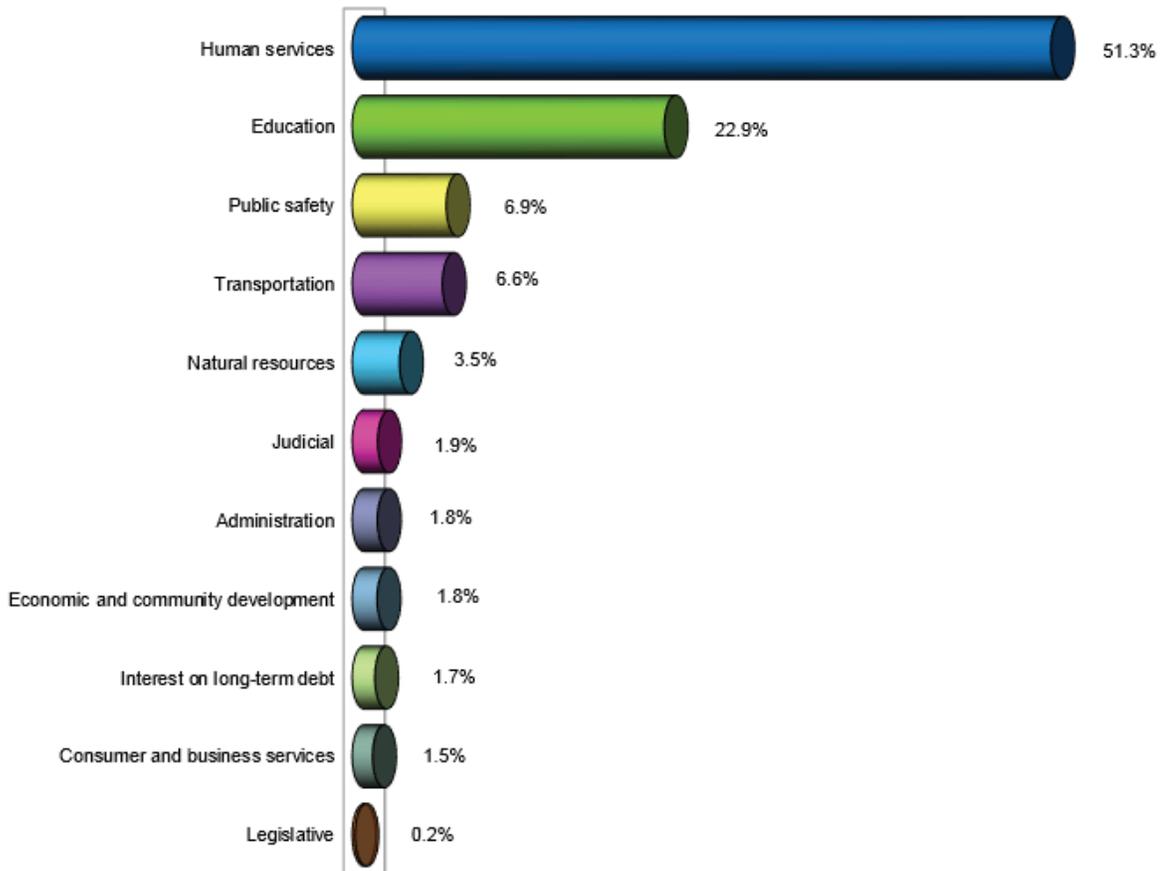


Figure 2 below shows governmental activity expenses for the State as a whole, by function. The cost of providing human services for Oregon citizens in need of assistance comprised 51.3 percent of total expenses. Elementary and secondary education accounted for 22.9 percent of the total.

Figure 2
State of Oregon's Governmental Expenses by Function
For the Year Ended June 30, 2016



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 2016, the State's governmental funds reported combined ending fund balances of \$8 billion, up \$1.6 billion compared to the prior year.

Nonspendable fund balances of \$92.3 million, or 1.2 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 \$6.2 billion, or 76.7 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 \$1.1 billion comprised 13.1 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 \$58 million represents amounts constrained by the State's intent to use them for specific purposes. Intent is expressed by the Legislature via the budget process when there is no legislation other than the budget bill imposing the constraints. The unassigned fund balance category of \$663.6 million represents (1) the residual fund balance applicable to the General Fund and (2) negative unassigned fund balance in governmental funds other than the General Fund, which is the result of the combination of nonspendable fund balance, restricted fund balance and committed fund balance exceeding that fund's total fund balance.

The General Fund, which is the operating fund of the State, ended fiscal year 2016 with a total fund balance of \$1.6 billion. This represents a \$316.5 million increase from the prior year's ending fund balance. Total revenues grew by 4.5 percent and total expenditures grew 6.6 percent. Significant revenue contributors included personal income taxes, which rose \$286.1 million, or 3.9 percent, and corporate income taxes, which increased \$29.7 million, or 4.9 percent. Personal income tax collections grew as 2015 personal income rose as Oregon has emerged from the Great Recession. Increases are not as much as in the prior year, as the economy is now slowing, but is expected to be stabilizing and settling into historical growth patterns. Spending on administration decreased \$255.9 million, or 44.5 percent, due primarily to the reporting of state support for three of the State's public universities: the University of Oregon, Oregon State University, and Portland State University. During fiscal year 2015, these expenditures were reported as administration expenditures because the program classification is determined by the state agency that reports the expenditure, and the Department of Administrative Services, the central administrative agency, distributed the state support to these universities as part of the transition away from the Oregon University System. Distributions to these universities, plus Western Oregon University, Southern Oregon University, Eastern Oregon University and Oregon Institute of Technology are now being made by the Higher Education Coordinating Commission which is an education program. Combining this change with increases in support for local school districts, education spending by the General Fund increased \$782.9 million, or 19.6 percent. Spending for human services decreased \$195 million, or 9.3 percent, due primarily to reallocation of expenditure funding. One new source of revenue was added this year: the State legalized the sale of marijuana for recreational use, effective October 1, 2015, and taxes collected on sales were \$20 million, or 0.2 percent of total revenues.

Due to GASB Statement No. 54, the State reports the Oregon Rainy Day Fund as part of the General Fund. During the current fiscal year, the fund balance increased \$172.2 million to \$372.2 million, attributed mostly to transfers in from other funds. The ending fund balance of the Rainy Day Fund is classified as committed fund balance.

In the Health and Social Services Fund, total revenues increased \$609.6 million, or 7 percent, due primarily to expansion in covered Medicaid services and its related costs under the Affordable Care Act, which resulted in higher federal grant revenues of \$403.5 million. Likewise, because of the expansion, the related Medicaid eligibility payments also increased. These payments are reported as Human Services expenditures, which increased \$959 million, or 11.5 percent from fiscal year 2015.

Many of the revenues and expenditures of the Public Transportation Fund were comparable to the prior year. Total revenues did increase \$111 million, or 6.3 percent, reflecting regular fluctuations in federal award activity and an increase in motor fuel taxes of \$43.5 million, or 4 percent. Offsetting the increased revenue was an increase of \$52.4 million (3 percent) in transportation expenditures. The primary cause of the \$132.2 million decrease in ending fund balance is the \$75.8 million, or 82.5 percent, decrease in transfers from other funds and no issuance of long term debt.

Ending fund balance in the Environmental Management Fund increased \$12.4 million, or 1.5 percent. Revenues decreased \$3.1 million, or 0.6 percent, due to a combination of decreases in federal revenue and increases in charges for services and sales. Federal revenue decreased \$38.9 million, or 22.8 percent, due to a decrease in receipts of grant revenue for the Department of Forestry and the Department of Fish and Wildlife. The decrease in federal revenue was offset to a large extent by an increase in charges for services of \$12.6 million, or 41.9 percent, due to energy supplier assessments charged by the Oregon Department of Energy, which generally are recognized in the first year of the biennium. Sales increased \$11.2 million, or 10.6 percent, due primarily to increased timber sales.

Ending fund balance of the Educational Support Fund increased \$1.3 billion primarily due to the transfer of \$1.4 billion in university component unit receivables and other assets from the University System Fund, which ceased as of July 1, 2015. The University System Fund reported the activities of the Oregon University System, which operated as an enterprise fund. These receivables are pursuant to debt management agreements with the universities. Due to the larger asset balances associated the transfer, the Educational Support Fund recognized an increase in investment income of \$55.4 million.

The Common School Fund experienced a 1.6 percent decrease in fund balance for fiscal year 2016. Many of the revenues and expenditures were comparable to the prior year with the exception of investment income. Largely due to adverse fluctuations in the fair value of investments, there was a 109.3 percent or \$59.6 million decrease in investment income. This was partially offset by the cumulative effect of a change in accounting principle related to GASB No. 72, which established standards for fair value measurement and most prominently affected the reporting of investments. The implementation of GASB No. 72 resulted in restating beginning fund balance by increasing it \$50.2 million, which was due to measuring certain investments at fair value that had previously been reported at cost.

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. For fiscal year 2016, the Housing and Community Services Fund reported an operating income of \$2.5 million; reduced mortgage loan balances resulted in a decrease of \$4.6 million, or 9 percent, in loan interest income; investment earnings increased \$3.3 million from fiscal year 2015 due to change in fair value of investments. In addition, operating expenses declined by \$1.6 million, due primarily to a \$5.2 million reduction in bond and certificate of participation (COP) interest expense, a result of smaller outstanding bonds payable balances compared to the prior year. The net effect was a \$9.1 million increase in net position for fiscal year 2016.

The Veterans' Loan Program's reported a net decrease in net position of \$3.6 million, primarily due to \$1 million, or 16.9 percent, increase in interest expense on bonds and COPs, which is the result of increases in outstanding balances on bonds and COPs, and \$2.1 million, or 52.1 percent, increase in salaries and other payroll expenses, which is largely the result of increases in pension expense based on the requirements of GASB Statement Nos. 68 and 71.

The net position of the Lottery Operations Fund increased \$61.3 million in fiscal year 2016. This was primarily due to improved sales and modest growth in expenses. Product sales increased \$112.7 million, or 10.1 percent, with Video LotterySM generating \$77.9 million of the growth. During the year new game sets and terminals were deployed to offer a wide variety of game choices that appeal to a diverse audience. This is the sixth consecutive year of gains in Video LotterySM revenue, as economic conditions have yielded strong growth and product offerings attract play. Operating expenses increased 14.4 percent from the prior year primarily due to increase in retailer commissions and traditional prizes, both related to the increased sales.

In the Unemployment Compensation Fund, assessments and federal revenue declined from the prior year, down \$55 million (5.6 percent) and 4.7 million (16.5 percent), respectively. Related to these two decreases, benefit payments to unemployed Oregonians also decreased, down \$37.1 million, or 6.5 percent. These reductions reflect Oregon's declining unemployment rate and, in some cases, the expiration of extended benefits. Because of these changes and increase in investment income of \$9.4 million, or 17 percent, the net position of the Unemployment Compensation Fund increased \$498.8 million, or 17.9 percent.

In the fiscal year 2016, the other (nonmajor) proprietary fund reported an ending net position of \$1.1 billion, an increase of \$359.4 million. This is primarily due to the changes in the Oregon University System (OUS), which was reported in the University System Fund. On July 1, 2015, the four public universities that remained part of OUS in fiscal year 2015 became independent of the State, thereby ceasing the operations of OUS. As part of this transition, all capital assets associated with the four newly independent universities, including land and buildings, were transferred to those universities, but none of the debt (bonds and COPs) used to purchase those assets were transferred to the universities. This was because the State was the issuer of the debt, therefore it is a liability of the State. For certain debt issuances, the State has entered into a debt management agreement with the independent universities, requiring each university to pay the principal and interest related to those issuances to the State, which the State will use to meet the debt service requirements of the debt. On July 1, certain OUS financial assets, the receivables from these institutions, and similar receivables from the

University of Oregon, Oregon State University, Portland State University, and Oregon Health and Science University were transferred to the Educational Support Fund, a major governmental fund. The amount transferred out was \$1.4 billion. The associated debt, totaling \$2.1 billion, was transferred to the governmental activities portion of the government-wide statement of net position. This debt transfer was considered a transfer in for the University System Fund since, from the fund's perspective, it was no longer responsible for the liability. The combined amount of net position transferred to the four newly independent universities was \$335.6 million, this amount is reported as a special item.

At the end of fiscal year 2016, approximately 83.5 percent of the net position 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 96.4 percent of the fund's net position restricted for debt service.

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. The net position 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 \$2.5 billion. The fund reported a net depreciation in the fair value of investments in the current year of \$563.5 million, a negative change of \$2.2 billion from the prior year. The net position of all fiduciary funds is 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 2015-17 biennium, final estimated revenues for the General Fund increased slightly compared to the original estimate. The General Fund's final budgeted expenditures increased by \$90 million, or 0.5 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 2015-17 biennium, actual expenditures and other financing uses exceeded actual General Fund revenues and other financing source by \$281.1 million. Actual revenues for the first year of the biennium were 47.6 percent of the final budgeted revenues, or \$8.3 billion, while actual cash expenditures were 48.5 percent of those budgeted, or \$8.8 billion.

To manage differences in the timing of cash flows, the State issued \$592.8 million of tax anticipation notes in July 2016. These notes will be repaid with income tax revenue prior to the end of fiscal year 2017.

DEBT ADMINISTRATION

The State Debt Policy Advisory Commission advises the Governor and the legislative assembly regarding policies and actions that enhance and preserve the State's credit rating and maintain the future availability of low cost capital financing. The State's debt credit ratings, unchanged from the prior year at AA+ by Fitch, AA+ by Standard & Poor's, and Aa1 by Moody's, are an indication of the State's ability to repay its debt.

Debt outstanding for the years ended June 30, 2016 and 2015 is summarized in Table 3. In fiscal year 2016, the State issued general obligation bonds to finance or refinance the Oregon State Hospital Replacement Project, the renovation of the headquarters building and the State Radio Project at the Department of Transportation, the seismic rehabilitation of critical buildings particularly emergency facilities at the Oregon Business Development Department, and various other facilities and modernization projects.

During fiscal year 2016, revenue bonds were issued only for business-type activities. At the Oregon Housing and Community Services Department, revenue bonds were issued to assist low-income families purchasing single-family housing.

The State was involved in five separate debt refunding issuances in fiscal year 2016 and refunded \$492.9 million of previously existing debt with \$345 million of new debt. Additional information on the State's long-term debt may be found in Note 8 of this report.

Table 3
State of Oregon's Outstanding Debt
For the Years Ended June 30, 2016 and 2015
(In Millions)

	2016	2015	2016 Over (Under) 2015	
			Amount	Percent
General obligation bonds	\$ 6,080.4	\$ 5,925.2	\$ 155.2	2.6%
Revenue bonds	4,657.0	4,824.9	(167.9)	-3.5%
Certificates of participation	340.8	534.5	(193.7)	-36.2%
Total	\$ 11,078.1	\$ 11,284.6	\$ (206.4)	-1.8%

CAPITAL ASSETS

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2016, was \$13.9 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 2016 decreased \$113.5 million, or 0.8 percent.

Table 4
State of Oregon's Capital Assets, Net of Depreciation
(In Millions)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,949.6	\$ 1,918.4	\$ 9.4	\$ 24.0	\$ 1,959.0	\$ 1,942.4
Buildings, property, and equipment	1,979.9	1,972.3	598.4	901.3	2,578.3	2,873.5
Construction in progress	1,171.6	1,336.4	1.0	23.8	1,172.6	1,360.2
Infrastructure	8,185.6	7,813.2	3.0	19.6	8,188.6	7,832.9
Works of art and other nondepreciable assets	2.0	2.0	0.7	4.0	2.7	6.0
Total	\$ 13,288.8	\$ 13,042.3	\$ 612.4	\$ 972.7	\$ 13,901.2	\$ 14,015.0

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

- The State's outstanding construction commitments related to highway and bridge construction totaled \$771 million at June 30, 2016.
- Effective July 1, 2015, Western Oregon University, Southern Oregon University, Eastern Oregon University, and Oregon Institute of Technology became independent public entities run by a governing board. Although separate from the State they will continue to be reported as discretely presented component units. The net value of the capital assets associated with these universities and held in the name of the State under Oregon Revised Statute 352.113, totaled \$370 million.
- As part of a video modernization program Lottery purchased \$36 million in gaming terminals and ticket vending machines.

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 2016 was 5 percent compared to 5.6 percent in November 2015. The U.S. unemployment rate for November 2016 was 4.6 percent. Since reaching a high point of 11.6 percent in May and June 2009, the rate has slowly declined over the past six and a half years.

While Oregon's economic expansion continues, growth has slowed. In recent years, the State has enjoyed robust, full-throttle rates of job gains in the 3-3.5 percent range, or nearly 5 thousand jobs per month. No longer is this the case. Oregon is expected to continue to see healthy job gains – more than 3 thousand per month or 2.4 percent next year – but the State is now past its peak growth rates for this expansion. Importantly, such gains remain strong enough to hold unemployment down and account for ongoing population growth.

Oregon's General Fund revenue outlook remains stable. Revenue growth has slowed in recent months along with growth in the underlying economy. However, this slowdown did not come as a surprise, with less growth having already been built into the baseline forecast. As such, expectations have remained virtually unchanged since the 2015-17 biennial budget was crafted.

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 2016 forecast for General Fund revenues for the 2015-17 biennium is \$18 billion. This figure is \$8 million above the amount forecasted at the close of the 2015 legislative session. The projected General Fund ending balance for the 2015-17 biennium is \$245.4 million. The latest revenue forecast projects increases in General Fund revenues for the next two biennia, up 8.4 percent to \$19.5 billion in 2017-19 and 9.9 percent to \$21.5 billion in 2019-21.



Basic Financial Statements

State of Oregon

Statement of Net Position
June 30, 2016
(In Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 4,139,812	\$ 3,858,248	\$ 7,998,059	\$ 880,050
Cash and Cash Equivalents - Restricted	-	36,834	36,834	173,929
Investments	1,572,818	33,493	1,606,312	4,675,702
Investments - Restricted	-	59,273	59,273	-
Securities Lending Collateral	222,704	89,426	312,130	81,522
Accounts and Interest Receivable (net)	904,441	332,385	1,236,825	1,039,921
Taxes Receivable (net)	727,447	-	727,447	-
Pledges, Contributions, and Grants Receivable (net)	-	-	-	247,007
Internal Balances	170,350	(170,350)	-	-
Due from Component Units	38,214	5,882	44,096	-
Due from Other Governments	6	6,269	6,275	3,676
Due from Primary Government	-	-	-	92,100
Inventories	69,282	39,318	108,600	37,642
Prepaid Items	12,938	1,785	14,722	70,639
Foreclosed and Deeded Property	-	4,191	4,191	-
Other Assets	572	-	572	-
Total Current Assets	7,858,582	4,296,754	12,155,336	7,302,186
Noncurrent Assets:				
Cash and Cash Equivalents	-	26,402	26,402	92,250
Cash and Cash Equivalents - Restricted	1,237,197	136,210	1,373,407	-
Investments	126,216	135,258	261,474	696,303
Investments - Restricted	69,883	219,352	289,235	2,531,237
Custodial Assets	27,899	-	27,899	-
Taxes Receivable (net)	484,932	-	484,932	-
Interfund Loans	(49)	49	-	-
Advances to Component Units	1,215,280	103,246	1,318,527	-
Advances to Primary Government	-	-	-	13,700
Net Contracts, Notes, and Other Receivables	394,947	63,985	458,932	150,113
Loans Receivable (net)	653,550	1,593,276	2,246,826	-
Pledges, Contributions, and Grants Receivable (net)	-	-	-	619,233
Other Assets	-	-	-	7,122
Capital Assets:				
Land	1,949,628	9,424	1,959,051	266,670
Buildings, Property, and Equipment	3,774,310	816,764	4,591,074	7,841,542
Construction in Progress	1,171,622	961	1,172,583	399,451
Infrastructure	13,374,736	3,661	13,378,397	147,858
Works of Art and Other Nondepreciable Assets	2,036	687	2,723	78,370
Less Accumulated Depreciation and Amortization	(6,983,517)	(219,092)	(7,202,609)	(3,749,097)
Total Noncurrent Assets	17,498,670	2,890,182	20,388,852	9,094,751
Total Assets	25,357,252	7,186,935	32,544,188	16,396,936
DEFERRED OUTFLOWS OF RESOURCES				
Hedging Derivatives	-	7,670	7,670	14,458
Loss on Refunding	172,690	2,099	174,789	26,720
Related to Pensions	271,556	25,816	297,372	123,683
Total Deferred Outflows of Resources	444,246	35,585	479,831	164,861

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

State of Oregon

Statement of Net Position
June 30, 2016
(In Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current Liabilities:				
Accounts and Interest Payable	989,323	97,188	1,086,511	582,083
Obligations Under Securities Lending	222,704	89,426	312,130	81,534
Due to Component Units	91,696	396	92,091	-
Due to Other Governments	219,082	5,421	224,503	27,890
Due to Primary Government	-	-	-	72,728
Unearned Revenue	37,813	3,154	40,967	539,059
Matured Bonds/COPs and Coupons Payable	-	58	58	-
Tax Anticipation Notes Payable	602,207	-	602,207	-
Compensated Absences Payable	125,845	11,568	137,414	130,788
Reserve for Loss and Loss Adjustment Expense	-	-	-	261,404
Claims and Judgments Payable	128,577	9,200	137,777	30,576
Lottery Prize Awards Payable	-	34,519	34,519	-
Arbitrage Rebate Payable	71	-	71	-
Custodial Liabilities	331,550	10,343	341,894	48,015
Contracts, Mortgages, and Notes Payable	17,759	1,714	19,473	10,571
Bonds/COPs Payable	430,121	90,520	520,641	14,439
Obligations Under Capital Lease	2,527	273	2,801	1,986
Pollution Remediation Obligation	4,007	-	4,007	-
Total Current Liabilities	<u>3,203,283</u>	<u>353,781</u>	<u>3,557,064</u>	<u>1,801,071</u>
Noncurrent Liabilities:				
Unearned Revenue	-	-	-	2,104
Obligations Under Life Income Agreements	-	-	-	103,152
Compensated Absences Payable	67,763	6,094	73,856	17,815
Reserve for Loss and Loss Adjustment Expense	-	-	-	2,647,214
Claims and Judgments Payable	1,037,661	-	1,037,661	31,890
Lottery Prize Awards Payable	-	144,135	144,135	-
Arbitrage Rebate Payable	295	22,846	23,141	-
Custodial Liabilities	3,483	3,985	7,468	66,826
Contracts, Mortgages, and Notes Payable	335,860	33,186	369,046	150,949
Net Pension Liability	1,033,180	100,136	1,133,315	616,615
Advances from Component Units	13,700	-	13,700	-
Bonds/COPs Payable	9,108,150	1,448,685	10,556,834	1,056,937
Obligations Under Capital Lease	3,252	23	3,275	54,139
Advances from Primary Government	-	-	-	1,318,527
Pollution Remediation Obligation	15,054	-	15,054	-
Net OPEB Obligation	49,945	5,084	55,030	32,633
Derivative Instrument Liabilities	-	7,670	7,670	19,153
Total Noncurrent Liabilities	<u>11,668,344</u>	<u>1,771,843</u>	<u>13,440,187</u>	<u>6,117,954</u>
Total Liabilities	<u>14,871,627</u>	<u>2,125,624</u>	<u>16,997,250</u>	<u>7,919,025</u>
DEFERRED INFLOWS OF RESOURCES				
Hedging Derivatives	-	-	-	4
Gain on Refunding	60	-	60	2,951
Loan Origination	-	4,733	4,733	-
Related to Pensions	251,850	24,381	276,231	139,967
Total Deferred Inflows of Resources	<u>251,910</u>	<u>29,114</u>	<u>281,025</u>	<u>142,922</u>
NET POSITION				
Net Investment in Capital Assets	9,563,039	612,107	10,175,146	2,794,446
Restricted-Nonexpendable	13,865	-	13,865	1,225,709
Restricted for:				
Health and Social Services Programs	252,229	-	252,229	-
Transportation Programs	402,433	-	402,433	-
Natural Resource Programs	846,959	440	847,399	-
Education	1,574,222	-	1,574,222	1,829,197
Community Protection	51,262	-	51,262	-
Consumer Protection	102,835	-	102,835	-
Employment Services	254,093	-	254,093	-
Workers' Compensation	-	-	-	1,505,703
Residential Assistance	108,908	2,098	111,007	-
Debt Service	26	219,221	219,247	4,711
Capital Projects	7,045	639	7,685	70,902
Other Purposes	438,345	-	438,345	-
Unrestricted	(2,937,300)	4,233,276	1,295,976	1,069,182
Total Net Position	<u>\$ 10,677,962</u>	<u>\$ 5,067,782</u>	<u>\$ 15,745,743</u>	<u>\$ 8,499,850</u>

State of Oregon

Statement of Activities
For the Year Ended June 30, 2016
(In Thousands)

	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Primary Government:					
Governmental Activities:					
Education	\$ 5,588,674	\$ 9,924	\$ 756,212	\$ 319	\$ (4,822,219)
Human Services	12,516,784	711,764	8,755,116	1,996	(3,047,908)
Public Safety	1,683,095	80,479	154,391	3,070	(1,445,155)
Economic and Community Development	444,564	66,135	235,180	-	(143,249)
Natural Resources	845,601	394,169	187,864	1,406	(262,161)
Transportation	1,614,231	163,195	544,047	11,635	(895,354)
Consumer and Business Services	364,373	143,591	16,335	-	(204,447)
Administration	450,111	179,412	145,081	-	(125,618)
Legislative	48,293	2,452	45	-	(45,796)
Judicial	455,749	154,534	3,105	-	(298,110)
Interest on Long-term Debt	403,769	-	-	-	(403,769)
Total Governmental Activities	24,415,243	1,905,655	10,797,377	18,426	(11,693,785)
Business-type Activities:					
Housing and Community Services	48,060	50,028	6,768	-	8,735
Veterans' Loan	18,531	13,201	1,745	-	(3,585)
Lottery Operations	595,692	1,229,979	16,218	-	650,505
Unemployment Compensation	547,309	952,114	87,883	-	492,688
State Hospitals	399,766	74,733	-	-	(325,032)
Liquor Control	424,939	577,662	-	-	152,723
Other Business-type Activities	315,720	288,535	19,287	540	(7,358)
Total Business-type Activities	2,350,017	3,186,252	131,900	540	968,675
Total Primary Government	\$ 26,765,259	\$ 5,091,906	\$ 10,929,277	\$ 18,965	\$ (10,725,111)
Component Units:					
SAIF Corporation	\$ 587,807	\$ 521,209	\$ (22,939)	\$ -	\$ (89,537)
University of Oregon	956,308	556,899	355,976	19,026	(24,407)
Oregon State University	1,124,596	516,024	544,728	50,364	(13,480)
Portland State University	532,088	275,874	263,819	1,327	8,932
Other Component Units	3,275,358	2,478,138	1,124,372	61,148	388,300
Total Component Units	\$ 6,476,157	\$ 4,348,144	\$ 2,265,956	\$ 131,865	\$ 269,808

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

State of Oregon

Statement of Activities
For the Year Ended June 30, 2016
(In Thousands)

	Primary Government			Component Units
	Governmental Activities	Business- type Activities	Total	
Changes in Net Position:				
Net (Expense) Revenue	\$ (11,693,785)	\$ 968,675	\$ (10,725,111)	\$ 269,808
General Revenues:				
Taxes:				
Personal Income Taxes	7,611,745	-	7,611,745	-
Corporate Income Taxes	633,871	-	633,871	-
Tobacco Taxes	270,199	-	270,199	-
Healthcare Provider Taxes	607,485	-	607,485	-
Insurance Premium Taxes	65,903	-	65,903	-
Marijuana Taxes	28,586	-	28,586	-
Other Taxes	378,602	18,286	396,888	-
Restricted for Transportation Purposes:				
Motor Fuel and Other Vehicle Taxes	1,143,173	-	1,143,173	-
Restricted for Workers' Compensation and Workplace Safety Programs:				
Workers' Compensation Insurance Taxes	58,192	-	58,192	-
Employer-Employee Taxes	95,866	-	95,866	-
Total Taxes	<u>10,893,621</u>	<u>18,286</u>	<u>10,911,907</u>	<u>-</u>
Unrestricted Investment Earnings	12,164	-	12,164	-
Contributions to Permanent Funds	39	-	39	-
Special Items	-	(335,632)	(335,632)	131,481
Transfers - Internal Activities	<u>(230,618)</u>	<u>230,618</u>	<u>-</u>	<u>-</u>
Total General Revenues, Contributions, Special Items, Extraordinary Items, and Transfers	<u>10,675,206</u>	<u>(86,727)</u>	<u>10,588,479</u>	<u>131,481</u>
Change in Net Position	<u>(1,018,580)</u>	<u>881,948</u>	<u>(136,632)</u>	<u>401,288</u>
Net Position - Beginning	11,684,839	4,150,755	15,835,594	8,119,893
Prior Period Adjustments	(55,703)	35,079	(20,624)	(12,312)
Cumulative Effect of a Change in Accounting Principles	50,045	-	50,045	(9,018)
Cumulative Effect of a Change in Reporting Entity	17,361	-	17,361	-
Net Position - Beginning - As Restated	<u>11,696,541</u>	<u>4,185,834</u>	<u>15,882,375</u>	<u>8,098,562</u>
Net Position - Ending	<u>\$ 10,677,962</u>	<u>\$ 5,067,782</u>	<u>\$ 15,745,743</u>	<u>\$ 8,499,850</u>

State of Oregon

Balance Sheet
Governmental Funds
June 30, 2016
(In Thousands)

	General	Health and Social Services	Public Transportation
ASSETS			
Cash and Cash Equivalents	\$ 1,859,505	\$ 483,252	\$ 457,301
Investments	-	-	67,753
Custodial Assets	31	-	-
Securities Lending Collateral	67,889	17,854	17,297
Accounts and Interest Receivable (net)	14,591	425,325	77,215
Taxes Receivable (net)	939,154	186,305	67,718
Due from Other Funds	515,456	25,959	6,223
Due from Component Units	5	14	-
Due from Other Governments	-	-	6
Inventories	19,149	624	32,980
Prepaid Items	5,852	41	1,177
Advances to Component Units	1,015	-	-
Advances to Other Funds	-	-	-
Net Contracts, Notes, and Other Receivables	8,987	36,651	23,499
Loans Receivable (net)	-	-	26,894
Other Assets	-	-	-
Total Assets	\$ 3,431,635	\$ 1,176,025	\$ 778,063
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts and Interest Payable	\$ 256,362	\$ 302,972	\$ 95,729
Obligations Under Securities Lending	67,889	17,854	17,297
Due to Other Funds	169,022	183,506	17,442
Due to Component Units	4,544	37,917	937
Due to Other Governments	64,320	5,888	79,239
Unearned Revenue	-	-	22,435
Tax Anticipation Notes Payable	610,062	-	-
Custodial Liabilities	9,710	49,075	367
Advances from Other Funds	512	-	-
Advances from Component Units	-	-	-
Total Liabilities	1,182,422	597,211	233,448
Deferred Inflows of Resources:			
Unavailable Revenue	646,580	51,743	27,458
Total Deferred Inflows of Resources	646,580	51,743	27,458
Fund Balances:			
Nonspendable	25,020	716	34,146
Restricted by:			
Federal Laws and Regulations	3,338	131,039	36,510
Oregon Constitution	461,327	2,533	340,331
Enabling Legislation	23,490	249,636	59,259
Debt Covenants	17,689	5,750	46,912
Donors and Other External Parties	-	4,762	-
Committed	395,319	132,666	-
Assigned	12,793	-	-
Unassigned	663,658	(32)	-
Total Fund Balances	1,602,633	527,071	517,157
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,431,635	\$ 1,176,025	\$ 778,063

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

State of Oregon

Environmental Management	Educational Support	Common School	Other	Total
\$ 444,658	\$ 360,998	\$ 52,822	\$ 1,119,112	\$ 4,777,649
1,179	69,824	1,369,485	194,496	1,702,737
55	-	15,918	11,895	27,899
17,802	6,558	31,277	28,918	187,596
22,641	117,778	26,288	166,942	850,780
-	623	-	18,578	1,212,378
15,913	80,225	299	101,490	745,565
6	34,577	-	3,462	38,064
-	-	-	-	6
10,261	-	-	5,158	68,172
244	170	-	3,664	11,149
-	1,214,265	-	-	1,215,280
-	-	300	-	300
65,930	1,773	55	258,048	394,945
420,749	-	-	205,902	653,544
-	-	-	572	572
\$ 999,439	\$ 1,886,791	\$ 1,496,445	\$ 2,118,238	\$ 11,886,635

\$ 19,892	\$ 73,799	\$ 34,127	\$ 74,413	\$ 857,295
17,802	6,558	31,277	28,918	187,596
14,352	1,631	549	70,212	456,714
216	45,240	-	2,841	91,696
21,076	32,152	-	16,407	219,082
11,460	100	-	2,940	36,936
-	-	-	-	610,062
1,851	35	255,859	14,113	331,010
300	-	-	6	818
-	13,700	-	-	13,700
86,950	173,215	321,812	209,851	2,804,909
65,930	2,388	55	258,279	1,052,434
65,930	2,388	55	258,279	1,052,434
10,471	170	-	21,750	92,274
633,129	3,800	-	183,040	990,855
8,297	369,119	846,068	157,085	2,184,760
74,713	9,527	328,509	406,496	1,151,630
57,731	1,290,134	-	367,540	1,785,757
5,884	8,183	-	29,812	48,642
47,551	27,696	-	450,553	1,053,786
8,782	2,558	-	33,832	57,964
-	-	-	-	663,626
846,558	1,711,188	1,174,577	1,650,108	8,029,293
\$ 999,439	\$ 1,886,791	\$ 1,496,445	\$ 2,118,238	\$ 11,886,635

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Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016
(In Thousands)

Total fund balances of governmental funds \$ 8,029,293

Amounts reported for governmental activities in the Statement of Net Position 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	\$ 1,939,270	
Buildings, property, and equipment	3,115,914	
Construction in progress	1,165,236	
Infrastructure	13,373,958	
Works of art and other nondepreciable assets	1,821	
Accumulated depreciation and amortization	<u>(6,609,146)</u>	
Total capital assets		12,987,052

Some of the State's governmental revenues will be collected after year-end but are not available soon enough to pay the current year liabilities. 1,052,434

Gain or loss on debt refunding is reported as a deferred inflow of resources or a deferred outflow of resources, respectively, for governmental activities in the Statement of Net Position but are reported as expenditures in the funds.

Deferred outflows-loss on refunding		171,036
Deferred inflows-gain on refunding		(60)

The net pension liability and pension-related deferred inflows and outflows of resources are not financial resources and therefore are not reported in the funds. These consist of:

Net pension liability		(945,688)
Deferred outflows-related to pensions		249,000
Deferred inflows-related to pensions		(230,548)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the internal service funds are included in the governmental activities in the Statement of Net Position. 413,290

Unamortized debt insurance costs are reported as prepaid items for governmental activities in the Statement of Net Position but are reported as expenditures in the funds. 7

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

Accounts and interest payable	(100,426)	
Compensated absences payable	(174,750)	
Claims and judgments payable	(931,958)	
Arbitrage rebate payable	(366)	
Contracts, mortgages, and notes payable	(316,865)	
Bonds and COPs payable	(9,464,020)	
Tax anticipation notes payable	7,855	
Obligations under capital leases	(480)	
Pollution remediation obligation	(19,061)	
Net OPEB obligation	<u>(47,781)</u>	
Total long-term liabilities		<u>(11,047,853)</u>

Net position of governmental activities \$ 10,677,962

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

State of Oregon

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016
(In Thousands)**

	General	Health and Social Services	Public Transportation
REVENUES			
Personal Income Taxes	\$ 7,620,682	\$ -	\$ -
Corporate Income Taxes	633,871	-	-
Tobacco Taxes	67,269	202,858	-
Healthcare Provider Taxes	-	607,485	-
Insurance Premium Taxes	65,903	-	-
Motor Fuel and Other Vehicle Taxes	-	-	1,142,060
Employer-Employee Taxes	-	-	-
Workers' Compensation Insurance Taxes	-	-	-
Marijuana Taxes	20,049	8,536	-
Other Taxes	228,076	-	3,021
Licenses and Fees	108,248	21,340	93,614
Federal	3,239	7,661,190	559,279
Rebates and Recoveries	601	486,172	5,187
Charges for Services	20,245	55,037	31,217
Fines, Forfeitures, and Penalties	16,056	418	5,503
Rents and Royalties	758	4	6,578
Investment Income	12,164	2,621	10,532
Sales	1,166	3,772	10,215
Assessments	-	-	-
Donations and Grants	2,699	824	3
Contributions to Permanent Funds	-	-	-
Tobacco Settlement Proceeds	-	80,239	-
Unclaimed and Escheat Property Revenue	-	-	-
Other	44,863	140,003	3,240
Total Revenues	8,845,891	9,270,502	1,870,449
EXPENDITURES			
Current:			
Education	4,775,213	-	-
Human Resources	1,896,752	9,314,546	-
Public Safety	1,128,728	-	-
Economic and Community Development	30,292	-	-
Natural Resources	176,449	-	-
Transportation	21,630	-	1,684,445
Consumer and Business Services	5,846	-	-
Administration	319,525	4	41,460
Legislative	38,041	-	-
Judicial	341,103	1,208	-
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	115,521	-	1
Interest	86,819	-	234
Other Debt Service	1,206	-	255
Total Expenditures	8,937,123	9,315,759	1,726,396
Excess (Deficiency) of Revenues Over (Under) Expenditures	(91,233)	(45,257)	144,053
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	1,229,009	143,772	16,043
Transfers to Other Funds	(902,241)	(93,884)	(289,612)
Insurance Recoveries	381	-	1,256
Leases Incurred	503	-	-
Long-term Debt Issued	100,350	-	-
Loan Proceeds	-	-	6
Debt Issuance Premium	19,287	-	-
Refunding Debt Issued	-	-	-
Refunded Debt Payment to Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	447,288	49,888	(272,307)
Net Change in Fund Balances	356,056	4,631	(128,254)
Fund Balances - Beginning	1,286,089	525,894	649,406
Cumulative Effect of Change in Accounting Principle	-	-	-
Cumulative Effect of Change in Reporting Entity	-	-	-
Prior Period Adjustments	(40,154)	(3,260)	(1,547)
Fund Balances - Beginning - As Restated	1,245,935	522,635	647,858
Change in Inventories	643	(195)	(2,448)
Fund Balances - Ending	\$ 1,602,633	\$ 527,071	\$ 517,157

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

State of Oregon

Environmental Management	Educational Support	Common School	Other	Total
\$ -	\$ -	\$ -	\$ -	\$ 7,620,682
-	-	-	-	633,871
-	-	-	-	270,128
-	-	-	-	607,485
-	-	-	-	65,903
-	-	-	-	1,142,060
-	-	-	95,866	95,866
-	-	-	58,192	58,192
-	-	-	-	28,586
25,100	482	-	120,023	376,703
157,650	383	995	156,360	538,591
131,555	398,854	-	1,799,234	10,553,352
308	23	14	15,405	507,710
42,544	5,921	206	84,806	239,976
1,244	-	49	104,518	127,788
1,726	185	5,712	2,471	17,435
11,180	59,036	(5,087)	18,429	108,875
116,217	279	469	4,871	136,989
-	-	-	35,154	35,154
4,358	4,017	-	26,709	38,610
-	-	-	39	39
-	-	-	-	80,239
-	-	13,629	-	13,629
2,292	893	1,145	87,760	280,196
494,175	470,073	17,133	2,609,837	23,578,059
-	542,096	-	255,210	5,572,518
-	-	-	1,111,251	12,322,549
-	-	-	296,754	1,425,482
-	-	-	387,341	417,634
511,318	-	25,512	45,313	758,592
-	-	-	10,336	1,716,411
-	-	-	292,564	298,410
-	39,479	-	40,643	441,111
-	-	-	943	38,984
-	-	-	64,954	407,265
-	-	-	61,522	61,522
-	67,420	-	224,130	407,072
30	77,910	-	266,204	431,197
3	688	-	1,058	3,210
511,351	727,594	25,512	3,058,222	24,301,956
(17,176)	(257,521)	(8,379)	(448,385)	(723,897)
69,593	1,650,979	6,521	695,191	3,811,108
(41,349)	(157,592)	(71,286)	(257,510)	(1,813,474)
678	-	3,636	77	6,027
-	-	-	-	503
-	38,865	-	106,700	245,915
-	-	-	-	6
-	11,842	-	64,874	96,002
-	27,087	-	197,494	224,581
-	(33,193)	-	(245,008)	(278,200)
28,921	1,537,987	(61,129)	561,818	2,292,468
11,746	1,280,466	(69,508)	113,433	1,568,571
834,149	425,561	1,193,803	1,526,648	6,441,550
-	4,549	50,197	-	54,746
-	-	-	9,296	9,296
227	612	85	(5)	(44,042)
834,377	430,722	1,244,085	1,535,939	6,461,550
435	-	-	736	(828)
\$ 846,558	\$ 1,711,188	\$ 1,174,577	\$ 1,650,108	\$ 8,029,293

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State of Oregon

**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, 2016
(In Thousands)**

Net change in fund balances of total governmental funds \$ 1,568,571

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	\$ 697,634	
Depreciation expense	(397,174)	
Excess of depreciation over capital outlays		300,461

The net effect of sales, transfers, impairments, and donations of capital assets is a decrease to net position. (2,150,900)

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a liability. (503)

Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Position. (566,504)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 685,272

Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these become a component of Bonds/COPs payable and are amortized in the Statement of Activities. 62,962

Some expenses reported in the Statement of Activities do not require the use of current financial resources; thus, they are not reported as expenditures in governmental funds.

Accounts and interest payable	(33,335)	
Compensated absences payable	(8,183)	
Claims and judgments payable	(25,498)	
Pollution remediation obligation	(1,128)	
Contracts, mortgages, and notes payable	24,344	
Net pension liability	(734,970)	
Net OPEB obligation	4,963	
Total		(773,807)

Investment income related to rebatable arbitrage does not provide current financial resources and is not reported as revenue in the governmental funds. 735

Some revenues will not be collected for several months after the State's fiscal year ends. Therefore, they are not considered "available" revenues in the governmental funds. 27,263

Change in inventory is reported as a separate line after the change in fund balances in the governmental statements, but is included in expenses in the governmental activities. (828)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is reported within governmental activities. (171,300)

Change in net position of governmental activities \$ (1,018,580)

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

State of Oregon

Statement of Net Position
Proprietary Funds
June 30, 2016
(In Thousands)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 8,730	\$ 102,196	\$ 391,656
Cash and Cash Equivalents - Restricted	20,537	2,849	-
Investments	-	10,614	12,153
Investments - Restricted	59,273	-	-
Securities Lending Collateral	2,041	7,174	65,656
Accounts and Interest Receivable (net)	4,341	1,174	18,359
Due from Other Funds	24	106	-
Due from Component Units	-	-	-
Due from Other Governments	-	-	-
Inventories	-	-	1,571
Prepaid Items	29	14	1,454
Foreclosed and Deeded Property	3,766	425	-
Total Current Assets	98,742	124,551	490,849
Noncurrent Assets:			
Cash and Cash Equivalents	-	-	26,402
Cash and Cash Equivalents - Restricted	59,930	69,855	-
Investments	-	-	135,258
Investments - Restricted	219,352	-	-
Advances to Other Funds	-	-	-
Advances to Component Units	-	-	-
Net Contracts, Notes, and Other Receivables	-	1,414	3,268
Loans Receivable (net)	847,251	261,188	-
Capital Assets:			
Land	-	-	-
Buildings, Property, and Equipment	230	9,132	208,402
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Other Nondepreciable Assets	-	627	-
Less Accumulated Depreciation and Amortization	(168)	(5,501)	(113,086)
Total Noncurrent Assets	1,126,595	336,715	260,244
Total Assets	1,225,337	461,265	751,093
DEFERRED OUTFLOWS OF RESOURCES			
Hedging Derivatives	6,907	763	-
Loss on Refunding	2,093	-	-
Related to Pensions	407	397	2,941
Total Deferred Outflows of Resources	9,407	1,160	2,941

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

State of Oregon

Business-type Activities - Enterprise Funds				
Unemployment Compensation	Other	Total	Governmental Activities Internal Service Funds	
\$ 2,996,774	\$ 358,891	\$ 3,858,248	\$	595,355
111	13,338	36,834		-
-	10,727	33,493		-
-	-	59,273		-
114	14,440	89,426		35,108
249,151	57,712	330,737		53,661
431	26,453	27,014		15,927
-	5,882	5,882		151
6,269	-	6,269		-
-	37,747	39,318		1,110
-	287	1,785		1,782
-	-	4,191		-
<u>3,252,850</u>	<u>525,478</u>	<u>4,492,469</u>		<u>703,093</u>
-	-	26,402		-
2,281	4,145	136,210		4,005
-	-	135,258		-
-	-	219,352		66,181
-	49	49		512
-	103,246	103,246		-
59,223	81	63,985		2
-	484,838	1,593,276		6
-	9,424	9,424		10,358
-	598,999	816,764		658,396
-	961	961		6,386
-	3,661	3,661		779
-	60	687		215
-	(100,338)	(219,092)		(374,370)
<u>61,503</u>	<u>1,105,125</u>	<u>2,890,182</u>		<u>372,469</u>
<u>3,314,353</u>	<u>1,630,602</u>	<u>7,382,651</u>		<u>1,075,562</u>
-	-	7,670		-
-	6	2,099		1,654
-	22,071	25,816		22,556
<u>-</u>	<u>22,077</u>	<u>35,585</u>		<u>24,211</u>

(continued on next page)

State of Oregon

Statement of Net Position

Proprietary Funds

June 30, 2016

(In Thousands)

(continued from previous page)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
LIABILITIES			
Current Liabilities:			
Accounts and Interest Payable	16,038	698	13,444
Obligations Under Securities Lending	2,041	7,174	65,656
Due to Other Funds	51	-	163,756
Due to Component Units	-	-	-
Due to Other Governments	-	-	-
Unearned Revenue	1,266	-	791
Matured Bonds/COPs and Coupons Payable	-	-	-
Compensated Absences Payable	164	243	2,517
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	34,519
Custodial Liabilities	-	2,849	69
Contracts, Mortgages, and Notes Payable	19	25	698
Bonds/COPs Payable	64,025	6,690	-
Obligations Under Capital Lease	-	-	-
Total Current Liabilities	83,604	17,678	281,451
Noncurrent Liabilities:			
Compensated Absences Payable	88	131	1,355
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	144,135
Arbitrage Rebate Payable	-	22,846	-
Custodial Liabilities	-	-	-
Contracts, Mortgages, and Notes Payable	537	714	4,556
Net Pension Liability	1,580	1,538	11,407
Bonds/COPs Payable	915,218	297,374	-
Obligations Under Capital Lease	-	-	-
Advances from Other Funds	-	-	-
Net OPEB Obligation	85	112	692
Derivative Instrument Liabilities	6,907	763	-
Total Noncurrent Liabilities	924,416	323,477	162,144
Total Liabilities	1,008,020	341,155	443,595
DEFERRED INFLOWS OF RESOURCES			
Loan Origination	4,733	-	-
Related to Pensions	385	375	2,777
Total Deferred Inflows of Resources	5,118	375	2,777
NET POSITION			
Net Investment in Capital Assets	63	4,258	95,317
Restricted for:			
Natural Resource Programs	-	-	-
Residential Assistance	2,098	-	-
Debt Service	213,666	-	-
Capital Projects	-	-	-
Unrestricted	5,778	116,637	212,344
Total Net Position	\$ 221,605	\$ 120,895	\$ 307,661

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

State of Oregon

Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Funds
Unemployment Compensation	Other	Total	
23,951	42,908	97,039	31,602
114	14,440	89,426	35,108
3,068	28,861	195,736	134,555
-	396	396	-
4,594	827	5,421	-
-	1,098	3,154	877
-	58	58	-
-	8,645	11,568	12,258
-	9,200	9,200	42,840
-	-	34,519	-
111	7,315	10,343	752
-	972	1,714	4,500
-	19,805	90,520	5,117
-	273	273	2,434
<u>31,838</u>	<u>134,798</u>	<u>549,369</u>	<u>270,044</u>
-	4,520	6,094	6,600
-	-	-	191,440
-	-	144,135	-
-	-	22,846	-
2,281	1,704	3,985	3,271
-	27,380	33,186	32,254
-	85,610	100,136	87,492
-	236,092	1,448,685	69,134
-	23	23	2,865
-	-	-	43
-	4,195	5,084	2,165
-	-	7,670	-
<u>2,281</u>	<u>359,524</u>	<u>1,771,843</u>	<u>395,264</u>
<u>34,119</u>	<u>494,322</u>	<u>2,321,212</u>	<u>665,308</u>
-	-	4,733	-
-	20,844	24,381	21,302
-	20,844	29,114	21,302
-	512,470	612,107	223,868
-	440	440	-
-	-	2,098	-
-	5,555	219,221	-
-	639	639	-
<u>3,280,234</u>	<u>618,409</u>	<u>4,233,403</u>	<u>189,295</u>
<u>\$ 3,280,234</u>	<u>\$ 1,137,513</u>	<u>\$ 5,067,909</u>	<u>\$ 413,162</u>

Some amounts reported for business-type activities in the statement of net position are different because certain internal service funds assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included within the business-type activities. \$ (127)

Net position of business-type activities \$ 5,067,782

State of Oregon

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2016
(In Thousands)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
OPERATING REVENUES:			
Assessments	\$ -	\$ -	\$ -
Licenses and Fees	-	94	-
Federal	-	-	-
Rebates and Recoveries	83	1	-
Charges for Services	3,238	2,304	-
Fines, Forfeitures, and Penalties	-	-	-
Rents and Royalties	-	519	-
Sales	-	-	1,229,517
Loan Interest Income	46,382	9,949	-
Other	33	321	673
Gain (Loss) on Foreclosed Property	314	44	-
Total Operating Revenues	50,050	13,233	1,230,190
OPERATING EXPENSES:			
Salaries and Wages	5,829	6,034	54,428
Services and Supplies	7,266	5,131	281,703
Cost of Goods Sold	-	-	-
Distributions to Other Governments	90	-	-
Special Payments	1,032	-	234,005
Bond and COP Interest	33,288	7,009	-
Depreciation and Amortization	8	109	23,864
Bad Debt Expense	-	-	-
Total Operating Expenses	47,512	18,283	593,999
Operating Income (Loss)	2,538	(5,051)	636,191
NONOPERATING REVENUES (EXPENSES):			
Investment Income (Loss)	6,768	1,745	16,218
Other Taxes	-	-	-
Gain (Loss) on Disposition of Assets	-	-	(99)
Insurance Recovery	-	-	2
Loan Interest Income	-	-	-
Loan Interest Expense	-	-	-
Other Interest Expense	(38)	(50)	(388)
Other Nonoperating Items	(22)	(32)	(213)
Total Nonoperating Revenues (Expenses)	6,708	1,663	15,520
Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers	9,246	(3,388)	651,711
Capital Contributions	-	-	-
Special Items	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(192)	(194)	(590,402)
Change in Net Position	9,054	(3,582)	61,310
Net Position - Beginning	212,551	124,478	246,351
Prior Period Adjustments	-	-	-
Net Position - Beginning - As Restated	212,551	124,478	246,351
Net Position - Ending	\$ 221,605	\$ 120,895	\$ 307,661

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

State of Oregon

Business-type Activities - Enterprise Funds			
Unemployment Compensation	Other	Total	Governmental Activities Internal Service Funds
\$ 937,516	\$ -	\$ 937,516	\$ -
-	8,049	8,143	23
23,532	16,955	40,487	-
-	107	191	9,002
-	280,639	286,181	1,165,283
1,466	449	1,916	10
-	68	588	44,733
-	596,776	1,826,293	3,528
-	23,978	80,309	-
13,132	30,927	45,085	2,848
-	-	359	-
<u>975,646</u>	<u>957,949</u>	<u>3,227,067</u>	<u>1,225,428</u>
-	337,909	404,199	341,130
-	217,551	511,651	885,758
-	304,530	304,530	9,742
-	64,919	65,010	-
537,125	183,218	955,380	4,579
-	11,163	51,460	2,805
-	15,916	39,896	27,670
6,858	826	7,684	-
<u>543,983</u>	<u>1,136,032</u>	<u>2,339,809</u>	<u>1,271,685</u>
<u>431,663</u>	<u>(178,084)</u>	<u>887,258</u>	<u>(46,257)</u>
64,352	2,332	91,413	6,572
-	18,286	18,286	-
-	249	150	115
-	-	2	323
-	-	-	33
-	(9)	(9)	(139)
-	(1,909)	(2,385)	(1,252)
-	(97)	(364)	(159)
<u>64,352</u>	<u>18,851</u>	<u>107,093</u>	<u>5,493</u>
496,015	(159,233)	994,351	(40,764)
-	740	740	-
-	(335,632)	(335,632)	-
-	2,400,438	2,400,438	4,353
(1)	(1,579,197)	(2,169,986)	(142,852)
<u>496,014</u>	<u>327,116</u>	<u>889,912</u>	<u>(179,264)</u>
2,781,404	778,134	4,142,917	584,136
2,816	32,262	35,079	8,290
<u>2,784,220</u>	<u>810,396</u>	<u>4,177,997</u>	<u>592,426</u>
\$ 3,280,234	\$ 1,137,513	\$ 5,067,909	\$ 413,162

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

\$ (7,964)

Change in net position of business-type activities

\$ 881,948

State of Oregon

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016
(In Thousands)

	Business-type Activities - Enterprise Funds		
	Housing and Community Services	Veterans' Loan	Lottery Operations
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 3,569	\$ 1,216	\$ 1,238,563
Receipts from Other Funds for Services	-	1,849	-
Loan Principal Repayments	142,159	40,532	-
Loan Interest Received	44,150	10,851	-
Grant Receipts	-	-	-
Taxes and Assessments Received	-	-	-
Payments to Employees for Services	(4,610)	(4,788)	(30,572)
Payments to Suppliers	(4,924)	(3,233)	(294,627)
Payments to Other Funds for Services	-	(681)	-
Payments to Prize Winners	-	-	(218,880)
Claims Paid	-	-	-
Loans Made	(71,715)	(63,895)	-
Distributions to Other Governments	-	-	-
Other Receipts (Payments)	49	382	758
Net Cash Provided (Used) in Operating Activities	<u>108,679</u>	<u>(17,769)</u>	<u>695,241</u>
Cash Flows from Noncapital Financing Activities:			
Proceeds from Bond/COP Sales	211,033	62,715	-
Principal Payments on Bonds/COPs	(227,045)	(38,685)	-
Principal Payments on Loans	(19)	(25)	(161)
Interest Payments on Bonds/COPs	(36,186)	(7,023)	-
Interest Payments on Loans	(38)	(50)	(316)
Bond/COP Issuance Costs	(1,515)	(1,192)	-
Taxes and Assessments Received	-	-	-
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(192)	(194)	(574,811)
Disposal of Government Operations	-	-	-
Net Cash Provided (Used) in Noncapital Financing Activities	<u>(53,962)</u>	<u>15,546</u>	<u>(575,287)</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Bond/COP Sales	-	-	-
Principal Payments on Bonds/COPs	-	-	-
Principal Payments on Loans	-	-	(537)
Interest Payments on Bonds/COPs	-	-	-
Interest Payments on Loans	-	-	-
Other Interest Payments	-	-	-
Acquisition of Capital Assets	-	(24)	(43,164)
Payments on Capital Leases	-	-	-
Proceeds from Disposition of Capital Assets	-	-	350
Insurance Recoveries for Capital Assets	-	-	2
Capital Contributions	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>-</u>	<u>(24)</u>	<u>(43,348)</u>
Cash Flows from Investing Activities:			
Purchases of Investments	(441,964)	-	(6,728)
Proceeds from Sales and Maturities of Investments	396,997	-	12,554
Interest on Investments and Cash Balances	2,774	1,236	2,117
Interest Income from Securities Lending	32	46	406
Interest Expense from Securities Lending	(22)	(32)	(213)
Interest Expense	-	-	(72)
Loan Principal Repayments	-	-	-
Loan Interest Received	-	-	-
Loans Made	-	-	-
Net Cash Provided (Used) in Investing Activities	<u>(42,184)</u>	<u>1,250</u>	<u>8,064</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,533	(997)	84,669
Cash and Cash Equivalents - Beginning	76,664	175,898	333,389
Prior Period Adjustments Restating Beginning Cash Balances	-	-	-
Cash and Cash Equivalents - Ending	<u>\$ 89,197</u>	<u>\$ 174,900</u>	<u>\$ 418,058</u>

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

State of Oregon

Business-type Activities - Enterprise Funds			
Unemployment Compensation	Other	Total	Governmental Activities Internal Service Funds
\$ -	\$ 843,446	\$ 2,086,794	\$ 31,756
-	54,249	56,098	1,394,533
-	-	182,691	-
-	-	55,001	-
23,958	-	23,958	-
968,650	-	968,650	-
-	(286,530)	(326,500)	(275,835)
-	(474,964)	(777,748)	(390,204)
-	(13,585)	(14,266)	(83,002)
-	-	(218,880)	-
(545,060)	(184,613)	(729,673)	(657,691)
-	-	(135,611)	-
-	(63,924)	(63,924)	-
14,591	(19,748)	(3,969)	23,299
462,139	(145,669)	1,102,621	42,856
-	-	273,748	-
-	(44,055)	(309,785)	-
-	(965)	(1,170)	(678)
-	(12,679)	(55,889)	-
-	(1,909)	(2,313)	(1,312)
-	(27)	(2,734)	-
-	18,290	18,290	-
-	304,809	304,809	2,893
(1)	(280,491)	(855,688)	(21,722)
-	(47,172)	(47,172)	-
(1)	(64,200)	(677,904)	(20,819)
-	-	-	3,690
-	(198)	(198)	(12,604)
-	-	(537)	(1,851)
-	(5)	(5)	(3,244)
-	-	-	(70)
-	(9)	(9)	-
-	(6,132)	(49,320)	(20,239)
-	(268)	(268)	(1,914)
-	1,465	1,816	1,036
-	32	34	353
-	349	349	-
-	(4,767)	(48,140)	(34,843)
-	-	(448,692)	(5,973)
-	-	409,551	20,306
64,352	2,138	72,617	5,643
-	90	573	225
-	(63)	(330)	(159)
-	-	(72)	-
-	68,161	68,161	42
-	24,880	24,880	33
-	(28,462)	(28,462)	-
64,352	66,743	98,226	20,118
526,490	(147,891)	474,804	7,312
2,472,675	507,332	3,565,960	589,252
-	16,933	16,933	2,794
\$ 2,999,165	\$ 376,374	\$ 4,057,694	\$ 599,360

(continued on next page)

State of Oregon

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016
(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)	\$ 2,538	\$ (5,051)	\$ 636,191
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided			
(Used) by Operating Activities:			
Depreciation and Amortization	8	109	23,864
Amortization of Bond/COP Premium and Discount	(567)	(125)	-
Amortization of Other Bond/COP Related Costs	(820)	-	-
Bad Debt Expense	-	-	-
Interest Receipts Reported as Operating Revenue	-	-	-
Interest Payments Reported as Operating Expense	33,640	7,023	-
Bond/COP Issuance Costs Reported as Operating Expense	1,592	1,186	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable (net)	412	178	8,825
Due from Other Funds	(22)	5	-
Due from Component Units	-	-	-
Due from Other Governments	-	-	-
Inventories	-	-	(124)
Prepaid Items	(28)	(9)	(384)
Foreclosed and Deeded Property	642	(228)	-
Net Contracts, Notes, and Other Receivables	-	1,224	54
Loans Receivable (net)	70,753	(24,591)	-
Accounts and Interest Payable	54	156	2,483
Due to Other Funds	(51)	-	-
Due to Component Units	-	-	-
Due to Other Governments	-	-	-
Unearned Revenue	(137)	-	330
Matured Bonds/COPs and Coupons Payable	-	-	-
Compensated Absences Payable	(25)	23	304
Claims and Judgments Payable	-	-	-
Lottery Prize Awards Payable	-	-	15,071
Arbitrage Rebate Payable	-	792	-
Custodial Liabilities	-	316	(25)
Contracts, Mortgages, and Notes Payable	-	-	-
Net Pension Liability (Asset)	2,139	2,046	15,907
Net OPEB Obligation	(8)	(8)	(73)
Net Changes in Deferred Outflows of Resources:			
Loss on Refunding	-	-	-
Contributions Subsequent to the Measurement Date	(85)	(95)	(449)
Change in Employer Contribution & Proportion	(30)	(30)	(212)
Difference between Expected & Actual Economic Experience	(85)	(83)	(615)
Net Changes in Deferred Inflows of Resources:			
Loan Origination	(548)	-	-
Investment Earnings Difference	(747)	(657)	(6,292)
Change in Employer Contribution & Proportion	54	52	386
Total Adjustments	106,141	(12,718)	59,050
Net Cash Provided (Used) by Operating Activities	\$ 108,679	\$ (17,769)	\$ 695,241
Noncash Investing and Capital and Related Financing Activities:			
Net Change in Fair Value of Investments	\$ 3,897	\$ (317)	\$ 13,695
Capital Assets Transferred from Governmental Funds	-	-	-
Capital Assets Transferred to Governmental Funds	-	-	-
Advanced Debt Refundings Deposited with Escrow Agent	-	-	-
Capital Leases Entered into During the Year	-	-	-
Capital Assets Acquired Through Long-Term Contracts	-	-	111
Foreclosed Property	5,711	425	-
Loan Modifications	223	-	-
Noncash Assets Exchanged for Other Liabilities	-	-	-

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

State of Oregon

<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities Internal Service Funds</u>	
<u>Unemployment Compensation</u>	<u>Other</u>	<u>Total</u>		
\$ 431,663	\$ (178,084)	\$ 887,258	\$	(46,257)
-	15,916	39,896	-	27,670
-	(656)	(1,349)	-	(850)
-	-	(820)	-	-
6,858	826	7,684	-	-
-	(24,880)	(24,880)	-	-
-	12,685	53,348	-	3,244
-	27	2,805	-	-
22,144	(19,306)	12,253	-	(7,070)
7	(13,609)	(13,620)	-	8,422
-	-	-	-	(151)
(64)	-	(64)	-	-
-	(5,107)	(5,231)	-	(57)
-	25	(396)	-	(786)
-	-	413	-	-
2,620	-	3,898	-	(1)
-	3,385	49,548	-	-
(1,205)	(3,630)	(2,142)	-	(7,661)
41	(4,428)	(4,438)	-	(16,543)
-	396	396	-	-
(192)	812	620	-	-
-	(989)	(795)	-	792
-	(70)	(70)	-	-
-	418	721	-	1,248
-	-	-	-	(5,232)
-	-	15,071	-	-
-	-	792	-	-
269	4,033	4,593	-	9,982
-	6	6	-	6,987
-	116,546	136,638	-	118,323
-	(518)	(606)	-	(426)
-	3	3	-	557
-	(4,367)	(4,996)	-	(4,739)
-	(1,638)	(1,910)	-	(1,688)
-	(4,617)	(5,400)	-	(4,718)
-	-	(548)	-	-
-	(41,748)	(49,445)	-	(41,151)
-	2,898	3,390	-	2,962
30,476	32,415	215,364	-	89,113
\$ 462,139	\$ (145,669)	\$ 1,102,621	\$	42,856

\$	-	\$ (320)	\$ 16,954	\$ 355
-	-	199	199	-
-	-	34	34	-
-	-	-	-	3,679
-	-	-	-	3,537
-	-	111	-	-
-	-	6,136	-	-
-	-	223	-	-
-	-	-	-	12,889

State of Oregon

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016
(In Thousands)

	Pension and Other Employee Benefit Trust	Private Purpose Trust	Investment Trust	Agency
ASSETS				
Cash and Cash Equivalents	\$ 2,773,638	\$ 46,289	\$ 5,802,774	\$ -
Investments:				
Fixed Income	14,768,509	209	31,580	-
Public Equity	27,063,910	693	-	-
Real Estate	8,585,785	-	-	-
Annuity Contracts	-	178	-	-
Private Equity	13,954,350	-	-	-
Alternative Equity	2,948,607	-	-	-
Opportunity Portfolio	1,364,145	-	-	-
Total Investments	<u>68,685,307</u>	<u>1,080</u>	<u>31,580</u>	<u>-</u>
Custodial Assets	-	4,353	-	1,414,339
Securities Lending Collateral	1,499,528	1,847	122,721	-
Receivables:				
Employer Contributions	58,339	-	-	-
Plan Member Contributions	14,415	-	-	-
Interest and Dividends	311,078	-	9,893	-
Member Loans	11,343	-	-	-
Investment Sales	1,106,428	-	37,730	-
Transitional Liability	555,342	-	-	-
Accounts	-	606	-	5,269
From Other Funds	8,413	64	-	-
From Other Governments	-	1,943	-	-
Net Contracts, Notes, and Other Receivables	-	-	-	74,836
Total Receivables	<u>2,065,360</u>	<u>2,613</u>	<u>47,623</u>	<u>80,105</u>
Prepaid Items	5,759	-	-	-
Receivership Assets	-	-	-	64,453
Capital Assets (net of \$21,081 accumulated depreciation):				
Land	944	14	-	-
Buildings, Property, and Equipment	31,263	-	-	-
Total Assets	<u>75,061,799</u>	<u>56,195</u>	<u>6,004,698</u>	<u>1,558,898</u>
LIABILITIES				
Accounts and Interest Payable	2,101,556	148	21,064	3
Obligations Under Securities Lending	1,502,595	1,847	122,721	-
Due to Other Funds	9,546	431	-	-
Due to Other Governments	-	-	-	6,986
Unearned Revenue	828	-	-	-
Custodial Liabilities	114,382	436	-	1,551,909
Contracts, Mortgages, and Notes Payable	-	1,375	-	-
Bonds/COPs Payable	667	-	-	-
Net OPEB Obligation	585	-	-	-
Total Liabilities	<u>3,730,160</u>	<u>4,237</u>	<u>143,785</u>	<u>1,558,898</u>
NET POSITION				
Restricted - Held in Trust for:				
Pension Benefits	69,321,931	-	-	-
Other Postemployment Benefits	451,921	-	-	-
Other Employee Benefits	1,557,787	-	-	-
External Investment Pool Participants	-	-	5,860,913	-
Individuals, Organizations, and Other Governments	-	51,958	-	-
Total Net Position	<u>\$ 71,331,639</u>	<u>\$ 51,958</u>	<u>\$ 5,860,913</u>	<u>\$ -</u>

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

State of Oregon

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2016
(In Thousands)

	Pension and Other Employee Benefit Trust	Private Purpose Trust	Investment Trust
ADDITIONS			
Contributions:			
Employer	\$ 1,032,887	\$ -	\$ -
Plan Members	687,951	-	-
Total Contributions	<u>1,720,838</u>	-	-
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	(563,467)	(66)	9,266
Interest, Dividends, and Other Investment Income	1,616,183	300	56,006
Total Investment Income	<u>1,052,715</u>	<u>234</u>	<u>65,272</u>
Less Investment Expense	559,750	8	3,747
Net Investment Income	<u>492,965</u>	<u>226</u>	<u>61,525</u>
Gifts, Grants, and Contracts	-	12	-
Veterans' Income	-	14,745	-
Unclaimed and Escheat Property Revenue	-	861	-
Other Income	5,101	5,700	-
Share Transactions:			
Participant Contributions	-	-	14,987,174
Participant Withdrawals	-	-	<u>14,684,362</u>
Net Share Transactions	<u>-</u>	<u>-</u>	<u>302,812</u>
Total Additions	<u>2,218,905</u>	<u>21,543</u>	<u>364,337</u>
DEDUCTIONS			
Benefits	4,639,283	-	-
Death Benefits	9,925	-	-
Contributions Refunded	13,155	-	-
Healthcare Premium Subsidies	38,286	-	-
Distribution to Other Governments	-	348	-
Special Payments to State Agencies	-	32	-
Distribution to Participants	-	-	44,048
Administrative Expenses	51,764	11,901	-
Payments in Accordance with Trust Agreements	-	2,809	-
Total Deductions	<u>4,752,412</u>	<u>15,091</u>	<u>44,048</u>
Change in Net Position Held in Trust For:			
Pension Benefits	(2,571,635)	-	-
Other Postemployment Benefits	20,228	-	-
Other Employee Benefits	17,899	-	-
External Investment Pool Participants	-	-	320,289
Individuals, Organizations, and Other Governments	-	6,453	-
Net Position - Beginning	<u>73,865,147</u>	<u>46,442</u>	<u>5,482,067</u>
Prior Period Adjustments	-	(937)	58,557
Net Position - Beginning - As Restated	<u>73,865,147</u>	<u>45,506</u>	<u>5,540,624</u>
Net Position - Ending	<u>\$ 71,331,639</u>	<u>\$ 51,958</u>	<u>\$ 5,860,913</u>

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

Statement of Net Position
Discretely Presented Component Units
June 30, 2016
(In Thousands)

	SAIF Corporation	University of Oregon
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 41,984	\$ 366,567
Cash and Cash Equivalents - Restricted	-	-
Investments	4,409,271	-
Securities Lending Collateral	52,272	11,417
Accounts and Interest Receivable (net)	403,000	50,005
Pledges, Contributions, and Grants Receivable (net)	-	110,732
Due from Other Governments	-	-
Due from Primary Government	131	8,868
Inventories	70	4,008
Prepaid Items	-	21,972
Total Current Assets	4,906,728	573,569
Noncurrent Assets:		
Cash and Cash Equivalents - Restricted	-	31,331
Investments	-	-
Investments - Restricted	-	939,129
Advances to Primary Government	-	-
Net Contracts, Notes, and Other Receivables	-	59,279
Pledges, Contributions, and Grants Receivable (net)	-	-
Other Assets	-	-
Capital Assets:		
Land	3,029	73,292
Buildings, Property, and Equipment	43,049	1,769,944
Construction in Progress	-	131,929
Infrastructure	-	50,896
Works of Art and Other Nondepreciable Assets	-	41,372
Less Accumulated Depreciation and Amortization	(30,811)	(694,876)
Total Noncurrent Assets	15,267	2,402,296
Total Assets	4,921,995	2,975,865
DEFERRED OUTFLOWS OF RESOURCES		
Hedging Derivatives	-	131
Loss on Refunding	-	-
Related to Pensions	5,604	24,484
Total Deferred Outflows of Resources	5,604	24,615

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

State of Oregon

Oregon State University	Portland State University	Other	Total
\$ 50,244	\$ 47,955	\$ 373,300	\$ 880,050
-	-	173,929	173,929
-	-	266,431	4,675,702
7,247	5,861	4,725	81,522
102,296	49,033	435,587	1,039,921
51,534	16,628	68,113	247,007
-	-	3,676	3,676
25,809	19,022	38,270	92,100
6,224	691	26,649	37,642
11,196	3,044	34,427	70,639
<u>254,550</u>	<u>142,234</u>	<u>1,425,105</u>	<u>7,302,186</u>
10,713	-	50,206	92,250
-	-	696,303	696,303
731,182	186,260	674,666	2,531,237
-	-	13,700	13,700
17,903	5,984	66,947	150,113
67,939	-	551,294	619,233
-	-	7,122	7,122
38,254	53,765	98,330	266,670
1,605,293	749,340	3,673,916	7,841,542
104,625	30,141	132,756	399,451
33,323	31,734	31,905	147,858
29,258	3,117	4,623	78,370
(734,311)	(377,551)	(1,911,548)	(3,749,097)
<u>1,904,179</u>	<u>682,790</u>	<u>4,090,219</u>	<u>9,094,751</u>
<u>2,158,729</u>	<u>825,024</u>	<u>5,515,323</u>	<u>16,396,936</u>
-	-	14,327	14,458
-	-	26,720	26,720
28,203	12,752	52,640	123,683
<u>28,203</u>	<u>12,752</u>	<u>93,687</u>	<u>164,861</u>

(continued on next page)

State of Oregon

Statement of Net Position
Discretely Presented Component Units
June 30, 2016
(In Thousands)
(continued from previous page)

	<u>SAIF</u>	<u>University of</u>
	<u>Corporation</u>	<u>Oregon</u>
LIABILITIES		
Current Liabilities:		
Accounts and Interest Payable	111,769	70,032
Obligations Under Securities Lending	52,284	11,417
Due to Other Governments	1,243	-
Due to Primary Government	28,873	5,152
Unearned Revenue	226,901	58,307
Compensated Absences Payable	4,501	12,365
Reserve for Loss and Loss Adjustment Expense	261,404	-
Claims and Judgments Payable	-	-
Custodial Liabilities	15,295	20,677
Contracts, Mortgages, and Notes Payable	433	2,362
Bonds/COPs Payable	-	612
Obligations Under Capital Lease	-	1,004
Total Current Liabilities	<u>702,702</u>	<u>181,928</u>
Noncurrent Liabilities:		
Unearned Revenue	-	2,104
Obligations Under Life Income Agreements	-	51,726
Compensated Absences Payable	-	7,792
Reserve for Loss and Loss Adjustment Expense	2,647,214	-
Claims and Judgments Payable	-	-
Custodial Liabilities	-	-
Contracts, Mortgages, and Notes Payable	10,205	50,441
Net Pension Liability	34,187	94,966
Bonds/COPs Payable	-	129,158
Obligations Under Capital Lease	-	49,687
Advances from Primary Government	-	543,918
Net OPEB Obligation	4,427	6,256
Derivative Instrument Liabilities	-	-
Total Noncurrent Liabilities	<u>2,696,033</u>	<u>936,048</u>
Total Liabilities	<u>3,398,735</u>	<u>1,117,976</u>
DEFERRED INFLOWS OF RESOURCES		
Hedging Derivatives	-	-
Gain on Refunding	-	-
Related to Pensions	7,894	23,122
Total Deferred Inflows of Resources	<u>7,894</u>	<u>23,122</u>
Net Position		
Net Investment in Capital Assets	15,267	759,972
Restricted-Nonexpendable	-	518,829
Restricted for:		
Education	-	519,231
Workers' Compensation	1,505,703	-
Debt Service	-	-
Capital Projects	-	26,815
Unrestricted	-	34,535
Total Net Position	<u>\$ 1,520,970</u>	<u>\$ 1,859,382</u>

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

State of Oregon

Oregon State University	Portland State University	Other	Total
84,871	30,049	285,362	582,083
7,247	5,861	4,725	81,534
-	-	26,647	27,890
17,752	12,538	8,413	72,728
60,852	32,685	160,314	539,059
22,047	8,184	83,691	130,788
-	-	-	261,404
-	-	30,576	30,576
1,590	8,706	1,747	48,015
2,539	970	4,267	10,571
201	-	13,626	14,439
-	-	982	1,986
<u>197,099</u>	<u>98,993</u>	<u>620,349</u>	<u>1,801,071</u>
-	-	-	2,104
23,716	1,261	26,449	103,152
7,757	1,161	1,105	17,815
-	-	-	2,647,214
-	-	31,890	31,890
-	-	66,826	66,826
30,106	21,523	38,674	150,949
114,748	52,642	320,072	616,615
56,757	-	871,022	1,056,937
-	111	4,341	54,139
332,993	244,324	197,292	1,318,527
6,701	3,358	11,891	32,633
-	-	19,153	19,153
<u>572,778</u>	<u>324,380</u>	<u>1,588,715</u>	<u>6,117,954</u>
<u>769,877</u>	<u>423,373</u>	<u>2,209,064</u>	<u>7,919,025</u>
4	-	-	4
-	-	2,951	2,951
27,939	12,817	68,195	139,967
<u>27,943</u>	<u>12,817</u>	<u>71,146</u>	<u>142,922</u>
678,484	234,472	1,106,251	2,794,446
390,743	51,959	264,178	1,225,709
345,902	51,634	912,430	1,829,197
-	-	-	1,505,703
3,334	-	1,377	4,711
5,565	35,385	3,137	70,902
(34,916)	28,136	1,041,427	1,069,182
<u>\$ 1,389,112</u>	<u>\$ 401,586</u>	<u>\$ 3,328,800</u>	<u>\$ 8,499,850</u>

State of Oregon

Statement of Revenues, Expenses, and Changes in Net Position
Discretely Presented Component Units
For the Year Ended June 30, 2016
(In Thousands)

	SAIF Corporation	University of Oregon	Oregon State University
Operating Revenues:			
Federal Revenue	\$ -	\$ 92,664	\$ 176,078
Charges for Services	-	388,110	302,949
Rents and Royalties	-	-	-
Sales	-	191,361	201,373
Premiums Earned (net)	491,229	-	-
Gifts, Grants, and Contracts	-	136,067	123,736
Other Revenues	29,980	10,361	8,765
Total Operating Revenues	<u>521,209</u>	<u>818,563</u>	<u>812,901</u>
Operating Expenses:			
Salaries and Wages	-	574,265	758,722
Services and Supplies	-	196,024	273,442
Loss and Loss Adjustment Expense	325,680	-	-
Policyholders' Dividends	119,993	-	-
Underwriting Expenses	141,016	-	-
Mortgage Assistance Payments	-	-	-
Bond and COP Interest	-	-	-
Depreciation and Amortization	-	57,370	50,520
Special Payments	-	128,649	41,912
Other Expenses	1,118	-	-
Total Operating Expenses	<u>587,807</u>	<u>956,308</u>	<u>1,124,596</u>
Operating Income (Loss)	<u>(66,598)</u>	<u>(137,745)</u>	<u>(311,695)</u>
Nonoperating Revenues (Expenses):			
Investment Income	(22,939)	28,814	3,121
State Appropriations	-	66,562	194,700
Other Grants	-	31,869	47,093
Gain/(Loss) on Disposition of Assets	-	(3,144)	(1,287)
Other Interest Expense	-	(27,179)	(19,944)
Other	-	(2,610)	24,168
Total Nonoperating Revenues (Expenses)	<u>(22,939)</u>	<u>94,312</u>	<u>247,851</u>
Income (Loss) Before Capital Contributions	<u>(89,537)</u>	<u>(43,433)</u>	<u>(63,844)</u>
Capital Contributions	-	19,026	50,235
Nonexpendable Donations	-	-	129
Special and Extraordinary Items:			
Special Item	-	-	21,431
Total Special and Extraordinary Items	<u>-</u>	<u>-</u>	<u>21,431</u>
Change in Net Position	<u>(89,537)</u>	<u>(24,407)</u>	<u>7,951</u>
Net Position - Beginning	1,630,596	1,885,031	1,381,161
Prior Period Adjustments	(11,070)	(1,242)	-
Cumulative Effect of Change in Accounting Principles	(9,018)	-	-
Net Position - Beginning - As Restated	<u>1,610,507</u>	<u>1,883,789</u>	<u>1,381,161</u>
Net Position - Ending	<u>\$ 1,520,970</u>	<u>\$ 1,859,382</u>	<u>\$ 1,389,112</u>

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

State of Oregon

Portland State University	Other	Total	Adjustments to Recast	Statement of Activities
\$ 41,948	\$ 14,859	\$ 325,549	\$ (325,549)	\$ -
187,830	2,278,526	3,157,415	1,190,729	4,348,144
-	741	741	(741)	-
92,663	57,047	542,444	(542,444)	-
-	-	491,229	(491,229)	-
59,841	932,567	1,252,211	1,013,745	2,265,956
5,591	145,405	200,102	(200,102)	-
387,873	3,429,145	5,969,691	644,409	6,614,100
353,528	2,058,451	3,744,966	-	3,744,966
114,260	978,885	1,562,611	-	1,562,611
-	-	325,680	-	325,680
-	-	119,993	-	119,993
-	-	141,016	-	141,016
-	17,492	17,492	-	17,492
-	34,632	34,632	-	34,632
25,884	162,563	296,337	-	296,337
38,416	23,336	232,313	-	232,313
-	-	1,118	-	1,118
532,088	3,275,358	6,476,157	-	6,476,157
(144,215)	153,787	(506,466)	644,409	137,943
3,633	12,744	25,373	(25,373)	-
106,026	126,145	493,433	(493,433)	-
52,371	38,057	169,390	(169,390)	-
(131)	2,954	(1,608)	1,608	-
(12,972)	(7,762)	(67,857)	67,857	-
2,893	1,227	25,678	(25,678)	-
151,820	173,365	644,409	(644,409)	-
7,605	327,152	137,943	-	137,943
1,327	61,148	131,736	-	131,736
-	-	129	-	129
4,040	106,010	131,481	-	131,481
4,040	106,010	131,481	-	131,481
12,972	494,309	401,288	-	401,288
388,614	2,834,491	8,119,893	-	8,119,893
-	-	(12,312)	-	(12,312)
-	-	(9,018)	-	(9,018)
388,614	2,834,491	8,098,562	-	8,098,562
\$ 401,586	\$ 3,328,800	\$ 8,499,850	\$ -	\$ 8,499,850

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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, and courts 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 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, 2015, financial information of SAIF is included in this report. Because SAIF has a fiscal year different from the State, balances outstanding between SAIF and the State do not agree. SAIF reports \$131 thousand as Due from Primary Government while the State does not report a Due to Component Unit for any balances related to SAIF. Additionally, SAIF reports a Due to Primary Government of \$28.9 million for premium assessments, but the State reports a Due from Component Unit for SAIF of \$341 thousand.

Pursuant to Senate Bill (SB) 270, passed by the Oregon Legislature during fiscal year 2013, Western Oregon University (WOU), Southern Oregon University (SOU), Eastern Oregon University (EOU), and Oregon Institute of Technology (OIT) are each an independent public body legally separate from the State as of July 1, 2015. These four universities join University of Oregon (UO), Oregon State University (OSU), and Portland State University (PSU) which became independent public bodies legally separate from the State the year before. Each university is governed by a citizen board appointed by the Governor. The universities are primarily financed through student tuition and fees, sales and services of auxiliary enterprises, and federal, state, and local grants and contracts. The financial information presented for the universities include the related university's foundation. These universities also receive General Fund moneys from the State and use proprietary fund accounting principles.

Each of these universities has one or more legally separate foundations, which are not-for-profit corporations that provide assistance in fundraising, public outreach, and other support. These foundations qualify as discretely presented component units of the individual universities. Prior to the universities becoming independent of the State, the university foundations were discretely presented component units of the State. In accordance with generally accepting accounting principles for governments, the State has reported as its discretely presented component unit the consolidated balances and activities of the university and foundation, net of any entries to eliminate balances and activities between the university and its foundation. For EOU, its foundation's fiscal year ends December 31, and as a result, there are no eliminating entries for the consolidated EOU. Any balances or activity between EOU and its foundation are not considered to be significant.

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. OHSU uses proprietary fund accounting principles.

State of Oregon
Notes to the Financial Statements

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 (OHCS) 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 OHCS. Because OAHAC has a fiscal year different from the State, balances outstanding between OAHAC and the State do not agree. OAHAC reports \$100 thousand as Due to Primary Government while the State does not report a Due from Component Unit for any balances related to OAHAC. Additionally, the State reports a Due to Component Unit for OAHAC of \$122 thousand, but OAHAC does not report a Due from Primary Government.

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. OAHAC reports on a fiscal year ended December 31 and its financial statements are prepared in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification 958, *Not-for-Profit Entities*. The December 31, 2015, financial information of OAHAC is included in this report.

The State Fair Council is a newly formed independent public corporation, charged with creating a new, sustainable business model for the Oregon State Fair and Exposition Center that can capitalize on sponsorships, rapidly changing market conditions, and streamlined contracting and employment practices. The State Fair Council is a governmental entity performing governmental functions and exercising governmental powers. The Governor appoints members of the Council, and may remove them at will. It is financed primarily through fees for renting the fairground property and facilities and operating the annual Oregon State Fair. The State Fair Council completed its first year of operations on December 31, 2015, and that financial information is included in this report.

SAIF, UO, OSU, and PSU are reported as major component units due to the significant transactions with the primary government. The remaining component units are reported as nonmajor. Readers may obtain complete financial statements for SAIF, UO, OSU, PSU, OHSU, WOU, SOU, EOU, OIT, OAHAC, and the State Fair Council 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 moneys or appropriation from the State, and the State has no financial accountability for OUNC.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position 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

State of Oregon
Notes to the Financial Statements

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.

The State has chosen to report its basic financial statements, required supplementary information, combining fund financial statements, and statistical section in amounts that round to the nearest one thousand dollars. The natural round of all amounts, including subtotals and totals, has been maintained.

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:

General Fund

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. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the General Fund also accounts for and reports the balances and activities of funds from which specific restricted or committed revenues comprise less than a substantial portion of the funds' "inflows." The State considers 30 percent as "substantial" for financial reporting purposes. Prior to the implementation of GASB Statement No. 54, the *Oregon Rainy Day Fund* was 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

State of Oregon
Notes to the Financial Statements

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.

Special Revenue Funds

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 along with rebates and recoveries.

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 *Educational Support Fund* accounts for programs that provide students with opportunities to develop their academic abilities to the fullest from early childhood to postgraduate research, not including activities accounted for in the Common School Fund. Among the activities of this fund are capital project loans and grants provided to the State's eight public universities, all of which are reported as discretely presented component units of the State. The principal funding sources for these programs include federal grants, investment income and transfers from other funds.

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.

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.

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Notes to the Financial Statements

Additionally, the State reports the following fund types:

Governmental Fund Types (reported as nonmajor funds)

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, as well as state employee health benefits programs, 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 cash and investment pools managed by the Oregon State Treasury belonging to entities other than the State. Oregon reports the State's portion of the pools 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.

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 Oregon State Treasury in the OSTF, cash deposits held in demand deposit accounts with custodial banks, and cash deposits of debt proceeds in investment funds held by a trustee.

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Investments – Excluding Oregon Public Employees Retirement Fund

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 position, 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 and generally reflects the last reported sales price. For investments that do not have an active market, such as private placements, real estate, or commingled investment vehicles, the value is stated at the net asset value (NAV) of units held, or its equivalent, as reported by the fund manager or general partner. 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 – Oregon Public Employees Retirement Fund

Investments in private equities are recorded at fair value, as of June 30, 2016, 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, 2016, 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 of real estate partnerships 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 Alternatives portfolios are recorded at fair value as of June 30, 2016, as determined by the respective general partner or account manager. (The Opportunity portfolio is an investment portfolio within the PERS Fund that utilizes investment approaches across a wide range of investment opportunities, while investments in the Alternatives portfolio represent alternative investment strategies, including infrastructure, natural resources, natural resource commodities, and hedge fund strategies.) Investments in these portfolios are reported at the net asset value as provided by the general partner. 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,

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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, Alternatives, 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, and the recorded fair values may differ from the amounts that eventually may be realized from the sale or other disposition of these investments.

Derivatives

In accordance with State investment policies, the Oregon State Treasury 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, quickly and cost effectively replicate certain asset class exposures (e.g. stocks, bonds), and manage overall fund risk.

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

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

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 statement of net position 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 thousand 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 acquisition 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 depreciable 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 position, 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 statement of net position. Bond or certificate of participation (COP) premiums and discounts are reported as a direct addition to or deduction from the applicable bond/COP payable and amortized over the term of the debt. Bond/COP issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred. Prepaid insurance costs are reported as a prepaid item and are amortized over the duration of the related bond/COP.

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. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, revenues are recognized when earned. Contributions are recognized when due, pursuant to legal (or statutory) requirements. Benefits are recognized in the month they are earned and withdrawals are recognized in the month they are due and payable. Plan investments are reported at fair value.

P. Fund Equity

The difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources is labeled "Net Position" on the government-wide, proprietary fund, and fiduciary fund financial statements and "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 balances 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 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 the Legislature via the budget process when there is no legislation other than a budget bill imposing constraints.

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. Refer to Note 19 for additional information on fund equity.

In the government-wide statement of net position and the proprietary fund statement of net position, net position is reported in three components: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. Restricted net position results from restrictions imposed on a portion of net position 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.

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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, as there is no statewide flow assumption policy. 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 and the Education Stability Fund, and both are reported in the General Fund. The resources in both funds may be expended only when specific non-routine budget shortfalls occur. Refer to Note 19 for additional information about the stabilization funds.

Q. Changes in Accounting Principle

For the fiscal year ended June 30, 2016, the State implemented four new accounting standards issued by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Refer to Note 2 for additional information.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* clarifies the application of certain provisions of Statements 67 and 68 with regard to (1) information that is required to be presented as notes to the 10-year schedules of required supplementary information (RSI) about investment-related factors that significantly affect trends in the amounts reported, and (2) accounting and financial reporting for separately financed specific liabilities of individual employers for defined benefit pensions. Refer to the RSI schedules related to the defined benefit plan for additional information.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies the sources of accounting principles used to prepare financial statements of state and local government entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. This Statement also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses (1) the presentation of payroll-related measures in required supplementary information (RSI), (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Refer to the RSI schedules related to the defined benefit plan for additional information.

R. Pending Changes in Accounting Principle

Three new accounting standards are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* has been issued to improve the usefulness of information about postemployment benefits other than pension (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

GASB Statement No. 77, *Tax Abatement Disclosures* establishes the definition of a tax abatement for financial reporting purposes and requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

The objective of GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* is to improve financial reporting by clarifying the financial statement

presentation requirements of certain component units. The additional criterion may require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

The State is currently evaluating the impact of these standards on future financial statements.

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 investments, although the majority of equity investments are currently directed by external investment managers under contract with the Council. Furthermore, common stock investments are limited to not more than 50 percent of the moneys contributed to the Oregon Public Employees Retirement Fund (OPERF) and not more than 65 percent of the other trust and endowment fund managed by the Council or the Treasury. The Deferred Compensation Fund, the Education Stability Fund, and Common School Fund may also invest in common stock.

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 an 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, 350 Winter St 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](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx)

The Treasurer also maintains the Oregon Intermediate-Term Pool (OITP), an investment pool that is available for use by state agencies with statutory authority, and limited external participants. 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 an investment trust fund. A separate financial report for the OITP is prepared by the Treasurer. Copies of the report may be obtained from the Oregon State Treasury, 350 Winter St NE, Suite 100, Salem, Oregon 97301-3896, or from the Treasury's website at:

<http://www.oregon.gov/treasury/Divisions/Investment/Pages/OITP.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. 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 depository failure or 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 Treasury uses an internally-developed web application to administer the PFCP and facilitate depository,

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custodian, and public official compliance with ORS Chapter 295. Under the PFCP, depositories are required to report quarterly to the Treasury, providing quarter-end public fund balances in excess of Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA) limits. Depositories are also required to report their net worth and capitalization information. The FDIC or NCUA assigns each bank or credit union a capitalization category quarterly: well capitalized, adequately capitalized, or undercapitalized. Based on this information, the depository's minimum collateral required to be pledged with the custodian and the maximum liability in the pool of all depositories are calculated for the next quarter. The maximum liability is reported to the depository, the Treasury, and the custodian.

Barring any exceptions, a depository is required to pledge collateral valued at no less than 10 percent of its last reported uninsured public funds deposits if the depository is well capitalized and as much as 110 percent if the depository 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 depository may not accept public fund deposits from one depositor in excess of the depository's net worth. If the depository has a drop in net worth that takes it out of compliance, the depository is required to post 100 percent collateral on any amount the depositor has in excess of the depository's net worth while working to eliminate that excess.
2. A depository may not hold aggregate public funds in excess of a percentage of the depository'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 depository may hold in excess of 30 percent of all aggregate public funds reported by all depository's holding Oregon public funds, only if the excess is collateralized at 100 percent.

Where interest-bearing balances within the OSTF exceed the FDIC or NCUA amount of \$250 thousand, the balances are covered by collateral in the PFCP.

As of June 30, 2016, \$1.4 billion in other depository balances were exposed to custodial credit risk as the balances were uninsured and uncollateralized.

The bank balance of money market accounts held by Oregon Housing and Community Services Department's (OHCS D) Bond Trustee as agent totaled \$38 million. The deposits are subject to custodial credit risk. They are held by the Trustee but are not in OHCS D's name.

Custodial Credit Risk for Investments

Custodial credit risk for investments 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, 2016, the State had \$275.7 million of investments exposed to custodial credit risk. Investments with the trustee of Oregon Housing and Community Services Department (OHCS D) consisted of \$1.6 million in U.S. Treasury obligations, \$217.3 million in U.S. Agency securities, and \$56.8 million in municipal bonds. They are held at the Federal Reserve under the name of OHCS D's bond trustee for the benefit of OHCS D.

B. Investments – Primary Government (Excluding the OPERF)

Investments Managed by Treasury

Investments of the primary government (excluding 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.

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Interest Rate Risk

Investment policy for fixed income portfolios 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, staggered maturities, and in some portfolios, duration. 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.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based upon the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
- Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

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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, 2016 (in thousands):

Reporting Fund ¹	Investment Type	Credit Rating ²	Investment Maturities (in years)			Balance at June 30, 2016		
			Less than 1	1 to 5	6 to 10			
Public Transportation	Asset-backed	AAA	\$ 9,427	\$ 6,841	\$ -	\$ 16,268		
			9,427	6,841	-	16,268		
	U.S. Federal agency debt	AA	-	7,534	-	7,534		
			-	7,534	-	7,534		
	Collateralized mortgage obligations	AAA	-	2,032	-	2,032		
			-	2,032	-	2,032		
	Municipal bonds	AAA	-	576	-	576		
			-	1,037	-	1,037		
			-	1,613	-	1,613		
	Corporate bonds	AA	1,970	2,050	-	4,020		
A			11,002	3,262	-	14,264		
BBB			14,308	7,715	-	22,023		
27,280			13,027	-	40,307			
			36,706	31,046	-	67,753		
Employment Services	U.S. Treasury securities ²	Exempt	-	9,330	5,158	14,488		
			-	9,330	5,158	14,488		
	U.S. Federal agency debt	AA	650	26,435	-	27,085		
			650	26,435	-	27,085		
	U.S. Federal agency mortgages	Not rated	-	-	1,552	1,552		
			-	-	1,552	1,552		
	Asset-backed	AAA	10,415	3,031	-	13,446		
			10,415	3,031	-	13,446		
	Municipal bonds	AA	502	2,661	1,929	5,092		
			502	2,661	1,929	5,092		
	Corporate bonds	AAA	-	-	2,115	2,115		
			3,945	2,056	-	6,001		
			9,941	8,252	-	18,193		
			9,043	27,950	3,650	40,643		
			22,929	38,258	5,765	66,952		
Oregon Intermediate Term Pool ³	Not rated	-	18,217	-	18,217			
		-	18,217	-	18,217			
Non-U.S. government debt	AAA	-	-	4,738	4,738			
		-	-	4,738	4,738			
		34,496	97,932	19,141	151,569			
Environmental Management	Oregon Intermediate Term Pool ³	Not rated	-	1,179	-	1,179		
			-	1,179	-	1,179		
Permanent	Oregon Intermediate Term Pool ³	Not rated	-	1,410	-	1,410		
			-	1,410	-	1,410		
Residential Assistance	U.S. Federal agency debt	AA	-	4,810	-	4,810		
			U.S. Treasury securities ²	Exempt	-	10,407	-	10,407
					-	15,216	-	15,216
Business Development	Oregon Intermediate Term Pool ³	Not rated	-	23,778	-	23,778		
			-	23,778	-	23,778		
Total			\$ 71,202	\$ 170,561	\$ 19,141	\$ 260,905		

¹ Refer to the separate Common School Fund schedule.

² Investments of \$24,895 of U.S. Treasury obligations are explicitly guaranteed by the U.S. government and, therefore, are exempt from credit risk disclosure requirements.

³ Refer to the separate Oregon Intermediate Term Pool schedule.

State of Oregon
Notes to the Financial Statements

Fair value measurement for the investments at Treasury held within the governmental funds, excluding the Common School Fund at June 30, 2016 (in thousands):

Reporting Fund	Investment type	Level 1	Level 2	Level 3	Total
Public Transportation	Asset-backed	\$ -	\$ 16,268	\$ -	\$ 16,268
	U.S. Federal agency debt	-	7,534	-	7,534
	Collateralized mortgage obligations	-	2,032	-	2,032
	Municipal bonds	-	1,613	-	1,613
	Corporate bonds	-	40,307	-	40,307
		-	67,753	-	67,753
Employment Services	U.S. Treasury securities	-	14,488	-	14,488
	U.S. Federal agency debt	-	27,085	-	27,085
	U.S. Federal agency mortgages	-	1,552	-	1,552
	Asset-backed	-	13,446	-	13,446
	Municipal bonds	-	5,092	-	5,092
	Corporate bonds	-	66,952	-	66,952
	Non-U.S. government debt	-	4,738	-	4,738
		-	133,352	-	133,352
Residential Assistance	U.S. Federal agency debt	-	4,810	-	4,810
	U.S. Treasury securities	-	10,407	-	10,407
		-	15,216	-	15,216
		\$ -	\$ 216,321	\$ -	216,321

Investments valued at NAV:

Employment Services	Oregon Intermediate Term Pool	18,217
Environmental Management	Oregon Intermediate Term Pool	1,179
Permanent	Oregon Intermediate Term Pool	1,410
Business Development	Oregon Intermediate Term Pool	23,778
		<u>44,584</u>
Total		<u>\$ 260,905</u>

Investments not valued at NAV have market valuations made by third-party vendors who use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. These investments are considered Level 2.

State of Oregon
Notes to the Financial Statements

The credit rating for the Common School Fund's investments held at Treasury and using the segmented time distribution method at June 30, 2016 (in thousands):

Investment Type	Credit Rating ¹	Investment Maturities (in years)				Balance at June 30, 2016
		Less than 1	1 to 5	6 to 10	More than 10 or none	
U.S. Treasury securities	Exempt	\$ -	\$ 14,095	\$ 2,032	\$ 15,959	\$ 32,085
U.S. Treasury TIPS	Exempt	1,855	-	3,633	4,560	10,048
U.S. Federal agency debt	AA	-	-	-	137	137
U.S. Federal agency mortgages	Not rated	5,575	45	337	27,802	33,759
		<u>7,430</u>	<u>14,140</u>	<u>6,002</u>	<u>48,458</u>	<u>76,030</u>
Non-U.S. government debt	AA	-	-	297	-	297
	A	-	2	2,444	1,315	3,762
	BBB	-	-	1,990	1,954	3,944
	BB	392	-	1,922	563	2,876
	B	-	171	600	470	1,240
	CCC	-	246	-	-	246
	Not rated	-	-	590	-	590
		<u>392</u>	<u>419</u>	<u>7,843</u>	<u>4,302</u>	<u>12,956</u>
Municipal bonds	AAA	195	-	-	-	195
		<u>195</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>195</u>
Corporate bonds	AA	-	251	481	34	766
	A	150	4,121	5,964	4,450	14,685
	BBB	1,866	5,326	8,735	9,748	25,675
	BB	128	760	1,248	3,347	5,483
	B	-	207	377	-	584
	CCC	-	18	49	-	67
		<u>2,144</u>	<u>10,682</u>	<u>16,855</u>	<u>17,579</u>	<u>47,260</u>
International debt securities	AA	-	410	-	-	410
	A	203	1,632	2,061	574	4,470
	BBB	189	1,411	2,411	1,587	5,598
	BB	-	572	1,091	489	2,153
	B	-	727	392	152	1,271
	CCC	-	-	206	-	206
		<u>392</u>	<u>4,752</u>	<u>6,161</u>	<u>2,803</u>	<u>14,108</u>
Asset-backed securities	AAA	547	-	-	7	554
	AA	3,035	-	-	259	3,294
	A	1,512	2	-	-	1,514
	BB	1,469	-	-	-	1,469
	B	317	-	-	-	317
	CCC	1,468	-	-	-	1,468
	CC	1,161	-	-	-	1,161
	C	811	-	-	-	811
	Not Rated	80	-	-	186	266
		<u>10,401</u>	<u>2</u>	<u>-</u>	<u>452</u>	<u>10,854</u>
Collateralized mortgage obligations	AAA	9	-	-	-	9
	AA	458	-	-	-	458
	A	2,105	-	-	-	2,105
	BBB	1,639	-	-	-	1,639
	BB	1,051	-	-	-	1,051
	B	577	-	-	-	577
	CCC	389	-	-	-	389
	D	285	-	-	-	285
		<u>6,514</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,514</u>
Collateralized mortgage-backed securities	AAA	402	-	-	966	1,368
	AA	576	-	104	774	1,454
	A	64	-	-	70	134
	BBB	57	-	-	-	57
	B	852	-	-	717	1,569
	CCC	2,561	233	-	190	2,984
	Not rated	1,730	-	180	-	1,909
		<u>6,241</u>	<u>233</u>	<u>284</u>	<u>2,717</u>	<u>9,475</u>
Domestic mutual funds - debt	Not rated	235,508	-	-	-	235,508
International mutual funds - debt	Not rated	3,748	-	-	-	3,748
		<u>239,256</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>239,256</u>
		<u>\$ 272,964</u>	<u>\$ 30,228</u>	<u>\$ 37,145</u>	<u>\$ 76,310</u>	<u>416,647</u>
Domestic equity securities	N/A					295,571
International equity securities	N/A					307,397
Mutual funds - equity	N/A					169,081
Domestic real estate	N/A					13,698
International real estate	N/A					4,142
International rights and warrants	N/A					38
Private equity holdings	N/A					158,412
						<u>948,338</u>
Total						<u>\$ 1,364,985</u>

¹ Investments of \$32,085 in U.S. Treasury obligations, \$10,048 in U.S. Treasury Inflation Protected Securities (TIPS), and \$4,908 in Government National Mortgage Association (GNMA), which are reported within U.S. Federal agency mortgages, are explicitly guaranteed by the U.S. government and, therefore, are exempt from credit risk disclosure requirements.

State of Oregon
Notes to the Financial Statements

Fair value measurement for the investments at Treasury held by the Common School Fund at June 30, 2016 (in thousands):

Investment type	Level 1	Level 2	Level 3	Total
U.S. Treasury securities	\$ -	\$ 32,085	\$ -	\$ 32,085
U.S. Treasury TIPS	-	10,048	-	10,048
U.S. Federal agency debt	-	137	-	137
U.S. Federal agency mortgages	-	33,759	-	33,759
Non-U.S. government debt	-	12,956	-	12,956
Municipal bonds	-	195	-	195
Corporate bonds	-	47,260	-	47,260
International debt securities	-	14,108	-	14,108
Asset-backed securities	-	10,854	-	10,854
Collateralized mortgage obligations	-	6,514	-	6,514
Collateralized mortgage-backed securities	-	9,475	-	9,475
Domestic mutual funds - debt	9,414	226,093	-	235,508
International mutual funds - debt	-	3,748	-	3,748
Total Debt Investments	9,414	407,233	-	416,647
Equity	602,964	-	4	602,968
Mutual funds - equity	106,877	62,204	-	169,081
International rights and warrants	38	-	-	38
Real estate investment trust	17,839	-	-	17,839
Private equity holdings	-	-	158,412	158,412
	727,718	62,204	158,416	948,338
Total	\$ 737,132	\$ 469,437	\$ 158,416	\$ 1,364,985

Debt securities classified as Level 2 are valued using the latest bid prices or evaluated quotes from independent pricing vendors. The third-party vendors use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions.

Equity securities, including exchange-traded derivatives, are generally valued based on quoted prices from an active market and are therefore categorized in Level 1. In the absence of quoted market prices, such as equity securities that trade infrequently or not at all, valuations are based on the last traded price or prices provided by investment managers and are generally categorized in Level 3.

Funds priced using a net asset value ("NAV") that is published daily and validated with a sufficient level of observable activity are categorized in Level 1. If observable activity is limited, yet supports that the NAV represents an exit value of the security at the measurement date, the securities are categorized in Level 2. Investments that are measured at NAV as a practical expedient, such as private equity, are excluded from the fair value hierarchy if the NAV per share (or its equivalent) was calculated in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies. Funds not meeting this criterion are categorized in Level 3.

Investments in real estate, which consist of investments in real estate investment trusts, are generally valued based on an active market price and are categorized in Level 1.

Private equity consists of 13 funds, organized as limited partnerships and limited liability companies, participating in diversified strategies including leveraged-buyouts, venture capital, growth equity, fund of funds, co-investments and special situations. The fair values of the private equity investments have been determined using the NAV per share (or its equivalent) as provided by the general partner or managing member. These investments can never be redeemed with the fund. Distributions will be received as the underlying investments of the funds are liquidated, which is expected to occur over the next 12-14 years.

State of Oregon
Notes to the Financial Statements

The Oregon Intermediate Term Pool (OITP) is an external investment pool managed by the Treasurer. It is expected to provide a total return consistent with an investment grade quality, short duration diversified fixed income portfolio. The credit rating for the investments held within the OITP and using the average modified duration method at June 30, 2016 (in thousands):

Investment Type	Credit Rating	Balance at June 30, 2016	Average Modified Duration (in years)
U.S. Federal agency debt	AA	\$ 12,344	3.20
		12,344	
U.S. Federal agency commercial mortgage-backed securities	Not Rated	4,318	3.47
		4,318	
U.S. Federal agency residential mortgage-backed securities	Not Rated	5,670	2.00
		5,670	
U.S. Treasury debt	AAA	67,161	3.35
		67,161	
Asset-backed securities	AAA	53,271	1.43
		53,271	
Corporate bonds	AAA	2,125	
	AA	8,386	
	A	29,828	
	BBB	74,871	
		115,210	2.75
Commercial mortgage-backed securities	AAA	28,509	2.54
		28,509	
Municipal bonds	AA	3,877	
	A	2,759	
		6,636	2.40
Total		\$ 293,119	

Fair value measurement for the OITP at June 30, 2016 (in thousands):

	Level 1	Level 2	Level 3	Balance at June 30, 2016
Investments:				
U.S. Federal agency debt	\$ -	\$ 12,344	\$ -	\$ 12,344
U.S. Federal agency commercial mortgage-backed securities	-	4,318	-	4,318
U.S. Federal agency residential mortgage-backed securities	-	5,670	-	5,670
U.S. Treasury debt	-	67,161	-	67,161
Asset-backed securities	-	53,271	-	53,271
Corporate bonds	-	115,210	-	115,210
Commercial mortgage-backed securities	-	28,509	-	28,509
Municipal bonds	-	6,636	-	6,636
Total	\$ -	\$ 293,119	\$ -	\$ 293,119

The Pool's investments, other than those with remaining maturities of fewer than ninety days, are valued using the latest bid prices or evaluated quotes from independent pricing vendors. The third-party vendors use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions.

State of Oregon
Notes to the Financial Statements

Investments with remaining maturities of fewer than ninety days are carried at amortized cost, which approximates fair value. All of the Pool's investments at June 30, 2016 are considered Level 2.

The credit rating for the investments at Treasury held by proprietary funds and using the segmented time distribution method at June 30, 2016 (in thousands):

Reporting Fund	Investment Type	Credit Rating ²	Investment Maturities (in years)				Balance at June 30, 2016
			Less than 1	1 to 5	6 to 10	More than 10 or none	
Housing and Community Services ¹	U.S. Treasury obligations	Exempt	\$ -	\$ -	\$ 149	\$ 1,247	\$ 1,396
	U.S. Federal agency debt	AA	-	-	973	577	1,550
			-	-	1,122	1,824	2,946
Veterans' Loan	Oregon Intermediate Term Pool ³	Not rated	-	10,614	-	-	10,614
			-	10,614	-	-	10,614
Lottery Operations	U.S. Treasury strips	Exempt	10,035	36,718	41,212	51,737	139,701
	U.S. Federal agency strips	Not rated	2,118	4,007	1,584	-	7,709
			12,153	40,725	42,796	51,737	147,411
Special Public Works	Oregon Intermediate Term Pool ³	Not rated	-	10,727	-	-	10,727
			-	10,727	-	-	10,727
Central Services	U.S. Treasury obligations	Exempt	-	5,496	2,063	-	7,559
			-	5,496	2,063	-	7,559
	U.S. Federal agency debt	AA	-	25,905	-	-	25,905
			-	25,905	-	-	25,905
	U.S. Federal agency mortgages	Not rated	-	-	964	-	964
			-	-	964	-	964
	Asset-backed securities	AAA	-	1,006	-	-	1,006
			-	1,006	-	-	1,006
	Corporate bonds	AAA	-	-	2,115	-	2,115
			990	-	1,633	-	2,623
			5,474	4,367	1,081	-	10,923
			3,231	5,133	1,054	-	9,418
			9,695	9,500	5,883	-	25,078
Non-U.S. government debt	AAA	-	-	2,663	-	2,663	
		A	3,006	-	-	3,006	
		3,006	-	2,663	-	5,669	
		12,701	41,907	11,572	-	66,181	
Total			\$ 24,854	\$ 103,973	\$ 55,490	\$ 53,561	\$ 237,877

¹ \$275,679 in investments are held outside Treasury. Refer to the separate schedule.

² Investments of \$8,955 in U.S. Treasury obligations and \$139,701 in U.S. Treasury Strips are explicitly guaranteed by the U.S. government and, therefore, are exempt from credit risk disclosure requirements.

³ Refer to the separate Oregon Intermediate Term Pool schedule.

State of Oregon
Notes to the Financial Statements

The fair value measurement for the investments at Treasury held by proprietary funds at June 30, 2016 (in thousands):

Reporting Fund	Investment type	Level 1	Level 2	Level 3	Balance at June 30, 2016
Housing and Community Services	U.S. Treasury obligations	\$ -	\$ 1,396	\$ -	\$ 1,396
	U.S. Federal agency debt	-	1,550	-	1,550
		-	2,946	-	2,946
Lottery Operations	U.S. Treasury strips	-	139,701	-	139,701
	U.S. Federal agency strips	-	7,709	-	7,709
		-	147,411	-	147,411
Central Services	U.S. Treasury obligations	-	7,559	-	7,559
	U.S. Federal agency debt	-	25,905	-	25,905
	U.S. Federal agency mortgages	-	964	-	964
	Asset-backed securities	-	1,006	-	1,006
	Corporate bonds	-	25,078	-	25,078
	Non-U.S. government debt	-	5,669	-	5,669
		-	66,181	-	66,181
		\$ -	\$ 216,537	\$ -	216,537
Investments valued at NAV					
Veterans' Loan	Oregon Intermediate Term Pool				10,614
Special Public Works	Oregon Intermediate Term Pool				10,727
					21,341
Total					\$ 237,877

Investments not valued at NAV have market valuations made by third-party vendors who use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. These investments are considered Level 2.

State of Oregon
Notes to the Financial Statements

Investments not Managed by 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 at June 30, 2016 (in thousands):

Reporting Fund	Investment Type	Credit Rating ³	Investment Maturities (in years)				Balance at June 30, 2016
			Less than 1	1 to 5	6 to 10	More than 10 or none	
Common School	U.S. Treasury Strips ¹	Exempt	\$ 4	\$ -	\$ -	\$ -	\$ 4
	U.S. Federal agency strips ¹	AAA	1	-	-	-	1
	Municipal bonds ¹	AAA	38	-	-	-	38
	Corporate bonds ¹	AAA	44	-	-	-	44
	Domestic mutual funds - debt ¹	Not rated	8,513	-	-	-	8,513
			<u>8,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,600</u>
Revenue Bond	GICs ⁴	N/A	-	-	-	2,523	2,523
			-	-	-	2,523	2,523
Housing and Community Services	U.S. Treasury obligations	Exempt	-	1,017	575	-	1,593
	U.S. Federal agency debt	AA+	7,197	3,300	11,171	32,562	54,231
		Not rated	163,061	-	-	-	163,061
			<u>170,258</u>	<u>3,300</u>	<u>11,171</u>	<u>32,562</u>	<u>217,291</u>
	Municipal bonds	AAA	-	-	17,595	28,405	46,000
		AA+	-	-	-	5,015	5,015
	AA	-	-	-	5,780	5,780	
			<u>-</u>	<u>-</u>	<u>17,595</u>	<u>39,200</u>	<u>56,795</u>
			<u>170,258</u>	<u>4,317</u>	<u>29,342</u>	<u>71,762</u>	<u>275,679</u>
Private Purpose Trust	U.S. Treasury obligations	Exempt	191	-	1	17	209
	Domestic mutual funds - debt	Not rated	7	-	-	542	549
			<u>199</u>	<u>-</u>	<u>1</u>	<u>559</u>	<u>759</u>
Agency	U.S. Treasury obligations ²	Exempt	14,210	39,169	-	-	53,379
	Municipal bonds ²	AAA	-	119	-	-	119
		Not Rated	3,331	-	-	-	3,331
			<u>3,331</u>	<u>119</u>	<u>-</u>	<u>-</u>	<u>3,451</u>
		<u>17,541</u>	<u>39,289</u>	<u>-</u>	<u>-</u>	<u>56,830</u>	
		<u>\$ 196,597</u>	<u>\$ 43,606</u>	<u>\$ 29,343</u>	<u>\$ 74,845</u>	<u>344,391</u>	
Educational Support	Alternative Equities	N/A					69,824
Common School	Alternative equities ¹	N/A					5
	Domestic equity securities ¹	N/A					6,269
	International equity securities ¹	N/A					68
	Real estate and real estate mortgages	N/A					4,500
Private Purpose Trust	Domestic equity securities	N/A					143
	Annuity contracts	N/A					178
Total							<u>\$ 425,377</u>

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 position.

³ Investments of \$55,181 in U.S. Treasury obligations and \$4 in U.S. Treasury strips are explicitly guaranteed by the U.S. government and, therefore, exempt from credit risk disclosure requirements.

⁴ Guaranteed investment contracts.

State of Oregon
Notes to the Financial Statements

The fair value measurement for investments held outside Treasury at June 30, 2016 (in thousands):

Reporting Fund	Investment type	Level 1	Level 2	Level 3	Balance at June 30, 2016
Common School	U.S. Treasury strips	\$ 4	\$ -	\$ -	\$ 4
	U.S. Federal agency strips	1	-	-	1
	Municipal bonds	-	38	-	38
	Corporate bonds	-	44	-	44
	Domestic mutual funds - debt	8,511	2	-	8,513
	Alternative Equities	-	-	5	5
	Domestic equity securities	6,269	-	-	6,269
	International equity securities	68	-	-	68
	Real estate and real estate mortgages	-	-	4,500	4,500
		<u>14,853</u>	<u>84</u>	<u>4,505</u>	<u>19,442</u>
Housing and Community Services	U.S. Treasury obligations	-	1,593	-	1,593
	U.S. Federal agency debt	-	217,291	-	217,291
	Municipal bonds	56,795	-	-	56,795
		<u>56,795</u>	<u>218,884</u>	<u>-</u>	<u>275,679</u>
Private Purpose Trust	U.S. Treasury obligations	-	209	-	209
	Domestic equity securities	143	-	-	143
		<u>143</u>	<u>209</u>	<u>-</u>	<u>352</u>
Agency	U.S. Treasury obligations	-	53,379	-	53,379
	Municipal bonds	-	3,451	-	3,451
		<u>-</u>	<u>56,830</u>	<u>-</u>	<u>56,830</u>
		<u>\$ 71,791</u>	<u>\$ 276,007</u>	<u>\$ 4,505</u>	<u>352,303</u>
Investments reported at NAV:					
Educational Support	Alternative Equities				69,824
Revenue Bond	GICs ¹				2,523
Private Purpose Trust	Domestic mutual funds - debt				549
	Annuity Contracts				178
Total					<u>\$ 425,377</u>

¹GICs are exempt from fair value reporting under GASB 72.

Equity securities are generally valued based on quoted prices from an active market and are therefore categorized in Level 1. In the absence of quoted market prices, such as equity securities that trade infrequently or not at all, valuations are based on the last traded price or prices provided by investment managers and are generally categorized in Level 3.

Debt securities classified as Level 2 are valued using the latest bid prices or evaluated quotes from independent pricing vendors. The third-party vendors use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. When independent price sources are not available, debt securities are categorized in Level 3.

Funds priced using a net asset value (NAV) that is published daily and validated with a sufficient level of observable activity are categorized in Level 1. If observable activity is limited, yet supports that the NAV represents an exit value of the security at the measurement date, the securities are categorized in Level 2. Investments that are measured at NAV as a practical expedient, such as private and alternative equities, are excluded from the fair value hierarchy if the NAV per share (or its equivalent) was calculated in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies. Funds not meeting this criterion are categorized in Level 3. Alternative equities in the Educational Support fund are limited partnerships with a finite term, typically ten years or greater, at which time they are expected to be fully liquidated. The partnerships provide valuation in the form of NAV, normally adjusting audited December 31 statements to estimated NAV at June 30. However, there is no assurance at the time of liquidation that the NAV will match the actual liquidation amount of the partnerships.

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Investments in real estate, which consists of investments in real estate investment trusts, are generally valued based on an active market price and are categorized in Level 1. Real estate property investments held outside of Treasury are valued by appraisals using market sales approach and income approach.

Investments of the Oregon Short-Term Fund (OSTF)

The OSTF is a short-term investment vehicle. A number of local governments in Oregon as well as all state agencies participate in the OSTF. 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 position. The external portion of the OSTF is reported within an 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 or reset within 93 days; not more than 25 percent of the portfolio may mature or reset in over a year; and no investments may mature or reset 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. For fixed rate securities with a put option, the date upon which the put option is fully exercisable for at least 100 percent of the face value is used instead of the maturity date, and for variable rate securities with a put option, the earlier of the next variable reset date or the put date is used instead of maturity date. For asset-backed securities, the weighted average life will be used as the maturity date proxy.

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Notes to the Financial Statements

Interest rate and credit risk for the OSTF investments as of June 30, 2016 (in thousands):

Investment Type	Credit Rating	Investment Maturities			Balance at June 30, 2016
		Up to 93 Days	94 to 366 Days	One to Three Years	
U.S. Treasury obligations	Exempt	\$ 1,840,318	\$ 455,916	\$ 617,210	\$ 2,913,444
U.S. Federal agency debt	Not rated ³	3,900	-	-	3,900
	AAA	309,834	25,028	90,429	425,291
	AA	35,046	-	75,261	110,307
U.S. Federal agency discount notes	Not rated ³	815,867	4,704	-	820,571
Corporate commercial paper	A-1+	94,956	69,682	-	164,638
	A-1	60,000	24,826	-	84,826
Corporate bonds	AA	1,446,700	55,056	337,919	1,839,675
	A	3,381,221	145,820	531,467	4,058,508
	BBB ¹	210,840	20,028	142,305	373,173
Municipal commercial paper	A-1+	272,226	-	-	272,226
Municipal bonds	AAA	-	-	19,007	19,007
	AA	24,415	-	11,000	35,415
	A	-	15,075	-	15,075
Non-U.S. government commercial paper	A-1+	240,406	24,903	-	265,309
Non-U.S. government debt	AAA	59,986	30,130	30,107	120,223
	AA	151,943	34,559	60,681	247,183
	A	24,954	-	20,050	45,004
Asset-backed securities	AAA	878,356	617,008	334,371	1,829,735
	A-1+	75,107	28,137	-	103,244
Negotiable certificates of deposit	AA	350,000	172,850	-	522,850
	A	115,000	30,000	-	145,000
Time certificates of deposit	Not rated ²	81,100	-	-	81,100
Total		\$ 10,472,175	\$ 1,753,722	\$ 2,269,807	\$ 14,495,704

¹ Securities rated BBB 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.

² Time certificates of deposit are considered deposits for purposes of credit quality and are fully covered by FDIC and state PFCP programs.

³ Federal agency securities, which are not rated by the credit rating agencies as they carry an implicit guarantee of the U.S. Government.

OSTF investment 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-. Asset-backed securities are required to have long-term ratings of AAA, Aaa, or AAA, or short-term ratings of A-1+, P-1, or F-1+ by S&P, Moody's, and Fitch, respectively. Occasionally, securities are downgraded but OSTF policies allow them to be retained at the Director of Capital Markets' discretion. Rating groups were determined using the lowest actual rating from S&P, Moody's or Fitch.

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The fair value measurement for investments held in the OSTF at June 30, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total
Investments:				
U.S. Treasury obligations	\$ -	\$ 2,653,956	\$ -	\$ 2,653,956
U.S. Federal agency debt	-	535,599	-	535,599
U.S. Federal agency discount notes	-	4,704	-	4,704
Municipal bonds	-	45,082	-	45,082
Non-U.S. government commercial paper	-	174,242	-	174,242
Non-U.S. government debt	-	392,411	-	392,411
Corporate commercial paper	-	94,508	-	94,508
Corporate bonds	-	6,239,863	-	6,239,863
Asset-backed securities	-	1,932,979	-	1,932,979
Negotiable certificates of deposit	-	667,850	-	667,850
Time certificates of deposit	-	30,000	-	30,000
Total	\$ -	\$ 12,771,194	\$ -	\$ 12,771,194

The Fund's investments, other than those with remaining maturities of fewer than ninety days, are valued using the latest bid prices or evaluated quotes from independent pricing vendors. The third-party vendors use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. Investments with remaining maturities of fewer than ninety days are carried at amortized cost, which approximates fair value. All of the Fund's investments at June 30, 2016 are considered Level 2.

Interest Rate Sensitive Investments

As of June 30, 2016, the primary government held approximately \$58.9 million in debt instruments backed by pooled mortgages, to-be-announced federal agency issues 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 \$2 billion of asset-backed securities collateralized primarily by automobile loans and equipment leases.

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, 2016, there was one issuer that exceeded 5 percent of the primary government's holdings (excluding OPERF), \$881 million (5.2 percent) in Federal Home Loan Bank (FHLB).

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. On June 30, 2016, 49.5 percent of OHCS's total investments are FHLB securities, 17.1 percent are Federal Home Loan Mortgage Corporation (FHLMC) securities, 5.9 percent are Federal National Mortgage Association (FNMA) securities, 7.2 percent are Connecticut Housing Finance Authority municipal bonds, and 6.3 percent are Colorado Housing and Finance Authority municipal bonds.

The Oregon State Lottery's investments included \$7.7 million (5.2 percent) in the Resolution Funding Corporation, 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.

Within the major governmental funds, the Public Transportation Fund's investments included \$5 million (7.4 percent) in FHLMC, \$5 million (7.4 percent) in Goldman Sachs Group, \$4.7 million (7 percent) in CNH Equipment Trust, \$4 million (5.9 percent) in Chase Issuance Trust, \$4 million (5.9 percent) in Citigroup, \$4

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million (5.9 percent) in the National Rural Utilities Cooperative Finance Corporation, \$3.5 million (5.2 percent) in Merck and Co., and \$3.4 million (5 percent) in Honda Auto Receivables.

The aggregated nonmajor governmental funds' total investments included \$14.9 million (7.6 percent) in FHLMC and \$11.7 million (6 percent) in FNMA.

The Central Services Fund held \$17.9 million (27.1 percent) of its investments in FHLMC.

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 is allowed to invest in non-dollar denominated securities. 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, 2016 (in thousands):

Foreign Currency Denomination	Deposits and Investments (U.S. Dollars)							Total
	Deposits	International Equity Securities	International Debt Securities	International Real Estate	Real Estate	Rights and Warrants		
Australian dollar	\$ 13	\$ 14,217	\$ -	\$ 833	\$ -	\$ -	\$ -	\$ 15,063
Brazilian real	-	-	183	-	-	-	-	183
British pound sterling	16	36,757	-	-	-	-	-	36,773
Canadian dollar	69	19,637	-	1,861	243	-	-	21,810
Chinese yuan	20	-	887	-	-	-	-	907
Danish krone	56	4,455	-	-	-	-	-	4,511
Euro	187	81,560	-	35	-	25	-	81,807
Hong Kong dollar	160	4,532	-	616	-	-	-	5,308
Israeli new shekel	35	1,340	-	331	-	13	-	1,718
Japanese yen	466	54,092	-	186	-	-	-	54,744
Mexican peso	275	-	3,762	-	-	-	-	4,036
Norwegian krone	58	2,809	-	-	-	-	-	2,867
New Zealand dollar	7	76	-	280	-	-	-	363
Singapore dollar	12	1,310	-	-	-	-	-	1,322
Swedish krona	14	10,379	-	-	-	-	-	10,393
Swiss franc	60	22,503	-	-	-	-	-	22,562
Total	\$ 1,447	\$ 253,669	\$ 4,832	\$ 4,142	\$ 243	\$ 38	\$	\$ 264,370

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 managers provide additional guidelines that vary from manager to manager.

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Investments in the OPERF as of June 30, 2016 (in thousands):

Investment Type	Fair Value
U.S. Treasury obligations	\$ 5,951,948
U.S. Treasury obligations - strips	34,980
U.S. Treasury obligations - TIPS	164,041
U.S. Federal Agency mortgage securities	844,720
U.S. Federal Agency mortgage TBAs	396,478
U.S. Federal Agency debt	15,924
U.S. Federal Agency strips	45,489
International debt securities	932,102
Non-government debt securities	102,097
Corporate bonds	2,171,365
Bank loans	1,936,696
Municipal bonds	38,716
Collateralized mortgage obligations	828,250
Asset-backed securities	473,851
Guaranteed investment contracts ¹	171,266
Mutual funds - domestic fixed income	610,305
Mutual funds - international fixed income	50,281
Total debt securities	14,768,509
Derivatives	13,814
Domestic equity securities	10,493,097
International equity securities	9,150,696
Mutual funds - domestic equity	2,665,179
Mutual funds - global equity	1,878,293
Mutual funds - international equity	2,398,987
Mutual funds - target date	457,659
Oregon Savings Growth Plan - self directed	6,185
Real estate and real estate investment trusts	8,585,785
Private equity	13,954,350
Alternative equity	2,948,607
Opportunity portfolio	1,364,145
Total investments	\$ 68,685,307

¹ Guaranteed investment contracts are stated at contract value

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 a range of 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, 2016, the weighted average duration of the fixed income portfolio was 5.27 years and no individual fixed income investment manager portfolios were outside the policy guidelines.

At June 30, 2016, the OPERF held approximately \$1.7 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 \$396.5 million in to-be-announced federal agency-issued mortgage pools. An additional \$473.9 million of debt

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instruments are asset-backed securities backed primarily by automobile, consumer credit receivables, heavy equipment leases, and student loan receivables.

Debt investments of the OPERF as of June 30, 2016 (in thousands):

Investment Type	Balance at June 30, 2016	Weighted Average Duration (in years)
U.S. Treasury obligations	\$ 5,951,948	6.78
U.S. Treasury obligations - strips	34,980	0.23
U.S. Treasury obligations - TIPS	164,041	7.57
U.S. Federal Agency mortgage securities	844,720	2.47
U.S. Federal Agency mortgage TBAs	396,478	2.71
U.S. Federal Agency debt	15,924	7.93
U.S. Federal Agency strips	45,489	2.45
International debt securities	649,094	3.44
Non-U.S. government debt securities	52,311	9.93
Corporate bonds	2,151,403	6.07
Municipal Bonds	38,716	10.42
Collateralized mortgage obligations	828,250	1.69
Asset-backed securities	473,851	1.57
Mutual funds - domestic fixed income	610,305	2.28
Mutual funds - international fixed income	50,281	3.49
No effective duration:		
International debt securities	283,008	N/A
Non-U.S. government debt securities	49,786	N/A
Corporate bonds	19,962	N/A
Bank loans	1,936,696	N/A
Guaranteed investment contracts	171,266	N/A
Total debt securities	14,768,509	
Cash equivalent - Mutual Funds - STIF	1,242,946	24 days ¹
Cash Equivalent - Oregon Short Term Funds	1,214,426	154 Days ¹
Total subject to interest rate risk	\$ 17,225,882	

¹Weighted average maturity

Credit Risk

Investment policy requires that no more than 30 percent of the OPERF fixed income manager positions be below investment grade. Securities with a quality rating below BBB- are considered below investment grade. There is no policy restriction on other investment managers who may hold debt securities. As of June 30, 2016, the fair value of below grade investments, excluding unrated securities, is \$3 billion, or 35.5 percent, of total securities subject to credit risk and 20.1 percent of total debt securities. The weighted quality rating average is A. Unrated securities include \$342 million in bank loans, \$831.9 million in mutual funds and guaranteed investment contracts, and \$258.2 million in other debt securities.

Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the OPERF will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. There is no formal policy regarding the holding of securities by a custodian or counterparty. As of June 30, 2016, no investments were exposed to custodial credit risk.

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Credit ratings for debt securities within the OPERF as of June 30, 2016 (in thousands):

Credit Rating	Balance at June 30, 2016
AAA	\$ 770,574
AA	163,936
A	588,060
BBB	1,410,078
BB	714,596
B	1,684,166
CCC	551,602
CC	6,767
D	15,746
Not rated	1,432,050
Not rated ¹	1,029,692
Total subject to credit risk	8,367,266
U.S. government guaranteed securities	6,401,243
Total	\$ 14,768,509

¹ Federal agency securities, which are not rated by the credit agencies as they carry an implicit guarantee of the U.S. government.

Concentrations of Credit Risk

The Council's investment policy pertaining to OPERF investments expects that investment managers maintain diversified portfolios. There is no limit on single issuer investments for domestic, global, and international equity fund managers. Policy states 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 where collateral is credit independent of the issuer and the security's credit enhancement is generated internally, can be invested in private mortgage-backed and asset-backed securities.
- No more than 3 percent of the debt investments portfolio may be invested in other issuers, excluding investments in commingled vehicles.

At June 30, 2016, 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 25 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, 2016, approximately 0.6 percent of the debt investment portfolio was invested in non-dollar denominated securities.

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The OPERF's exposure to foreign currency risk as of June 30, 2016 (in thousands):

Foreign Currency Denomination	Deposits and Investments (U.S. Dollars)						
	Cash and Cash Equivalents	Debt Securities	Public Equity	Derivatives	Real Estate	Private Equity	Total
Argentine peso	\$ 22	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22
Australian dollar	2,669	2,248	299,842	1,972	74,728	-	381,460
Brazilian real	1,100	8,459	166,512	-	1,336	-	177,407
British pound sterling	16,366	7,006	1,832,010	3,349	65,859	-	1,924,589
Canadian dollar	4,365	458	442,993	-	38,705	-	486,520
Chilean peso	8	-	5,766	-	-	-	5,773
Chinese yuan	1,362	5,172	29,584	-	-	-	36,118
Colombian peso	-	-	2,363	-	-	-	2,363
Czech koruna	-	-	7,881	-	-	-	7,881
Danish krone	413	3	106,869	-	-	-	107,285
Egyptian pound	345	-	15,013	-	-	-	15,359
Euro	20,359	39,240	1,691,300	373	98,025	246,409	2,095,706
Hong Kong dollar	5,125	-	490,627	555	99,020	-	595,327
Hungarian forint	777	-	15,730	-	-	-	16,507
Indian rupee	640	-	142,509	-	-	-	143,149
Indonesian rupiah	117	-	36,304	-	-	-	36,420
Israeli new shekel	117	-	20,922	-	15	-	21,054
Japanese yen	11,080	8,386	1,422,056	-	125,294	-	1,566,816
Kenya shilling	-	-	5,094	-	-	-	5,094
Malaysian ringgit	75	-	29,398	1	-	-	29,473
Mexican peso	1,017	13,889	82,174	-	8,242	-	105,322
Moroccan dirham	-	-	1,511	-	-	-	1,511
New Zealand dollar	257	-	13,056	-	-	-	13,313
Nigerian naira	239	-	4,922	-	-	-	5,161
Norwegian krone	124	-	39,177	2,493	4,078	-	45,872
Pakistani rupee	1	-	7,319	-	-	-	7,320
Peruvian nuevo sol	-	-	721	-	-	-	721
Philippine peso	19	-	29,660	-	-	-	29,679
Polish zloty	120	-	13,088	-	-	-	13,207
Qatar riyal	-	-	888	-	-	-	888
Singapore dollar	521	-	52,970	104	16,399	-	69,993
South African rand	1,650	-	167,437	-	-	-	169,087
South Korean won	414	-	385,494	-	880	-	386,789
Swedish krona	392	-	192,294	-	9,596	-	202,282
Swiss franc	440	-	441,114	-	7,597	-	449,151
Taiwan dollar	445	-	231,651	-	-	-	232,095
Thai baht	411	-	74,561	-	-	-	74,972
Tunisia dinar	-	-	1,216	-	-	-	1,216
Turkish lira	220	-	67,384	-	1,667	-	69,270
United Arab Emirates dirham	29	-	16,470	-	-	-	16,499
Total	\$ 71,238	\$ 84,862	\$ 8,585,878	\$ 8,846	\$ 551,441	\$ 246,409	\$ 9,548,675

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Fair Value Measurement

Fair value measurement levels for investments in the OPERF as of June 30, 2016 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments by Fair Value Level				
Debt Securities				
U.S. Treasury obligations	\$ -	\$ 5,951,948	\$ -	\$ 5,951,948
U.S. Treasury obligations - strips	-	34,980	-	34,980
U.S. Treasury obligations - TIPS	-	164,041	-	164,041
U.S. Federal Agency mortgage securities	-	844,720	-	844,720
U.S. Federal Agency mortgage TBAs	-	396,478	-	396,478
U.S. Federal Agency debt	-	15,924	-	15,924
U.S. Federal Agency strips	-	45,489	-	45,489
Non-U.S. government obligations	-	102,097	-	102,097
Corporate bonds	-	2,616,947	24,719	2,641,665
Bank loans	-	2,034,066	164,690	2,198,756
Municipal bonds	-	38,716	-	38,716
Collateralized mortgage obligations	-	828,532	5,395	833,928
Asset-backed securities	-	661,502	6,412	667,914
Mutual funds - domestic fixed income	-	598,312	11,993	610,305
Mutual funds - international fixed income	-	50,281	-	50,281
Total debt securities¹	-	14,384,035	213,209	14,597,244
Public Equity:				
Domestic equity securities	10,450,449	-	42,648	10,493,097
International equity securities	9,107,639	3,146	39,910	9,150,696
Mutual funds - domestic equity	103,705	2,561,474	-	2,665,179
Mutual funds - international equity	932,827	1,448,775	17,385	2,398,987
Mutual funds - target date	-	457,659	-	457,659
Mutual funds - global equity	89,908	1,788,385	-	1,878,293
Oregon Savings Growth Plan - self directed	6,185	-	-	6,185
Total public equity	20,690,714	6,259,439	99,944	27,050,097
Real estate investment trusts	2,269,221	214,805	-	2,484,026
Private equity	-	-	434,420	434,420
Alternative real assets	-	-	10,250	10,250
Total investments by fair value level	<u>\$ 22,959,935</u>	<u>\$ 20,858,279</u>	<u>\$ 757,822</u>	<u>44,576,036</u>
Investments Measured at Net Asset Value (NAV):				
Real estate				6,101,759
Private equity				13,519,930
Alternative equity:				
Alternative real assets				1,616,982
Alternative diversifying strategies				1,321,375
Total alternative equity				<u>2,938,357</u>
Opportunity portfolio:				
Opportunity private investments				491,213
Opportunity open ended funds				872,932
Total opportunity portfolio				<u>1,364,145</u>
Total investments measured at NAV				<u>23,924,191</u>
Total investments measured at fair value				<u>\$ 68,500,228</u>

¹ Guaranteed Investment contracts of \$171,266 are excluded from the table as these are stated at contracted value.

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Investments Measured at Net Asset Value (in thousands):

	Fair Value	Unfunded Commitments¹	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Real estate	\$ 6,101,759	\$ 2,603,057	N/A	N/A
Private equity	13,519,930	7,146,528	N/A	N/A
Alternative equity:				
Alternative real assets	1,616,982	2,561,210	N/A	N/A
Alternative diversifying strategies	1,321,375	-	Monthly	30 - 75 days
Opportunity portfolio:				
Opportunity private investments	491,213	376,628	N/A	N/A
Opportunity open ended funds	872,932	291,643	Monthly/Quarterly	5 - 90 days
Total	\$ 23,924,191	\$ 12,979,066		

¹ Excluded unfunded commitments associated with investments included in the fair value hierarchy (Levels 1, 2, and 3) and new commitments not yet funded at 6/30/2016

Equity securities are generally valued based on quoted prices from an active market and are therefore categorized in Level 1. In the absence of quoted market prices, such as equity securities that trade infrequently or not at all, valuations are based on the last traded price or a price provided by investment managers and are generally categorized in Level 3.

Debt securities classified as Level 2, including invested securities lending collateral, are valued using the latest bid prices or evaluated quotes from independent pricing vendors. The third-party vendors use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. When independent price sources are not available, debt securities are priced based on the last traded price or a valuation provided by the investment manager and are categorized in Level 3.

Funds priced using a net asset value (NAV) that is published daily and validated with a sufficient level of observable activity are categorized in Level 1. If observable activity is limited, yet supports that the NAV represents an exit value of the security at the measurement date, the securities are categorized in Level 2. Investments in nongovernmental entities that are measured at NAV as a practical expedient, such as most private equity, Alternative Equity, Opportunity Portfolio, and real estate investments, are excluded from the fair value hierarchy if the NAV per share (or its equivalent) was calculated in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies. Funds not meeting this criteria are categorized in Level 3.

Investments in real estate, other than real estate investment trusts which are generally valued based on an active market price and are categorized in Level 1, have been valued based on the NAV per share (or its equivalent), as provided by the general partner. This type includes 64 commingled real estate funds, structured as limited partnerships, where the funds have a finite term. Distributions from the funds will be received as the underlying investments of the funds are liquidated. Liquidation is expected to take place during the five year period following the termination of the investment period which extends to 2035. Investments in real estate also include 14 joint ventures where the investments are expected to be held for the long term and generate cash flow that will represent a significant component of the total return.

Private equity consists of approximately 230 funds, organized as limited partnerships and limited liability companies, participating in diversified strategies including leveraged-buyouts, venture capital, growth equity, fund-of-funds, co-investments, and special situations. The fair values of the private equity investments have been determined using the NAV per share (or its equivalent) as provided by the general partner or managing member. These funds have a finite term. Distributions will be received as the underlying investments of the funds are liquidated, which is expected to occur over the next 12-14 years.

Alternative Equity investments seek to provide diversification and inflation hedging characteristics to the OPERF and include investments with a focus on infrastructure and natural resources. Alternative Equity consists of 29 investments in commingled funds organized as limited partnerships and limited liability companies. The fair values of the investments have been determined using a NAV per share (or its equivalent) of the investments. For 26 of the 29 funds, the funds have a finite term. Distributions will be received as the underlying investments of the funds are liquidated, which is expected to occur over the next 8 to 12 years. The remaining alternative

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diversifying strategies permit periodic redemption of shares and consist of two diversifying hedge fund strategies and one direct investment in a holding company.

The Opportunity Portfolio includes strategies that fall outside of other asset classes and include 16 funds investing in a broad range of performing and distressed debt and debt related securities as well as royalties and insurance-based investments. The fair values of the investments have been determined using a NAV per share (or its equivalent) of the investments. For 11 of the 16 funds, the funds have a finite term. Distributions will be received as the underlying investments of the funds are liquidated, which is expected to occur over the next 7 to 10 years. The remaining five funds are open ended, permitting periodic redemption of shares. Approximately 20 percent of the value of investments of this type are subject to a restriction on exercising certain termination rights. That restriction will expire within 12 months of June 30, 2016.

D. Repurchase Agreements

Investments in repurchase agreements made with cash collateral securities lending transactions had the following fair values at June 30, 2016:

- \$137 million, or 26.9 percent of the Oregon Short-Term Investment Fund, the cash collateral pool for all agencies, excluding OPERF.
- \$702 million, or 46.8 percent of the OPERF cash collateral pool.

E. 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, 2016.

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 U.S. securities, international fixed income securities, or 105 percent in the case of international equity. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default, and during the fiscal year the State did impose restrictions on the amount of 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 position.

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, 2016, is effectively one day. On June 30, 2016, the state had no credit risk exposure to borrowers because the amounts the State owes to borrowers exceed the amounts borrowers owe the State.

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Securities lending balances on loan, collateral received, and investments of cash collateral as of June 30, 2016, 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
U.S. Treasury and agency securities	\$ 996,155	\$ 976,042	\$ 470,119
Domestic equity securities	1,283,831	1,267,058	1,024,858
International equity securities	929,247	889,546	330,251
Domestic fixed income securities	196,369	192,474	135,284
International fixed income securities	5,126	5,038	5,115
Total	\$ 3,410,728	\$ 3,330,159	\$ 1,965,627

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 Employment Benefit Trust Funds in the statement of fiduciary net position.

The credit risk of OPERF securities lending invested cash collateral as of June 30, 2016 (in thousands):

Quality Rating	Fair Value
AAA	\$ 270,398
AA ¹	444,519
A	141,039
B	3,223
Total subject to credit risk	859,179
U.S. Government guaranteed repurchase agreements	589,000
Allocation from the Oregon Short-Term Fund	7,807
Cash and receivables	44,202
Total securities lending invested cash collateral	\$ 1,500,188

¹ Commercial paper ratings of A-1+/A-1/P-1 categorized as AA.

The interest rate risk of OPERF securities lending invested cash collateral as of June 30, 2016 (in thousands):

Security Type	Fair Value	Effective Weighted Duration Rate (in days)¹
Asset-backed securities	\$ 182,731	13
Certificates of deposit	140,017	96
Commercial paper	144,273	124
Corporate bonds	165,154	43
Repurchase agreements	113,000	1
U.S. Government & Agency	114,004	17
Total subject to interest rate risk	859,179	50
U.S. Government guaranteed repurchase agreements	589,000	
Allocation from the Oregon Short Term Fund	7,807	
Cash and receivables	44,202	
Total securities lending invested cash collateral	\$ 1,500,188	

¹ Weighted average days to maturity or next reset date.

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F. 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, 2016, the primary government had restricted assets of \$1.4 billion in deposits and \$348.5 million 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 Oregon State Treasury (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 (Excluding the Oregon Public Employees Retirement Fund)

Housing and Community Services Department

The Oregon Housing and Community Services Department (OHCS D) has entered into 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. OHCS D had seven swaps at the end of the fiscal year. The fair value of the swaps on June 30, 2016, totaled negative \$6.9 million and the notional amount totaled \$168.6 million. The fair value of hedging derivative is shown on the proprietary funds statement of net position and the government-wide statement of net position under deferred outflows of resources and derivative instrument liabilities. During the fiscal year the fair value increased by \$4.5 million.

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 the 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 fair value is categorized as Level 2 within the fair value hierarchy described in Note 2.

The terms, fair values, counterparties, and credit ratings of OHCS D's outstanding swaps as of June 30, 2016 (dollars in thousands):

Bond Series	Notional Amounts	Effective Date	Fixed Rate paid	Variable Rate Received	Fair Values	Swap Term Date	Counterparty	S&P
Multifamily housing revenue bonds								
2004 B	\$ 13,305	12/16/04	3.89%	64% of 1 mo LIBOR ¹ + .27%	\$ (221)	7/1/46	Merrill Lynch	BBB+
Mortgage revenue bonds								
2006 G	16,105	7/18/06	3.83%	64% of 1 mo LIBOR + .19%	(1)	7/1/16	Merrill Lynch	BBB+
2007 E	25,885	7/31/07	4.39%	64% of 1 mo LIBOR + .29%	(904)	7/1/38	JP Morgan Chase	A+
2007 H	26,700	11/20/07	4.06%	64% of 1 mo LIBOR + .30%	(1,236)	7/1/38	Merrill Lynch	BBB+
2008 C	31,000	2/26/08	3.75%	64% of 1 mo LIBOR + .30%	(1,326)	7/1/38	Bank of America	A
2008 F	24,000	5/13/08	3.74%	64% of 1 mo LIBOR + .31%	(1,318)	7/1/39	Bank of America	A
2008 I	31,650	8/26/08	3.72%	64% of 1 mo LIBOR + .31%	(1,899)	7/1/37	Bank of America	A
	<u>\$ 168,645</u>				<u>\$ (6,907)</u>			

¹ London Interbank Offered Rate

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

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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 OHCS D's tax-exempt bonds are determined weekly by a remarketing agent. OHCS D is exposed to basis risk when the variable rates received, which are based on the one month London Interbank Offered Rate (LIBOR) rate, do not offset the variable rates paid on the bonds. As of June 30, 2016, the one-month LIBOR was 0.47 percent. OHCS D's variable rates as of June 30, 2016, can be found in Note 8.

Termination risk is the risk of an unscheduled termination of a swap prior to its planned maturity. OHCS D 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 OHCS D would then be exposed to interest rate risk. In addition, if any of the swaps had a negative value at termination, OHCS D 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. OHCS D 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 OHCS D, using interest rates as of June 30, 2016 (in thousands):

Year Ending	Interest Rate			
June 30,	Principal	Interest	Swaps (Net)	Total
2017	\$ 5,245	\$ 655	\$ 5,232	\$ 11,133
2018	235	828	4,843	5,906
2019	240	827	4,835	5,902
2020	260	826	4,827	5,913
2021	265	825	4,816	5,906
2022-2026	13,585	3,988	23,272	40,845
2027-2031	65,130	3,153	19,232	87,515
2032-2036	55,080	1,756	11,331	68,166
2037-2041	39,115	437	2,867	42,419
2042-2046	3,385	52	382	3,818
2047-2051	380	1	6	387
Total	\$ 182,920	\$ 13,347	\$ 81,644	\$ 277,911

OHCS D'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) is 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, 2016, of the swaps that include these provisions is negative \$5.8 million. At June 30, 2016, 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 Veterans' Loan Fund, a major enterprise fund managed by 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 2016, DVA did not terminate any derivatives. Beginning on December 1, 2015, there were notional amortizations that reduced the original notional amount of the Series 84 swap. DVA did enter into an interest rate swap in connection with its Loan Program General Obligation Bonds, 2015 Series P (Veterans' Welfare Bonds Series 95) that became effective on August 1, 2016.

The fair value balance of interest rate swaps are reported on the proprietary funds statement of net position and the government-wide statement of net position under deferred outflows of resources and derivative

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instrument liabilities. The fair value is categorized as Level 2 within the fair value hierarchy described in Note 2.

Changes to the fair value balance during the year ending June 30, 2016 (dollars in thousands):

Description	Notional Amount	Fair Value June 30, 2015	Fair Value Increase/ (Decrease)	Fair Value June 30, 2016
Series 84	\$ 24,590	\$ (1,392)	\$ 629	\$ (763)

Because of interest rate decreases after the swap was executed, the fair value as of June 30, 2016, 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, 2016 (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	\$ 24,590	3/1/2008	6/1/2040	3.67%	62.6% of 1-month LIBOR + .265%	\$ (763)

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 BBB+ and A3 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
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

¹ Minimum Transfer Amount shall be \$0 if, and for so long as, neither Moody's nor S&P rate the long-term unsecured, unsubordinated, debt services of Morgan Stanley.

Since the fair value of the swap as of June 30, 2016, 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 Treasury 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.

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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, 2016, the interest rate on the variable rate hedged debt is 0.46 percent, while the 62.6 percent of one-month LIBOR plus 0.265 percent is 0.55 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, 2016, the following table presents the debt service requirements of the variable rate debt (on the notional amount of the swap) and the net swap payments (in thousands):

Year Ending June 30,	Principal	Interest	Interest Rate Swaps (Net)	Total
2017	\$ 445	\$ 112	\$ 765	\$ 1,322
2018	480	110	750	1,340
2019	505	108	735	1,348
2020	540	106	719	1,366
2021	580	103	702	1,385
2022-2026	3,505	471	3,209	7,185
2027-2031	4,825	378	2,575	7,777
2032-2036	6,640	248	1,701	8,589
2037-2040	7,070	73	516	7,659
Total	\$ 24,590	\$ 1,711	\$ 11,670	\$ 37,971

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
A- or higher	A3 or higher	Infinite	N/A
BBB+ or below	Baa1 or below	\$ -	\$ 100 ¹

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 (Excluding the Oregon Public Employees Retirement Fund)

Housing and Community Services Department

During the fiscal year the mortgage revenue bonds (MRB) 2006 F swap was reclassified from a hedging derivative instrument to investment derivative instrument when the associated bonds were called. The fair value at time of the reclassification was negative \$260.6 thousand. On June 21, 2016, the MRB 2006 F swap was fully terminated in advance based on a mutual agreement with the counterparty, Bank of America. A negative \$104.9 thousand from investment derivative instruments is included in investment income. OHCS D had no investment derivative instruments at the end of the fiscal year.

Common School Fund

In the Common School Fund (CSF) portfolio, forward currency exchange contracts may be used to gain exposure or hedge against 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 the 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.

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The following table shows the foreign currency exchange contracts within the Common School Fund as of June 30, 2016 (in thousands):

Currency	Options	Currency Forward Contracts		Total Exposure
		Net Receivables	Net Payables	
Australian dollar	\$ -	\$ 166	\$ (40)	\$ 126
Brazilian real	-	-	(24)	(24)
British pound sterling	-	(387)	199	(189)
Canadian dollar	-	(85)	67	(17)
Chinese yuan	-	-	18	18
Danish krone	-	(201)	-	(201)
Euro	25	(12)	437	450
Hong Kong dollar	-	-	(8)	(8)
Israeli new shekel	13	-	27	39
Japanese yen	-	15	(223)	(208)
New Zealand dollar	-	197	(1)	196
Norwegian krone	-	(3)	13	10
Singapore dollar	-	1	(21)	(20)
Swedish krona	-	(121)	307	186
Swiss franc	-	(13)	16	3
Total	\$ 38	\$ (442)	\$ 768	\$ 364

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 specific company, at a pre-established price on or within a predetermined 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 the over-the-counter markets. Both are subject to general market risk and liquidity risk.

The fair value of derivative instruments within the CSF portfolio as of June 30, 2016 (in thousands):

Investment Derivatives	Net Appreciation/ (Depreciation) in Fair Value ^{1, 3}	Classification	Fair Value	Notional Value ²
Foreign exchange forwards	\$ (2,565)	Long term instruments	\$ 326	\$ 124,935
Rights	22	Common stock	25	56
Warrants	(7)	Common stock	13	24
Total	\$ (2,549)		\$ 364	\$ 125,014

¹ Negative values (in brackets) refer to losses

² Notional may be a dollar amount or size of underlying for futures and options

³ Excludes future margin payments

The fair value of derivative instruments is reported on the balance sheet as investments, accounts and interest receivable, and accounts and interest payable. Changes in fair value of derivative instruments during the fiscal year are reported on the statement of revenues, expenditures, and changes in fund balances as investment income.

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C. Investment Derivatives – 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 derivative instruments held by OPERF 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 position. 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 position.

The following schedule presents the related net appreciation/(depreciation) in fair value amounts and the notional amounts of derivative instruments outstanding as of June 30, 2016 (in thousands):

Investment Derivatives	Net Appreciation/ (Depreciation) in Fair Value of Investments^{1, 4}	Classification	Fair Value²	Notional Value³
Credit Default Swaps Bought	\$ (2,185)	Public Equity	\$ (2,252)	\$ 205,475
Credit Default Swaps Written	(961)	Public Equity	(477)	60,139
Fixed Income Futures Long	73,743	Public Equity	-	1,902,050
Fixed Income Futures Short	(45,839)	Public Equity	-	(398,813)
Fixed Income Options Bought	(499)	Public Equity	2,194	14,080
Fixed Income Options Written	1,422	Public Equity	(3,749)	(578,691)
Foreign Currency Options Bought	(496)	Public Equity	244	11,258
Foreign Currency Options Written	241	Public Equity	-	-
Futures Options Bought	(4,125)	Public Equity	-	-
Futures Options Written	3,208	Public Equity	(108)	(228)
Foreign Exchange Forwards	58,997	Receivables/Payables	27,356	2,247,573
Index Futures Long	(15,405)	Public Equity	-	7,151
Index Futures Short	15,565	Public Equity	-	(76)
Pay Fixed Interest Rate Swaps	(24,972)	Public Equity	(20,383)	781,745
Receive Fixed Interest Rate Swaps	4,924	Public Equity	2,975	72,158
Rights	(1,310)	Public Equity	848	18,399
Total Return Swaps Bond	(328)	Public Equity	(392)	9,028
Total Return Swaps Equity	676	Public Equity	552	(12,120)
Warrants	(790)	Public Equity	4,308	9,905
Total	\$ 61,866		\$ 11,115	\$ 4,349,033

¹ Negative values (in brackets) refer to losses

² Negative values refer to liabilities

³ Notional may be a dollar amount or size of underlying for futures and options, negative values refer to short positions

⁴ Excludes futures margin payments

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The following table shows the fair value measurement for investment derivative instruments as of June 30, 2016 (in thousands):

Investment Derivative Instruments¹	Level 1	Level 2	Level 3	Total
Credit Default Swaps	\$ -	\$ 323	\$ -	\$ 323
Foreign Exchange Forwards	-	54,157	-	54,157
Interest Rate Swaps	-	5,343	-	5,343
Options	-	2,438	-	2,438
Rights and Warrants	1,449	776	2,929	5,155
Total Return Swaps	-	554	-	554
Total Assets	1,449	63,592	2,929	67,971
Credit Default Swaps	-	(3,052)	-	(3,052)
Foreign Exchange Forwards	-	(26,801)	-	(26,801)
Interest Rate Swaps	-	(22,750)	-	(22,750)
Options	-	(3,857)	-	(3,857)
Total Return Swaps	-	(395)	-	(395)
Total Liabilities	-	(56,856)	-	(56,856)
Total	\$ 1,449	\$ 6,736	\$ 2,929	\$ 11,115

¹ Refer to Note 2 for more information on the fair value hierarchy

A forward 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. The fair value of a foreign currency forward is determined by the difference between the contract exchange rate and the closing exchange rate, at the end of the reporting period. Risks associated with such contracts include movement in the value of foreign currencies and the ability of the counterparty to perform.

A futures contract represents a commitment to purchase or sell an underlying asset at a future date and at a specified price. Futures contracts have standardized terms and are traded on exchanges. The counterparty credit risk for futures is generally less than for privately negotiated forward contracts, since the clearinghouse, which is the issuer or counterparty to each exchange-traded future, settles daily the net change in the futures contract's value in cash with the broker and results in the contract itself having no fair value at the end of any trading day.

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. Swaps are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. OPERF held various types of swaps including credit default, interest rate, and total return swaps. 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 OPERF in accordance with the terms of the respective swap agreements to provide value and recourse to OPERF or its counterparties. Swaps are subject to general market risk, liquidity risk, credit risk, interest rate risk, and the risk that the counterparty may fail to perform.

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. In writing an option, 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 OPERF could result in OPERF selling or buying an asset at a price different from the current market value. 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 of the counterparty's ability to perform.

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 predetermined 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 time period. In the OPERF portfolio, rights and warrants are often obtained and held due to existing investments and are subject to general market risk and liquidity risk.

State of Oregon
Notes to the Financial Statements

Counterparty Credit Risk

The following schedule presents a summary of counterparty credit rating relating to derivative instruments as of June 30, 2016:

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Citibank N.A.	39.13%	A	A+	A1
State Street Bank and Trust Company	23.88%	AA-	AA	Aa3
HSBC Bank PLC	11.36%	A	AA-	A1
HSBC Bank USA	5.96%	AA-	AA-	Aa3
BNP Paribas SA	4.24%	A	A+	A1
Royal Bank of Scotland PLC	3.87%	BBB+	BBB+	A3
JP Morgan Chase Bank N.A.	1.74%	A+	AA-	Aa3
Citigroup	1.60%	BBB+	A	Baa1
Bank of Montreal	1.17%	A+	AA-	Aa3
Royal Bank of Canada (U.K.)	1.03%	AA-	AA	Aa3
Bank of America, N.A.	0.84%	A	A+	A1
Credit Suisse International	0.78%	A	A	A2
Barclays Bank PLC Wholesale	0.75%	A-	A	A2
Standard Chartered Bank	0.72%	A	A+	Aa3
JP Morgan	0.55%	A-	A+	A3
Goldman Sachs International	0.46%	BBB+	A	A3
Morgan Stanley Co. Incorporated	0.44%	BBB+	A	A3
Barclays Bank CME	0.39%	A-	A	A2
Deutsche Bank AG	0.37%	BBB+	A-	Baa2
Morgan Stanley and Co. International PLC	0.32%	BBB+	A	A3
Commonwealth Bank of Australia Sydney	0.20%	AA-	AA-	Aa2
Royal Bank of Canada	0.15%	AA-	AA	Aa3
Morgan Stanley and Co. Incorporated	0.05%	BBB+	A	A3
Total	<u>100.00%</u>			

Interest Rate Risk

As of June 30, 2016, OPERF is exposed to interest rate risk on its various swap arrangements and options.

The following schedule presents a segmented time schedule of those instruments as of June 30, 2016 (in thousands):

Investment Type	Fair Value	Investment Maturity (in years)			
		Less Than 1	1 - 5	6 -10	More than 10
Credit Default Swaps Bought	\$ (2,252)	\$ -	\$ (2,252)	\$ -	\$ -
Credit Default Swaps Written	(477)	-	260	(136)	(601)
Fixed Income Options Bought	2,194	-	2,194	-	-
Fixed Income Options Written	(3,749)	(20)	(3,729)	-	-
Pay Fixed Interest Rate Swaps	(20,383)	(282)	(3,440)	(13,735)	(2,925)
Receive Fixed Interest Rate Swaps	2,975	-	780	2,195	-
Total Return Swaps Bond	(392)	(392)	-	-	-
Total Return Swaps Equity	552	552	-	-	-
Total	<u>\$ (21,532)</u>	<u>\$ (142)</u>	<u>\$ (6,188)</u>	<u>\$ (11,676)</u>	<u>\$ (3,527)</u>

State of Oregon
Notes to the Financial Statements

The following schedule presents derivative instruments that were highly sensitive to interest rate changes as of June 30, 2016 (in thousands):

Investment Type	Reference Rate	Fair Value	Notional Value
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 2.0425%	\$ (1,348)	\$ 24,730
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 2.8885%	(1,755)	14,340
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 2.817%	(1,236)	10,200
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 2.247%	(368)	6,020
Pay Fixed Interest Rate Swaps	Receive Variable 3-month Australian BBSW, Pay Fixed 2.14%	(109)	64,654
Pay Fixed Interest Rate Swaps	Receive Variable 3-month Australian BBSW, Pay Fixed 2.2%	(173)	56,783
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 2.488%	(449)	4,520
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 2.72%	(2,925)	15,840
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 1.897%	(2,475)	52,000
Pay Fixed Interest Rate Swaps	Receive Variable 3-month Australian BBSW, Pay Fixed 1.915%	51	42,338
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 2.259%	(1,374)	16,480
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 1.9%	(4,470)	93,124
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 1.63375%	(222)	9,095
Pay Fixed Interest Rate Swaps	Receive Variable 3-month Australian BBSW, Pay Fixed 2.2125%	(363)	48,555
Pay Fixed Interest Rate Swaps	Receive Variable 6-month Norwegian NIBOR, Pay Fixed 0.95375%	(70)	103,078
Pay Fixed Interest Rate Swaps	Receive Variable 6-month Norwegian NIBOR, Pay Fixed 1.007%	(53)	34,318
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 1.39%	(2,637)	151,450
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 1.58%	(406)	24,200
Pay Fixed Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 1.46%	-	10,020
Subtotal - Pay Fixed Interest Rate Swaps		(20,383)	781,745
Receive Fixed Interest Rate Swaps	Receive Fixed 2.6275%, Pay Variable 3-month LIBOR	615	5,850
Receive Fixed Interest Rate Swaps	Receive Fixed 2.9725%, Pay Variable 6-month Australian BBSW	664	9,829
Receive Fixed Interest Rate Swaps	Receive Fixed 3.384%, Pay Variable 6-month Australian BBSW	636	6,158
Receive Fixed Interest Rate Swaps	Receive Fixed 1.6435%, Pay Variable 6-month GBP LIBOR	561	13,270
Receive Fixed Interest Rate Swaps	Receive Fixed 1.556%, Pay Variable 6-month Norwegian NIBOR	280	12,801
Receive Fixed Interest Rate Swaps	Receive Fixed 1.185%, Pay Variable 3-month LIBOR	220	24,250
Subtotal - Receive Fixed Interest Rate Swaps		2,975	72,158
Total Interest Rate Swaps		\$ (17,408)	\$ 853,903

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Notes to the Financial Statements

Foreign Currency Risk

OPERF is exposed to foreign currency risk on its derivative instruments. The following schedule presents a summary of derivative instruments subject to foreign currency risk as of June 30, 2016 (in thousands):

Currency Name	Currency Forward Contracts		Options/Rights/		Total Exposure
	Net Receivables	Net Payables	Warrants	Swaps	
Australian dollar	\$ 1,172	\$ (118)	\$ 226	\$ 705	\$ 1,985
Brazilian real	99	(1,875)	-	-	(1,776)
British pound sterling	(8,094)	20,878	2,929	561	16,274
Canadian dollar	50	80	-	-	131
Chinese yuan	-	108	-	-	108
Danish krone	(40)	119	-	-	78
Euro	2,765	5,930	43	-	8,738
Hong Kong dollar	(162)	(1)	-	552	390
Hungarian forint	-	51	-	-	51
Indian rupee	(14)	-	-	-	(14)
Indonesian rupiah	(1)	-	-	-	(1)
Israeli new shekel	54	(1)	-	-	53
Japanese yen	11,878	(6,230)	-	-	5,648
New Zealand dollar	3,062	(910)	-	-	2,152
Norwegian krone	(578)	170	151	157	(101)
Malaysian ringgit	71	206	1	-	278
Mexican peso	294	44	-	-	337
Singapore dollar	289	(131)	104	-	263
South African rand	68	(10)	-	-	58
South Korean won	-	(403)	-	-	(403)
Swedish krona	(1,839)	562	-	-	(1,277)
Swiss franc	553	(594)	-	(392)	(433)
Taiwan dollar	-	(144)	-	-	(144)
Total Subject to Foreign Currency Risk	\$ 9,625	\$ 17,731	\$ 3,454	\$ 1,582	\$ 32,395

4. RECEIVABLES AND PAYABLES

A. Taxes Receivable

The following table presents the types of taxes which are reported in the fund financial statements as taxes receivable (net). Some taxes receivable are not expected to be collected within one year of the date of the financial statements.

Taxes receivables reported for governmental activities at June 30, 2016 (in thousands):

Governmental activities	Health and					Total
	General	Social Services	Public Transportation	Educational Support	Other	
Personal income taxes	\$ 911,605	\$ -	\$ -	\$ -	\$ -	\$ 911,605
Corporate income taxes	144,476	-	-	-	-	144,476
Inheritance taxes	11,986	-	-	-	-	11,986
Cigarette taxes	6,454	29,961	-	-	-	36,416
Marijuana taxes	-	7,933	-	-	-	7,933
Healthcare provider taxes	-	148,458	-	-	-	148,458
Motor fuel taxes	-	-	44,459	-	-	44,459
Weight mile taxes	-	-	20,265	-	-	20,265
Employer-employee taxes	-	-	-	-	9,283	9,283
Other	9,562	266	7,502	645	9,548	27,524
Gross receivables	1,084,083	186,618	72,227	645	18,831	1,362,404
Allowance for doubtful accounts	(144,929)	(313)	(4,509)	(22)	(253)	(150,026)
Total receivables, net	\$ 939,154	\$ 186,305	\$ 67,718	\$ 623	\$ 18,578	\$ 1,212,378

State of Oregon
Notes to the Financial Statements

B. Loans Receivable

The following tables disaggregate loans receivable balances reported in the fund financial statements as loans receivable (net).

Loans receivables reported for governmental activities at June 30, 2016 (in thousands):

	Public Transportation	Environmental Management	Other	Total	Internal Service
Governmental activities					
Clean water state revolving fund	\$ -	\$ 421,365	\$ -	\$ 421,365	\$ -
Oregon transportation infrastructure bank	27,332	-	-	27,332	-
Private forests program	-	1,028	-	1,028	-
Disabled and senior property tax assistance program	-	-	106,281	106,281	-
Business development	-	-	17,148	17,148	-
Multi-family housing units	-	-	66,700	66,700	-
Foreclosure prevention	-	-	27,188	27,188	-
Other	-	-	3,041	3,041	6
Gross receivables	27,332	422,392	220,358	670,082	6
Allowance for doubtful accounts	(438)	(1,644)	(14,457)	(16,538)	-
Total receivables, net	\$ 26,894	\$ 420,749	\$ 205,902	\$ 653,544	\$ 6

Loans receivables reported for business-type activities at June 30, 2016 (in thousands):

	Housing and Community Services	Veterans' Loans	Other	Total
Business-type activities				
Single-family mortgage program	\$ 609,475	\$ -	\$ -	\$ 609,475
Elderly and disabled housing units	98,857	-	-	98,857
Multi-family housing units	138,919	-	-	138,919
Veterans' home loans	-	262,321	-	262,321
Small energy loan program	-	-	67,148	67,148
Business development	-	-	23,698	23,698
Special public works	-	-	142,824	142,824
Wastewater financing	-	-	90,201	90,201
Safe drinking water	-	-	162,285	162,285
Oregon ports/brownfields	-	-	13,688	13,688
Gross receivables	847,251	262,321	499,844	1,609,416
Allowance for doubtful accounts	-	(1,133)	(15,006)	(16,139)
Total receivables, net	\$ 847,251	\$ 261,188	\$ 484,838	\$ 1,593,276

C. Receivables Other Than Taxes and Loans

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.

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Receivables reported for governmental activities at June 30, 2016 (in thousands):

	Health and Social		Public	Environmental	Educational	Common	Other	Total	Internal Service
	General	Services	Transportation	Management	Support	School			
Governmental activities									
General accounts	\$ 14,167	\$ 160,710	\$ 8,783	\$ 6,771	\$ 26,915	\$ 4,283	\$ 115,222	\$ 336,850	\$ 54,423
Due from federal government	430	302,217	66,241	16,297	77,208	-	54,487	516,881	-
Interest	40	-	211	1,003	15,398	2,118	66,296	85,066	296
Broker receivable	-	-	2,005	-	-	19,887	-	21,893	-
Contracts	-	-	128	1,352	-	101	-	1,581	-
Mortgages	-	8,158	-	-	-	-	-	8,158	-
Benefit recoveries	-	37,608	-	-	-	-	89	37,697	-
Medicaid drug rebate	-	20,240	-	-	-	-	-	20,240	-
Forest fire claims	-	-	-	59,727	-	-	-	59,727	-
Fines, forfeitures, and penalties	18,635	-	-	-	-	-	95,538	114,173	-
Court fines and fees	-	-	-	-	-	-	1,052,526	1,052,526	-
Child support recoveries	-	-	-	-	-	-	361,478	361,478	-
Workers' compensation assessment	-	-	-	-	-	-	1,187	1,187	-
Other	11,463	-	24,640	10,267	30	5	11,857	58,262	51
Gross receivables	44,735	528,933	102,010	95,416	119,551	26,394	1,758,680	2,675,718	54,771
Allowance for doubtful accounts	(21,157)	(66,957)	(1,296)	(6,844)	-	(51)	(1,333,689)	(1,429,993)	(1,108)
Total receivables, net	\$ 23,578	\$ 461,976	\$ 100,714	\$ 88,572	\$ 119,551	\$ 26,343	\$ 424,991	\$ 1,245,724	\$ 53,663

Receivables reported for business-type activities at June 30, 2016 (in thousands):

	Housing and	Veterans'	Lottery	Unemployment	Other	Total
	Community Services	Loan	Operations	Compensation		
Business-type activities						
General accounts	\$ 131	\$ 42	\$ 18,408	\$ 254,456	\$ 50,232	\$ 323,270
Due from federal government	-	-	-	867	2,689	3,557
Interest	4,210	1,131	-	506	9,598	15,444
Contracts	-	-	3,268	-	-	3,268
Mortgages	967	-	-	-	-	967
Benefit recoveries	-	-	-	71,029	-	71,029
Fines, forfeitures, and penalties	-	-	-	1,365	-	1,365
Other	-	1,414	-	2,074	357	3,845
Gross receivables	5,307	2,587	21,676	330,297	62,876	422,743
Allowance for doubtful accounts	(967)	-	(49)	(21,923)	(5,083)	(28,021)
Total receivables, net	\$ 4,341	\$ 2,587	\$ 21,627	\$ 308,374	\$ 57,793	\$ 394,722

Receivables reported for fiduciary funds at June 30, 2016 (in thousands):

	<u>Agency</u>
Fiduciary fund activities	
Restitution	\$ 544,805
Gross receivables	544,805
Allowance for doubtful accounts	(469,968)
Total receivables, net	\$ 74,836

D. Payables

The following tables disaggregate payables reported in the fund financial statements as accounts and interest payable and contracts, mortgages, and notes payable.

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Notes to the Financial Statements

Payables reported for governmental activities at June 30, 2016 (in thousands):

	Health and Social Services		Public Transportation	Environmental Management	Educational Support	Common School	Other	Total	Internal Service
	General								
Governmental activities									
General accounts	\$ 256,362	\$ 302,972	\$ 93,726	\$ 19,892	\$ 73,799	\$ 4,668	\$ 71,351	\$ 822,771	\$ 31,108
Interest	-	-	-	-	-	-	-	-	494
Broker payable	-	-	2,004	-	-	29,459	3,061	34,524	-
Pension-related debt	-	-	-	-	-	-	-	-	18,459
Notes payable	-	-	-	-	-	-	-	-	18,182
Contracts - retainage	-	-	-	-	-	-	-	-	114
Total payables	\$ 256,362	\$ 302,972	\$ 95,729	\$ 19,892	\$ 73,799	\$ 34,127	\$ 74,413	\$ 857,295	\$ 68,357

Payables reported for business-type activities at June 30, 2016 (in thousands):

	Housing and Community Services		Veterans' Loan	Lottery Operations	Unemployment Compensation	Other	Total
Business-type activities							
General accounts	\$ 627	\$ 118	\$ 13,444	\$ 23,951	\$ 39,284	\$ 77,424	
Interest	15,412	579	-	-	3,624	19,615	
Pension-related debt	556	739	4,497	-	28,345	34,137	
Contracts	-	-	757	-	6	763	
Total payables	\$ 16,594	\$ 1,437	\$ 18,698	\$ 23,951	\$ 71,260	\$ 131,940	

Payables reported for fiduciary funds at June 30, 2016 (in thousands):

	Pension and Other Employee Benefit Trust		Private Purpose Trust	Investment Trust	Agency
Fiduciary fund activities					
General accounts	\$ 6,106	\$ 148	\$ -	\$ 3	
Benefits payable	358,235	-	-	-	
Broker payable	1,704,611	-	21,064	-	
Investment fees	30,782	-	-	-	
Compensated absences payable	1,816	-	-	-	
Interest	5	-	-	-	
Mortgages	-	1,375	-	-	
Total payables	\$ 2,101,556	\$ 1,523	\$ 21,064	\$ 3	

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 fees for services of MUSL. For fiscal years ended June 30, 2016 and 2015, the Oregon Lottery's share of MUSL's fees were \$32.8 thousand and \$62.5 thousand, respectively.

MUSL is a non-profit, government-benefit association owned and operated by its member lotteries. It 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. MUSL is subject to annual audits conducted by independent auditors retained by the board. Upon

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Long-term liabilities of MUSL are limited to prize annuities due, which are fully funded through investments in U.S. government securities. The following schedule presents the summarized financial activity of MUSL as of June 30, 2016 and 2015 (in thousands):

	2016	2015
Assets	<u>\$ 566,836</u>	<u>\$ 401,082</u>
Liabilities	\$ 559,894	\$ 392,622
Net assets - unrestricted	<u>6,942</u>	<u>8,460</u>
Total liabilities and net assets	<u>\$ 566,836</u>	<u>\$ 401,082</u>
Unrestricted revenues	\$ 4,617	\$ 3,514
Unrestricted expenses	<u>6,135</u>	<u>5,257</u>
Total change in unrestricted net assets	<u>\$ (1,518)</u>	<u>\$ (1,743)</u>

Separate financial statements for MUSL may be obtained from the Multi-State Lottery Association, 4400 NW Urbandale Drive, Urbandale, Iowa, 50322.

6. CAPITAL ASSETS

A. Primary Government

Capital Assets Activity

Capital asset activity for the primary government for the year ended June 30, 2016 (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,918,401	\$ 36,614	\$ 5,387	\$ 1,949,628
Construction in progress	1,336,394	408,795	573,567	1,171,622
Works of art and other nondepreciable assets	2,012	24	-	2,036
Total capital assets not being depreciated	<u>3,256,807</u>	<u>445,433</u>	<u>578,954</u>	<u>3,123,286</u>
<i>Capital assets being depreciated:</i>				
Buildings, property, and equipment ¹	3,725,725	170,328	121,742	3,774,310
Infrastructure	12,776,877	647,642	49,783	13,374,736
Total capital assets being depreciated ¹	<u>16,502,602</u>	<u>817,970</u>	<u>171,526</u>	<u>17,149,046</u>
Less accumulated depreciation for:				
Buildings, property, and equipment ¹	1,744,236	149,556	99,425	1,794,368
Infrastructure	4,963,644	275,288	49,783	5,189,149
Total accumulated depreciation ¹	<u>6,707,881</u>	<u>424,844</u>	<u>149,208</u>	<u>6,983,517</u>
Total capital assets being depreciated, net ¹	<u>9,794,721</u>	<u>393,126</u>	<u>22,317</u>	<u>10,165,530</u>
Total capital assets, net¹	<u>\$ 13,051,527</u>	<u>\$ 838,559</u>	<u>\$ 601,271</u>	<u>\$ 13,288,816</u>

¹ These beginning balances have been updated to reflect a merger that occurred on July 1, 2015. Refer to Note 21 for additional information.

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Notes to the Financial Statements

	Beginning Balance	Increases	Decreases²	Ending Balance
Business-type activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 24,035	\$ 396	\$ 15,008	\$ 9,424
Construction in progress	23,750	1,226	24,016	961
Works of art and other nondepreciable assets	3,994	-	3,307	687
Total capital assets not being depreciated	<u>51,779</u>	<u>1,622</u>	<u>42,331</u>	<u>11,072</u>
<i>Capital assets being depreciated:</i>				
Buildings, property, and equipment	1,398,873	19,235	601,344	816,764
Infrastructure	34,497	-	30,836	3,661
Total capital assets being depreciated	<u>1,433,370</u>	<u>19,235</u>	<u>632,180</u>	<u>820,425</u>
Less accumulated depreciation for:				
Buildings, property, and equipment	497,541	39,799	318,958	218,383
Infrastructure	14,941	97	14,329	709
Total accumulated depreciation	<u>512,482</u>	<u>39,896</u>	<u>333,287</u>	<u>219,092</u>
Total capital assets being depreciated, net	<u>920,888</u>	<u>(20,661)</u>	<u>298,893</u>	<u>601,332</u>
Total capital assets, net	<u>\$ 972,667</u>	<u>\$ (19,039)</u>	<u>\$ 341,224</u>	<u>\$ 612,404</u>

² Included within decreases of capital assets are those related to the dissolution of the Oregon University System and the transfer of its operations to independent universities. Refer to Note 21 for additional information.

	Beginning Balance	Increases	Decreases	Ending Balance
Fiduciary fund activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 958	\$ -	\$ -	\$ 958
Total capital assets not being depreciated	<u>958</u>	<u>-</u>	<u>-</u>	<u>958</u>
<i>Capital assets being depreciated:</i>				
Buildings, property, and equipment	53,139	217	1,012	52,344
Total capital assets being depreciated	<u>53,139</u>	<u>217</u>	<u>1,012</u>	<u>52,344</u>
Less accumulated depreciation for:				
Buildings, property, and equipment	19,233	2,806	958	21,081
Total accumulated depreciation	<u>19,233</u>	<u>2,806</u>	<u>958</u>	<u>21,081</u>
Total capital assets being depreciated, net	<u>33,906</u>	<u>(2,589)</u>	<u>54</u>	<u>31,263</u>
Total capital assets, net	<u>\$ 34,864</u>	<u>\$ (2,589)</u>	<u>\$ 54</u>	<u>\$ 32,221</u>

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Depreciation Expense

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

Governmental activities	Amount
Education	\$ 881
Human services	16,617
Public safety	38,488
Economic and community development	1,036
Natural resources	17,752
Transportation	299,660
Consumer and business services	9,610
Administration	7,746
Legislative	1,747
Judicial	3,637
Subtotal	397,174
Internal service funds	27,670
Total depreciation expense	\$ 424,844

Business-type activities	Amount
Housing and Community Services	\$ 8
Veterans' Loan	109
Lottery Operations	23,864
Other business-type activities	15,916
Total depreciation expense	\$ 39,896

Fiduciary fund activities:	Amount
Pension and Other Employee Benefit Trust	\$ 2,806
Total depreciation expense	\$ 2,806

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, 2016 (in thousands):

Project	Spent-to-Date	Remaining Commitment	Remaining Commitment Source of Funds			
			General	Federal	Lottery	Other
Road and bridge construction	\$ 805,057	\$ 771,026	\$ -	\$ 551,676	\$ -	\$ 219,350
Building improvement and maintenance	143,676	60,776	-	857	-	59,920
Courthouse building improvements	11,687	24,749	-	-	-	24,749
Correctional facility construction and upgrades	7,771	23,185	244	-	-	22,942
Natural resources facilities	4,143	10,018	33	231	4,606	5,148
Military facilities	9,631	6,398	-	4,876	-	1,523
Oregon State Hospital facility	18,572	2,608	-	-	-	2,608
Rural Airports	-	415	-	270	-	145
Total construction commitments	\$ 1,000,536	\$ 899,177	\$ 277	\$ 557,910	\$ 4,606	\$ 336,384

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

State of Oregon
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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	\$ 353
Natural resources	4,376
Transportation	1,256
Administration	289
Judicial	77
Total insurance recoveries	\$ 6,351

Business-type activities	Amount
Lottery Operations	\$ 2
Total insurance recoveries	\$ 2

Idle Impaired Capital Assets

At fiscal year-end, the Department of Corrections' Deer Ridge Correctional Institution, a minimum security facility with a carrying value of \$31.9 million, and the Oregon State Penitentiary minimum security facility with a carrying value of \$1 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.

The Department of Administrative Services is temporarily holding old buildings on the Oregon State Hospital campus which are scheduled to be demolished. The net carrying value of the buildings is \$12.2 million.

The Oregon Military Department's Forest Grove Armory, with a carrying value of \$2 million was temporarily idle due to mold contamination and necessary repairs to the roof and heating, ventilation, and air conditioning units.

B. Discretely Presented Component Units

Under Oregon Revised Statutes 352.113, real property acquired by a university with a governing board shall be taken and held in the name of the State of Oregon acting by and through the governing board. In addition, legal title to all personal property acquired, constructed, remodeled, repaired, equipped, or furnished with the proceeds of bonds issued pursuant to Article XI-Q of the Oregon Constitution for the benefit of a university with a governing board must be taken and held in the name of the State of Oregon, acting by and through the governing board.

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Changes in capital assets for universities that are considered major component units are included below (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
University of Oregon				
<i>Capital assets not being depreciated:</i>				
Land	\$ 69,971	\$ 4,130	\$ 809	\$ 73,292
Construction in progress	57,453	118,271	43,795	131,929
Works of art and other nondepreciable assets	39,926	1,490	44	41,372
Total capital assets not being depreciated	<u>167,350</u>	<u>123,891</u>	<u>44,648</u>	<u>246,593</u>
<i>Capital assets being depreciated:</i>				
Buildings, property, and equipment	1,729,070	93,405	52,531	1,769,944
Infrastructure	49,660	1,236	-	50,896
Total capital assets being depreciated	<u>1,778,730</u>	<u>94,641</u>	<u>52,531</u>	<u>1,820,840</u>
Less accumulated depreciation for:				
Buildings, property, and equipment	618,178	55,378	5,936	667,620
Infrastructure	25,264	1,992	-	27,256
Total accumulated depreciation	<u>643,442</u>	<u>57,370</u>	<u>5,936</u>	<u>694,876</u>
Total capital assets being depreciated, net	<u>1,135,288</u>	<u>37,271</u>	<u>46,595</u>	<u>1,125,964</u>
Total capital assets, net	<u>\$ 1,302,638</u>	<u>\$ 161,162</u>	<u>\$ 91,243</u>	<u>\$ 1,372,557</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Oregon State University				
<i>Capital assets not being depreciated:</i>				
Land	\$ 23,771	\$ 14,483	\$ -	\$ 38,254
Construction in progress	101,594	112,985	109,954	104,625
Works of art and other nondepreciable assets	28,749	971	462	29,258
Total capital assets not being depreciated	<u>154,114</u>	<u>128,439</u>	<u>110,416</u>	<u>172,137</u>
<i>Capital assets being depreciated:</i>				
Buildings, property, and equipment	1,495,805	126,086	16,598	1,605,293
Infrastructure	31,133	2,190	-	33,323
Total capital assets being depreciated	<u>1,526,938</u>	<u>128,276</u>	<u>16,598</u>	<u>1,638,616</u>
Less accumulated depreciation for:				
Buildings, property, and equipment	680,541	49,423	14,633	715,331
Infrastructure	17,542	1,438	-	18,980
Total accumulated depreciation	<u>698,083</u>	<u>50,861</u>	<u>14,633</u>	<u>734,311</u>
Total capital assets being depreciated, net	<u>828,855</u>	<u>77,415</u>	<u>1,965</u>	<u>904,305</u>
Total capital assets, net	<u>\$ 982,969</u>	<u>\$ 205,854</u>	<u>\$ 112,381</u>	<u>\$ 1,076,442</u>

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	Beginning Balance	Increases	Decreases	Ending Balance
Portland State University				
<i>Capital assets not being depreciated:</i>				
Land	\$ 53,930	\$ 3,482	\$ 3,647	\$ 53,765
Construction in progress	5,688	25,622	1,169	30,141
Works of art and other nondepreciable assets	2,965	152	-	3,117
Total capital assets not being depreciated	62,583	29,256	4,816	87,023
<i>Capital assets being depreciated:</i>				
Buildings, property, and equipment	743,423	44,759	38,842	749,340
Infrastructure	31,347	387	-	31,734
Total capital assets being depreciated	774,770	45,146	38,842	781,074
Less accumulated depreciation for:				
Buildings, property, and equipment	342,566	34,342	11,119	365,789
Infrastructure	10,303	1,459	-	11,762
Total accumulated depreciation	352,869	35,801	11,119	377,551
Total capital assets being depreciated, net	421,901	9,345	27,723	403,523
Total capital assets, net	\$ 484,484	\$ 38,601	\$ 32,539	\$ 490,546

7. LEASES

A. Operating Leases

The State has 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, 2016, were \$91.9 million for the primary government.

Future minimum rental payments for operating leases in effect as of June 30, 2016 (in thousands):

Year Ending June 30,	Amount
2017	\$ 91,228
2018	77,299
2019	62,182
2020	48,403
2021	41,464
2022-2026	158,543
2027-2031	80,223
2032-2036	37,158
2037-2041	697
2042-2046	22
Total future minimum rental payments	\$ 597,219

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 position. The expense resulting from the amortization of assets recorded under capital leases is included in depreciation expense.

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Carrying value of assets subject to an outstanding capital lease or lease purchase contract as of June 30, 2016 (in thousands):

Asset Class	Governmental Activities	Business-type Activities
Buildings, property, and equipment	\$ 15,925	\$ 1,297
Less accumulated depreciation	(10,052)	(497)
Total carrying value	\$ 5,873	\$ 800

Future minimum lease payments for capital leases and the related net present value as of June 30, 2016 (in thousands):

Year Ending June 30,	Governmental Activities	Business-type Activities
2017	\$ 2,908	\$ 277
2018	2,334	23
2019	1,119	-
2020	112	-
2021	84	-
Total future minimum lease payments	6,558	300
Less amounts representing interest	(779)	(4)
Present value of minimum lease payments	\$ 5,779	\$ 297

C. Lease Receivables

The State receives rental income from land, property, and equipment leased to non-state entities. For the year ended June 30, 2016, the State received rental income of \$3.6 million on leased assets with a cost of \$13.3 million, and a carrying value of \$11.1 million, net of \$2.3 million in accumulated depreciation. Certain leased assets are reported as investments in the governmental funds balance sheet and the governmental activities portion of the government-wide statement of net position.

Future minimum lease revenues for non-cancelable operating leases as of June 30, 2016 (in thousands):

Year Ending June 30,	Amount
2017	\$ 3,691
2018	3,480
2019	3,107
2020	2,762
2021	1,500
2022-2026	4,177
2027-2031	3,511
2032-2036	2,976
2037-2041	362
Total future minimum lease revenues	\$ 25,566

8. SHORT AND LONG-TERM DEBT

A. Short-Term Debt

During the year, the Oregon Department of Justice received a loan from the Oregon Short-Term Fund (OSTF) to pay for expenses incurred by Child Support Systems Modernization Project. Tax Anticipation Notes (TANS) were issued in October 2015 to cover seasonal cash needs within the 2016 fiscal year.

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Short-term debt activity for the year ended June 30, 2016 (in thousands):

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Human Service treasury loan	\$ 13,000	\$ -	\$ 13,000	\$ -
Military treasury loan	3,000	-	3,000	-
Justice treasury loan	-	4,659	4,659	-
Tax anticipation notes ¹	-	600,000	-	600,000
Total short-term debt activity	\$ 16,000	\$ 604,659	\$ 20,659	\$ 600,000

¹ Excludes premium received on issuance of tax anticipation notes.

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. Obligations issued for highway construction pursuant to Article XI, Section 7, are fully self-supporting. 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. 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 Oregon Health and Science University. Article XI-M provides authorization to finance seismic rehabilitation projects for public education buildings and XI-N for emergency service buildings. Article XI-O provides authorization to finance pension liabilities through the issuance of general obligation bonds. 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 the 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. The preceding bonds of business-type activities are fully self-supporting.

With the transition from the Oregon University System to independent governing boards, debt related to higher education is reported in the governmental activities. Issuance of general obligation bonds to finance higher education building projects is authorized in Article XI-F (1). 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.

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Notes to the Financial Statements

Debt service requirements for general obligation bonds as of June 30, 2016 (in thousands):

Year ending June 30,	Governmental Activities		Business-type Activities		Fiduciary Fund Activities	
	Principal ¹	Interest	Principal ²	Interest	Principal	Interest
2017	\$ 238,160	\$ 263,276	\$ 25,435	\$ 17,680	\$ 615	\$ 31
2018	257,481	251,447	26,255	16,668	-	-
2019	279,182	236,549	27,100	15,643	-	-
2020	301,810	223,540	27,160	14,584	-	-
2021	321,901	206,504	30,645	13,388	-	-
2022-2026	1,777,893	770,425	122,825	50,851	-	-
2027-2031	985,889	344,422	108,790	30,054	-	-
2032-2036	593,303	168,297	77,660	17,877	-	-
2037-2041	325,350	47,928	72,500	9,416	-	-
2042-2046	51,110	3,134	26,300	1,748	-	-
2047-2051	-	-	410	25	-	-
Total	\$ 5,132,079	\$ 2,515,521	\$ 545,080	\$ 187,933	\$ 615	\$ 31

¹ Includes \$1.8 billion in pension bond debt.

² Includes a total of \$138.9 million of bonds with variable interest rates adjusted daily or 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 0.37 percent for \$70.4 million of these bonds, 0.46 percent for \$43.4 million, and 0.40 percent for \$25.1 million.

C. Revenue Bonds

Oregon Revised Statutes (ORS) authorizes 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 governmental 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/Wastewater Financing Fund. Loan repayments support the bonds associated with these business-type activities.

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Debt service requirements for revenue bonds as of June 30, 2016 (in thousands):

Year ending June 30,	Governmental Activities		Business-type Activities	
	Principal¹	Interest	Principal²	Interest
2017	\$ 142,635	\$ 148,985	\$ 65,085	\$ 25,595
2018	134,990	143,742	27,075	25,265
2019	137,505	138,423	27,665	24,634
2020	131,940	132,838	27,665	23,917
2021	131,825	127,297	29,280	23,121
2022-2026	760,810	535,841	166,925	100,618
2027-2031	860,540	331,016	223,375	70,022
2032-2036	763,930	109,017	185,650	42,074
2037-2041	281,805	8,155	146,260	21,319
2042-2046	-	-	68,285	5,812
2047-2051	-	-	6,160	592
2052-2056	-	-	745	37
Total	\$ 3,345,980	\$ 1,675,313	\$ 974,170	\$ 363,005

¹ Includes a total of \$265.5 million of bonds with variable interest rates adjusted weekly based on the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA) rate. The rate at the end of the fiscal year was 0.72 percent.

² 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 0.42 percent for \$16.1 million of these bonds, 0.43 percent for \$13.1 million, 0.45 percent for \$79.5 million, 0.46 percent for \$15 million, and 0.49 percent for \$120.9 million.

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 activities.

Debt service requirements for certificates of participation as of June 30, 2016 (in thousands):

Year ending June 30,	Governmental Activities	
	Principal	Interest
2017	\$ 49,326	\$ 16,551
2018	40,935	14,988
2019	29,960	13,512
2020	22,365	12,414
2021	15,145	10,534
2022-2026	65,800	43,199
2027-2031	55,545	31,646
2032-2036	51,979	16,661
Total	\$ 331,055	\$ 159,506

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E. Changes in Long-Term Debt

Effective July 1, 2015, Western Oregon University (WOU), Southern Oregon University (SOU), Eastern Oregon University (EOU), and Oregon Institute of Technology (OIT) became separate legal entities, independent from the State, which ceased the operations of the Oregon University System (OUS), a state agency. As a result, WOU, SOU, EOU, and OIT are reported as discretely presented component units of the State rather than part of the primary government. At the start of the current fiscal year, all long-term debt previously reported within the University System Fund, a nonmajor enterprise fund that previously reported all long-term debt related to OUS, was transferred to the governmental activities portion of the government-wide statement of net position.

The beginning balance of revenue bonds in both the governmental activities and the business-type activities has been restated for an error discovered during the current year. Refer to Note 19 for additional information.

Changes in long-term debt for governmental activities for the year ended June 30, 2016 (in thousands):

	Beginning Balance	Transfers from Business-type Activities	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities						
Bonds/certificates payable:						
General obligation bonds	\$ 3,325,426	\$ 1,672,562	\$ 473,635	\$ 339,543	\$ 5,132,079	\$ 238,160
Revenue bonds	3,292,029	187,381	-	133,430	3,345,980	142,635
Certificates of participation	470,139	47,693	-	186,777	331,055	49,326
Less amounts:						
For issuance discounts	(2,155)	(216)	-	(179)	(2,192)	-
For issuance premiums	528,582	148,939	96,553	69,921	704,154	-
Accreted interest	-	34,877	-	7,681	27,195	-
Total bonds/certificates payable	\$ 7,614,020	\$ 2,091,236	\$ 570,188	\$ 737,173	\$ 9,538,271	\$ 430,121

Changes in long-term debt for business-type activities for the year ended June 30, 2016 (in thousands):

	Beginning Balance	Transfers to Governmental Activities	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities						
Bonds/certificates payable:						
General obligation bonds	\$ 2,250,829	\$ 1,672,562	\$ 59,355	\$ 92,542	\$ 545,080	\$ 25,435
Revenue bonds	1,172,871	187,381	205,855	217,175	974,170	65,085
Certificates of participation	47,891	47,693	-	198	-	-
Less amounts:						
For issuance discounts	(568)	(216)	-	(54)	(298)	-
For issuance premiums	163,395	148,939	8,538	2,742	20,253	-
Accreted interest	34,875	34,877	-	-	-	-
Total bonds/certificates payable	\$ 3,669,294	\$ 2,091,236	\$ 273,748	\$ 312,603	\$ 1,539,205	\$ 90,520

Changes in long-term debt for fiduciary fund activities for the year ended June 30, 2016 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Fiduciary fund activities					
Bonds/certificates payable:					
General obligation bonds	\$ 1,200	\$ -	\$ 585	\$ 615	\$ 615
Less amounts:					
For issuance premiums	115	-	63	52	-
Total bonds/certificates payable	\$ 1,315	\$ -	\$ 648	\$ 667	\$ 615

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F. 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, 2016 (dollars in thousands):

Series	Outstanding Amount	Liquidity Provider	Expiration Date	Commitment Fee	Remarketing Agent	Remarketing Fee
84	\$ 29,500	Bank of Tokyo-Mitsubishi UFJ, Ltd	12/30/2016 ¹	0.3500%	J.P. Morgan Securities, Inc.	0.05%
86	31,320	U.S. Bank National Association	5/18/2018	0.3000%	J.P. Morgan Securities, Inc.	0.07%
87C	9,045	U.S. Bank National Association	5/18/2018	0.3000%	J.P. Morgan Securities, Inc.	0.07%
88B	30,000	U.S. Bank National Association	5/18/2018	0.3000%	J.P. Morgan Securities, Inc.	0.07%
90B	13,885	Bank of Tokyo-Mitsubishi UFJ, Ltd	12/30/2016 ¹	0.3500%	J.P. Morgan Securities, Inc. U.S. Bancorp Investments Inc., together with U.S. Bank Municipal Services Group	0.07%
95	25,140	U.S. Bank National Association	5/18/2018	0.3000%	Municipal Services Group	0.05%

¹ On September 29, 2016, an extension of a SBPA with Bank of Tokyo-Mitsubishi UFJ, Ltd was executed. The expiration of the extension is September 27, 2019

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 their 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 84 and 90B (Series 84 & 90B SBPA), the Bank of Tokyo-Mitsubishi UFJ, Ltd. will commit to purchase any series 84 or 90B unremarketed bonds, subject to certain conditions. Under the amended and restated SBPA for Series 86, 87C, and 88B (Series 85-88B SBPA) and the SBPA for Series 95 (Series 95 SBPA), U.S. Bank National Association will commit to purchase any Series 86, 87C, 88B or 95 unremarketed bonds, subject to certain conditions.

If a tender advance does occur under the Series 84 and 90B 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, 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 tender advances must generally be repaid before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off on the earliest to occur of (a) the date the applicable bonds are paid in full; (b) the conversion date of all or a portion of the applicable bonds to a fixed rate, 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 Series 84 and 90B SBPA, a default has occurred.

No tender advances or draws were necessary to purchase unremarketed bonds under the Series 84 and 90B SBPA for fiscal year 2016. Therefore, no tender advances or draws were outstanding as of June 30, 2016.

If a tender advance does occur under the Series 86-88B SBPA or the Series 95 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 tender advances must generally be repaid before the principal

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portion of a tender advance is repaid. In most cases, tender advances are required to be repaid on the earliest to occur of (a) the date the applicable bonds are paid in full; (b) the conversion date of all or a portion of the applicable bonds to a fixed rate, 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 86-88B SBPA or the Series 95 SBPA, a default has occurred.

No tender advances or draws were necessary to purchase unremarketed bonds under the Series 86-88B SBPA or the Series 95 SBPA for fiscal year 2016. Therefore, no tender advances or draws were outstanding as of June 30, 2016.

Oregon Housing and Community Services Department

Included in Oregon Housing and Community Services Department's (OHCS) long-term debt is \$241.7 million in variable rate demand bonds. OHCS'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.

OHCS 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 require 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. 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 90 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, 2016.

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	\$ 13,305	Bank of America, N.A.	8/27/2017	0.5000%	Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.08%
MRB 2006 G	16,105	State Street Bank and Trust Company	9/1/2020	0.5500%	CitiGroup Global Markets, Inc.	0.07%
MRB 2007 E	27,575	JPMorgan Chase Bank, NA	12/31/2017	0.4930%	J.P. Morgan Securities, LLC	0.07%
MRB 2007 H	25,725	JPMorgan Chase Bank, NA	12/31/2017	0.4930%	J.P. Morgan Securities, LLC	0.07%
MRB 2008 C	31,030	JPMorgan Chase Bank, NA	12/31/2017	0.4930%	J.P. Morgan Securities, LLC	0.07%
MRB 2008 F	31,530	JPMorgan Chase Bank, NA	12/31/2017	0.4930%	Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.07%
MRB 2008 I	34,650	JPMorgan Chase Bank, NA	12/31/2017	0.4930%	Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.07%
MRB 2015 C	33,600	State Street Bank and Trust Company	9/1/2020	0.5500%	J.P. Morgan Securities, LLC	0.07%
MRB 2016 B	13,140	State Street Bank and Trust Company	9/1/2020	0.5500%	Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.07%
MRB 2016 C	15,000	State Street Bank and Trust Company	9/1/2020	0.5500%	Merrill Lynch, Pierce, Fenner & Smith, Inc.	0.07%

G. No-Commitment Debt

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

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No-commitment debt outstanding as of June 30, 2016 (in thousands):

Primary Government	Amount
Oregon Business Development Department	\$ 221,718
Oregon Facilities Authority	1,933,053
Housing and Community Services Department	273,759
Total no-commitment debt	\$ 2,428,531

H. Debt Refundings

Occasionally, the State issues new long-term debt to extinguish the obligation of previously issued bonds or certificates of participation in order to take advantage of lower interest rates. In instances of advanced refunding, the money from the sale of the 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, 2015, and June 30, 2016:

On September 1, 2015, the Oregon Housing and Community Services Department issued \$121.4 million in 2015 Series A, B, and C Revenue Bonds with an average interest rate of 2.7 percent. The bonds were issued to refund \$44.6 million of various series outstanding revenue bonds with an average interest rate of 4 percent. The current refunding was undertaken to reduce the total debt service payments over the next 22 years by \$3.8 million and resulted in an economic gain of \$5.3 million.

On November 19, 2015, the Oregon Department of Veterans' Affairs issued \$59.4 million of general obligation bonds, of which \$25.1 million was used to refund previously issued general obligation bonds. The current refunding of these bonds decreases the total debt service over the next 15 years by approximately \$1.9 million and results in an economic loss of approximately \$25 thousand.

On May 25, 2016, the Oregon Department of Administrative Services on behalf of various agencies issued \$180.9 million in 2016 Series F XI-Q General Obligation Bonds with an average interest rate of 5 percent. These bonds refunded \$203.5 million of various series outstanding general obligation bonds and certificates of participation with an average interest rate of 5 percent. The advanced refunding was undertaken to reduce the total debt service payments over the next 23 years by \$41.8 million and resulted in an economic gain of \$23.1 million.

On May 25, 2016, the Oregon Department of Administrative Services on behalf of various agencies issued \$46.8 million in 2016 Series G XI-Q General Obligation Bonds with an average interest rate of 5 percent. These bonds refunded \$50.7 million of various series outstanding 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 18 years by \$5.8 million and resulted in an economic gain of \$5 million.

On May 31, 2016, the Oregon Housing and Community Services Department issued \$84.4 million in 2016 Series A, B, and C Revenue Bonds with an average interest rate of 2.1 percent. These bonds refunded \$21.1 million of various series outstanding revenue bonds with an average interest rate of 4.4 percent. The current refunding was undertaken to reduce the total debt service payments over the next 21 years by \$2.4 million and resulted in an economic gain of \$3.4 million.

I. Defeased Debt

The State has defeased certain general obligation and revenue bonds, as well as certificates of participation, by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the liability for defeased debt is not included in the State's financial statements. On June 30, 2016, \$1.9 billion of debt outstanding is considered defeased.

9. OTHER LONG-TERM LIABILITIES

A. Primary Government

Changes in other long-term liabilities for governmental activities for the year ended June 30, 2016 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences payable	\$ 184,129	\$ 10,390	\$ 911	\$ 193,608	\$ 125,845
Claims and judgments payable	1,145,972	758,168	737,902	1,166,239	128,577
Arbitrage rebate payable	1,102	130	865	366	71
Custodial liabilities	318,192	1,080,069	1,063,227	335,033	331,550
Contracts, mortgages, and notes payable ¹	378,343	21,149	45,873	353,620	17,759
Obligations under capital lease	3,846	4,039	2,105	5,779	2,527
Pollution remediation obligation	17,933	3,010	1,882	19,061	4,007
Net OPEB obligation	55,335	-	5,389	49,945	-
Total other long-term liabilities	\$ 2,104,852	\$ 1,876,955	\$ 1,858,154	\$ 2,123,652	\$ 610,337

¹ The beginning balance has been updated to reflect a merger that occurred on July 1, 2015. Refer to Note 21 for additional information.

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 and the Health and Social Services Fund. The liability for contracts, mortgages, and notes is generally liquidated through the General Fund, the Environmental Management Fund, the Health and Social Services Fund, and the Public Transportation 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. The net OPEB obligation is the result of the State's pay-as-you-go funding policy for other postemployment benefits offered through the Public Employees Benefit Board, and is liquidated by each governmental fund, excluding the debt service funds.

Changes in other long-term liabilities for business-type activities for the year ended June 30, 2016 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Compensated absences payable	\$ 22,943	\$ 832	\$ 6,113	\$ 17,662	\$ 11,568
Claims and judgments payable	14,798	179,015	184,613	9,200	9,200
Lottery prize awards payable	163,584	293,357	278,286	178,654	34,519
Arbitrage rebate payable	22,054	792	-	22,846	-
Custodial liabilities	51,127	209,420	246,219	14,328	10,343
Contracts, mortgages, and notes payable	50,919	5,266	21,283	34,900	1,714
Obligations under capital lease	578	-	281	297	273
Net OPEB obligation	9,420	-	4,336	5,084	-
Derivative instruments liability	12,771	-	5,101	7,670	-
Total other long-term liabilities	\$ 348,194	\$ 688,682	\$ 746,232	\$ 290,641	\$ 67,619

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Changes in other long-term liabilities for fiduciary fund activities for the year ended June 30, 2016 (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Fiduciary fund activities					
Custodial liabilities	\$ 1,610,838	\$ 9,477,953	\$ 9,422,063	\$ 1,666,727	\$ 1,589,471
Contracts, mortgages, and notes payable	1,319	56	-	1,375	82
Net OPEB obligation	575	11	-	585	-
Total other long-term liabilities	\$ 1,612,732	\$ 9,478,019	\$ 9,422,063	\$ 1,668,687	\$ 1,589,553

B. Discretely Presented Component Units

The State of Oregon has issued various debt instruments to fund capital projects for its university component units, which are the University of Oregon (UO), Oregon State University (OSU), Portland State University (PSU), Oregon Health and Science University (OHSU), Western Oregon University (WOU), Southern Oregon University (SOU), Eastern Oregon University (EOU), and Oregon Institute of Technology. These debt instruments include general obligation bonds, certificates of participation (COPs), and lottery revenue bonds, which are liabilities of the State, and are disclosed in greater detail in Note 8. These universities have entered into debt management agreements with the State, through the Higher Education Coordinating Commission and Department of Administrative Services, to repay the State for certain debt instruments identified above. Pursuant to the debt management agreements, the universities have reported a payable to the State and the State has reported a receivable from the universities.

In addition, many of the universities have borrowed from the Oregon Department of Energy through the Small Scale Energy Loan Program (SELP) for energy conservation projects.

Changes in notes payable to the State of Oregon for the State's major component units, which are UO, OSU, and PSU are included below (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
University of Oregon					
Higher Education Coordinating Commission Loans	\$ 535,325	\$ 7,699	\$ 35,185	\$ 507,839	\$ 2,362
Oregon Department of Energy Loans (SELP)	41,844	-	1,654	40,190	1,749
Total	\$ 577,169	\$ 7,699	\$ 36,839	\$ 548,029	\$ 4,111
Oregon State University					
Higher Education Coordinating Commission Loans	\$ 380,993	\$ 704	\$ 45,775	\$ 335,922	\$ 15,697
Oregon Department of Energy Loans (SELP)	14,237	-	725	13,512	744
Total	\$ 395,230	\$ 704	\$ 46,500	\$ 349,434	\$ 16,441
Portland State University					
Higher Education Coordinating Commission Loans	\$ 197,789	\$ 39,440	\$ 19,582	\$ 217,647	\$ 9,664
Oregon Department of Energy Loans (SELP)	41,042	-	2,373	38,669	2,328
Total	\$ 238,831	\$ 39,440	\$ 21,955	\$ 256,316	\$ 11,992

The outstanding amounts above been included in the discretely presented component unit financial statements, along with other balances, as due to primary government and advance from primary government. The State, as the primary government, has included the above balances, along with other balances, as due from component units and advance to component units.

10. POLLUTION REMEDIATION OBLIGATION

Pollution remediation obligations address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. This includes pre-cleanup activities, cleanup activities, government oversight and enforcement-related activities, and postremediation monitoring. Excluded from

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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, 2016, the State recognized an estimated liability of \$19.1 million for pollution remediation activities. The liability, which is reported in the government-wide statement of net position, 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, 2016.

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 cost under federal law, is obligated to clean up three Superfund sites. Two sites are contaminated with chemicals used in the wood-treatment industry. Contamination was found in the soil, groundwater, and sediments of adjacent rivers. The third site is contaminated with asbestos in the soil resulting from demolition of approximately eighty 1940s era military barracks buildings. 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, 2016, the State is involved in negotiations related to a confidential, non-judicial mediation process that will result in an allocation of cost 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.

11. 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 2035. Total principal and interest remaining to be paid on the bonds is \$1.5 billion. In fiscal year 2017, principal and interest payments on the bonds are expected to require approximately 18.1 percent of unobligated net lottery proceeds. Principal and interest paid for the current year and total unobligated net lottery proceeds recognized were \$113.5 million and \$588.5 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 \$2.3 billion of highway user tax revenue bonds. Proceeds from the bonds provide financing for the construction, reconstruction, improvement, repair,

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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 2038. Total principal and interest remaining to be paid on the bonds is \$3.5 billion. Fiscal year 2017 principal and interest payments on the bonds are expected to require approximately 28.5 percent of pledged revenues. Principal and interest paid for the current year and total pledged revenues recognized were \$174.3 million and \$610.6 million, respectively.

12. INTERFUND TRANSACTIONS

Interfund balances reported in the fund financial statements as of June 30, 2016 (in thousands):

Due to Other Funds	Due from Other Funds					
	General	Health and Social Services	Public Transportation	Environmental Management	Educational Support	Common School
General	\$ -	\$ 13,903	\$ 13	\$ 2,795	\$ 76,186	\$ 21
Health and Social Services	160,688	-	-	138	-	-
Public Transportation	1,867	-	-	12,325	-	-
Environmental Management	3,523	34	4,040	-	-	278
Educational Support	385	249	-	32	-	-
Common School	-	-	-	548	-	-
Nonmajor Governmental Funds	38,044	6,896	2,171	59	4,039	-
Housing and Community Services	-	-	-	-	-	-
Lottery Operations	163,606	-	-	-	-	-
Unemployment Compensation	-	-	-	-	-	-
Nonmajor Enterprise Funds	23,563	4,876	-	15	-	-
Internal Service Funds	123,780	1	-	-	-	-
Fiduciary Funds	-	-	-	-	-	-
Total	\$ 515,456	\$ 25,959	\$ 6,223	\$ 15,913	\$ 80,225	\$ 299

Advances from Other Funds	Advances to Other Funds			Total
	Common School	Nonmajor Enterprise Funds	Internal Service Funds	
General	\$ -	\$ -	\$ 512	\$ 512
Environmental Management	300	-	-	300
Nonmajor Governmental Funds	-	6	-	6
Internal Service Funds	-	43	-	43
Total	\$ 300	\$ 49	\$ 512	\$ 861

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.

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Due from Other Funds (continued)

	Nonmajor Governmental Funds	Housing and Community Services	Veterans' Loan	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
\$	58,657	\$ 6	\$ -	\$ -	\$ 5,199	\$ 12,243	\$ -	\$ 169,022
	1,079	-	-	-	20,037	1,563	-	183,506
	3,104	-	-	-	-	146	-	17,442
	6,477	-	-	-	-	-	-	14,352
	900	-	-	-	-	64	-	1,631
	1	-	-	-	-	-	-	549
	17,250	18	-	-	-	1,736	-	70,212
	51	-	-	-	-	-	-	51
	150	-	-	-	-	-	-	163,756
	3,004	-	-	-	-	-	64	3,068
	42	-	106	-	-	174	84	28,861
	10,774	-	-	-	-	-	-	134,555
	-	-	-	431	1,217	-	8,329	9,977
\$	101,490	\$ 24	\$ 106	\$ 431	\$ 26,453	\$ 15,927	\$ 8,477	\$ 796,983

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Interfund transfers reported in the fund financial statements as of June 30, 2016 (in thousands):

Transfers to Other Funds	Transfers from Other Funds				
	General	Health and Social Services	Public Transportation	Environmental Management	Educational Support
General	\$ -	\$ 73,653	\$ 1,147	\$ 32,164	\$ 262,848
Health and Social Services	32,902	-	-	684	21,236
Public Transportation	4,042	32	-	30,736	-
Environmental Management	15,000	139	416	-	37
Educational Support	154,618	463	-	44	-
Common School	66,245	-	-	4,708	-
Nonmajor Governmental Funds	88,489	56,519	14,480	245	2,108
Housing and Community Services	-	-	-	-	-
Veterans' Loan	-	-	-	-	-
Lottery Operations	588,492	-	-	-	-
Unemployment Compensation	-	-	-	-	-
Nonmajor Enterprise Funds	155,236	12,966	-	187	1,361,897
Internal Service Funds	123,985	-	-	825	2,852
Subtotal	1,229,009	143,772	16,043	69,593	1,650,979
Long-term liabilities transferred to general governmental activities from a nonmajor enterprise fund	-	-	-	-	-
Capital assets transferred to nonmajor enterprise funds from general government activities	-	-	-	-	-
Total	\$ 1,229,009	\$ 143,772	\$ 16,043	\$ 69,593	\$ 1,650,979

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.

When the Oregon University System ceased operations on July 1, 2016, long-term receivables of \$1.4 billion were transferred from the non-major enterprise University System Fund to the governmental Educational Support Fund. These receivables are the result of debt management agreements between the universities and the State.

In the 2015 legislative session, Senate Bill 501 was passed requiring funds to be transferred from various funds to the General Fund for general governmental purposes. These transfers include \$120 million from the Health Services Fund, which is an internal service fund, and \$19.2 million from other nonmajor governmental funds.

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Transfers from Other Funds (continued)

Common School	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Total
\$ 73	\$ 266,409	\$ 265,927	\$ 21	\$ 902,241
-	21,804	17,258	-	93,884
-	254,172	-	630	289,612
6,448	19,215	-	94	41,349
-	1,921	-	546	157,592
-	332	-	-	71,286
-	95,425	244	-	257,510
-	192	-	-	192
-	194	-	-	194
-	1,910	-	-	590,402
-	1	-	-	1
-	18,496	27,353	3,062	1,579,197
-	15,119	71	-	142,852
6,521	695,191	310,853	4,353	4,126,314
-	-	2,089,552	-	2,089,552
-	-	33	-	33
\$ 6,521	\$ 695,191	\$ 2,400,438	\$ 4,353	\$ 6,215,899

13. 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/Wastewater Financing 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 (OHCS) to issue revenue bonds to finance single-family mortgage loans and multi-family housing projects. Article XI-I (2) of the Oregon Constitution authorized OHCS 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/Wastewater Financing Fund and OHCS's various bond funds for the year ended June 30, 2016 (in thousands):

Condensed statement of net position	Special Public Works Fund	Water/ Wastewater Financing Fund	Mortgage Revenue Bonds	Housing Revenue Bonds
Assets:				
Current assets	\$ 99,438	\$ 34,089	\$ 65,074	\$ 11,623
Noncurrent assets	143,653	91,199	700,729	122,779
Total assets	<u>243,091</u>	<u>125,288</u>	<u>765,802</u>	<u>134,403</u>
Deferred outflows of resources	138	72	7,952	-
Liabilities:				
Interfund payables	1	-	9	-
Other current liabilities	6,792	3,516	60,006	10,691
Noncurrent liabilities	33,848	20,987	624,921	119,646
Total liabilities	<u>40,641</u>	<u>24,503</u>	<u>684,937</u>	<u>130,337</u>
Deferred inflows of resources	131	68	1,835	486
Net position:				
Restricted-Expendable	1,610	904	86,983	3,580
Unrestricted	200,847	99,885	-	-
Total net position	<u>\$ 202,458</u>	<u>\$ 100,789</u>	<u>\$ 86,983</u>	<u>\$ 3,580</u>

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Condensed statement of revenues, expenses, and changes in net position	Water/			
	Special Public Works Fund	Wastewater Financing Fund	Mortgage Revenue Bonds	Housing Revenue Bonds
Operating activities:				
Loan interest income	\$ 5,772	\$ 3,402	\$ 24,297	\$ 5,470
Other operating revenue	59	-	2,956	474
Operating expenses	(6,062)	(5,470)	(23,282)	(4,894)
Operating income (loss)	(231)	(2,068)	3,971	1,050
Total nonoperating revenues (expenses)	889	129	-	-
Capital Contributions	1	-	-	-
Transfers from other funds	5,788	21,563	1,579	-
Transfers to other funds	(22,162)	(6,105)	(3,424)	-
Change in net position	(15,715)	13,519	2,126	1,050
Beginning net position (as restated)	218,173	87,270	84,857	2,530
Ending net position	\$ 202,458	\$ 100,789	\$ 86,983	\$ 3,580

Condensed statement of cash flows	Water/			
	Special Public Works Fund	Wastewater Financing Fund	Mortgage Revenue Bonds	Housing Revenue Bonds
Net cash provided (used) by:				
Operating activities	\$ (3,532)	\$ (3,317)	\$ 43,138	\$ 28,674
Noncapital financing activities	(35,533)	6,126	26,520	(29,448)
Investing activities	29,855	3,502	(50,527)	5,322
Net increase (decrease)	(9,211)	6,311	19,131	4,547
Beginning cash and cash equivalents	92,326	25,965	24,867	3,399
Ending cash and cash equivalents	\$ 83,115	\$ 32,276	\$ 43,998	\$ 7,947

Condensed statement of net position	Multifamily Housing Revenue Bonds	Elderly and Disabled Housing Fund
	Assets:	
Current assets	\$ 7,539	\$ 5,080
Noncurrent assets	158,409	123,577
Total assets	165,949	128,656
Deferred outflows of resources	984	165
Liabilities:		
Interfund payables	-	51
Other current liabilities	6,995	3,832
Noncurrent liabilities	128,468	49,653
Total liabilities	135,462	53,536
Deferred inflows of resources	1,596	912
Net position:		
Net investment in capital assets	-	8
Restricted-Expendable	29,875	74,366
Total net position	\$ 29,875	\$ 74,373

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Condensed statement of revenues, expenses, and changes in net position	Multifamily Housing Revenue Bonds	Elderly and Disabled Housing Fund
Operating activities:		
Loan interest income	\$ 8,636	\$ 7,958
Other operating revenue	1,160	677
Operating expenses	(6,282)	(5,221)
Operating income (loss)	<u>3,513</u>	<u>3,413</u>
Total nonoperating revenues (expenses)	-	(8)
Transfers from other funds	375	-
Transfers to other funds	-	(43)
Change in net position	<u>3,887</u>	<u>3,362</u>
Beginning net position	<u>25,988</u>	<u>71,012</u>
Ending net position	<u>\$ 29,875</u>	<u>\$ 74,373</u>

Condensed statement of cash flows	Multifamily Housing Revenue Bonds	Elderly and Disabled Housing Fund
Net cash provided (used) by:		
Operating activities	\$ 14,961	\$ 24,610
Noncapital financing activities	(13,403)	(38,909)
Investing activities	(885)	4,056
Net increase (decrease)	<u>672</u>	<u>(10,243)</u>
Beginning cash and cash equivalents	<u>1,371</u>	<u>35,532</u>
Ending cash and cash equivalents	<u>\$ 2,043</u>	<u>\$ 25,289</u>

14. EMPLOYEE RETIREMENT PLANS

A. Plan Descriptions

Public Employees Retirement Plan

The Public Employees Retirement System (PERS) administers a cost-sharing, multiple-employer plan for units of state government, political subdivisions, community colleges, and school districts, containing multiple actuarial pools. Plan assets may be used to pay the benefits of the employees of any employer that provides pensions through the plan. Participation by state government units, school districts, and community colleges is mandatory. Participation by most political subdivisions is optional, but irrevocable if elected. As of June 30, 2016, there were 906 participating employers.

PERS is administered in accordance with Oregon Revised Statutes (ORS) Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a). The Oregon Legislature has delegated authority to the Public Employees Retirement Board (Board) to administer and manage the System. All members of the Board are appointed by the governor and confirmed by the state Senate. The governor designates the chairperson. One member must be a public employer manager or a local elected official, one member must be a union-represented public employee or retiree, and three members must have experience in business management, pension management, or investing.

In 1995 the Oregon Legislature enacted Chapter 654, Section 3, Oregon Laws 1995, which has been codified into ORS 238.435. The legislation created a second tier of benefits for those who established membership on or after January 1, 1996. The second tier does not have the Tier One assumed earnings rate guarantee and has a higher normal retirement age of 60, compared to 58 for Tier One. Both Tier One and Tier Two are defined benefit plans. As of June 30, 2016, there were 28,605 active plan members, 121,585 inactive plan members or

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their beneficiaries currently receiving benefits, 15,106 inactive plan members entitled to but not yet receiving benefits, and 10 inactive plan members not eligible for refund or retirement, for a total of 165,306 Tier One members. As of June 30, 2016, there were 39,205 active plan members, 12,336 inactive plan members or their beneficiaries currently receiving benefits, 15,291 inactive plan members entitled to but not yet receiving benefits, and 718 inactive plan members not eligible for refund or retirement, for a total of 67,550 Tier Two members in the System. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

In 2003 Legislature enacted HB 2020, codified as ORS 238A, which created the Oregon Public Service Retirement Plan (OPSRP). OPSRP consists of the Pension Program (defined benefit) and the Individual Account Program (IAP). The IAP is a defined contribution plan. Membership includes public employees hired on or after August 29, 2003. As of June 30, 2016, there were 103,866 active plan members, 2,514 inactive plan members or their beneficiaries currently receiving benefits, 4,775 inactive plan members entitled to but not yet receiving benefits, and 10,025 inactive plan members not eligible for refund or retirement, for a total of 121,180 OPSRP Pension Program members.

Beginning January 1, 2004, active PERS Tier One and Tier Two plan members became members of the IAP of OPSRP. PERS members retain their existing Defined Benefit Plan accounts, but member contributions are now deposited into the member's IAP account, not into the member's Defined Benefit Plan account. Accounts are credited with earnings and losses net of administrative expenses. OPSRP is part of PERS and is administered by the Board. The PERS Board is directed to adopt any rules necessary to administer OPSRP, and such rules are to be considered part of the plan for IRS purposes.

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

B. Benefits Provided

Tier One and Tier Two

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results. Monthly payments must be a minimum of \$200 per month or the member will receive a lump-sum payment of the actuarial equivalence of benefits to which he or she is entitled. A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Tier Two members are eligible for full benefits at age 60.

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided certain criteria exist. A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit. Monthly benefits are adjusted annually through cost-of-living (COLA) changes. The COLA in fiscal year 2015 was capped at 1.5 percent for all benefit recipients.

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OPSRP

The pension portion of OPSRP provides a life pension funded by employer contributions. For police and fire employees, 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. For general service employees, 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of service. Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as a spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member. A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

OPSRP IAP

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. Upon retirement, a member of the OPSRP IAP may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

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, 2015, and ending June 30, 2017, expressed as a percentage of covered payroll:

<u>Tier One - Tier Two</u>		<u>OPSRP Employer Rates</u>	
<u>General Service</u>	<u>Police and Fire</u>	<u>General Service</u>	<u>Police and Fire</u>
12.31%	15.63%	6.51%	10.62%

State agencies' employer contributions to PERS for fiscal years ended June 30, 2016, totaled approximately \$205.4 million. Member contributions for the year ended June 30, 2016, were \$129.6 million. The actual contribution equaled the contractually required contribution for the fiscal year.

In fiscal year 2004, the State issued \$2 billion in pension obligation bonds to reduce the PERS pension liability. State agencies pay an additional assessment to cover the annual debt service requirements attributable to the pension bonds.

Discretely Presented Component Units

The SAIF Corporation's employer contributions to PERS for the fiscal year ended December 31, 2015, was approximately \$6.5 million.

The respective employer contributions to PERS for the fiscal year ended June 30, 2016, for University of Oregon, Oregon State University, and Portland State University are approximately, \$16.9 million, \$19.1 million, and \$8.6 million.

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D. Net Pension Liability

At June 30, 2016, the State reported a liability of \$1.1 billion for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The State's portion of the net pension liability was based on a projection of the State's long-term share of contributions of all participating employers, actuarially determined. Certain component units are considered by the pension plan to be part of the State. The State determined those component units' proportionate share of the net pension asset and allocated it to them. At the June 30, 2015, measurement date (MD), the State's proportion, excluding those component units, was 19.7 percent.

For the year ended June 30, 2016, the State recognized pension expenses of \$1.1 billion. At June 30, 2016, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 61,114	\$ -
Net difference between projected and actual earnings on investments	-	237,569
Changes in proportion and differences between employer contributions and proportionate share of contributions	30,839	38,662
Total (prior to post-MD contributions)	<u>91,953</u>	<u>276,231</u>
Net deferred outflow/(inflow) of resources before contributions subsequent to MD	-	(184,277)
Contributions subsequent to the MD	205,419	N/A
Net deferred outflow/(inflow) of resources	<u>\$ 205,419</u>	<u>\$ 21,141</u>

The \$205.4 million reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a decrease to the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Fiscal Year	Deferred Inflows of Resources
2017	\$ (100,879)
2018	(100,879)
2019	(100,879)
2020	114,166
2021	4,195
	<u>\$ (184,277)</u>

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Deferred outflows and inflows of resources related to pensions are reported as follows (in thousands):

Deferred Outflows/(Inflows)	Business-type Activities					Total
	Governmental Activities	Housing and Community Services	Veterans' Loan	Lottery Operations	Other	
Deferred Outflows:						
Difference between expected and actual experience	\$ 55,714	\$ 85	\$ 83	\$ 615	\$ 4,617	\$ 5,400
Changes in proportion and differences between fund contributions and proportionate share of contributions	28,276	40	39	292	2,191	2,563
Contributions subsequent to the MD	187,566	282	274	2,034	15,263	17,853
Total deferred outflows related to pensions	\$ 271,556	\$ 407	\$ 397	\$ 2,941	\$ 22,071	\$ 25,816
Deferred Inflows:						
Net difference between projected and actual earnings on investments	\$ 216,578	\$ 331	\$ 322	\$ 2,391	\$ 17,946	\$ 20,991
Changes in proportion and differences between fund contributions and proportionate share of contributions	35,272	54	52	386	2,898	3,390
Total deferred inflows related to pensions	\$ 251,850	\$ 385	\$ 375	\$ 2,777	\$ 20,844	\$ 24,381

Actuarial Assumptions

The following methods and assumptions were used in the development of the total pension liability:

Valuation date	December 31, 2013
Experience Study Report	2014, published September 2015
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Inflation rate	2.75 %
Discount rate	7.75 %
Projected salary increases	3.75 %
Cost of living adjustments (COLA)	Blend of 2% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision; blend based on service.
Mortality	<p>Healthy retirees and beneficiaries: RP-2000 sex distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.</p> <p>Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage (65% for males and 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.</p>

To develop an analytical basis for the selection of the long-term expected rate of return assumptions, in July 2013, the PERS Board reviewed long-term assumptions developed by both a consulting actuary's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors.

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The following table shows the consulting actuary's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation:

Asset Class	Target	Compound Annual Return (Geometric)
Core fixed income	7.20%	4.50%
Short-term bonds	8.00%	3.70%
Intermediate-term bonds	3.00%	4.10%
High yield bonds	1.80%	6.66%
Large cap US equities	11.65%	7.20%
Mid cap US equities	3.88%	7.30%
Small cap US equities	2.27%	7.45%
Developed foreign equities	14.21%	6.90%
Emerging market equities	5.49%	7.40%
Private equity	20.00%	8.26%
Hedge funds/absolute return	5.00%	6.01%
Real estate (property)	13.75%	6.51%
Real estate (REITS)	2.50%	6.76%
Commodities	1.25%	6.07%
Assumed inflation - mean		2.75%

The OIC's description of each asset class was used to map the target allocation to the asset classes. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that the contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower (6.75 percent) or one percent higher (8.75 percent) than the current rate (in millions):

Net Pension Liability/(Asset)	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
Defined Benefit Pension Plan	\$ 2,735.2	\$ 1,133.3	\$ (216.7)

Changes in Plan Provisions

Since the December 31, 2013 actuarial valuation, the system-wide actuarial accrued liability has increased primarily due to the Moro decision and assumption changes, along with interest on the liability as current active members get closer to retirement. The Oregon Supreme Court decision in Moro v. State of Oregon, issued on April 30, 2015, reversed a significant portion of the reductions the 2013 Oregon Legislature made to future system Cost of Living Adjustments (COLA) through Senate Bills 822 and 861. This reversal increased the benefits projected to be paid by employers compared to those developed in the prior actuarial valuation, and consequently increased plan liabilities. The employers' projected long-term contribution effort has been adjusted for the estimated impact of the Moro Decision. In accordance with statute, a biennial review of actuarial methods and assumptions was completed in 2015 to be used for the December 31, 2014 actuarial valuation.

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After completion of this review and subsequent to the measurement date, the PERS Board adopted several assumption changes, including lowering the investment return to 7.5 percent, which will be effective January 1, 2016.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

E. Separately Financed Specific Liability

Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), while local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP, effective January 1, 2002. The unfunded actuarial liability (UAL) attributable to the SCCP at the time the SLGRP was formed is maintained separately from the SLGRP and is reduced by contributions and increased for interest charges at the assumed interest rate, which was 7.5 percent in fiscal year 2016. The pre-SLGRP pooled liability, which has been referred to as pension-related debt in this report, attributable to the State is being amortized over the period ending December 31, 2027. The outstanding pension-related debt balance as of June 30, 2016 for the State, as the primary government, is \$354.5 million, and is reported in the accompanying financial statements as part of the contracts, mortgages, and notes payable balances.

15. 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 separately 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 906 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 44,893 as of June 30, 2016.

Established under ORS 238.415, the RHIPA is considered a single-employer OPEB plan for financial reporting purposes, although certain discretely presented component units and related organizations, which are described in Note 1, do participate in the plan. 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 1,254 as of June 30, 2016.

Both RHIA and RHIPA are closed to employees hired on or after August 29, 2003, who had not established membership prior to that date.

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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://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx

Summary of Significant Accounting Policies

The financial statements for the PERS OPEB plans are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits are recognized in the month they are earned and withdrawals are recognized in the month they are due and payable.

Plan investments are reported at fair value. Refer to Note 1 for additional information about how the fair value of investments is determined.

Funding

Both of the OPEB plans administered by PERS are funded through actuarially determined employer contributions. For the biennium ending June 30, 2017, state agencies contribute 0.08 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 0.45 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 \$10.6 million, \$11.7 million, and \$13.7 million for years ended June 30, 2016, 2015, and 2014, respectively. The actual contribution equaled the annual required contribution in each fiscal year. (Refer to Note 14 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 (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)
12/31/2015	\$ 419.3	\$ 465.6	\$ 46.3	90.0%	\$ 9,544.1	0.5%

For the biennium ending June 30, 2017, 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 RHIPA benefits. In addition, state agencies contribute 0.35 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 of the State, as the primary government, were approximately \$8.5 million, \$5.1 million, and \$6.2 million for the years ended June 30, 2016, 2015, and 2014, respectively. The actual contribution equaled the annual required contribution in each fiscal year. As noted previously, because certain discretely presented component units and related organizations contribute to the RHIPA plan, the contributions identified in the combining statement of changes in fiduciary net position exceed the State's required employer contributions.

The funded status of the RHIPA postemployment healthcare plan as of the most recent actuarial valuation date (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)
12/31/2015	\$ 11.2	\$ 67.8	\$ 56.6	16.5%	\$ 2,831.8	2.0%

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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, 2015, using the entry age normal cost method. Significant assumptions used in the actuarial valuation include a 7.5 percent per annum rate of return on the investment of present and future assets and projected payroll growth of 3.5 percent, for both the RHIA and RHIPA plans. As a subcomponent of the payroll growth rate, both plans assume an increase in the consumer price index of 2.5 percent. The RHIPA plan uses a healthcare cost inflation adjustment graded from 6.3 percent in 2016 to 4.4 percent in 2094. 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 assets' fair market value on the valuation date. Restricted net position held in trust for other postemployment benefits for RHIA and RHIPA at June 30, 2016, was \$436.9 million and \$15 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. The PEBB Plan is considered a single-employer plan for financial reporting purposes, although certain discretely presented component units and related organizations, which are described in Note 1, do participate in the PEBB plan. As a result, the State reports only a portion of the overall net OPEB obligation under the primary government section of the Statement of Net Position. As of June 30, 2016, PEBB Plan members consisted of 50,021 active employees and 818 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 overall net OPEB obligation for the year ended June 30, 2016, is \$75.1 million. The primary government's share is \$55.5 million and the collective discretely presented components' unit share is \$19.6 million. The net OPEB obligation is allocated to the participating funds and entities based on their 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 combining statement of net position and the government-wide statement of net position; the portion related to business-type activities is reported in the proprietary funds statement of net position and the government-wide statement of net position. The portion related to fiduciary activities is reported in the statement of fiduciary net position.

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, 2016, retired plan members contributed \$12.8 million through their required contributions. The average monthly contribution was \$1,308. Active employees do not contribute to the plan.

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The funded status of the PEBB postemployment healthcare plan as of the most recent actuarial valuation date (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)
7/1/2015	\$ -	\$ 73.4	\$ 73.4	-	\$ 3,037.0	2.4%

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, 2015, 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. 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 5.1 percent in fiscal year 2016, 6.1 percent in fiscal year 2017, 5.6 percent in fiscal year 2018, 6.5 percent in 2019, an average of 5.8 percent between fiscal years 2020 and 2044, and the rate grades down from 5.7 percent to 5 percent between fiscal years 2045 and 2065. The dental healthcare cost inflation adjustment was graded from 2.29 percent in fiscal year 2016 to 5 percent for all subsequent fiscal years. The plan's inflation assumption is 2.5 percent. The unfunded actuarial accrued liability is being amortized using the level dollar methodology over an open 1-year period.

For fiscal years ended June 30, 2016, 2015, and 2014, 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, 2016	June 30, 2015	June 30, 2014
Annual required contribution	\$ 80.0	\$ 13.3	\$ 12.8
Interest on net OPEB obligation	2.9	2.8	2.6
ARC adjustment	<u>(86.5)</u>	<u>(5.3)</u>	<u>(5.0)</u>
Annual OPEB cost (expense)	(3.6)	10.8	10.4
Contributions made	<u>(4.9)</u>	<u>(6.1)</u>	<u>(6.6)</u>
Increase/(decrease) in net OPEB obligation	(8.5)	4.7	3.8
Net OPEB obligation - beginning of year	83.6	78.9	75.1
Net OPEB obligation - end of year	<u>\$ 75.1</u>	<u>\$ 83.6</u>	<u>\$ 78.9</u>
Percent of annual OPEB cost contributed	(133.6%)	56.5%	63.5%

C. 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.

16. DEFERRED COMPENSATION PLANS

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 Voya Financial to maintain OSGP participant records. The Oregon State Treasury, 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, 2016, averaged 0.2 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, 2016, the fair value of the investments was \$1.5 billion.

17. 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 purchases 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
- Worker's compensation
- Employee dishonesty
- Faithful performance bonds for key position 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 \$91.4 million as of June 30, 2016. 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 of claims and legal

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expenses that have been incurred but not reported (IBNR) and are discounted at an annual rate of 2 percent. The actuaries forecast ultimate losses by a 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, 2016 and 2015 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2016	\$ 175,649	\$ 56,871	\$ (61,958)	\$ 170,562
2015	147,340	77,966	(49,657)	175,649

The June 30, 2016, balance of claims liabilities is included in claims and judgments payable on the combining statement of net position of internal service funds under Central Services.

B. State Healthcare Plans

Chapter 243 of the Oregon Revised Statutes authorized 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-insurance plans and one fully insured plan with a risk sharing arrangement.

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 self-insured plans. For the fully insured plan with a risk sharing arrangement, if claims exceed or are below the expected level by 2 percent or more, then PEBB shares 90 percent of the difference with the provider.

Contracted actuaries and consultants estimate the claims liability. IBNR 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.

The amount of claims for the vision plan did not exceed coverage for calendar year 2013 or 2015, but settlements did exceed coverage in 2014. The amount of claims for the medical and dental plans did not exceed the self-insured coverage for the past three years.

For the fully insured plan with risk sharing arrangement, the State has recognized a liability of \$1.7 million as of June 30, 2016, due to PEBB's expectation that it will reimburse the provider, based upon a projected expected claims level.

Changes in the balance of aggregate claims liabilities for the healthcare plans for the years ended June 30, 2016 and 2015 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2016	\$ 63,863	\$ 595,588	\$ (595,733)	\$ 63,718
2015	66,518	595,043	(597,698)	63,863

The June 30, 2016, balance of claims liabilities is included in claims and judgments payable on the combining statement of net position of internal service funds under Health Services.

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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, 2016, using a 4 percent discount rate.

Changes in the balance of aggregate claims liabilities for supplemental workers' compensation insurance for the years ended June 30, 2016 and 2015 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2016	\$ 906,460	\$ 105,709	\$ (80,210)	\$ 931,958
2015	967,551	24,078	(85,169)	906,460

The June 30, 2016 balance of claims liabilities is included in claims and judgments payable on the government-wide statement of net position under governmental activities.

D. Standard Retiree Health Insurance Account

Chapter 238 of the Oregon Revised Statutes authorizes the Public Employees Retirement System (PERS) to contract with health insurance carriers to provide health care insurance for eligible retired members of PERS. The Standard Retiree Health Insurance Account (SRHIA) establishes claim liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been IBNR. The estimated claims liability is calculated by contracted health insurance consultants using a variety of actuarial and statistical techniques and adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The estimated claims liability of \$9.2 million is carried at its face amount, and no interest discount is assumed.

Changes in the balance of aggregate claims liabilities for the SRHIA for the years ended June 30, 2016 and 2015 (in thousands):

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claims Payments	Ending Balance
2016	\$ 14,798	\$ 179,015	\$ (184,613)	\$ 9,200
2015	14,492	212,210	(211,904)	14,798

The June 30, 2016, balance of claims liabilities for SRHIA is included in claims and judgments payable on the statement of net position of proprietary funds under Other.

E. 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 reserve for loss and loss

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adjustment expense, SAIF considers prior experience, industry information, currently recognized trends affecting data specific to SAIF, and other factors related to workers' compensation insurance underwritten by SAIF.

The reserve for loss and loss adjustment expense decreased \$53.4 million in calendar year 2015, which was net of favorable development of \$232.9 million. Loss reserves decreased \$60.7 million. The loss reserves for the 2015 accident year were offset by favorable loss reserve development in prior accident years. The favorable development was attributed primarily to permanent total disability and permanent partial disability medical loss reserves. The key drivers were a decrease in ultimate counts and the continuing downward trend in medical severity. The observed medical escalation rate for 2015 was well below the assumption. Indemnity loss reserves experienced favorable development driven by actual costs for permanent total disability being lower than expected for recent years and the reduction in ultimate projected counts for fatal. Loss adjustment expense reserves increased \$7.3 million. The favorable development was largely attributed to the overall reduction in reserves.

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 IBNR reserves, medical unpaid losses, or unpaid loss adjustment expense. The gross reserve subject to tabular discounting for calendar year 2015 was \$263.9 million. The related discount was \$94 million as of December 31, 2015.

Anticipated salvage and subrogation of \$35.7 million was included as a reduction of the reserve for loss and loss adjustment expense at December 31, 2015.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. As of December 31, 2015, SAIF had provided reserves of \$19.1 million for loss and loss adjustment expense related to asbestos claims.

Changes in the balance of the liability for loss and loss adjustment expense related to workers compensation insurance underwritten by SAIF for 2015 and 2014 (in thousands):

Calendar Year	Beginning Balance	Incurred Losses and Loss Adjustment Expenses	Adjustment Expense Payments	Ending Balance
2015	\$ 2,962,063	\$ 325,679	\$ (379,124)	\$ 2,908,618
2014	3,041,375	270,861	(350,173)	2,962,063

This liability is reported as the reserve for loss and loss adjustment expense on the statement of net position of discretely presented component units under SAIF Corporation.

18. DISCOUNTS AND ALLOWANCES IN PROPRIETARY FUNDS

Proprietary fund revenues are reported net of discounts and allowances in the accompanying financial statements. Discounts and allowances in proprietary funds for the year ended June 30, 2016 (in thousands):

Proprietary Funds	Type of Revenue	Amount
Lottery Operations	Sales	\$ 4,462
Unemployment Compensation	Assessments	344
Unemployment Compensation	Fines and forfeitures	148
Nonmajor Enterprise Funds	Charges for services	4,778
Nonmajor Enterprise Funds	Other	2
Nonmajor Enterprise Funds	Sales	7,054
Internal Service Funds	Other	568
Internal Service Funds	Fines and forfeitures	46
Total discounts and allowances		\$ 17,403

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19. FUND EQUITY

A. Net Position Restricted by Enabling Legislation

The following schedule summarizes the State's net position at June 30, 2016, that is restricted by enabling legislation (in thousands). All of the legislative restrictions are in governmental activities.

	<u>Restricted Net Position</u>
Expendable Net Position Restricted for:	
Health and social service programs	\$ 244,217
Public transportation programs	10,208
Natural resource programs	96,365
Education	333,846
Community protection	15,047
Consumer protection	102,637
Employment services	150,093
Residential assistance	43,867
Other programs	13,116
Nonexpendable Net Position Restricted for:	
Education	900
Residential assistance	10,839
Workers' compensation	250
Total net position restricted by enabling legislation	<u><u>\$ 1,021,385</u></u>

B. Changes to Beginning Fund Balance

As of June 30, 2016, the beginning fund balance was restated as follows (in thousands):

	<u>Beginning Balance</u>	<u>Prior Period Adjustments</u>	<u>Accounting Changes</u>	<u>Change in Reporting Entity</u>	<u>Beginning Balance- Restated</u>
Governmental funds and activities					
General	\$ 1,286,089	\$ (40,154)	\$ -	\$ -	\$ 1,245,935
Health and Social Services	525,894	(3,260)	-	-	522,635
Public Transportation	649,406	(1,547)	-	-	647,858
Environmental Management	834,149	227	-	-	834,377
Educational Support	425,561	612	4,549	-	430,722
Common School	1,193,803	85	50,197	-	1,244,085
Other (nonmajor)	1,526,648	(5)	-	9,296	1,535,939
Capital assets, net of depreciation	12,749,099	(5,008)	(4,701)	9,208	12,748,599
Other noncurrent assets	350,837	-	-	-	350,837
Noncurrent liabilities	(9,071,707)	(14,943)	-	(1,143)	(9,087,793)
Deferred inflows and outflows of resources	630,922	-	-	-	630,922
Internal service funds	584,136	8,290	-	-	592,426
Total governmental funds and activities	<u><u>\$ 11,684,839</u></u>	<u><u>\$ (55,703)</u></u>	<u><u>\$ 50,045</u></u>	<u><u>\$ 17,361</u></u>	<u><u>\$ 11,696,541</u></u>

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	Beginning Balance	Prior Period Adjustments	Beginning Balance- Restated
Proprietary funds and business-type activities			
Housing and Community Services	\$ 212,551	\$ -	\$ 212,551
Veterans' Loan	124,478	-	124,478
Lottery Operations	246,351	-	246,351
Unemployment Compensation	2,781,404	2,816	2,784,220
Other (nonmajor)	778,134	32,262	810,396
Internal service funds adjustment	7,838	-	7,838
Total proprietary funds and business-type activities	\$ 4,150,755	\$ 35,079	\$ 4,185,834

	Beginning Balance	Prior Period Adjustments	Beginning Balance- Restated
Fiduciary funds			
Pension and Other Employee Benefit Trust	\$ 73,865,147	\$ -	\$ 73,865,147
Private Purpose Trust	46,442	(937)	45,506
Investment Trust	5,482,067	58,557	5,540,624
Total fiduciary funds	\$ 79,393,656	\$ 57,620	\$ 79,451,277

Significant prior period adjustments were made in a governmental fund, an enterprise fund, the governmental activities and one fiduciary fund during the year. The General Fund reported adjustments totaling \$40.2 million which includes \$27.9 million to fix errors in prior year accruals. The Energy Loan Fund (a nonmajor enterprise fund) inappropriately reported a liability for lottery revenue bonds in the prior year. A prior period adjustment of \$12 million was recognized in the Energy Loan Fund to correctly report the liability in the governmental activities portion of the government-wide statement of net position. In the Investment Trust Fund, an adjustment of \$58.6 million was made to correct the reporting of a trust account. In prior years the account was classified as an internal participant when it is actually a participant external to the reporting entity.

All accounting changes reported in the governmental activities and the governmental funds are the result of implementing GASB Statement No. 72. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

All changes in reporting entity reported in the governmental activities and the governmental funds are the result of the merger between the Oregon Health Insurance Exchange Corporation (Cover Oregon) and the Department of Consumer and Business Services. Refer to Note 21 for additional information.

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C. Fund Balances-Governmental Funds

The following table displays in detail the June 30, 2016, fund balances that are reported in the aggregate on the governmental funds balance sheet (in thousands):

	General	Health and Social Services	Public Transportation	Environmental Management	Educational Support	Common School	Other	Total
Nonspendable:								
Not in spendable form	\$ 25,001	\$ 665	\$ 34,106	\$ 10,217	\$ 170	\$ -	\$ 7,687	\$ 77,847
Legally or contractually required to be maintained intact	19	52	40	254	-	-	14,063	14,427
Restricted for:								
Public health and welfare	-	393,721	-	-	-	-	-	393,721
Roads and bridges	-	-	483,011	-	-	-	-	483,011
Conservation and natural resources	92,553	-	-	779,754	-	-	-	872,307
K-12 Education	-	-	-	-	1,680,763	1,174,577	-	2,855,341
Education stabilization	302,948	-	-	-	-	-	-	302,948
Community protection	2,565	-	-	-	-	-	147,950	150,515
Licensing and regulation	-	-	-	-	-	-	106,710	106,710
Employment related programs	-	-	-	-	-	-	255,472	255,472
Low income housing assistance	-	-	-	-	-	-	150,121	150,121
Debt service	-	-	-	-	-	-	316,605	316,605
Capital projects	-	-	-	-	-	-	65,017	65,017
Other purposes	107,778	-	-	-	-	-	102,098	209,877
Committed to:								
Public health and welfare	-	132,666	-	-	-	-	-	132,666
Conservation and natural resources	-	-	-	47,551	-	-	-	47,551
Education	-	-	-	-	27,696	-	-	27,696
Business development	-	-	-	-	-	-	38,805	38,805
Community protection	-	-	-	-	-	-	104,871	104,871
Licensing and regulation	-	-	-	-	-	-	28,027	28,027
Employment related programs	-	-	-	-	-	-	110,451	110,451
Low-income housing assistance	-	-	-	-	-	-	166,909	166,909
Stabilization	372,214	-	-	-	-	-	-	372,214
Other purposes	23,105	-	-	-	-	-	1,491	24,596
Assigned to:								
Conservation and natural resources	-	-	-	8,782	-	-	-	8,782
Education	-	-	-	-	2,558	-	-	2,558
Community protection	-	-	-	-	-	-	3,615	3,615
Licensing and regulation	-	-	-	-	-	-	201	201
Employment related programs	-	-	-	-	-	-	2,316	2,316
Other purposes	12,793	-	-	-	-	-	27,700	40,492
Unassigned:	663,658	(32)	-	-	-	-	-	663,626
Total fund balances	\$ 1,602,633	\$ 527,071	\$ 517,157	\$ 846,558	\$ 1,711,188	\$ 1,174,577	\$ 1,650,108	\$ 8,029,293

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 position 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, access, 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 the Legislature via the budget process when there is no legislation other than a budget bill imposing constraints.

D. Deficit Net Position

The Energy Loan Fund, a nonmajor enterprise fund, reports a deficit net position of \$8.8 million as of June 30, 2016.

The Legal Services Fund, an internal service fund, reports a deficit net position of \$5.4 million as of June 30, 2016.

The Audit Services Fund, an internal service fund, reports a deficit net position of \$140 thousand as of June 30, 2016.

E. 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 the 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, 2016, was \$372.2 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 are 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, 2016, was \$302.9 million.

20. NONEXCHANGE FINANCIAL GUARANTEES

Article XI-K of the Oregon Constitution allows the State to guarantee the general obligations bonded indebtedness of school districts, education service districts, and community college districts, in order to secure lower interest costs on general obligation bonds of such districts, without receiving equal or approximately equal value in exchange. Payment of the principal and interest on the bonds when due is guaranteed by the full faith and credit of the State under the provisions of the Oregon School Bond Guaranty Act – Oregon Revised Statutes (ORS) 328.321 to 328.356. The amount of debt that the State may incur in honoring its guaranty of school bonds may not exceed, at any one time, one-half of one percent of the real market value of all taxable property

in the State. School districts, education service districts, and community college districts are entities legally separate from the State.

To apply and qualify for the Oregon School Bond Guaranty certification, districts must provide comprehensive information to the Debt Management Division of the Oregon State Treasury. After application approval, no additional information is required to be provided to the Debt Management Division, except when a district knows it will not make scheduled payments on the State guaranteed general obligation bonds it has issued. The district is then required to notify the trustee of the general obligation bonds and the Debt Management Division 15 days prior to the scheduled payment. The qualifying certification analysis threshold is less than or equal to 20 percent coverage risk, and throughout the program's history, no district has ever defaulted.

If one or more payments are made by the State, as provided for in the Oregon School Bond Guaranty Act, the Oregon State Treasurer shall pursue recovery from the district of all moneys necessary to reimburse the State. In seeking recovery, the Treasurer may (i) intercept any payments from the General Fund, the State School Fund, the income of the Common School Fund and any other source of operating moneys provided by or through the State to the district that issued the bonds that would otherwise be paid to the district by the State and (ii) exercise the rights of a secured creditor in any money or assets pledged by the district to secure its reimbursement obligation to the State. The Treasurer may apply any intercepted payments or secured assets to reimburse the State for payments made pursuant to the State's guaranty until all obligations of the district to the State arising from those payments, including any interest and penalties, are paid in full.

At June 30, 2016, the State had extended nonexchange financial guarantees of \$4.5 billion for outstanding general obligation indebtedness of school districts, education service districts, and community college districts. The longest current guaranty is for outstanding general obligation bonds that mature June 15, 2040.

21. GOVERNMENT COMBINATIONS AND DISPOSALS OF GOVERNMENT OPERATIONS

A. Independent Universities

The Legislative Assembly established a pathway for the seven Oregon University System (OUS) member universities to become legally separate entities with the passage of Senate Bill 270 in 2013. As of July 1, 2015, Western Oregon University (WOU), Southern Oregon University (SOU), Eastern Oregon University (EOU), and Oregon Institute of Technology (OIT) became legally separate from OUS, and as disclosed in Note 1, these institutions are now considered discretely presented component units. As a state agency of the State of Oregon, some assets were held centrally by OUS. These assets, which included real and personal property, were distributed to the four former member universities. All bonded and certificate of participation (COP) debt associated with WOU, SOU, EOU, and OIT will continue to be reported as a liability by the State. For certain issuances, the State has entered into a debt management agreement with WOU, SOU, EOU, and OIT, requiring each institution to pay the principal and interest related to those issuances to the State, which the State will use to meet the debt service requirements of the bonded and COP debt. As a result of the transfer, the State recognized a loss of \$335.6 million, reported as a special item in the University System Fund, a nonmajor enterprise fund.

B. Oregon Health Insurance Exchange

The 2015 Legislative Assembly passed Senate Bill 1, which was signed in to law on March 6, 2015, by the Governor of Oregon and took effect on June 30, 2015. Senate Bill 1 abolished the Oregon Health Insurance Exchange Corporation (Cover Oregon) and its Board of Directors and immediately transferred all powers, rights, obligations, and liabilities to the Director of Oregon Department of Consumer and Business Services (DCBS). On July 1, 2015, all assets and liabilities transferred to DCBS and are reported in the Consumer Protection Fund, a nonmajor special revenue fund, except for capital assets, accumulated depreciation, and related liabilities, which are inconsistent with the current financial resources measurement focus and the modified accrual basis of accounting. Those assets and liabilities are reported in the governmental activities portion of the government-wide statement of net position.

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Due to the merger with Cover Oregon, the beginning balances of the Consumer Protection Fund have been restated as follows as of July 1, 2015 (in thousands):

	Consumer Protection	Cover Oregon	Total	Debit Adjustment	Credit Adjustment	Total
Assets						
Current Assets	\$ 158,772	\$ 11,052	\$ 169,824	\$ 53	\$ -	\$ 169,877
Other Assets	6,462	53	6,515	-	53	6,462
Total Assets	165,234	11,105	176,338	53	53	176,338
Liabilities						
Current Liabilities	38,468	1,500	39,969	-	308	40,277
Noncurrent Liabilities	-	308	308	308	-	-
Total Liabilities	38,468	1,809	40,277	308	308	40,277
Deferred Inflows of Resources	6,462	-	6,462	-	-	6,462
Equity						
Fund Balance						
Nonspendable	94	-	94	-	-	94
Restricted	88,089	-	88,089	-	9,296	97,384
Committed	32,162	-	32,162	-	-	32,162
Unassigned	(41)	-	(41)	-	-	(41)
Total Fund Balance	120,304	-	120,304	-	9,296	129,600
Net Position						
Unrestricted	-	9,296	9,296	9,296	-	-
Total Net Position	-	9,296	9,296	9,296	-	-
Total Equity	\$ 120,304	\$ 9,296	\$ 129,600	\$ 9,296	\$ 9,296	\$ 129,600

Adjustments to the Cover Oregon balances merged into the Consumer Protection Fund were made to report all the assets and liabilities as current and to report the fund balance as restricted by enabling legislation, consistent with the State's utilization of the assets and liabilities and legislation imposing constraints upon the use of the fund balance.

Due to the merger with Cover Oregon, the beginning balances of the governmental activities portion of the government-wide statement of net position have been restated as follows as of July 1, 2015 (in thousands):

	Governmental Activities	Cover Oregon	Total	Debit Adjustment	Credit Adjustment	Total
Assets						
Current Assets	\$ 6,716,137	\$ 11,052	\$ 6,727,189	\$ 53	\$ -	\$ 6,727,242
Capital Assets, Net	13,042,320	9,208	13,051,527	-	-	13,051,527
Other Assets	3,552,504	53	3,552,556	-	53	3,552,504
Total Assets	23,310,961	20,313	23,331,272	53	53	23,331,272
Deferred Outflows of Resources	291,904	-	291,904	-	-	291,904
Liabilities						
Current Liabilities	2,406,267	2,644	2,408,911	-	308	2,409,219
Noncurrent Liabilities	8,779,693	308	8,780,001	308	-	8,779,693
Total Liabilities	11,185,960	2,952	11,188,911	308	308	11,188,911
Deferred Inflows of Resources	732,066	-	732,066	-	-	732,066
Net Position						
Net Investment in Capital Assets	11,116,322	8,065	11,124,387	-	-	11,124,387
Restricted	3,812,040	-	3,812,040	-	9,296	3,821,336
Unrestricted	(3,243,523)	9,296	(3,234,228)	9,296	-	(3,243,523)
Total Net Position	\$ 11,684,839	\$ 17,361	\$ 11,702,199	\$ 9,296	\$ 9,296	\$ 11,702,199

Adjustments to the Cover Oregon balances merged into the governmental activities portion of the government-wide statement of net position were made to report all the assets and liabilities as current and to report the net position as restricted by enabling legislation, consistent with the State's utilization of the assets and liabilities and legislation imposing constraints upon the use of the net position.

State of Oregon
Notes to the Financial Statements

This merger has been reported as a change in reporting entity on the respective financial statements. Refer to Note 19 for additional information.

22. COMMITMENTS

The State has significant commitments as of June 30, 2016, 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, 2016, and the anticipated sources of funding (in thousands):

Purpose	General Funds	Federal Funds	Lottery Funds	Other Funds	Total
Community services contracts	\$ 99,061	\$ 400,614	\$ 4,276	\$ 78,708	\$ 582,659
Grant and loan commitments	271,623	324,872	70,261	424,730	1,091,486
Personal services contracts	106,861	99,125	2,425	67,157	275,569
Public defense contracts	147,363	-	-	-	147,363
Systems development	19,413	44,267	-	23,873	87,553
Equipment purchases	71	194	19,104	1,044	20,413
Total commitments	\$ 644,392	\$ 869,072	\$ 96,067	\$ 595,512	\$ 2,205,042

Encumbrance balances in the governmental funds as of June 30, 2016 (in thousands):

Governmental Funds	Amount
General	\$ 20,727
Health and Social Services	2,298
Environmental Management	2,490
Educational Support	19,558
Other Nonmajor	3,797
Total encumbrances	\$ 48,870

The Oregon Investment Council has entered into agreements that commit the investment manager for the Oregon Public Employees Retirement Fund (OPERF) and the Common School Fund (CSF), upon request, to make additional investment purchases up to a predetermined amount. The Oregon Growth Account (OGA) and the Oregon Growth Fund (OGF) make similar commitments for investment purchases. As of June 30, 2016, the OPERF had \$9.8 billion in commitments to purchase private equity investments, \$2.9 billion to purchase real estate investments, \$668.3 million to purchase Opportunity Fund investments, and \$2.6 billion to purchase Alternative Equity portfolio investments. As of June 30, 2016, the CSF, OGA, and OGF had \$93 million, \$8.9 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

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.

State of Oregon
Notes to the Financial Statements

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. On June 8, 2016, EPA issued a preliminary cleanup remedy, which EPA estimates will cost \$746 to \$811 million to implement depending on the selection of offsite or onsite disposal options. It is 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 2019.

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 funded by thirty parties including the State. 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, although parties may alternatively elect to seek an earlier settlement with the trustees. It is too early to estimate what, if any, share of the liability the State may ultimately bear for natural resource damages.

The State is pursuing claims for insurance coverage of its Portland Harbor defense costs and any future liabilities for cleanup costs and natural resource damages. These claims are based on insurance policies the State held from 1968 to 1972, and policies that listed DSL as an additional insured. These insurance carriers have agreed to participate in funding the State's defense in Portland Harbor proceedings, but have reserved their rights to deny indemnity coverage. In October 2015, the State filed suit in state court against its primary insurance carrier, Pacific Indemnity Company (PIC), asserting that PIC is obligated to fund a greater proportion of the State's defense costs. The State plans to pursue its rights to indemnity coverage under these policies.

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. In November 2012, the State and USDOJ have entered into a four-year agreement, under which the State will, among other things, share data and will discuss system gaps and outcome measures that could be adopted by the State. In July 2016, the parties completed their negotiation regarding the terms of a plan with performance outcome measures, which would be used to measure future improvements to mental health services in Oregon. The plan extends the time for performance to July 2019. USDOJ reserves the rights to resume its investigation if the State does not comply with this plan. Were USDOJ to determine that, given the State's performance under the plan, there are violations of federal law, USDOJ could issue written findings that specify the nature of any violations. The State would then be in a better position to estimate the costs to remedy any asserted violations. In the last two biennia, the State has increased its investments in community mental health services by tens of millions of dollars, and the costs of further changes to the State's community mental health programs imposed as a result of this process could reach or exceed \$50 million.

Foster Home Cases

Complaints have been filed against the Oregon Department of Human Services, and a number of its employees, on behalf of at least 18 children who were placed in foster homes, of two separate couples, between 2007 and 2012. One of the cases has been settled. Plaintiffs in the remaining case seek awards for damages based on abuse of a vulnerable person that may be trebled to over \$50 million, as well as additional economic and noneconomic damages and an award of attorney fees and costs. It is too early in the case to evaluate the likelihood of the success of the plaintiffs' claims or whether any damages ultimately would be awarded. It is likely, however, that if the plaintiffs prevail, any damages awarded by the court would be paid from the State's Insurance Fund (a self-insurance fund), rather than through an appropriation from the General Fund.

Cover Oregon

The federal Government Accountability Office and several Congressional committees have indicated that they intend to investigate the development of health insurance exchanges by a number of states, including Oregon. Also, the United States Grand Jury for the District of Oregon issued subpoenas to the State and its health insurance exchange (Cover Oregon) in connection with an investigation into the use of federal funds on the health exchange project. It is possible that the federal government could determine that certain expenditures

State of Oregon
Notes to the Financial Statements

for Oregon's health insurance exchange were improper. If that occurred, it is possible the federal government may seek repayment from the State of any disallowed amounts up to the full amount the federal government paid the State, approximately \$300 million. It is too early, however, to know what the investigation will find, if the federal government would take any action as a result of the investigation, or the nature of any action the federal government might take.

Suit Related to Video Lottery

A player of Video LotterySM poker filed a lawsuit alleging that the Oregon State Lottery misled players into believing they had the best chances of winning certain video poker games if they used an automatic feature that suggests which cards to hold. The lawsuit was filed against the Lottery and several manufacturers of its game, purportedly on behalf of other individuals who played certain Video LotterySM poker games between 2008 and 2013. The lawsuit alleged that the class suffered damages in an amount not less than \$134 million. The Multnomah County judge dismissed the lawsuit. The plaintiff has appealed. The State continues to believe that the assertions in the lawsuit are without merit, and is vigorously defending the appeal.

Forest Management Rules Challenge

On March 10, 2016, Linn County filed a complaint for a class action lawsuit against the State regarding the rules under which timber is harvested on State forest lands. The county claims that a 1998 rule adopted by the State's Department of Forestry breaches a statutory contract between the State and the counties that donated forest lands. The State has managed the lands pursuant to forest management plans that the counties allege have reduced the revenues paid to counties because of conservation measures. On behalf of the putative class, the county seeks to recover lost revenues of approximately \$528.6 million plus interest of \$25.6 million, and future damages of \$881 million. It is too early for the State to estimate the actual liability that might be imposed due to the lawsuit, but the State plans to vigorously defend against the lawsuit.

B. 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, 2016, totaled approximately \$11.5 million.

C. Federal Issues

The State receives significant financial assistance from the federal government. Entitlement to these resources is generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund that receives the grant. As of June 30, 2016, there is no indication that such audits will result in a material liability.

24. SUBSEQUENT EVENTS

A. Long-term Debt Issues

Long-term debt issued, including refundings, since July 1, 2016 (in thousands):

Type of Debt	Amount
General Obligation Bonds	
Department of Education	\$ 43,195
Department of Veterans' Affairs	39,810

State of Oregon
Notes to the Financial Statements

B. Bond Calls

Bond calls that have occurred since July 1, 2016 (in thousands):

Type of Call	Amount
General Obligation Bonds	
Department of Veterans' Affairs	\$ 26,300
Housing and Community Services Department	3,020
Revenue Bonds	
Housing and Community Services Department	87,860

C. Interest Rate Swaps

On July 1, 2016, the Oregon Housing and Community Services Department (OHCS D) terminated notional amounts of swaps related to the Mortgage Revenue Bonds listed below (dollars in thousands). These terminations were made pursuant to optional par termination provisions included in each of the swap agreements.

Bond Series	Notional Amount
2007 Series E	\$ 1,205
2007 Series H	750
2008 Series C	950
2008 Series F	800
2008 Series I	2,300

D. Tax Anticipation Notes Issuance

On July 21, 2016, the State issued \$592.8 million of full faith and credit Tax Anticipation Notes, 2016 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 2015-2017 biennium.

State of Oregon
Notes to the Financial Statements

E. Debt Guarantees

Under Article XI-K of the Oregon Constitution, \$325.5 million in bonds for school districts (SD) and community college districts were issued and guaranteed following the fiscal year ended June 30, 2016, as noted below (dollars in thousands). Ultimately, the debt service payments remain the responsibility of the respective district.

School District	Series	Amount
Columbia City SD 47J (Vernonia)	2016	\$ 12,804
Clatsop Community College	2016	3,985
Umatilla Cty USD 7 (Milton-Freewater)	2016	12,500
Lane Cty SD 69 (Junction City)	2016	14,635
Rogue Community College (Jackson Cty Bond)	2016A	7,040
Rogue Community College	2016B	20,000
Umatilla Cty SD 5R (Echo)	2016A	1,036
Umatilla Cty SD 5R (Echo)	2016B	2,960
Lane Cty SD 45J3 (South Lane)	2016A	20,000
Lane Cty SD 45J3 (South Lane)	2016B	15,945
Yamhill Cty SD 1 (Yamhill-Carlton)	2016	14,200
Washington Cty SD 511J (Gaston)	2016	11,565
Yamhill Cty SD 40 (McMinnville)	2016	88,400
Deschutes Cty SD 6 (Sisters)	2016A	1,935
Deschutes Cty SD 6 (Sisters)	2016B	8,765
Lane Cty SD 32 (Mapleton)	2016	4,000
Malheur Cty SD 26 (Nyssa)	2016	7,000
Malheur Cty SD 61 (Adrian)	2016	4,905
Umatilla Cty SD 29J (Athena-Weston)	2016	4,000
Hood River Cty SD (Hood River)	2016	65,670
Lane Cty SD 52 (Bethel)	2016	4,162
Total debt guarantees		<u>\$ 325,508</u>



Required Supplementary Information

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Budgeted Appropriated Funds

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

General Fund

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

Federal Funds

This fund accounts for budgeted expenditures made with federal revenue.

Lottery Funds

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

Other Funds

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

State of Oregon

**Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Budgetary (Non-GAAP) Basis -
All Budgeted Appropriated Funds
For the Biennium Ending June 30, 2017
As of June 30, 2016
(In Thousands)**

	General Fund			
	2015-2017	2015-2017	1st	Variance
	Original Budget	Final Budget	Year Actual	Over/ (Under)
Revenues:				
Personal Income Taxes	\$15,679,419	\$15,679,419	\$ 7,362,450	\$ (8,316,969)
Corporate Income Taxes	1,070,593	1,070,593	601,109	(469,485)
Tobacco Taxes	128,847	128,847	67,198	(61,650)
Motor Fuels Taxes	-	-	-	-
Weight Mile Taxes	-	-	-	-
Vehicle Registration Taxes	-	-	-	-
Other Taxes	339,370	339,370	197,083	(142,286)
Licenses and Fees	278,436	278,436	96,612	(181,824)
Federal	-	-	-	-
Charges for Services	10,674	10,674	5,226	(5,448)
Fines and Forfeitures	3,890	3,890	2,186	(1,705)
Rents and Royalties	-	-	1	1
Investment Income	15,335	15,335	7,358	(7,977)
Sales	1,067	1,067	528	(539)
Donations and Grants	-	-	12	12
Pension Bond Debt Service Assessments	-	-	-	-
Other	11,020	11,020	2,840	(8,181)
Total Revenues	17,538,652	17,538,652	8,342,602	(9,196,050)
Expenditures:				
Education	9,292,799	9,308,484	4,600,089	(4,708,396)
Human Services	4,833,200	4,921,263	2,319,676	(2,601,587)
Public Safety	2,304,445	2,368,320	1,160,228	(1,208,092)
Economic and Community Development	51,386	64,252	21,308	(42,944)
Natural Resources	200,760	237,529	124,692	(112,836)
Transportation	27,828	22,585	11,326	(11,259)
Consumer and Business Services	12,564	14,731	6,052	(8,679)
Administration	229,232	242,683	121,306	(121,377)
Legislative	337,866	185,433	41,812	(143,621)
Judicial	694,589	709,352	360,942	(348,410)
Total Expenditures	17,984,668	18,074,634	8,767,432	(9,307,201)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(446,016)	(535,981)	(424,830)	111,151
Other Financing Sources (Uses):				
Transfers from Other Funds	296,283	296,283	302,468	6,185
Transfers to Other Funds	-	-	(158,764)	(158,764)
Long-term Debt Issued	-	-	-	-
Debt Issuance Premium	-	-	-	-
Loan Proceeds	-	-	-	-
Gain(Loss) on Disposition of Assets	-	-	-	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ (149,733)	\$ (239,698)	(281,127)	\$ (41,429)
Budgetary Fund Balances - Beginning			1,213,436	
Prior Period Adjustments			24,875	
Budgetary Fund Balances - Beginning - As Restated			1,238,312	
Prior Biennium Transactions			(90,863)	
Budgetary Fund Balances - Ending			\$ 866,321	

State of Oregon

Federal Funds				Lottery Funds			
2015-2017 Original Budget	2015-2017 Final Budget	1st Year Actual	Variance Over/ (Under)	2015-2017 Original Budget	2015-2017 Final Budget	1st Year Actual	Variance Over/ (Under)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
18,375,890	7,386,945	8,606,843	1,219,898	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	7,556	7,556	3,715	(3,842)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
18,375,890	7,386,945	8,606,843	1,219,897	7,556	7,556	3,715	(3,842)
1,138,075	1,150,207	402,773	(747,434)	471,992	511,545	176,916	(334,629)
15,901,503	17,208,981	7,823,710	(9,385,271)	11,293	11,349	4,873	(6,476)
483,781	511,741	144,829	(366,912)	7,841	8,018	3,626	(4,392)
320,685	327,041	139,859	(187,182)	123,466	124,984	53,616	(71,368)
293,059	302,305	101,709	(200,596)	171,619	174,007	56,422	(117,585)
118,615	119,164	35,920	(83,244)	107,484	107,484	53,970	(53,514)
18,606	19,688	8,589	(11,099)	-	-	-	-
11,305	11,400	3,296	(8,104)	20,700	20,852	9,355	(11,498)
-	-	-	-	-	-	-	-
1,598	1,607	587	(1,020)	-	-	-	-
18,287,226	19,652,133	8,661,272	(10,990,861)	914,394	958,240	358,777	(599,463)
88,664	(12,265,188)	(54,430)	12,210,758	(906,837)	(950,683)	(355,063)	595,621
1,234	1,246	25,917	24,671	2,325,274	2,437,286	978,774	(1,458,512)
(392,253)	(372,126)	(55,539)	316,587	(1,295,872)	(1,362,244)	(296,089)	1,066,155
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ (302,355)</u>	<u>\$ (12,636,068)</u>	<u>(84,051)</u>	<u>\$ 12,552,018</u>	<u>\$ 122,565</u>	<u>\$ 124,359</u>	<u>327,623</u>	<u>\$ 203,264</u>
		(24,504)				(79,663)	
		2,065				545	
		(22,439)				(79,118)	
		7,879				(169,110)	
		<u>\$ (98,610)</u>				<u>\$ 79,395</u>	

(continued on next page)

State of Oregon

**Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Budgetary (Non-GAAP) Basis -
All Budgeted Appropriated Funds
For the Biennium Ending June 30, 2017
As of June 30, 2016
(In Thousands)**

(continued from previous page)

	Other Funds			
	2015-2017 Original Budget	2015-2017 Final Budget	1st Year Actual	Variance Over/ (Under)
Revenues:				
Personal Income Taxes	\$ -	\$ -	\$ -	\$ -
Corporate Income Taxes	-	-	-	-
Tobacco Taxes	372,997	372,997	201,418	(171,579)
Motor Fuels Taxes	1,087,116	1,087,116	484,027	(603,089)
Weight Mile Taxes	608,109	608,109	269,015	(339,093)
Vehicle Registration Taxes	604,512	604,512	287,304	(317,207)
Other Taxes	1,430,152	577,322	587,305	9,984
Licenses and Fees	871,199	839,171	410,985	(428,186)
Federal	722,029	741,853	495,280	(246,572)
Charges for Services	2,321,391	406,322	1,499,198	1,092,876
Fines and Forfeitures	151,502	155,244	106,005	(49,239)
Rents and Royalties	104,230	104,230	56,133	(48,096)
Investment Income	173,321	168,351	25,582	(142,769)
Sales	587,844	584,755	137,944	(446,811)
Donations and Grants	18,736	17,382	18,996	1,614
Pension Bond Debt Service Assessments	358,908	358,908	162,084	(196,824)
Other	1,326,604	806,938	1,790,960	984,022
Total Revenues	10,738,646	7,433,207	6,532,237	(900,971)
Expenditures:				
Education	866,714	886,573	225,615	(660,959)
Human Services	6,185,125	6,316,818	2,884,258	(3,432,559)
Public Safety	650,054	701,876	263,777	(438,099)
Economic and Community Development	731,302	753,987	186,862	(567,125)
Natural Resources	897,623	977,237	388,361	(588,876)
Transportation	3,287,923	3,354,693	1,354,306	(2,000,388)
Consumer and Business Services	371,613	382,236	166,016	(216,220)
Administration	1,439,362	1,492,780	626,263	(866,517)
Legislative	7,417	40,808	3,536	(37,272)
Judicial	142,766	151,836	50,643	(101,193)
Total Expenditures	14,579,899	15,058,845	6,149,637	8,008,238
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,841,252)	(7,625,638)	382,600	8,008,238
Other Financing Sources (Uses):				
Transfers from Other Funds	4,924,020	4,457,977	3,099,330	(1,358,647)
Transfers to Other Funds	(6,447,177)	(6,330,114)	(2,849,929)	3,480,184
Long-term Debt Issued	873,443	883,968	221,466	(662,502)
Debt Issuance Premium	-	-	41,132	41,132
Loan Proceeds	-	-	4,659	4,659
Gain(Loss) on Disposition of Assets	-	-	2,382	2,382
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ (4,490,966)</u>	<u>\$ (8,613,807)</u>	901,639	<u>\$ 9,515,445</u>
Budgetary Fund Balances - Beginning			3,547,242	
Prior Period Adjustments			(16,323)	
Budgetary Fund Balances - Beginning - As Restated			3,530,919	
Prior Biennium Transactions			(930,113)	
Budgetary Fund Balances - Ending			<u>\$ 3,502,445</u>	

State of Oregon

Total All Budgeted Appropriated Funds			
2015-2017 Original Budget	2015-2017 Final Budget	1st Year Actual	Variance Over/ (Under)
\$15,679,419	\$ 15,679,419	\$ 7,362,450	\$ (8,316,969)
1,070,593	1,070,593	601,109	(469,485)
501,845	501,845	268,616	(233,229)
1,087,116	1,087,116	484,027	(603,089)
608,109	608,109	269,015	(339,093)
604,512	604,512	287,304	(317,207)
1,769,522	916,692	784,389	(132,303)
1,149,635	1,117,607	507,597	(610,010)
19,097,918	8,128,798	9,102,123	973,325
2,332,064	416,995	1,504,424	1,087,428
155,392	159,134	108,190	(50,944)
104,230	104,230	56,135	(48,095)
196,212	191,243	36,655	(154,588)
588,911	585,822	138,472	(447,350)
18,736	17,382	19,008	1,626
358,908	358,908	162,084	(196,824)
1,337,624	817,958	1,793,799	975,841
<u>46,660,744</u>	<u>32,366,361</u>	<u>23,485,396</u>	<u>(8,880,965)</u>
11,769,579	11,856,809	5,405,392	(6,451,417)
26,931,120	28,458,411	13,032,517	(15,425,893)
3,446,120	3,589,955	1,572,461	(2,017,495)
1,226,839	1,270,264	401,645	(868,619)
1,563,061	1,691,078	671,184	(1,019,894)
3,541,850	3,603,927	1,455,521	(2,148,406)
402,783	416,655	180,658	(235,998)
1,700,598	1,767,715	760,220	(1,007,495)
345,283	226,242	45,348	(180,893)
838,953	862,795	412,173	(450,622)
<u>51,766,187</u>	<u>53,743,851</u>	<u>23,937,119</u>	<u>(29,806,733)</u>
(5,105,442)	(21,377,491)	(451,723)	20,925,768
7,546,811	7,192,791	4,406,488	(2,786,303)
(8,135,302)	(8,064,484)	(3,360,321)	4,704,163
873,443	883,968	221,466	(662,502)
-	-	41,132	41,132
-	-	4,659	4,659
-	-	2,382	2,382
<u>\$ (4,820,490)</u>	<u>\$ (21,365,215)</u>	864,083	<u>\$ 22,229,298</u>
		4,656,511	
		11,162	
		<u>4,667,673</u>	
		(1,182,207)	
		<u>\$ 4,349,550</u>	

1. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

A constitutional amendment adopted by the people in 2010 changed the historical Oregon "biennial" session process into "annual" sessions. The amendment limited the session length to 160 calendar days in odd-numbered years and to 35 calendar days in even-numbered years. In odd-numbered years, the budget is adopted by the Legislature's passage of separate appropriation bills and by the Governor's approval of those bills. The resulting approved appropriation bills become the appropriated budget for the State. Appropriation bills include one or more appropriations (budgeted expenditure items) which may be at the agency, program, or activity level. The Oregon Constitution requires the budget to be in balance at the end of each biennium. Because of this provision, the State may not budget a deficit and is required to compensate for any revenue shortfalls within each biennium.

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

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

The State does not budget by the prescribed fund types of generally accepted accounting principles (GAAP). Appropriations may be at the agency, program, or activity level. Accordingly, the legal level of budgetary control is at one of these three levels depending on the Legislature's view of the activity. The State uses the Relational Statewide Accounting and Reporting System (R*STARS) to control expenditures by budgeted expenditure item. Each item on an approved appropriation bill is assigned an appropriation number. In R*STARS, the appropriated funds are tied to one or more appropriation numbers to ensure expenditures do not exceed approved appropriations. The following budgeted appropriated fund types have been established in R*STARS to account for the State's budgetary activities: General Fund, Federal Funds, Lottery Funds, and Other Funds.

Budgets are prepared on the cash basis. Spending limits are established using quarterly allotments. Allotments are required for both appropriated and nonappropriated items. The spending limits are monitored by the Chief Financial Office of the Department of Administrative Services and are controlled by R*STARS. Encumbrance accounting provides additional budgetary control. Encumbrances represent commitments related to unperformed contracts for goods or services. For budgetary reporting purposes, encumbrances are treated like expenditures and are shown as a reduction of fund balance.

The accompanying "Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual-Budgetary (Non-GAAP) Basis - All Budgeted Appropriated Funds" is not presented at the legal level of budgetary control. Such a presentation would be extremely cumbersome. To demonstrate compliance with the legal level of budgetary control, the State has prepared a separate report for the 2015-2017 biennium as of June 30, 2016. A copy of this report is available at the Department of Administrative Services, Chief Financial Office, 155 Cottage Street NE, Salem, Oregon 97301-3969.

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

Agencies are required to provide estimates of expected revenues for program revenue and segregated revenue categories. General Fund revenues consist primarily of general taxes and other receipts that are paid into the

State of Oregon
Notes to Required Supplementary Information – Budgetary Schedule

General Fund and are then available for appropriation by the Legislature. Revenues not recorded in the General Fund consist of function specific revenues, which are credited by law to an appropriation to finance a specified program, and segregated revenues that are paid into separate identifiable funds.

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

The major differences between budgetary (non-GAAP) basis and GAAP basis are:

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

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

2. BUDGETARY BASIS TO GAAP BASIS RECONCILIATION

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

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A reconciliation of the resulting differences in excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses for the year ended June 30, 2016, is presented below. Governmental funds are reconciled to the net change in fund balances. Proprietary funds and fiduciary fund types are reconciled to the change in net position.

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (In Thousands)

GAAP Fund	Budgetary Balances Classified into GAAP Fund Structure				Total Budgeted Funds	Timing Differences	Basis Differences	Non- Budgeted Funds	GAAP Balances
	Budgeted General Fund	Budgeted Federal Funds	Budgeted Lottery Funds	Budgeted Other Funds					
General	\$(281,127)	\$ 1,085	\$ 176,349	\$ 30,681	\$ (73,012)	\$ (179,361)	\$ 3,443,994	\$(2,835,565)	\$ 356,056
Health and Social Services	-	(122,677)	2,688	352,121	232,133	(90,555)	(152,325)	15,378	4,631
Public Transportation	-	2,606	-	(105,515)	(102,909)	(89,259)	49,078	14,836	(128,254)
Environmental Management	-	(11,487)	4,376	49,383	42,271	(30,615)	(24,221)	24,310	11,746
Educational Support	-	58,085	83,413	88,073	229,571	(191,322)	80,580	1,161,637	1,280,466
Common School	-	-	-	(5,115)	(5,115)	(2,733)	5,365	(67,025)	(69,508)
Nonmajor Governmental Housing and	-	(10,777)	60,800	151,999	202,021	(97,996)	(91,788)	101,195	113,433
Community Services	-	-	-	(2,138)	(2,138)	(233)	(2,113)	13,538	9,054
Veterans' Loan	-	-	-	(5,221)	(5,221)	(29)	(1,371)	3,038	(3,582)
Lottery Operations	-	-	-	-	-	-	-	61,310	61,310
Unemployment Compensation	-	-	-	-	-	-	-	496,014	496,014
Nonmajor Enterprise	-	(886)	(4)	35,239	34,350	(11,600)	(164,613)	468,980	327,116
Internal Service	-	-	-	310,008	310,008	(431,995)	(35,768)	(21,509)	(179,264)
Pension and Other	-	-	-	2,123	2,123	(1,477)	(45,787)	(2,488,366)	(2,533,508)
Employee Benefit Trust	-	-	-	-	-	-	-	6,453	6,453
Private Purpose Trust	-	-	-	-	-	-	-	320,289	320,289
Investment Trust	-	-	-	-	-	-	-	-	-
Totals	\$(281,127)	\$ (84,051)	\$ 327,623	\$ 901,639	\$ 864,083	\$(1,127,174)	\$ 3,061,030	\$(2,725,487)	\$ 72,453

Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability/(Asset)
Defined Benefit Plan
For the Year Ended June 30¹
(Dollars in Thousands)

	2015²	2014
Proportion of the net pension liability/(asset)	19.73914%	(19.01053%)
Proportionate share of the net pension liability/(asset)	\$ 1,133,315	\$ (430,914)
Covered payroll ³	2,137,616	2,487,982
Employer net pension liability/(asset) as a percentage of covered payroll ³	53.0%	(17.3%)
Plan fiduciary net position as a percentage of the total pension liability	91.9%	103.6%

¹ 10-year trend information will be presented prospectively.

² The amounts presented were determined as of the net pension liability/(asset) measurement date.

³ Previously reported amounts have been updated to report payroll on which contributions to the pension plan are based, in conformity with GASB Statement No. 82, paragraph 5.

Required Supplementary Information
Schedule of Defined Benefit Pension Plan Contributions
Defined Benefit Plan
For the Year Ended June 30¹
(Dollars in Thousands)

	<u>2016</u>	<u>2015</u>
Contractually required contributions ²	\$ 205,419	\$ 152,789
Contributions in relation to the contractually required contributions	<u>205,419</u>	<u>152,789</u>
Contribution deficiency	-	-
Covered payroll ³	2,154,318	2,137,616
Contributions as a percentage of covered payroll ³	9.54%	7.15%

¹ 10-year trend information will be presented prospectively.

² The contractually required contributions on this Schedule of Defined Benefit Pension Plan Contributions have been adjusted to remove amounts contributed to finance employer-specific liabilities and employer optional contributions.

³ Previously reported amounts have been updated to report payroll on which contributions to the pension plan are based, in conformity with GASB Statement No. 82, paragraph 5

**Required Supplementary Information
Schedules of Funding Progress
Other Postemployment Benefit Plans
(In Millions)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a) ³	Funded Ratio (a/b) ³	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Public Employees Benefit Board (PEBB) Plan						
7/1/2011	\$ -	\$ 154.7	\$ 154.7	0%	\$ 2,329.4	6.6%
7/1/2013	-	105.1	105.1	0%	2,485.8	4.2%
7/1/2015 ¹	-	73.4	73.4	0%	3,037.0	2.4%
Retiree Health Insurance Premium Account (PERS Plan)²						
12/31/2013	\$ 5.2	\$ 61.2	\$ 56.0	8.5%	\$ 2,531.5	2.2%
12/31/2014	7.2	70.5	63.3	10.2%	2,718.9	2.3%
12/31/2015	11.2	67.8	56.6	16.5%	2,831.8	2.0%

¹ The July 1, 2015, PEBB Plan actuarial valuation included notable changes from the previous valuation. The unfunded actuarial accrued liability is being amortized using the level dollar methodology over an open 1-year period. The prior actuarial valuation was amortized using a level percentage of payroll methodology over an open 15-year period. The general inflation rate used in development of other economic assumptions decreased to 2.5 percent from 2.75 percent. Based on recent experience and future expectations, future coverage assumptions have been decreased. Fifteen percent of active members are assumed to elect medical coverage and 12 percent are estimated to elect dental coverage upon retirement. The prior actuarial valuation estimated 20 percent of active members would elect medical coverage and 16 percent were assumed to elect dental coverage upon retirement. Fifty percent of spouses are assumed to maintain coverage after the participant's coverage ends on account of death or reaching age 65. The prior actuarial valuation estimated 100 percent of spouses would maintain coverage. The probability of lapsing (dropping) coverage has increased from 5 percent to 7 percent per year.

² The benefits of the Retiree Health Insurance Premium Account (RHIPA) are funded through a separate account within the Public Employees Retirement System (PERS) trust. The normal cost rates for RHIPA are very sensitive to the participation levels. According to the latest valuation report, the RHIPA funded status is not as well-funded as the pension program. Higher participation rates were assumed for retirees eligible for the largest employer-paid subsidies increasing the contribution rates, helping to fund the program. Rates reflecting the new structure are effective July 2015.

PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, PO Box 23700, Tigard, OR 97281-3700. This report may also be accessed online at:

http://www.oregon.gov/PERS/Pages/section/financial_reports/financials.aspx

³ Differences due to rounding.

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Combining Fund Financial Statements

Nonmajor Governmental Funds

Special Revenue Funds

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.

Agricultural Resources Fund

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

Business Development Fund

This fund is used to account for programs that expand existing businesses as well as attract and promote new businesses. Federal grants, donations, and transfers from other funds comprise the main funding sources for these programs.

Community Protection Fund

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

Consumer Protection Fund

This fund is used to account for programs that regulate existing businesses and license various professionals and organizations. Public utilities taxes and business license fees comprise the main funding sources.

Employment Services Fund

This fund accounts for programs that provide workers with a safe and secure workplace. Funding for these employment-related programs include federal grants, employer and employee taxes, and workers' compensation insurance taxes.

Nutritional Support Fund

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

Residential Assistance Fund

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

Other Special Revenue Funds

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

Debt Service Funds

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

Revenue Bond Fund

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

Certificates of Participation Fund

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

General Obligation Bond Fund

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

Capital Projects Fund

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Fund

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

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016
(In Thousands)

	Special Revenue Funds		
	Agricultural Resources	Business Development	Community Protection
ASSETS			
Cash and Cash Equivalents	\$ 27,172	\$ 52,178	\$ 234,967
Investments	-	23,778	-
Custodial Assets	-	-	-
Securities Lending Collateral	634	3,376	9,081
Accounts and Interest Receivable (net)	4,279	1,259	56,338
Taxes Receivable (net)	-	-	-
Due from Other Funds	971	8,600	17,585
Due from Component Units	-	19	-
Inventories	93	20	1,089
Prepaid Items	51	-	-
Net Contracts, Notes, and Other Receivables	-	55	141,265
Loans Receivable (net)	-	3,893	-
Other Assets	-	572	-
Total Assets	\$ 33,199	\$ 93,751	\$ 460,327
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts and Interest Payable	\$ 1,103	\$ 572	\$ 30,058
Obligations Under Securities Lending	634	3,376	9,081
Due to Other Funds	3	4	16,255
Due to Component Units	177	-	186
Due to Other Governments	-	626	3,203
Unearned Revenue	55	-	2,018
Custodial Liabilities	85	-	667
Advances from Other Funds	-	-	6
Total Liabilities	2,058	4,577	61,475
Deferred Inflows of Resources:			
Unavailable Revenue	-	55	141,265
Total Deferred Inflows of Resources	-	55	141,265
Fund Balances:			
Nonspendable	169	22	1,150
Restricted by:			
Federal Laws and Regulations	16	16,555	7,748
Oregon Constitution	874	18,013	20,146
Enabling Legislation	27,650	7,734	23,639
Debt Covenants	-	7,953	94,897
Donors and Other External Parties	-	-	1,520
Committed	4	38,805	104,871
Assigned	2,427	37	3,615
Total Fund Balances	31,141	89,118	257,587
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 33,199	\$ 93,751	\$ 460,327

State of Oregon

Special Revenue Funds

Consumer Protection	Employment Services	Nutritional Support	Residential Assistance	Other Special Revenue
\$ 140,572	\$ 182,828	\$ -	\$ 116,782	\$ 15,662
-	151,569	-	15,216	-
11,895	-	-	-	-
5,354	4,494	-	4,659	565
6,785	64,055	23,597	9,250	731
9,126	9,452	-	-	-
1,257	3,794	-	4,715	30
-	1	-	-	-
53	1,172	3	136	1,169
2,990	196	-	15	100
4,115	76,049	84	36,480	-
-	-	-	202,009	-
-	-	-	-	-
\$ 182,146	\$ 493,610	\$ 23,684	\$ 389,263	\$ 18,257
\$ 2,463	\$ 19,038	\$ 11,298	\$ 5,110	\$ 998
5,354	4,494	-	4,659	565
15,418	20,974	4,304	119	45
-	2,110	23	122	223
4,800	424	4,249	3,106	-
-	-	-	17	-
12,008	584	-	-	12
-	-	-	-	-
40,043	47,623	19,874	13,134	1,842
4,115	76,279	84	36,480	-
4,115	76,279	84	36,480	-
3,050	1,469	3	151	135
27	105,311	3,207	43,627	6,542
-	-	-	-	-
106,512	150,162	516	78,651	6,505
-	-	-	1,476	-
172	-	-	26,366	1,520
28,027	110,451	-	166,909	1,177
201	2,316	-	22,468	536
137,989	369,708	3,726	339,648	16,415
\$ 182,146	\$ 493,610	\$ 23,684	\$ 389,263	\$ 18,257

(continued on next page)

State of Oregon

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016
(In Thousands)
(continued from previous page)

	Debt Service Funds		
	Revenue Bond	Certificates of Participation	General Obligation Bond
ASSETS			
Cash and Cash Equivalents	\$ 182,781	\$ 626	\$ 70,877
Investments	2,523	-	-
Custodial Assets	-	-	-
Securities Lending Collateral	-	-	-
Accounts and Interest Receivable (net)	-	-	110
Taxes Receivable (net)	-	-	-
Due from Other Funds	46,855	-	15,546
Due from Component Units	-	-	3,442
Inventories	-	-	-
Prepaid Items	-	-	311
Net Contracts, Notes, and Other Receivables	-	-	-
Loans Receivable (net)	-	-	-
Other Assets	-	-	-
Total Assets	\$ 232,159	\$ 626	\$ 90,285
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts and Interest Payable	\$ -	\$ -	\$ 117
Obligations Under Securities Lending	-	-	-
Due to Other Funds	2,168	-	3,112
Due to Component Units	-	-	-
Due to Other Governments	-	-	-
Unearned Revenue	-	-	-
Custodial Liabilities	206	-	551
Advances from Other Funds	-	-	-
Total Liabilities	2,374	-	3,780
Deferred Inflows of Resources:			
Unavailable Revenue	-	-	-
Total Deferred Inflows of Resources	-	-	-
Fund Balances:			
Nonspendable	-	-	311
Restricted by:			
Federal Laws and Regulations	-	7	-
Oregon Constitution	118,053	-	-
Enabling Legislation	-	-	-
Debt Covenants	111,733	619	86,194
Donors and Other External Party	-	-	-
Committed	-	-	-
Assigned	-	-	-
Total Fund Balances	229,785	626	86,505
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 232,159	\$ 626	\$ 90,285

State of Oregon

Capital Projects	Permanent	Total
\$ 77,829	\$ 16,838	\$ 1,119,112
-	1,410	194,496
-	-	11,895
-	756	28,918
536	3	166,942
-	-	18,578
1,236	900	101,490
-	-	3,462
1,423	-	5,158
-	-	3,664
-	-	258,048
-	-	205,902
-	-	572
<u>\$ 81,025</u>	<u>\$ 19,907</u>	<u>\$ 2,118,238</u>

\$ 3,384	\$ 272	\$ 74,413
-	756	28,918
7,810	-	70,212
-	-	2,841
-	-	16,407
850	-	2,940
-	-	14,113
-	-	6
<u>12,043</u>	<u>1,028</u>	<u>209,851</u>

-	-	258,279
-	-	<u>258,279</u>

1,423	13,865	21,750
-	-	183,040
-	-	157,085
153	4,973	406,496
64,669	-	367,540
194	40	29,812
310	-	450,553
2,231	-	33,832
<u>68,981</u>	<u>18,879</u>	<u>1,650,108</u>

<u>\$ 81,025</u>	<u>\$ 19,907</u>	<u>\$ 2,118,238</u>
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State of Oregon

**Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2016
(In Thousands)**

	Special Revenue Funds		
	Agricultural Resources	Business Development	Community Protection
REVENUES			
Employer-Employee Taxes	\$ -	\$ -	\$ -
Workers' Compensation Insurance Taxes	-	-	-
Other Taxes	-	-	-
Licenses and Fees	18,788	3,066	17,400
Federal	8,413	13,647	158,291
Rebates and Recoveries	80	18	488
Charges for Services	9,494	368	30,633
Fines, Forfeitures, and Penalties	47	49	87,599
Rents and Royalties	-	-	1,968
Investment Income	143	1,184	661
Sales	-	1,864	954
Assessments	-	-	-
Donations and Grants	-	14,994	2,619
Contributions to Permanent Funds	-	-	-
Other	713	423	30,450
Total Revenues	37,678	35,615	331,063
EXPENDITURES			
Current:			
Education	-	-	-
Human Resources	-	-	1,837
Public Safety	-	2,383	294,371
Economic and Community Development	-	68,043	4,887
Natural Resources	41,290	12	-
Transportation	-	-	10,304
Consumer and Business Services	-	-	-
Administration	-	2,781	4,667
Legislative	-	-	-
Judicial	-	-	64,954
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	-	-	-
Interest	-	-	1
Other Debt Service	-	-	227
Total Expenditures	41,290	73,219	381,249
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,612)	(37,604)	(50,186)
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	5,157	42,003	104,633
Transfers to Other Funds	(777)	(9,458)	(68,701)
Insurance Recoveries	-	-	77
Long-term Debt Issued	-	-	41,309
Debt Issuance Premium	-	-	8,899
Refunding Debt Issued	-	-	-
Refunded Debt Payment to Escrow Agent	-	-	-
Total Other Financing Sources (Uses)	4,380	32,545	86,217
Net Change in Fund Balances	769	(5,059)	36,031
Fund Balances - Beginning	30,366	94,181	221,547
Cumulative Effect of Change in Reporting Entity	-	-	-
Prior Period Adjustments	-	3	(324)
Fund Balances - Beginning - As Restated	30,366	94,185	221,222
Change in Inventories	6	(8)	333
Fund Balances - Ending	\$ 31,141	\$ 89,118	\$ 257,587

State of Oregon

Special Revenue Funds

Consumer Protection	Employment Services	Nutritional Support	Residential Assistance	Other Special Revenue
\$ -	\$ 95,866	\$ -	\$ -	\$ -
-	58,192	-	-	-
81,182	-	-	38,842	-
114,879	2,179	-	47	-
8,901	181,281	1,293,531	113,673	3,733
27	27	14,284	373	88
15,419	18,948	853	4,617	4,474
1,707	15,085	-	31	-
-	138	-	-	365
1,328	5,507	5	7,593	58
20	342	-	-	1,640
-	35,154	-	-	-
-	-	-	8,558	267
-	-	-	-	-
5,742	2,151	77	304	795
<u>229,206</u>	<u>414,872</u>	<u>1,308,751</u>	<u>174,038</u>	<u>11,420</u>
3,117	49,522	202,571	-	-
4,765	-	1,103,049	-	-
-	-	-	-	-
-	129,547	205	180,678	3,981
3,381	-	-	631	-
32	-	-	-	-
156,311	132,495	-	3,747	-
22,877	895	26	1,132	8,264
-	-	-	-	943
-	-	-	-	-
-	-	-	-	-
-	-	-	-	430
-	-	-	-	511
-	-	-	-	-
<u>190,484</u>	<u>312,458</u>	<u>1,305,851</u>	<u>186,187</u>	<u>14,130</u>
38,722	102,414	2,900	(12,149)	(2,710)
16,854	7	-	22,069	5,197
(47,093)	(87,184)	(1,216)	(3,335)	(463)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>(30,238)</u>	<u>(87,177)</u>	<u>(1,216)</u>	<u>18,733</u>	<u>4,733</u>
<u>8,484</u>	<u>15,236</u>	<u>1,684</u>	<u>6,584</u>	<u>2,024</u>
120,304	354,698	2,402	333,036	14,392
9,296	-	-	-	-
(108)	(234)	(307)	(10)	-
<u>129,492</u>	<u>354,463</u>	<u>2,094</u>	<u>333,026</u>	<u>14,392</u>
13	8	(52)	38	(2)
<u>\$ 137,989</u>	<u>\$ 369,708</u>	<u>\$ 3,726</u>	<u>\$ 339,648</u>	<u>\$ 16,415</u>

(continued on next page)

State of Oregon

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2016
(In Thousands)

(continued from previous page)

	Debt Service Funds		
	Revenue Bond	Certificates of Participation	General Obligation Bond
REVENUES			
Employer-Employee Taxes	\$ -	\$ -	\$ -
Workers' Compensation Insurance Taxes	-	-	-
Other Taxes	-	-	-
Licenses and Fees	-	-	-
Federal	10,076	2,568	-
Rebates and Recoveries	-	-	-
Charges for Services	-	-	-
Fines, Forfeitures, and Penalties	-	-	-
Rents and Royalties	-	-	-
Investment Income	825	6	713
Sales	-	-	-
Assessments	-	-	-
Donations and Grants	-	-	-
Contributions to Permanent Funds	-	-	-
Other	36	-	45,336
Total Revenues	10,937	2,574	46,050
EXPENDITURES			
Current:			
Education	-	-	-
Human Resources	-	-	-
Public Safety	-	-	-
Economic and Community Development	-	-	-
Natural Resources	-	-	-
Transportation	-	-	-
Consumer and Business Services	-	-	-
Administration	-	-	-
Legislative	-	-	-
Judicial	-	-	-
Capital Improvements and Capital Construction	-	-	-
Debt Service:			
Principal	124,574	3,221	95,906
Interest	143,037	5,309	117,345
Other Debt Service	-	-	831
Total Expenditures	267,611	8,530	214,082
Excess (Deficiency) of Revenues Over (Under) Expenditures	(256,675)	(5,956)	(168,032)
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	283,189	5,980	172,251
Transfers to Other Funds	(11,233)	(323)	(4,571)
Insurance Recoveries	-	-	-
Long-term Debt Issued	-	-	14,391
Debt Issuance Premium	-	-	49,309
Refunding Debt Issued	-	-	197,494
Refunded Debt Payment to Escrow Agent	-	-	(245,008)
Total Other Financing Sources (Uses)	271,956	5,657	183,867
Net Change in Fund Balances	15,282	(299)	15,834
Fund Balances - Beginning	214,308	925	70,671
Cumulative Effect of Change in Reporting Entity	-	-	-
Prior Period Adjustments	196	-	-
Fund Balances - Beginning - As Restated	214,504	925	70,671
Change in Inventories	-	-	-
Fund Balances - Ending	\$ 229,785	\$ 626	\$ 86,505

State of Oregon

Capital Projects	Permanent	Total
\$ -	\$ -	\$ 95,866
-	-	58,192
-	-	120,023
-	-	156,360
5,121	-	1,799,234
3	16	15,405
-	-	84,806
-	-	104,518
-	-	2,471
241	163	18,429
51	-	4,871
-	-	35,154
271	-	26,709
-	39	39
1,120	611	87,760
<u>6,806</u>	<u>829</u>	<u>2,609,837</u>
-	-	255,210
-	1,599	1,111,251
-	-	296,754
-	-	387,341
-	-	45,313
-	-	10,336
-	11	292,564
-	-	40,643
-	-	943
-	-	64,954
61,522	-	61,522
-	-	224,130
-	-	266,204
-	-	1,058
<u>61,522</u>	<u>1,610</u>	<u>3,058,222</u>
(54,716)	(781)	(448,385)
33,239	4,612	695,191
(20,663)	(2,494)	(257,510)
-	-	77
51,000	-	106,700
6,666	-	64,874
-	-	197,494
-	-	(245,008)
<u>70,242</u>	<u>2,118</u>	<u>561,818</u>
<u>15,527</u>	<u>1,337</u>	<u>113,433</u>
52,242	17,576	1,526,648
-	-	9,296
813	(33)	(5)
<u>53,055</u>	<u>17,542</u>	<u>1,535,939</u>
399	-	736
<u>\$ 68,981</u>	<u>\$ 18,879</u>	<u>\$ 1,650,108</u>

Nonmajor Enterprise Funds

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

Energy Loan Fund

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

Business Development Fund

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

Special Public Works Fund

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

State Hospitals Fund

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

Liquor Control Fund

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

Veterans' Home Fund

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

University System Fund

This fund accounts for the close-out activities of the Oregon University System, which was disbanded on July 1, 2015, pursuant to Senate Bill (SB) 270, which was passed by the Oregon Legislature during fiscal year 2013. All universities formerly part of the Oregon University System are now discretely presented component units of the State.

Water/Wastewater Financing Fund

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

Safe Drinking Water

This fund accounts for activities of the Safe Drinking Water financing program, which provides low-cost financing for construction and/or improvements of public and private water systems.

Other Enterprise Funds

This fund is used to account for the sale of goods and services to other than governmental entities through activities not specifically accounted for in another enterprise fund. The fund includes programs within the following state agencies: the Oregon Business Development Department, the Department of Administrative Services, the Department of Corrections, the Department of Environmental Quality, the Department of Forestry, the Judicial Department, the Legislative Administration Committee, the Oregon State Treasury, Oregon Corrections Enterprises, the Oregon Facilities Authority, the Oregon Health Authority, the Public Employees Retirement System, and the Water Resources Department.

State of Oregon

Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2016
(In Thousands)

	Energy Loan	Business Development	Special Public Works
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 10,510	\$ 21,093	\$ 80,766
Cash and Cash Equivalents - Restricted	13,281	-	-
Investments	-	-	10,727
Securities Lending Collateral	861	842	3,865
Accounts and Interest Receivable (net)	1,448	53	4,080
Due from Other Funds	-	-	-
Due from Component Units	5,668	-	-
Inventories	-	-	-
Prepaid Items	-	-	-
Total Current Assets	31,768	21,987	99,438
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	-	-	2,349
Advances to Other Funds	29	-	-
Advances to Component Units	103,246	-	-
Net Contracts, Notes, and Other Receivables	-	-	-
Loans Receivable (net)	61,616	20,929	141,304
Capital Assets:			
Land	-	-	-
Buildings, Property, and Equipment	264	-	-
Construction in Progress	-	-	-
Infrastructure	-	-	-
Works of Art and Other Nondepreciable Assets	-	-	-
Less Accumulated Depreciation and Amortization	(264)	-	-
Total Noncurrent Assets	164,892	20,929	143,653
Total Assets	196,660	42,917	243,091
DEFERRED OUTFLOWS OF RESOURCES			
Loss on Refunding	6	-	-
Related to Pensions	41	42	138
Total Deferred Outflows of Resources	46	42	138

State of Oregon

	State Hospitals	Liquor Control	Veterans' Home	Water/ Wastewater Financing	Safe Drinking Water	Other	Total
\$	448	\$ 39,416	\$ 12,858	\$ 30,904	\$ 93,235	\$ 69,661	\$ 358,891
	-	-	-	-	-	58	13,338
	-	-	-	-	-	-	10,727
	17	1,252	530	1,233	3,720	2,121	14,440
	1,967	591	4,048	1,953	2,062	41,511	57,712
	16,608	7,933	-	-	693	1,220	26,453
	-	-	-	-	-	213	5,882
	518	29,725	-	-	-	7,505	37,747
	-	-	-	-	-	287	287
	19,557	78,917	17,435	34,089	99,710	122,576	525,478
	-	-	423	1,373	-	-	4,145
	-	-	-	-	-	19	49
	-	-	-	-	-	-	103,246
	-	-	81	-	-	-	81
	-	-	-	89,826	157,474	13,688	484,838
	15	1,481	4,648	-	-	3,280	9,424
	472,440	30,187	51,188	-	-	44,919	598,999
	-	-	290	-	-	671	961
	3,661	-	-	-	-	-	3,661
	-	-	60	-	-	-	60
	(48,072)	(15,331)	(7,517)	-	-	(29,154)	(100,338)
	428,045	16,337	49,173	91,199	157,474	33,422	1,105,125
	447,602	95,254	66,608	125,288	257,185	155,998	1,630,602
	-	-	-	-	-	-	6
	18,384	1,641	37	72	26	1,691	22,071
	18,384	1,641	37	72	26	1,691	22,077

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State of Oregon

Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2016
(In Thousands)
(continued from previous page)

	Energy Loan	Business Development	Special Public Works
LIABILITIES			
Current Liabilities:			
Accounts and Interest Payable	2,414	11	805
Obligations Under Securities Lending	861	842	3,865
Due to Other Funds	15	3	1
Due to Component Units	-	-	-
Due to Other Governments	-	-	227
Unearned Revenue	703	-	-
Matured Bonds/COPs and Coupons Payable	-	-	-
Compensated Absences Payable	8	34	59
Claims and Judgments Payable	-	-	-
Custodial Liabilities	26	-	-
Contracts, Mortgages, and Notes Payable	3	2	6
Bonds/COPs Payable	17,060	-	1,830
Obligations Under Capital Lease	-	-	-
Total Current Liabilities	21,090	891	6,793
Noncurrent Liabilities:			
Compensated Absences Payable	4	18	32
Custodial Liabilities	1,704	-	-
Contracts, Mortgages, and Notes Payable	91	50	158
Net Pension Liability	157	162	537
Bonds/COPs Payable	182,370	-	33,099
Obligations Under Capital Lease	-	-	-
Net OPEB Obligation	14	7	23
Total Noncurrent Liabilities	184,340	237	33,848
Total Liabilities	205,430	1,128	40,641
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	38	40	131
Total Deferred Inflows of Resources	38	40	131
NET POSITION			
Net Investment in Capital Assets	-	-	-
Restricted for:			
Natural Resource Programs	-	-	-
Debt Service	3,041	-	1,610
Capital Projects	-	-	-
Unrestricted	(11,803)	41,791	200,847
Total Net Position	\$ (8,762)	\$ 41,791	\$ 202,458

State of Oregon

State Hospitals	Liquor Control	Veterans' Home	Water/ Wastewater Financing	Safe Drinking Water	Other	Total
2,003	24,620	2,758	740	21	9,538	42,908
17	1,252	530	1,233	3,720	2,121	14,440
11,159	17,280	106	-	-	297	28,861
396	-	-	-	-	-	396
-	-	-	600	-	-	827
-	249	146	-	-	-	1,098
-	-	-	-	-	58	58
6,963	742	22	27	10	781	8,645
-	-	-	-	-	9,200	9,200
3	825	-	-	-	6,462	7,315
801	71	7	2	2	78	972
-	-	-	915	-	-	19,805
-	-	-	-	-	273	273
21,343	45,038	3,568	3,516	3,752	28,807	134,798
3,749	400	12	14	5	285	4,520
-	-	-	-	-	-	1,704
22,559	1,999	29	64	49	2,381	27,380
71,309	6,364	145	278	100	6,557	85,610
-	-	-	20,623	-	-	236,092
-	-	-	-	-	23	23
3,562	320	2	8	5	254	4,195
101,180	9,083	188	20,987	159	9,500	359,524
122,522	54,122	3,757	24,503	3,912	38,308	494,322
17,362	1,550	35	68	24	1,597	20,844
17,362	1,550	35	68	24	1,597	20,844
428,045	16,337	48,669	-	-	19,419	512,470
-	-	-	-	-	440	440
-	-	-	904	-	-	5,555
-	-	639	-	-	-	639
(101,943)	24,886	13,545	99,885	253,274	97,926	618,409
\$ 326,101	\$ 41,224	\$ 62,854	\$ 100,789	\$ 253,274	\$ 117,784	\$ 1,137,513

State of Oregon

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Nonmajor Enterprise Funds
For the Year Ended June 30, 2016
(In Thousands)**

	Energy Loan	Business Development	Special Public Works	State Hospitals
OPERATING REVENUES:				
Licenses and Fees	\$ 13	\$ -	\$ -	\$ -
Federal	-	886	-	-
Rebates and Recoveries	-	-	-	87
Charges for Services	-	48	-	73,339
Fines, Forfeitures, and Penalties	7	-	-	-
Rents and Royalties	-	12	-	45
Sales	73	-	-	1,030
Loan Interest Income	9,562	1,007	5,772	-
Other	5	-	59	232
Total Operating Revenues	<u>9,660</u>	<u>1,953</u>	<u>5,831</u>	<u>74,733</u>
OPERATING EXPENSES:				
Salaries and Wages	439	844	1,903	300,339
Services and Supplies	233	150	538	85,959
Cost of Goods Sold	-	-	-	-
Distributions to Other Governments	-	-	1,645	-
Special Payments	-	-	94	163
Bond and COP Interest	8,143	-	1,882	-
Depreciation and Amortization	-	-	-	11,720
Bad Debt Expense	-	610	-	-
Total Operating Expenses	<u>8,815</u>	<u>1,604</u>	<u>6,062</u>	<u>398,181</u>
Operating Income (Loss)	<u>845</u>	<u>349</u>	<u>(231)</u>	<u>(323,447)</u>
NONOPERATING REVENUES (EXPENSES):				
Investment Income (Loss)	156	145	918	-
Other Taxes	-	-	-	-
Gain (Loss) on Disposition of Assets	-	-	-	-
Loan Interest Expense	-	-	-	-
Other Interest Expense	(6)	(4)	(11)	(1,585)
Other Nonoperating Items	(4)	(4)	(18)	(34)
Total Nonoperating Revenues (Expenses)	<u>145</u>	<u>137</u>	<u>889</u>	<u>(1,619)</u>
Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers	990	486	658	(325,066)
Capital Contributions	-	-	1	199
Special Items	-	-	-	-
Transfers from Other Funds	838	-	5,788	265,284
Transfers to Other Funds	(2,789)	(112)	(22,162)	(9,398)
Change in Net Position	<u>(962)</u>	<u>374</u>	<u>(15,715)</u>	<u>(68,982)</u>
Net Position - Beginning	(19,208)	41,417	218,744	385,243
Prior Period Adjustments	11,408	-	(571)	9,839
Net Position - Beginning - As Restated	<u>(7,800)</u>	<u>41,417</u>	<u>218,173</u>	<u>395,083</u>
Net Position - Ending	<u>\$ (8,762)</u>	<u>\$ 41,791</u>	<u>\$ 202,458</u>	<u>\$ 326,101</u>

State of Oregon

Liquor Control	Veterans' Home	University System	Water/ Wastewater Financing	Safe Drinking Water	Other	Total
\$ 4,836	\$ -	\$ -	\$ -	\$ -	\$ 3,200	\$ 8,049
-	16,069	-	-	-	-	16,955
2	-	-	-	-	18	107
-	15,109	-	-	-	192,143	280,639
424	-	-	-	-	19	449
-	-	-	-	-	11	68
572,010	-	-	-	-	23,663	596,776
-	-	-	3,402	3,729	505	23,978
390	72	-	-	-	30,168	30,927
<u>577,662</u>	<u>31,251</u>	<u>-</u>	<u>3,402</u>	<u>3,729</u>	<u>249,727</u>	<u>957,949</u>
22,693	565	-	890	317	9,918	337,909
61,064	27,761	-	258	19	41,569	217,551
279,602	-	-	-	-	24,928	304,530
59,603	-	-	3,186	63	423	64,919
307	-	-	-	3,456	179,197	183,218
-	-	-	1,137	-	1	11,163
909	1,297	-	-	-	1,990	15,916
-	216	-	-	-	-	826
<u>424,178</u>	<u>29,839</u>	<u>-</u>	<u>5,470</u>	<u>3,856</u>	<u>258,027</u>	<u>1,136,032</u>
<u>153,484</u>	<u>1,412</u>	<u>-</u>	<u>(2,068)</u>	<u>(127)</u>	<u>(8,301)</u>	<u>(178,084)</u>
-	69	-	137	576	331	2,332
18,286	-	-	-	-	-	18,286
(621)	-	-	-	-	870	249
-	-	-	-	-	(9)	(9)
(140)	(2)	-	(5)	(3)	(153)	(1,909)
-	(2)	-	(4)	(16)	(15)	(97)
<u>17,525</u>	<u>65</u>	<u>-</u>	<u>129</u>	<u>556</u>	<u>1,024</u>	<u>18,851</u>
171,009	1,477	-	(1,939)	430	(7,277)	(159,233)
-	540	-	-	-	-	740
-	-	(335,632)	-	-	-	(335,632)
7,933	83	2,089,552	21,563	9,326	71	2,400,438
<u>(171,820)</u>	<u>(18)</u>	<u>(1,361,897)</u>	<u>(6,105)</u>	<u>(11)</u>	<u>(4,883)</u>	<u>(1,579,197)</u>
<u>7,121</u>	<u>2,082</u>	<u>392,023</u>	<u>13,519</u>	<u>9,744</u>	<u>(12,089)</u>	<u>327,116</u>
<u>34,102</u>	<u>60,771</u>	<u>(403,276)</u>	<u>87,270</u>	<u>243,530</u>	<u>129,540</u>	<u>778,134</u>
<u>-</u>	<u>-</u>	<u>11,252</u>	<u>-</u>	<u>-</u>	<u>333</u>	<u>32,262</u>
<u>34,102</u>	<u>60,771</u>	<u>(392,023)</u>	<u>87,270</u>	<u>243,530</u>	<u>129,873</u>	<u>810,396</u>
<u>\$ 41,224</u>	<u>\$ 62,854</u>	<u>\$ -</u>	<u>\$ 100,789</u>	<u>\$ 253,274</u>	<u>\$ 117,784</u>	<u>\$ 1,137,513</u>

State of Oregon

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2016
(In Thousands)

	Energy Loan	Business Development	Special Public Works
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 80	\$ 65	\$ -
Receipts from Other Funds for Services	12	-	-
Payments to Employees for Services	(342)	(708)	(1,491)
Payments to Suppliers	(79)	(49)	(265)
Payments to Other Funds for Services	(122)	(118)	(284)
Claims Paid	-	-	-
Distributions to Other Governments	-	-	(1,493)
Other Receipts (Payments)	62	7	-
Net Cash Provided (Used) in Operating Activities	<u>(387)</u>	<u>(803)</u>	<u>(3,532)</u>
Cash Flows from Noncapital Financing Activities:			
Principal Payments on Bonds/COPs	(19,255)	-	(16,790)
Principal Payments on Loans	(3)	(2)	(6)
Interest Payments on Bonds/COPs	(9,039)	-	(2,335)
Interest Payments on Loans	(6)	(4)	(11)
Bond/COP Issuance Costs	(27)	-	-
Taxes and Assessments Received	-	-	-
Transfers from Other Funds	1,375	-	5,789
Transfers to Other Funds	(2,655)	(118)	(22,180)
Disposal of Government Operations	-	-	-
Net Cash Provided (Used) in Noncapital Financing Activities	<u>(29,610)</u>	<u>(123)</u>	<u>(35,533)</u>
Cash Flows from Capital and Related Financing Activities:			
Principal Payments on Bonds/COPs	-	-	-
Interest Payments on Bonds/COPs	-	-	-
Other Interest Payments	-	-	-
Acquisition of Capital Assets	-	-	-
Payments on Capital Leases	-	-	-
Proceeds from Disposition of Capital Assets	-	-	-
Insurance Recoveries for Capital Assets	-	-	-
Capital Contributions	-	-	-
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Investing Activities:			
Interest on Investments and Cash Balances	149	139	571
Interest Income from Securities Lending	6	6	26
Interest Expense from Securities Lending	(4)	(4)	(18)
Loan Principal Repayments	14,455	3,965	26,674
Loan Interest Received	9,056	1,006	6,760
Loans Made	(270)	(4,915)	(4,159)
Net Cash Provided (Used) in Investing Activities	<u>23,393</u>	<u>196</u>	<u>29,855</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(6,605)</u>	<u>(730)</u>	<u>(9,211)</u>
Cash and Cash Equivalents - Beginning	30,396	21,823	92,326
Prior Period Adjustments Restating Beginning Cash Balances	-	-	-
Cash and Cash Equivalents - Ending	<u>\$ 23,791</u>	<u>\$ 21,093</u>	<u>\$ 83,115</u>

State of Oregon

State Hospitals	Liquor Control	Veterans' Home	University System	Water/ Wastewater Financing	Safe Drinking Water	Other	Total
\$ 9,374	\$ 577,343	\$ 29,898	\$ -	\$ -	\$ -	\$ 226,685	\$ 843,446
49,930	-	-	-	-	-	4,307	54,249
(244,641)	(17,721)	(490)	-	(690)	(264)	(20,184)	(286,530)
(88,329)	(336,073)	(25,731)	-	(126)	(7)	(24,305)	(474,964)
(2,225)	(7,347)	(1,379)	-	(143)	(13)	(1,954)	(13,585)
-	-	-	-	-	-	(184,613)	(184,613)
-	(59,592)	-	-	(2,359)	(50)	(432)	(63,924)
1,073	158	70	-	-	-	(21,117)	(19,748)
(274,819)	156,769	2,367	-	(3,317)	(333)	(21,613)	(145,669)
-	-	-	-	(8,010)	-	-	(44,055)
(801)	(71)	(1)	-	(2)	(2)	(77)	(965)
-	-	-	-	(1,305)	-	-	(12,679)
(1,585)	(140)	(2)	-	(5)	(3)	(153)	(1,909)
-	-	-	-	-	-	-	(27)
-	18,290	-	-	-	-	-	18,290
267,134	-	83	-	21,564	8,785	78	304,809
(11,452)	(167,679)	(18)	(64,939)	(6,115)	(11)	(5,323)	(280,491)
-	-	-	(47,172)	-	-	-	(47,172)
253,297	(149,601)	62	(112,111)	6,126	8,768	(5,475)	(64,200)
-	-	-	-	-	-	(198)	(198)
-	-	-	-	-	-	(5)	(5)
-	-	-	-	-	-	(9)	(9)
(308)	(3,620)	(1,182)	-	-	-	(1,021)	(6,132)
-	-	-	-	-	-	(268)	(268)
-	-	-	-	-	-	1,465	1,465
-	-	-	-	-	-	32	32
-	-	349	-	-	-	-	349
(308)	(3,620)	(834)	-	-	-	(4)	(4,767)
-	-	67	-	132	553	526	2,138
-	-	3	-	5	23	21	90
-	-	(2)	-	(4)	(16)	(15)	(63)
-	-	-	-	6,992	11,891	4,184	68,161
-	-	-	-	3,432	4,114	511	24,880
-	-	-	-	(7,056)	(9,873)	(2,190)	(28,462)
-	-	67	-	3,502	6,692	3,038	66,743
(21,831)	3,548	1,663	(112,111)	6,311	15,128	(24,054)	(147,891)
5,346	35,869	11,617	112,111	25,965	78,108	93,773	507,332
16,933	-	-	-	-	-	-	16,933
\$ 448	\$ 39,416	\$ 13,280	\$ -	\$ 32,276	\$ 93,235	\$ 69,719	\$ 376,374

(continued on next page)

State of Oregon

Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2016
(In Thousands)
(continued from previous page)

	Energy Loan	Business Development	Special Public Works
Reconciliation of Operating Income (Loss) to Net Cash Provided			
(Used) by Operating Activities:			
Operating Income (Loss)	\$ 845	\$ 349	\$ (231)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided			
(Used) by Operating Activities:			
Depreciation and Amortization	-	-	-
Amortization of Bond/COP Premium and Discount	(655)	-	-
Bad Debt Expense	-	610	-
Interest Receipts Reported as Operating Revenue	(9,056)	(1,006)	(6,760)
Interest Payments Reported as Operating Expense	9,039	-	2,335
Bond/COP Issuance Costs Reported as Operating Expense	27	-	-
Net Changes in Assets and Liabilities:			
Accounts and Interest Receivable (net)	(239)	10	1,092
Due from Other Funds	-	-	6
Inventories	-	-	-
Prepaid Items	-	-	-
Loans Receivable (net)	(1)	-	(69)
Accounts and Interest Payable	(243)	(1)	(527)
Due to Other Funds	-	(16)	(1)
Due to Component Units	-	-	-
Due to Other Governments	-	-	227
Unearned Revenue	(235)	(886)	-
Matured Bonds/COPs and Coupons Payable	-	-	-
Compensated Absences Payable	(7)	16	(20)
Custodial Liabilities	26	-	-
Contracts, Mortgages, and Notes Payable	-	-	-
Net Pension Liability (Asset)	238	230	736
Net OPEB Obligation	-	(1)	(2)
Net Changes in Deferred Outflows of Resources			
Loss on Refunding	3	-	-
Contributions Subsequent to the Measurement Date	-	(5)	(26)
Change in Employer Contribution & Proportion	(3)	(3)	(10)
Difference Between Expected and Actual Experience	(8)	(9)	(29)
Net Changes in Deferred Inflows of Resources			
Investment Earnings Difference	(122)	(96)	(272)
Change in Employer Contribution & Proportion	5	5	18
Total Adjustments	(1,232)	(1,152)	(3,302)
Net Cash Provided (Used) by Operating Activities	\$ (387)	\$ (803)	\$ (3,532)
Noncash Investing and Capital and Related Financing Activities:			
Net Change in Fair Value of Investments	\$ -	\$ -	\$ (320)
Capital Assets Transferred from Governmental Funds	-	-	-
Capital Assets Transferred to Governmental Funds	-	-	-

State of Oregon

State Hospitals	Liquor Control	Veterans' Home	University System	Water/ Wastewater Financing	Safe Drinking Water	Other	Total
\$ (323,447)	\$ 153,484	\$ 1,412	\$ -	\$ (2,068)	\$ (127)	\$ (8,301)	\$ (178,084)
11,720	909	1,297	-	-	-	1,990	15,916
-	-	-	-	-	-	(2)	(656)
-	-	216	-	-	-	-	826
-	-	-	-	(3,432)	(4,114)	(511)	(24,880)
-	-	-	-	1,305	-	5	12,685
-	-	-	-	-	-	-	27
(1,967)	(7)	(1,334)	-	30	385	(17,276)	(19,306)
(12,399)	-	-	-	3	-	(1,220)	(13,609)
(91)	(3,539)	-	-	-	-	(1,476)	(5,107)
-	-	-	-	-	-	25	25
-	-	-	-	-	3,455	-	3,385
(1,973)	745	595	-	42	2	(2,270)	(3,630)
(2,887)	56	(5)	-	-	-	(1,575)	(4,428)
396	-	-	-	-	-	-	396
-	-	-	-	600	-	(15)	812
-	78	53	-	-	-	-	(989)
-	-	-	-	-	-	(70)	(70)
408	14	3	-	(17)	(7)	29	418
(3)	72	(3)	-	-	-	3,941	4,033
-	-	6	-	-	-	-	6
97,063	8,661	174	-	374	144	8,927	116,546
(454)	(32)	(1)	-	(1)	-	(25)	(518)
-	-	-	-	-	-	-	3
(3,643)	(326)	(16)	-	(16)	(2)	(334)	(4,367)
(1,365)	(122)	(3)	-	(5)	(2)	(125)	(1,638)
(3,845)	(343)	(8)	-	(15)	(5)	(354)	(4,617)
(34,745)	(3,097)	(25)	-	(127)	(65)	(3,198)	(41,748)
2,414	215	5	-	9	3	222	2,898
48,628	3,284	955	-	(1,249)	(206)	(13,313)	32,415
\$ (274,819)	\$ 156,769	\$ 2,367	\$ -	\$ (3,317)	\$ (333)	\$ (21,613)	\$ (145,669)

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (320)
199	-	-	-	-	-	-	199
34	-	-	-	-	-	-	34

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Internal Service Funds

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

Central Services Fund

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

Legal Services Fund

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

Banking Services Fund

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

Audit Services Fund

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

Forestry Services Fund

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

Health Services Fund

This fund accounts, primarily, for the activities of the Public Employees' Benefit Board, through the Oregon Health Authority, to provide health care benefits and related services for the employees of state agencies.

Other Internal Service Funds

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

State of Oregon

Combining Statement of Net Position
Internal Service Funds
June 30, 2016
(In Thousands)

	Central Services	Legal Services	Banking Services
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 126,784	\$ 15,696	\$ 8,534
Securities Lending Collateral	16,175	626	340
Accounts and Interest Receivable (net)	38,385	10,194	1,702
Due from Other Funds	280	2,946	100
Due from Component Units	-	-	-
Inventories	804	101	-
Prepaid Items	1,737	-	-
Total Current Assets	<u>184,165</u>	<u>29,563</u>	<u>10,677</u>
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	4,005	-	-
Investments - Restricted	66,181	-	-
Advances to Other Funds	512	-	-
Net Contracts, Notes, and Other Receivables	-	2	-
Loans Receivable (net)	6	-	-
Capital Assets:			
Land	10,358	-	-
Buildings, Property, and Equipment	618,784	6,263	2,884
Construction in Progress	5,882	442	-
Infrastructure	779	-	-
Works of Art and Other Nondepreciable Assets	215	-	-
Less Accumulated Depreciation and Amortization	(347,702)	(4,559)	(2,083)
Total Noncurrent Assets	<u>359,019</u>	<u>2,148</u>	<u>801</u>
Total Assets	<u>543,184</u>	<u>31,711</u>	<u>11,478</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on Refunding	1,654	-	-
Related to Pensions	6,322	5,548	1,105
Total Deferred Outflows of Resources	<u>7,976</u>	<u>5,548</u>	<u>1,105</u>
LIABILITIES			
Current Liabilities:			
Accounts and Interest Payable	16,636	1,501	710
Obligations Under Securities Lending	16,175	626	340
Due to Other Funds	10,676	78	-
Unearned Revenue	754	123	-
Compensated Absences Payable	3,618	3,416	684
Claims and Judgments Payable	42,840	-	-
Custodial Liabilities	545	9	-
Contracts, Mortgages, and Notes Payable	4,158	257	44
Bonds/COPs Payable	5,117	-	-
Obligations Under Capital Lease	2,434	-	-
Total Current Liabilities	<u>102,953</u>	<u>6,010</u>	<u>1,779</u>
Noncurrent Liabilities:			
Compensated Absences Payable	1,948	1,840	368
Claims and Judgments Payable	127,722	-	-
Custodial Liabilities	3,271	-	-
Contracts, Mortgages, and Notes Payable	22,625	7,226	1,243
Net Pension Liability	24,521	21,519	4,286
Bonds/COPs Payable	69,134	-	-
Obligations Under Capital Lease	2,865	-	-
Advances from Other Funds	43	-	-
Net OPEB Obligation	1,084	836	115
Total Noncurrent Liabilities	<u>253,214</u>	<u>31,421</u>	<u>6,013</u>
Total Liabilities	<u>356,168</u>	<u>37,431</u>	<u>7,791</u>
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	5,970	5,239	1,044
Total Deferred Inflows of Resources	<u>5,970</u>	<u>5,239</u>	<u>1,044</u>
NET POSITION			
Net Investment in Capital Assets	210,420	2,146	801
Restricted for:			
Unrestricted	(21,397)	(7,557)	2,947
Total Net Position	<u>\$ 189,022</u>	<u>\$ (5,411)</u>	<u>\$ 3,748</u>

State of Oregon

	Audit Services	Forestry Services	Health Services	Other	Total
\$	2,993	\$ 9,119	\$ 429,299	\$ 2,929	\$ 595,355
	120	368	17,362	117	35,108
	240	811	2,204	124	53,661
	-	-	12,601	1	15,927
	151	-	-	-	151
	-	176	18	11	1,110
	29	-	-	16	1,782
	<u>3,532</u>	<u>10,474</u>	<u>461,483</u>	<u>3,198</u>	<u>703,093</u>
	-	-	-	-	4,005
	-	-	-	-	66,181
	-	-	-	-	512
	-	-	-	-	2
	-	-	-	-	6
	-	-	-	-	10,358
	461	22,073	97	7,835	658,396
	9	54	-	-	6,386
	-	-	-	-	779
	-	-	-	-	215
	(449)	(15,499)	(82)	(3,997)	(374,370)
	<u>21</u>	<u>6,628</u>	<u>15</u>	<u>3,838</u>	<u>372,469</u>
	<u>3,553</u>	<u>17,102</u>	<u>461,498</u>	<u>7,035</u>	<u>1,075,562</u>
	-	-	-	-	1,654
	573	186	8,822	-	22,556
	<u>573</u>	<u>186</u>	<u>8,822</u>	<u>-</u>	<u>24,211</u>
	127	464	12,071	92	31,602
	120	368	17,362	117	35,108
	-	-	123,771	30	134,555
	-	-	-	-	877
	263	118	4,153	6	12,258
	-	-	-	-	42,840
	-	-	198	-	752
	26	8	7	-	4,500
	-	-	-	-	5,117
	-	-	-	-	2,434
	<u>536</u>	<u>958</u>	<u>157,562</u>	<u>246</u>	<u>270,044</u>
	141	63	2,236	3	6,600
	-	-	63,718	-	191,440
	-	-	-	-	3,271
	737	223	201	-	32,254
	2,223	722	34,220	-	87,492
	-	-	-	-	69,134
	-	-	-	-	2,865
	-	-	-	-	43
	87	41	-	-	2,165
	<u>3,189</u>	<u>1,050</u>	<u>100,375</u>	<u>3</u>	<u>395,264</u>
	<u>3,725</u>	<u>2,008</u>	<u>257,936</u>	<u>249</u>	<u>665,308</u>
	541	176	8,332	-	21,302
	<u>541</u>	<u>176</u>	<u>8,332</u>	<u>-</u>	<u>21,302</u>
	21	6,628	15	3,838	223,868
	(161)	8,477	204,037	2,949	189,295
\$	<u>(140)</u>	<u>\$ 15,105</u>	<u>\$ 204,052</u>	<u>\$ 6,786</u>	<u>\$ 413,162</u>

State of Oregon

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2016
(In Thousands)

	Central Services	Legal Services	Banking Services
OPERATING REVENUES:			
Licenses and Fees	\$ -	\$ -	\$ -
Rebates and Recoveries	710	9	7
Charges for Services	267,403	86,184	19,058
Fines, Forfeitures, and Penalties	-	10	-
Rents and Royalties	39,203	-	-
Sales	3,185	19	-
Other	1,925	38	47
Total Operating Revenues	312,426	86,260	19,112
OPERATING EXPENSES:			
Salaries and Wages	91,593	82,022	17,461
Services and Supplies	184,901	12,884	8,081
Cost of Goods Sold	9,742	-	-
Special Payments	-	-	-
Bond and COP Interest	2,805	-	-
Depreciation and Amortization	24,699	505	163
Total Operating Expenses	313,741	95,411	25,704
Operating Income (Loss)	(1,315)	(9,152)	(6,592)
NONOPERATING REVENUES (EXPENSES):			
Investment Income (Loss)	3,423	-	-
Gain (Loss) on Disposition of Assets	(55)	-	-
Insurance Recovery	289	3	-
Loan Interest Income	33	-	-
Loan Interest Expense	(139)	(1)	-
Other Interest Expense	(576)	(508)	(87)
Other Nonoperating Items	(74)	-	-
Total Nonoperating Revenues (Expenses)	2,903	(506)	(87)
Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers	1,588	(9,657)	(6,679)
Transfers from Other Funds	3,535	-	703
Transfers to Other Funds	(9,924)	(2,748)	(890)
Change in Net Position	(4,801)	(12,405)	(6,867)
Net Position - Beginning	196,113	7,549	10,615
Prior Period Adjustments	(2,290)	(555)	-
Net Position - Beginning - As Restated	193,823	6,994	10,615
Net Position - Ending	\$ 189,022	\$ (5,411)	\$ 3,748

State of Oregon

Audit Services	Forestry Services	Health Services	Other	Total
\$ -	\$ -	\$ 23	\$ -	\$ 23
14	1	8,011	250	9,002
12,900	2,480	773,837	3,420	1,165,283
-	-	-	-	10
-	5,530	-	-	44,733
-	320	-	4	3,528
-	-	827	11	2,848
12,914	8,331	782,699	3,686	1,225,428
8,209	2,514	138,053	1,277	341,130
2,174	4,242	672,280	1,197	885,758
-	-	-	-	9,742
-	-	4,579	-	4,579
-	-	-	-	2,805
8	1,708	10	577	27,670
10,391	8,464	814,922	3,051	1,271,685
2,523	(133)	(32,223)	634	(46,257)
-	-	3,149	-	6,572
-	178	-	(8)	115
-	32	-	-	323
-	-	-	-	33
-	-	-	-	(139)
(52)	(16)	(14)	-	(1,252)
-	-	(85)	-	(159)
(52)	194	3,049	(8)	5,493
2,472	60	(29,174)	626	(40,764)
-	115	-	-	4,353
(3,228)	(1,034)	(124,557)	(472)	(142,852)
(756)	(859)	(153,731)	155	(179,264)
616	15,964	346,647	6,632	584,136
-	-	11,135	-	8,290
616	15,964	357,783	6,632	592,426
\$ (140)	\$ 15,105	\$ 204,052	\$ 6,786	\$ 413,162

**Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2016
(In Thousands)**

	Central Services	Legal Services
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 24,413	\$ 7,343
Receipts from Other Funds for Services	280,740	85,047
Payments to Employees for Services	(75,663)	(64,919)
Payments to Suppliers	(95,162)	(8,946)
Payments to Other Funds for Services	(33,718)	(11,509)
Claims Paid	(61,958)	-
Other Receipts (Payments)	10,575	(76)
Net Cash Provided (Used) in Operating Activities	<u>49,226</u>	<u>6,939</u>
Cash Flows from Noncapital Financing Activities:		
Principal Payments on Loans	(336)	(257)
Interest Payments on Loans	(635)	(508)
Transfers from Other Funds	2,400	-
Transfers to Other Funds	(9,015)	(2,748)
Net Cash Provided (Used) in Noncapital Financing Activities	<u>(7,587)</u>	<u>(3,512)</u>
Cash Flows from Capital and Related Financing Activities:		
Proceeds from Bond/COP Sales	3,690	-
Principal Payments on Bonds/COPs	(12,604)	-
Principal Payments on Loans	(1,851)	-
Interest Payments on Bonds/COPs	(3,244)	-
Interest Payments on Loans	(69)	(1)
Acquisition of Capital Assets	(15,391)	(685)
Payments on Capital Leases	(1,914)	-
Proceeds from Disposition of Capital Assets	718	-
Insurance Recoveries for Capital Assets	289	3
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(30,376)</u>	<u>(683)</u>
Cash Flows from Investing Activities:		
Purchases of Investments	(5,973)	-
Proceeds from Sales and Maturities of Investments	20,306	-
Interest on Investments and Cash Balances	2,687	-
Interest Income from Securities Lending	104	-
Interest Expense from Securities Lending	(74)	-
Loan Principal Repayments	42	-
Loan Interest Received	33	-
Net Cash Provided (Used) in Investing Activities	<u>17,126</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	28,390	2,744
Cash and Cash Equivalents - Beginning	102,399	12,624
Prior Period Adjustments Restating Beginning Cash Balances	-	328
Cash and Cash Equivalents - Ending	<u><u>\$ 130,789</u></u>	<u><u>\$ 15,696</u></u>

State of Oregon

Banking Services	Audit Services	Forestry Services	Health Services	Other	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,756
20,000	12,817	8,417	983,718	3,795	1,394,533
(14,041)	(6,425)	(1,904)	(111,632)	(1,252)	(275,835)
(5,608)	(1,364)	(3,620)	(274,525)	(979)	(390,204)
(2,085)	(719)	(537)	(34,150)	(284)	(83,002)
-	-	-	(595,733)	-	(657,691)
26	-	-	12,774	-	23,299
(1,708)	4,310	2,356	(19,548)	1,281	42,856
(44)	(26)	(8)	(7)	-	(678)
(87)	(52)	(16)	(14)	-	(1,312)
297	-	195	-	-	2,893
(671)	(3,228)	(1,041)	(4,557)	(462)	(21,722)
(505)	(3,306)	(869)	(4,578)	(462)	(20,819)
-	-	-	-	-	3,690
-	-	-	-	-	(12,604)
-	-	-	-	-	(1,851)
-	-	-	-	-	(3,244)
-	-	-	-	-	(70)
(680)	-	(1,971)	(8)	(1,504)	(20,239)
-	-	-	-	-	(1,914)
-	-	198	-	119	1,036
-	-	61	-	-	353
(680)	-	(1,712)	(8)	(1,384)	(34,843)
-	-	-	-	-	(5,973)
-	-	-	-	-	20,306
-	-	-	2,956	-	5,643
-	-	-	121	-	225
-	-	-	(85)	-	(159)
-	-	-	-	-	42
-	-	-	-	-	33
-	-	-	2,991	-	20,118
(2,893)	1,004	(224)	(21,143)	(565)	7,312
11,427	1,990	9,344	447,974	3,494	589,252
-	-	-	2,467	-	2,794
\$ 8,534	\$ 2,993	\$ 9,119	\$ 429,299	\$ 2,929	\$ 599,360

(continued on next page)

State of Oregon

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2016
(In Thousands)
(continued from previous page)

	Central Services	Legal Services
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating Income (Loss)	\$ (1,315)	\$ (9,152)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	24,699	505
Amortization of Bond/COP Premium and Discount	(850)	-
Interest Payments Reported as Operating Expense	3,244	-
Net Changes in Assets and Liabilities:		
Accounts and Interest Receivable (net)	(5,321)	(1,821)
Due from Other Funds	29	624
Due from Component Units	-	-
Inventories	14	(38)
Prepaid Items	(794)	-
Net Contracts, Notes, and Other Receivables	-	(1)
Accounts and Interest Payable	(3,252)	131
Due to Other Funds	-	(539)
Unearned Revenue	677	115
Compensated Absences Payable	449	415
Claims and Judgments Payable	(5,087)	-
Custodial Liabilities	10,007	1
Contracts, Mortgages, and Notes Payable	6,987	-
Net Pension Liability (Asset)	33,221	29,429
Net OPEB Obligation	(121)	(88)
Net Changes in Deferred Outflows of Resources:		
Loss on Refunding	557	-
Contributions Subsequent to the Measurement Date	(1,308)	(1,051)
Change in Employer Contribution & Proportion	(472)	(409)
Difference between Expected & Actual Economic Experience	(1,322)	(1,160)
Net Changes in Deferred Inflows of Resources:		
Investment Earnings Difference	(11,646)	(10,751)
Change in Employer Contribution & Proportion	830	729
Total Adjustments	50,540	16,091
Net Cash Provided (Used) by Operating Activities	\$ 49,226	\$ 6,939
 Noncash Investing and Capital and Related Financing Activities:		
Net Change in Fair Value of Investments	\$ 355	\$ -
Advanced Debt Refundings Deposited with Escrow Agent	3,679	-
Capital Leases Entered into During the Year	3,537	-
Noncash Assets Exchanged for Other Liabilities	12,889	-

State of Oregon

Banking Services	Audit Services	Forestry Services	Health Services	Other	Total
\$ (6,592)	\$ 2,523	\$ (133)	\$ (32,223)	\$ 634	\$ (46,257)
163	8	1,708	10	577	27,670
-	-	-	-	-	(850)
-	-	-	-	-	3,244
1,580	53	86	(1,756)	110	(7,070)
-	-	-	7,769	(1)	8,422
-	(151)	-	-	-	(151)
-	-	(33)	4	(4)	(57)
-	24	-	-	(16)	(786)
-	-	-	-	-	(1)
(362)	75	107	(4,332)	(29)	(7,661)
-	-	-	(16,004)	-	(16,543)
-	-	-	-	-	792
189	60	54	72	9	1,248
-	-	-	(145)	-	(5,232)
-	-	-	(26)	-	9,982
-	-	-	-	-	6,987
5,885	3,055	975	45,759	-	118,323
(15)	(9)	(3)	(189)	-	(426)
-	-	-	-	-	557
(201)	(103)	(40)	(2,037)	-	(4,739)
(81)	(42)	(14)	(670)	-	(1,688)
(231)	(120)	(39)	(1,845)	-	(4,718)
(2,186)	(1,139)	(335)	(15,093)	-	(41,151)
145	75	24	1,159	-	2,962
4,884	1,786	2,490	12,675	647	89,113
\$ (1,708)	\$ 4,310	\$ 2,356	\$ (19,548)	\$ 1,281	\$ 42,856

\$ -	\$ -	\$ -	\$ -	\$ -	\$ 355
-	-	-	-	-	3,679
-	-	-	-	-	3,537
-	-	-	-	-	12,889

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Fiduciary Funds

Combining Pension and Other Employee Benefit Trust Funds

Pension Trust Funds

Pension trust funds account for the transactions, assets, liabilities, and net position held in trust for public employees by the Public Employees Retirement System (PERS) for the payment of retirement, disability, and death benefits to members of the retirement system.

Public Employees Defined Benefit Pension Plan Fund

This fund accounts for the activities of the defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. Also included in this fund are the activities of the defined benefit portion of the Oregon Public Service Retirement Plan (OPSRP). Public employees hired on or after August 29, 2003, as well as inactive PERS members who return to employment following a six-month or greater break in service, participate in the OPSRP pension program. The plan is administered by the Public Employees Retirement Board under Oregon Revised Statutes, Chapter 238, and Section 401(a) of the Internal Revenue Code.

Individual Account Program Defined Contribution Pension Plan Fund

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

Other Employee Benefit Trust Funds

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

Retirement Health Insurance Account (RHIA) OPEB Plan Fund

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

Retiree Health Insurance Premium Account (RHIPA) OPEB Plan Fund

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

Deferred Compensation Plan Fund

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

State of Oregon

**Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2016
(In Thousands)**

	Pension Trust Funds	
	Public Employees Defined Benefit Pension Plan	Individual Account Program Defined Contribution Pension Plan
ASSETS		
Cash and Cash Equivalents	\$ 2,386,926	\$ 310,376
Investments:		
Fixed Income	12,885,496	1,515,792
Public Equity	23,037,167	2,640,669
Real Estate	7,631,860	897,778
Private Equity	12,403,949	1,459,145
Alternative Equity	2,621,001	308,323
Opportunity Portfolio	1,212,581	142,643
Total Investments	<u>59,792,054</u>	<u>6,964,348</u>
Securities Lending Collateral	1,332,772	156,920
Receivables:		
Employer Contributions	54,905	-
Plan Member Contributions	-	14,415
Interest and Dividends	275,698	32,973
Member Loans	-	-
Investment Sales	990,867	108,522
Transitional Liability	555,342	-
From Other Funds	1,179	6,555
Total Receivables	<u>1,877,990</u>	<u>162,465</u>
Prepaid Items	5,725	-
Capital Assets (net of \$21,081 accumulated depreciation):		
Land	944	-
Buildings, Property, and Equipment	30,974	289
Total Assets	<u>65,427,386</u>	<u>7,594,399</u>
Accounts and Interest Payable	1,904,658	182,107
Obligations Under Securities Lending	1,335,499	157,240
Due to Other Funds	7,235	803
Unearned Revenue	340	-
Custodial Liabilities	96,462	14,276
Bonds/COPs Payable	667	-
Net OPEB Obligation	467	100
Total Liabilities	<u>3,345,327</u>	<u>354,527</u>
NET POSITION		
Restricted - Held in Trust for:		
Pension Benefits	62,082,059	7,239,872
Other Postemployment Benefits	-	-
Other Employee Benefits	-	-
Total Net Position	<u>\$ 62,082,059</u>	<u>\$ 7,239,872</u>

State of Oregon

Other Employee Benefit Trust Funds

Other Postemployment Benefits				
Retirement Health Insurance Account OPEB Plan	Retiree Health Insurance Premium Account OPEB Plan	Deferred Compensation Plan	Total	
\$ 20,800	\$ 1,561	\$ 53,975	\$	2,773,638
92,174	2,625	272,423		14,768,509
160,576	4,574	1,220,925		27,063,910
54,593	1,555	-		8,585,785
88,729	2,527	-		13,954,350
18,749	534	-		2,948,607
8,674	247	-		1,364,145
423,495	12,063	1,493,347		68,685,307
9,548	277	11		1,499,528
1,952	1,482	-		58,339
-	-	-		14,415
1,972	56	379		311,078
-	-	11,343		11,343
6,694	247	98		1,106,428
-	-	-		555,342
632	48	-		8,413
11,250	1,834	11,821		2,065,360
33	1	-		5,759
-	-	-		944
-	-	-		31,263
465,126	15,735	1,559,153		75,061,799
13,825	321	645		2,101,556
9,568	277	11		1,502,595
1,245	57	207		9,546
-	-	488		828
3,584	60	-		114,382
-	-	-		667
2	1	15		585
28,224	716	1,366		3,730,160
-	-	-		69,321,931
436,903	15,018	-		451,921
-	-	1,557,787		1,557,787
\$ 436,903	\$ 15,018	\$ 1,557,787	\$	71,331,639

State of Oregon

**Combining Statement of Changes in Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
For the Year Ended June 30, 2016
(In Thousands)**

	Pension Trust Funds	
	Public Employees Defined Benefit Pension Plan	Individual Account Program Defined Contribution Pension Plan
ADDITIONS		
Contributions:		
Employer	\$ 977,332	\$ -
Plan Members	14,214	566,450
Total Contributions	<u>991,547</u>	<u>566,450</u>
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	(518,810)	(37,224)
Interest, Dividends, and Other Investment Income	1,423,056	172,427
Total Investment Income	<u>904,246</u>	<u>135,203</u>
Less Investment Expense	493,675	59,313
Net Investment Income	<u>410,570</u>	<u>75,891</u>
Other Income	3,345	618
Total Additions	<u>1,405,463</u>	<u>642,959</u>
DEDUCTIONS		
Benefits	4,183,383	364,549
Death Benefits	9,925	-
Contributions Refunded	13,155	-
Healthcare Premium Subsidies	-	-
Administrative Expenses	40,567	8,478
Total Deductions	<u>4,247,030</u>	<u>373,027</u>
Change in Net Position Held in Trust For:		
Pension Benefits	(2,841,567)	269,932
Other Postemployment Benefits	-	-
Other Employee Benefits	-	-
Net Position - Beginning	64,923,626	6,969,940
Net Position - Ending	<u>\$ 62,082,059</u>	<u>\$ 7,239,872</u>

State of Oregon

Other Employee Benefit Trust Funds

Other Postemployment Benefits				
Retirement Health Insurance Account OPEB Plan	Retiree Health Insurance Premium Account OPEB Plan	Deferred Compensation Plan	Total	
\$ 44,588	\$ 10,967	\$ -	\$ 1,032,887	
-	-	107,287	687,951	
44,588	10,967	107,287	1,720,838	
(2,195)	80	(5,318)	(563,467)	
9,905	235	10,560	1,616,183	
7,710	315	5,241	1,052,715	
3,463	87	3,212	559,750	
4,247	228	2,029	492,965	
-	-	1,138	5,101	
48,835	11,195	110,453	2,218,905	
-	-	91,351	4,639,283	
-	-	-	9,925	
-	-	-	13,155	
33,603	4,683	-	38,286	
1,256	260	1,203	51,764	
34,859	4,943	92,554	4,752,412	
-	-	-	(2,571,635)	
13,976	6,252	-	20,228	
-	-	17,899	17,899	
422,927	8,766	1,539,888	73,865,147	
\$ 436,903	\$ 15,018	\$ 1,557,787	\$ 71,331,639	

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Fiduciary Funds

Combining Investment Trust Funds

Investment trust funds account for the portion of cash and investment pools managed by the Oregon State Treasury belonging to entities other than the State.

Short Term Investment Trust Fund

This fund is an investment trust fund, accounting for the portion of the Oregon Short-Term Fund (OSTF) belonging to entities other than the State. The OSTF is a cash and investment pool, managed by the Oregon State Treasury, which is available for use by all funds and local governments. Oregon reports the State's portion of this pool within the funds of the State

Intermediate Term Investment Trust Fund

This fund is an investment trust fund, accounting for the portions of the Oregon Intermediate Term Pool (OITP) belonging to entities other than the State. The OITP is an intermediate term fixed income investment vehicle managed by the Oregon State Treasury, participants include several state agencies, some discretely presented component units and one non-agency entity. State agencies have the opportunity to participate in the OITP subject to application requiring evidence of statutory authority to invest in the OITP and subsequent approval by the Oregon State Treasury. Oregon reports the State's portion of this pool within the funds of the State.

**Combining Statement of Fiduciary Net Position
Investment Trust Funds
June 30, 2016
(In Thousands)**

	Short Term Investment Trust	Intermediate Term Investment Trust	Total
ASSETS			
Cash and Cash Equivalents	\$ 5,801,998	\$ 776	\$ 5,802,774
Investments:			
Fixed Income	-	31,580	31,580
Total Investments	-	31,580	31,580
Securities Lending Collateral	120,775	1,946	122,721
Receivables:			
Interest and Dividends	9,751	142	9,893
Investment Sales	37,730	-	37,730
Total Receivables	47,481	142	47,623
Total Assets	5,970,254	34,444	6,004,698
LIABILITIES			
Accounts and Interest Payable	21,064	-	21,064
Obligations Under Securities Lending	120,775	1,946	122,721
Total Liabilities	141,839	1,946	143,785
NET POSITION			
Restricted - Held in Trust for:			
External Investment Pool Participants	5,828,415	32,498	5,860,913
Total Net Position	\$ 5,828,415	\$ 32,498	\$ 5,860,913

State of Oregon

**Combining Statement of Changes in Fiduciary Net Position
Investment Trust Funds
For the Year Ended June 30, 2016
(In Thousands)**

	Short Term Investment Trust	Intermediate Term Investment Trust	Total
ADDITIONS			
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	\$ 8,853	\$ 413	\$ 9,266
Interest, Dividends, and Other Investment Income	55,430	576	56,006
Total Investment Income	64,283	989	65,272
Less Investment Expense	3,728	19	3,747
Net Investment Income	60,555	970	61,525
Share Transactions:			
Participant Contributions	14,987,174	-	14,987,174
Participant Withdrawals	14,684,362	-	14,684,362
Net Share Transactions	302,812	-	302,812
Total Additions	363,367	970	364,337
DEDUCTIONS			
Distribution to Participants	44,048	-	44,048
Total Deductions	44,048	-	44,048
Change in Net Position Held in Trust For:			
External Investment Pool Participants	319,319	970	320,289
Net Position - Beginning	5,450,539	31,528	5,482,067
Prior Period Adjustments	58,557	-	58,557
Net Position - Beginning - As Restated	5,509,096	31,528	5,540,624
Net Position - Ending	\$ 5,828,415	\$ 32,498	\$ 5,860,913

Agency Fund

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

Combining Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2016

(In Thousands)

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
ASSETS				
Custodial Assets	\$ 1,357,005	\$ 2,297,506	\$ 2,240,172	\$ 1,414,339
Accounts and Interest Receivable	4,565	2,678	1,974	5,269
Net Contracts, Notes, and Other Receivables	71,354	23,445	19,962	74,836
Receivership Assets	66,818	-	2,365	64,453
Total Assets	\$ 1,499,742	\$ 2,323,629	\$ 2,264,473	\$ 1,558,898
LIABILITIES				
Accounts and Interest Payable	\$ 3	\$ 894,999	\$ 894,999	\$ 3
Due to Other Governments	6,697	6,986	6,697	6,986
Custodial Liabilities	1,493,042	1,834,718	1,775,850	1,551,909
Total Liabilities	\$ 1,499,742	\$ 2,736,702	\$ 2,677,546	\$ 1,558,898

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Nonmajor Discretely Presented 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. 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.

Oregon Health and Science University

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. OHSU uses proprietary fund accounting principles.

Western Oregon University, Southern Oregon University, Eastern Oregon University, and the Oregon Institute of Technology

Pursuant to Senate Bill (SB) 270, passed by the Oregon Legislature during fiscal year 2013, Western Oregon University (WOU), Southern Oregon University (SOU), Eastern Oregon University (EOU), and Oregon Institute of Technology (OIT) are each an independent public body legally separate from the State as of July 1, 2015. These four universities join University of Oregon (UO), Oregon State University (OSU), and Portland State University (PSU) which became independent public bodies legally separate from the State the year before. Each university is governed by a citizen board appointed by the Governor. The universities are primarily financed through student tuition and fees, sales and services of auxiliary enterprises, and federal, state, and local grants and contracts. The financial information presented for the universities include the related university's foundation. These universities also receive General Fund moneys from the State and use proprietary fund accounting principles.

Oregon University System Foundations

As of July 1, 2015, the Oregon University System (OUS) Foundations are no longer being reported as a separate component unit. These foundations qualify as discretely presented component units of the individual universities. In accordance with generally accepting accounting principles for governments, the State has reported as its discretely presented component unit the consolidated balances and activities of the university and foundation, net of any entries to eliminate balances and activities between the university and its foundation.

State Fair Council

The State Fair Council is a newly formed independent public corporation, charged with creating a new, sustainable business model for the Oregon State Fair and Exposition Center that can capitalize on sponsorships, rapidly changing market conditions, and streamlined contracting and employment practices. The State Fair Council is a governmental entity performing governmental functions and exercising governmental powers. The Governor appoints members of the Council, and may remove them at will. It is financed primarily through fees for renting the fairground property and facilities and operating the annual Oregon State Fair. The State Fair Council completed its first year of operations on December 31, 2015, and that financial information is included in this report.

Oregon Affordable Housing Assistance Corporation

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 (OHCS) 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 OHCS.

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

State of Oregon

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. OAHAC reports on a fiscal year ended December 31 and has adopted ASC 958. The December 31, 2015, financial information of OAHAC is included in this report.

State of Oregon

Combining Statement of Net Position
Nonmajor Discretely Presented Component Units
June 30, 2016
(In Thousands)

	Oregon Health and Science University	Western Oregon University	Southern Oregon University
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 325,650	\$ 11,054	\$ 4,633
Cash and Cash Equivalents - Restricted	173,929	-	-
Investments	239,189	-	24,124
Securities Lending Collateral	-	1,829	1,019
Accounts and Interest Receivable (net)	414,943	7,970	4,766
Pledges, Contributions, and Grants Receivable (net)	67,721	-	392
Due from Other Governments	3,676	-	-
Due from Primary Government	31,812	5,049	723
Inventories	25,232	1,137	157
Prepaid Items	32,135	158	153
Total Current Assets	1,314,286	27,197	35,967
Noncurrent Assets:			
Cash and Cash Equivalents - Restricted	42,024	2,479	3,503
Investments	696,303	-	-
Investments - Restricted	541,740	46,087	20,465
Advances to Primary Government	-	-	13,700
Net Contracts, Notes, and Other Receivables	34,503	2,911	3,591
Pledges, Contributions, and Grants Receivable (net)	548,921	-	1,143
Other Assets	7,099	-	4
Capital Assets:			
Land	81,334	4,873	4,675
Buildings, Property, and Equipment	3,052,293	169,446	182,404
Construction in Progress	113,049	14,417	3,289
Infrastructure	-	5,979	2,995
Works of Art and Other Nondepreciable Assets	-	687	2,434
Less Accumulated Depreciation and Amortization	(1,598,019)	(83,302)	(95,624)
Total Noncurrent Assets	3,519,246	163,577	142,579
Total Assets	4,833,532	190,774	178,546
DEFERRED OUTFLOWS OF RESOURCES			
Hedging Derivatives	14,327	-	-
Loss on Refunding	26,720	-	-
Related to Pensions	43,666	3,394	2,527
Total Deferred Outflows of Resources	84,713	3,394	2,527

State of Oregon

Eastern Oregon University	Oregon Institute of Technology	State Fair Council	Oregon Affordable Housing Assistance Corporation	Total
\$ 5,938	\$ 8,324	\$ 1,068	\$ 16,633	\$ 373,300
-	-	-	-	173,929
-	-	3,118	-	266,431
636	1,241	-	-	4,725
3,936	3,905	67	-	435,587
-	-	-	-	68,113
-	-	-	-	3,676
91	595	-	-	38,270
5	118	-	-	26,649
32	1,739	9	201	34,427
10,638	15,922	4,261	16,834	1,425,105
918	1,282	-	-	50,206
-	-	-	-	696,303
22,946	43,428	-	-	674,666
-	-	-	-	13,700
1,053	2,061	-	22,828	66,947
474	756	-	-	551,294
-	19	-	-	7,122
2,096	5,352	-	-	98,330
132,825	136,948	-	-	3,673,916
-	2,001	-	-	132,756
2,423	20,508	-	-	31,905
341	1,161	-	-	4,623
(62,602)	(72,001)	-	-	(1,911,548)
100,474	141,515	-	22,828	4,090,219
111,112	157,437	4,261	39,661	5,515,323
-	-	-	-	14,327
-	-	-	-	26,720
1,570	1,483	-	-	52,640
1,570	1,483	-	-	93,687

(continued on next page)

State of Oregon

Combining Statement of Net Position
Nonmajor Discretely Presented Component Units
June 30, 2016
(In Thousands)
(continued from previous page)

	Oregon Health and Science University	Western Oregon University	Southern Oregon University
LIABILITIES			
Current Liabilities:			
Accounts and Interest Payable	255,956	11,890	6,657
Obligations Under Securities Lending	-	1,829	1,019
Due to Other Governments	3,920	-	-
Due to Primary Government	214	2,754	2,053
Unearned Revenue	131,558	2,591	3,285
Compensated Absences Payable	78,454	1,652	1,581
Claims and Judgments Payable	30,576	-	-
Custodial Liabilities	-	256	1,143
Contracts, Mortgages, and Notes Payable	3,522	145	252
Bonds/COPs Payable	13,626	-	-
Obligations Under Capital Lease	881	-	95
Total Current Liabilities	518,706	21,117	16,085
Noncurrent Liabilities:			
Obligations Under Life Income Agreements	24,830	1,035	485
Compensated Absences Payable	-	297	318
Claims and Judgments Payable	31,890	-	-
Custodial Liabilities	66,826	-	-
Contracts, Mortgages, and Notes Payable	26,850	3,893	4,134
Net Pension Liability	283,043	13,285	11,423
Bonds/COPs Payable	871,022	-	-
Obligations Under Capital Lease	4,284	-	48
Advances from Primary Government	35,921	54,973	42,576
Net OPEB Obligation	8,652	1,056	994
Derivative Instrument Liabilities	19,153	-	-
Total Noncurrent Liabilities	1,372,471	74,539	59,978
Total Liabilities	1,891,177	95,656	76,063
DEFERRED INFLOWS OF RESOURCES			
Gain on Refunding	2,951	-	-
Related to Pensions	59,180	3,235	2,781
Total Deferred Inflows of Resources	62,131	3,235	2,781
Net Position			
Net Investment in Capital Assets	876,150	55,989	70,288
Restricted-Nonexpendable	217,782	8,143	21,666
Restricted for:			
Education	875,160	11,659	10,368
Debt Service	-	478	368
Capital Projects	-	1,871	803
Unrestricted	995,845	17,137	(1,264)
Total Net Position	\$ 2,964,937	\$ 95,277	\$ 102,229

State of Oregon

Eastern Oregon University	Oregon Institute of Technology	State Fair Council	Oregon Affordable Housing Assistance Corporation	Total
4,497	6,150	105	107	285,362
636	1,241	-	-	4,725
-	-	-	22,727	26,647
1,536	1,756	-	100	8,413
1,766	4,219	168	16,727	160,314
1,000	1,004	-	-	83,691
-	-	-	-	30,576
231	106	11	-	1,747
112	236	-	-	4,267
-	-	-	-	13,626
6	-	-	-	982
9,784	14,712	284	39,661	620,349
-	99	-	-	26,449
91	399	-	-	1,105
-	-	-	-	31,890
-	-	-	-	66,826
2,029	1,768	-	-	38,674
6,294	6,027	-	-	320,072
-	-	-	-	871,022
9	-	-	-	4,341
23,356	39,451	1,015	-	197,292
595	594	-	-	11,891
-	-	-	-	19,153
32,374	48,338	1,015	-	1,588,715
42,158	63,050	1,299	39,661	2,209,064
-	-	-	-	2,951
1,532	1,467	-	-	68,195
1,532	1,467	-	-	71,146
49,463	54,361	-	-	1,106,251
7,523	9,064	-	-	264,178
7,009	8,234	-	-	912,430
253	278	-	-	1,377
57	406	-	-	3,137
4,687	22,060	2,962	-	1,041,427
\$ 68,992	\$ 94,403	\$ 2,962	\$ -	\$ 3,328,800

State of Oregon

Combining Statement of Revenues, Expenses, and Changes in Net Position
Nonmajor Discretely Presented Component Units
For the Year Ended June 30, 2016
(In Thousands)

	Oregon Health and Science University	Western Oregon University	Southern Oregon University
Operating Revenues:			
Federal Revenue	\$ -	\$ 10,744	\$ 1,395
Charges for Services	2,181,367	30,065	27,602
Rents and Royalties	-	-	-
Sales	-	21,307	16,633
Gifts, Grants, and Contracts	914,597	3,689	7,400
Other Revenues	123,649	2,258	1,364
Total Operating Revenues	3,219,613	68,063	54,394
Operating Expenses:			
Salaries and Wages	1,829,586	78,326	64,762
Services and Supplies	903,940	19,588	24,188
Mortgage Assistance Payments	-	-	-
Bond and COP Interest	34,632	-	-
Depreciation and Amortization	143,340	5,913	4,614
Special Payments	-	8,021	5,917
Total Operating Expenses	2,911,498	111,848	99,481
Operating Income (Loss)	308,115	(43,785)	(45,087)
Nonoperating Revenues (Expenses):			
Investment Income	11,265	899	789
State Appropriations	35,567	23,570	21,154
Other Grants	-	13,773	10,675
Gain/(Loss) on Disposition of Assets	-	264	(455)
Other Interest Expense	-	(2,551)	(1,450)
Other	352	199	690
Total Nonoperating Revenues (Expenses)	47,184	36,154	31,403
Income (Loss) Before Capital Contributions	355,299	(7,631)	(13,684)
Capital Contributions	35,119	14,574	4,064
Special and Extraordinary Items:			
Special Item	-	37,257	57,599
Total Special and Extraordinary Items	-	37,257	57,599
Change in Net Position	390,418	44,200	47,979
Net Position - Beginning	2,574,519	51,077	54,250
Net Position - Ending	\$ 2,964,937	\$ 95,277	\$ 102,229

State of Oregon

Eastern Oregon University	Oregon Institute of Technology	Oregon University System Foundations	State Fair Council	Oregon Affordable Housing Assistance Corporation	Total
\$ 2,046	\$ 674	\$ -	\$ -	\$ -	\$ 14,859
15,545	23,947	-	-	-	2,278,526
-	-	-	741	-	741
5,595	8,639	-	4,873	-	57,047
1,974	4,907	-	-	-	932,567
334	308	-	-	17,492	145,405
25,494	38,475	-	5,614	17,492	3,429,145
37,180	48,193	-	404	-	2,058,451
11,831	14,044	-	5,294	-	978,885
-	-	-	-	17,492	17,492
-	-	-	-	-	34,632
3,983	4,713	-	-	-	162,563
4,761	4,637	-	-	-	23,336
57,755	71,587	-	5,697	17,492	3,275,358
(32,261)	(33,112)	-	(83)	-	153,787
89	(311)	-	13	-	12,744
20,489	25,365	-	-	-	126,145
6,799	6,810	-	-	-	38,057
(29)	3,174	-	-	-	2,954
(1,495)	(2,266)	-	-	-	(7,762)
(32)	10	-	8	-	1,227
25,821	32,782	-	21	-	173,365
(6,440)	(330)	-	(62)	-	327,152
2,255	2,111	-	3,025	-	61,148
44,066	43,626	(76,538)	-	-	106,010
44,066	43,626	(76,538)	-	-	106,010
39,881	45,407	(76,538)	2,962	-	494,309
29,111	48,996	76,538	-	-	2,834,491
\$ 68,992	\$ 94,403	\$ -	\$ 2,962	\$ -	\$ 3,328,800

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Statistical Section

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Statistical Section Index

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

Financial Trends

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

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

Revenue Capacity

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

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

Debt Capacity

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

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

Demographic and Economic Information

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

Schedule 13	Demographic and Economic Indicators
Schedule 14	Employment by Industry

Operating Information

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

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

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

Schedule 1
NET POSITION BY COMPONENT
 Last Ten Fiscal Years (In Thousands)
 (Accrual Basis of Accounting)

	2007	2008	2009	2010
Governmental Activities				
Net Investment in Capital Assets	\$ 8,696,793	\$ 8,554,126	\$ 9,094,498	\$ 8,672,407
Restricted	1,098,817	950,491	1,126,942	1,287,403
Unrestricted	1,077,586	954,809	(99,401)	(82,337)
Total Governmental Activities Net Position	\$ 10,873,196	\$ 10,459,426	\$ 10,122,039	\$ 9,877,473
Business-type Activities				
Net Investment in Capital Assets	\$ 756,814	\$ 807,968	\$ 897,150	\$ 977,224
Restricted	2,998,195	3,177,420	2,399,089	556,589
Unrestricted	640,968	656,919	677,037	2,201,451
Total Business-type Activities Net Position	\$ 4,395,977	\$ 4,642,307	\$ 3,973,276	\$ 3,735,264
Primary Government				
Net Investment in Capital Assets	\$ 9,453,607	\$ 9,362,094	\$ 9,991,648	\$ 9,649,631
Restricted	4,097,012	4,127,911	3,526,031	1,843,992
Unrestricted	1,718,554	1,611,728	577,636	2,119,114
Total Primary Government Net Position	\$ 15,269,173	\$ 15,101,733	\$ 14,095,315	\$ 13,612,737

State of Oregon

2011	2012	2013	2014	2015	2016
\$ 8,107,685	\$ 8,888,097	\$ 10,636,687	\$ 9,982,055	\$ 11,116,322	\$ 9,563,039
2,582,708	3,143,955	2,794,989	3,494,851	3,812,040	4,052,223
138,387	(840,528)	(1,488,172)	(1,077,265)	(3,243,523)	(2,937,300)
<hr/>					
\$ 10,828,780	\$ 11,191,524	\$ 11,943,504	\$ 12,399,641	\$ 11,684,839	\$ 10,677,962
<hr/>					
\$ 1,195,629	\$ 1,383,060	\$ 1,383,562	\$ 1,443,136	\$ 633,944	\$ 612,107
670,672	505,991	549,486	578,740	311,509	222,398
2,378,452	2,778,815	3,084,564	3,613,692	3,205,302	4,233,276
<hr/>					
\$ 4,244,753	\$ 4,667,866	\$ 5,017,612	\$ 5,635,568	\$ 4,150,755	\$ 5,067,782
<hr/>					
\$ 9,303,314	\$ 10,271,157	\$ 12,020,249	\$ 11,425,191	\$ 11,750,266	\$ 10,175,146
3,253,380	3,649,946	3,344,475	4,073,591	4,123,549	4,274,621
2,516,839	1,938,287	1,596,392	2,536,427	(38,221)	1,295,976
<hr/>					
\$ 15,073,533	\$ 15,859,390	\$ 16,961,116	\$ 18,035,209	\$ 15,835,594	\$ 15,745,743
<hr/>					

Schedule 2
CHANGES IN NET POSITION
Last Ten Fiscal Years (In Thousands)
(Accrual Basis of Accounting)

	2007	2008	2009	2010
Expenses				
Governmental activities:				
Education	\$ 3,761,800	\$ 4,174,928	\$ 4,224,991	\$ 4,303,106
Human Services	4,814,964	5,316,540	6,057,047	6,861,998
Public Safety	1,023,202	1,183,931	1,185,507	1,199,579
Economic and Community Development	335,103	355,133	397,032	455,453
Natural Resources	580,778	613,329	658,553	593,122
Transportation	1,709,786	2,251,391	2,249,632	1,858,705
Consumer and Business Services	340,266	461,015	408,803	463,489
Administration	467,931	570,903	470,583	474,624
Legislative	36,660	39,142	44,683	33,012
Judicial	286,460	311,828	307,916	308,574
Interest on Long-term Debt	265,100	315,530	297,308	299,467
Total governmental activities expenses	13,622,050	15,593,670	16,302,055	16,851,129
Business-type activities:				
Housing and Community Services	98,683	100,706	91,010	84,337
Veterans' Loan	53,279	46,652	26,855	19,685
Lottery Operations	564,110	573,203	537,332	518,076
Unemployment Compensation	546,970	687,363	1,875,259	3,020,372
University System	1,893,227	1,808,424	1,948,793	2,003,668
State Hospitals	184,513	203,818	215,576	222,311
Liquor Control	284,298	307,380	314,563	312,980
Other Business-type Activities	76,911	75,134	87,977	89,505
Total business-type activities expenses	3,701,991	3,802,680	5,097,365	6,270,934
Total primary government expenses	\$ 17,324,041	\$ 19,396,350	\$ 21,399,420	\$ 23,122,063
Program Revenues				
Governmental activities:				
Charges for Services:				
Human Services	\$ 215,222	\$ 230,058	\$ 250,524	\$ 237,722
Public Safety	48,170	67,869	94,613	75,511
Natural Resources	325,638	300,685	282,380	313,587
Transportation	104,830	153,423	138,400	115,507
Consumer and Business Services	239,561	258,299	313,602	276,359
Administration	230,328	282,977	111,537	107,625
Judicial	132,447	136,327	158,736	145,548
Other governmental activities	32,829	32,467	28,662	37,507
Operating Grants and Contributions	5,097,007	5,162,489	6,017,307	7,691,076
Capital Grants and Contributions	21,718	27,611	86,563	45,398
Total governmental activities program revenues	6,447,750	6,652,205	7,482,324	9,045,840

State of Oregon

	2011	2012	2013	2014	2015	2016
\$	3,979,440	\$ 4,061,791	\$ 3,883,592	\$ 4,420,704	\$ 4,693,469	\$ 5,588,674
	7,535,059	8,186,498	8,459,678	9,880,251	11,556,800	12,516,784
	1,180,405	1,235,617	1,256,086	1,300,085	1,179,299	1,683,095
	480,196	416,683	423,191	385,464	375,497	444,564
	629,222	619,535	637,929	724,185	661,438	845,601
	1,566,210	1,394,815	1,407,506	1,555,822	1,437,587	1,614,231
	424,534	263,541	403,725	283,039	204,614	364,373
	376,821	349,555	305,791	404,182	684,677	450,111
	37,801	34,839	40,828	37,234	39,621	48,293
	313,886	326,803	311,401	340,313	331,253	455,749
	351,713	367,826	331,531	347,010	321,032	403,769
	<u>16,875,287</u>	<u>17,257,503</u>	<u>17,461,258</u>	<u>19,678,289</u>	<u>21,485,287</u>	<u>24,415,243</u>
	78,194	75,879	67,918	56,473	49,422	48,060
	19,365	18,628	-	-	-	18,531
	510,401	534,018	494,337	493,652	522,185	595,692
	2,306,502	1,729,355	1,236,639	831,914	573,992	547,309
	2,146,867	2,300,493	2,412,100	2,505,392	351,959	-
	248,072	270,793	253,960	278,804	269,549	399,766
	325,410	344,540	367,141	384,491	400,683	424,939
	269,217	268,659	324,463	306,212	362,326	315,720
	<u>5,904,028</u>	<u>5,542,365</u>	<u>5,156,558</u>	<u>4,856,938</u>	<u>2,530,116</u>	<u>2,350,017</u>
\$	<u>22,779,315</u>	<u>22,799,868</u>	<u>22,617,816</u>	<u>24,535,227</u>	<u>24,015,403</u>	<u>26,765,259</u>
\$	289,686	\$ 531,658	\$ 639,524	\$ 615,829	\$ 581,530	\$ 711,764
	80,842	141,432	59,551	85,549	67,756	80,479
	285,394	306,336	301,196	335,198	337,857	394,169
	138,383	140,219	147,234	171,154	161,937	163,195
	270,467	69,000	124,698	126,482	114,971	143,591
	115,365	96,006	91,626	92,358	130,508	179,412
	185,523	99,052	197,966	33,722	131,951	154,534
	38,068	42,502	63,009	44,347	87,253	78,511
	8,324,841	7,400,703	7,816,666	9,055,464	10,371,663	10,797,377
	97,682	37,134	30,663	17,766	17,615	18,426
	<u>9,826,251</u>	<u>8,864,042</u>	<u>9,472,133</u>	<u>10,577,869</u>	<u>12,003,041</u>	<u>12,721,458</u>

(continued on next page)

Schedule 2
CHANGES IN NET POSITION
Last Ten Fiscal Years (In Thousands)
(Accrual Basis of Accounting)
 (continued from previous page)

	2007	2008	2009	2010
Business-type activities:				
Charges for Services:				
Lottery Operations	1,203,821	1,229,486	1,100,228	1,027,735
Unemployment Compensation	676,838	638,186	662,346	859,790
University System	887,183	954,039	1,003,897	1,156,843
Liquor Control	379,741	406,421	418,559	425,374
Other Business-type Activities	217,402	213,758	236,151	267,585
Operating Grants and Contributions	891,998	664,179	1,064,383	2,238,266
Capital Grants and Contributions	-	-	87,425	108,257
Total business-type activities program revenues	4,256,983	4,106,069	4,572,989	6,083,850
Total primary government program revenues	\$ 10,704,733	\$ 10,758,274	\$ 12,055,313	\$ 15,129,690
Net (Expense)/Revenue				
Governmental activities	\$ (7,174,300)	\$ (8,941,465)	\$ (8,819,731)	\$ (7,805,289)
Business-type activities	554,992	303,389	(524,376)	(187,084)
Total primary government net expense	\$ (6,619,308)	\$ (8,638,076)	\$ (9,344,107)	\$ (7,992,373)
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes:				
Personal Income Taxes	\$ 4,486,068	\$ 6,102,900	\$ 5,182,743	\$ 4,958,569
Corporate Income Taxes	518,260	448,010	253,685	387,639
Tobacco Taxes	276,419	254,524	250,243	250,135
Healthcare Provider Taxes	128,199	154,460	143,535	192,077
Inheritance Taxes	81,068	116,186	77,622	91,845
Public Utilities Taxes	84,455	89,621	88,295	80,790
Insurance Premium Taxes	55,463	42,721	46,952	70,291
Marijuana Taxes	N/A	N/A	N/A	N/A
Other Taxes	106,101	123,907	140,726	144,931
Motor Fuels and Other Vehicle Taxes	N/A	N/A	N/A	N/A
Motor Fuels Taxes	416,792	413,858	399,048	406,179
Weight Mile Taxes	256,000	237,296	210,055	208,573
Vehicle Registration Taxes	205,205	201,245	185,202	245,699
Workers' Compensation Insurance Taxes	47,745	40,733	36,635	30,065
Employer-Employee Taxes	77,504	76,576	71,119	65,977
Unrestricted Investment Earnings	90,210	81,815	17,717	3,193
Contributions to Permanent Fund	4,192	-	259	288
Capital Contributions	2,853	4,482	-	-
Special Items	-	-	-	-
Transfers	214,557	154,510	157,663	129,016
Total governmental activities	7,051,091	8,542,844	7,261,499	7,265,267
Business-type activities:				
Other Taxes	15,203	16,086	16,340	16,754
Capital Contributions	3,615	71,716	-	-
Additions to Permanent Endowments	70	-	-	-
Special Items	-	-	-	-
Transfers	(214,557)	(154,510)	(157,663)	(129,016)
Total business-type activities	(195,669)	(66,708)	(141,323)	(112,262)
Total primary government	\$ 6,855,422	\$ 8,476,136	\$ 7,120,176	\$ 7,153,005
Change in Net Position				
Governmental activities	\$ (123,209)	\$ (398,621)	\$ (1,558,232)	\$ (540,022)
Business-type activities	359,323	236,681	(665,699)	(299,346)
Total primary government	\$ 236,114	\$ (161,940)	\$ (2,223,931)	\$ (839,368)

State of Oregon

2011	2012	2013	2014	2015	2016
1,038,805	1,050,315	1,069,064	1,052,945	1,117,175	1,229,979
1,022,592	1,083,438	1,092,890	1,064,234	1,009,913	952,114
1,288,143	1,356,609	1,438,948	1,527,836	156,824	-
443,120	470,421	502,919	524,218	550,405	577,662
431,470	436,945	452,345	428,344	475,414	426,497
1,986,426	1,621,254	1,139,888	851,199	181,961	131,900
60,081	36,770	60,048	158,927	7,584	540
6,270,637	6,055,752	5,756,102	5,607,703	3,499,276	3,318,692
\$ 16,096,888	\$ 14,919,794	\$ 15,228,235	\$ 16,185,572	\$ 15,502,317	\$ 16,040,150
\$ (7,049,036)	\$ (8,393,461)	\$ (7,989,125)	\$ (9,100,420)	\$ (9,482,246)	\$ (11,693,785)
366,609	513,387	599,544	750,765	969,160	968,675
\$ (6,682,427)	\$ (7,880,074)	\$ (7,389,581)	\$ (8,349,655)	\$ (8,513,086)	\$ (10,725,111)
\$ 5,597,821	\$ 5,901,448	\$ 6,320,497	\$ 6,596,708	\$ 7,292,582	\$ 7,611,745
502,862	440,444	463,012	506,889	595,327	633,871
258,453	249,388	254,483	260,882	266,831	270,199
233,826	423,951	414,267	485,584	569,831	607,485
80,482	102,351	99,318	N/A	N/A	N/A
71,939	72,310	85,781	N/A	N/A	N/A
90,085	94,583	103,251	85,196	58,193	65,903
N/A	N/A	N/A	N/A	N/A	28,586
119,882	156,256	186,038	380,783	384,585	378,602
N/A	N/A	N/A	1,053,611	1,096,505	1,143,173
449,462	492,188	487,308	N/A	N/A	N/A
240,056	260,091	251,518	N/A	N/A	N/A
275,344	281,799	282,857	N/A	N/A	N/A
34,942	53,669	50,242	54,126	54,957	58,192
69,429	71,977	72,861	91,343	91,232	95,866
3,306	11,157	4,917	5,516	7,374	12,164
14	76	228	297	518	39
-	-	-	-	-	-
-	-	-	-	(3,276)	-
(62,910)	125,915	107,437	133,008	285,417	(230,618)
7,964,993	8,737,603	9,184,015	9,653,943	10,700,076	10,675,206
16,204	16,893	16,388	17,584	17,689	18,286
-	-	-	-	-	-
-	159	241	776	-	-
-	-	-	-	(1,956,089)	(335,632)
62,910	(125,915)	(107,437)	(133,008)	(285,417)	230,618
79,114	(108,863)	(90,808)	(114,648)	(2,223,817)	(86,727)
\$ 8,044,107	\$ 8,628,740	\$ 9,093,207	\$ 9,539,295	\$ 8,476,259	\$ 10,588,479
\$ 915,957	\$ 344,142	\$ 1,194,890	\$ 553,523	\$ 1,217,830	\$ (1,018,580)
445,723	404,524	508,736	636,117	(1,254,657)	881,948
\$ 1,361,680	\$ 748,666	\$ 1,703,626	\$ 1,189,640	\$ (36,827)	\$ (136,632)

Schedule 3
FUND BALANCE – GOVERNMENTAL FUNDS
 Last Ten Fiscal Years (In Thousands)
 (Modified Accrual Basis of Accounting)

	2007	2008	2009	2010
General Fund				
Reserved	\$ 70,317	\$ 202,823	\$ 29,040	\$ 35,403
Unreserved	113,579	1,095	(333,796)	(542,747)
Total General Fund	<u>\$ 183,896</u>	<u>\$ 203,918</u>	<u>\$ (304,756)</u>	<u>\$ (507,344)</u>

All Other Governmental Funds				
Reserved	\$ 953,764	\$ 1,180,823	\$ 1,082,369	\$ 1,429,016
Unreserved, reported in:				
Special revenue funds	3,658,675	3,446,971	3,523,322	3,544,868
Capital projects fund	47,930	23,218	130,498	50,420
Permanent fund	6,691	8,067	3,788	4,984
Total all other governmental funds	<u>\$ 4,667,060</u>	<u>\$ 4,659,079</u>	<u>\$ 4,739,977</u>	<u>\$ 5,029,288</u>

	2011	2012	2013	2014
General Fund				
Nonspendable	\$ 79,891	\$ 33,361	\$ 20,361	\$ 24,430
Restricted	36,882	109,458	106,241	255,539
Committed	10,400	61,534	83,083	92,978
Assigned	7,864	-	-	1,327
Unassigned	109,117	(162,867)	574,197	394,999
Total General Fund	<u>\$ 244,154</u>	<u>\$ 41,486</u>	<u>\$ 783,882</u>	<u>\$ 769,273</u>

All Other Governmental Funds				
Nonspendable	\$ 195,575	\$ 82,991	\$ 76,641	\$ 60,728
Restricted	3,974,045	3,988,266	3,582,344	4,132,949
Committed	503,597	545,040	515,440	586,296
Assigned	29,146	37,476	20,164	23,298
Unassigned	-	-	(46,516)	(18,237)
Total all other governmental funds	<u>\$ 4,702,363</u>	<u>\$ 4,653,773</u>	<u>\$ 4,148,073</u>	<u>\$ 4,785,034</u>

Note: Due to changes in the State's fund structure with the implementation of GASB Statement No. 54, fund balance information beginning with 2011 is no longer comparable to previous years. Refer to Note 1 for additional information.

2015	2016
\$ 20,139	\$ 25,020
358,784	505,844
226,081	395,319
5,164	12,793
675,921	663,658
<u>\$ 1,286,089</u>	<u>\$ 1,602,633</u>
\$ 68,229	\$ 67,251
4,452,289	5,655,799
614,287	658,467
24,444	45,171
(3,788)	(32)
<u>\$ 5,155,461</u>	<u>\$ 6,426,656</u>

Schedule 4
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
Last Ten Fiscal Years (In Thousands)
(Modified Accrual Basis of Accounting)

	2007	2008	2009	2010
Revenues				
Taxes	\$ 6,783,293	\$ 8,259,483	\$ 7,004,715	\$ 7,123,205
Licenses and Fees	407,044	438,508	450,855	486,159
Federal	4,670,353	4,973,781	6,044,251	7,413,272
Rebates and Recoveries	N/A	N/A	N/A	N/A
Charges for Services	249,069	307,778	269,196	275,885
Fines, Forfeitures, and Penalties	101,714	100,175	87,915	88,718
Rents and Royalties	15,092	18,185	15,779	14,428
Investment Income	438,158	168,314	(95,131)	198,153
Sales	127,808	125,282	107,427	106,400
Assessments	N/A	N/A	N/A	N/A
Donations and Grants	33,525	36,940	71,339	24,552
Contributions to Permanent Funds	4,192	-	259	288
Tobacco Settlement Proceeds	70,281	90,297	98,078	82,327
Foreclosure Settlement Proceeds	N/A	N/A	N/A	N/A
Pension Bond Debt Service Assessments	120,139	121,035	4,509	6,216
Unclaimed and Escheat Property Revenue	-	-	-	13,716
Other	328,888	354,518	345,339	298,061
Total Revenues	13,349,556	14,994,296	14,404,531	16,131,380
Expenditures				
Education	3,762,869	4,174,922	4,224,170	4,304,099
Human Services	4,825,597	5,347,990	6,120,267	7,031,421
Public Safety	1,016,728	1,175,881	1,170,452	1,177,382
Economic and Community Development	333,064	354,396	397,936	456,169
Natural Resources	603,695	629,624	658,484	600,470
Transportation	1,656,189	1,636,160	1,709,819	1,898,077
Consumer and Business Services	424,068	466,917	480,212	446,994
Administration	436,933	526,691	417,348	435,164
Legislative	35,711	37,456	39,977	32,036
Judicial	288,445	311,716	317,665	310,468
Capital Improvements/Construction	123,885	78,195	90,695	121,440
Debt Service:				
Principal	136,294	179,171	229,599	264,679
Interest	259,986	306,488	288,892	315,650
Other Debt Service	5,588	2,320	8,162	9,248
Total Expenditures	13,909,052	15,227,927	16,153,678	17,403,297
Excess of Revenues Over (Under) Expenditures	(559,496)	(233,631)	(1,749,147)	(1,271,917)
Other Financing Sources (Uses)				
Transfers from Other Funds	2,212,181	2,215,963	2,407,080	2,450,401
Transfers to Other Funds	(1,997,976)	(2,058,113)	(2,216,338)	(2,277,548)
Insurance Recoveries	3,718	4,046	5,002	2,476
Leases Incurred	-	134	17	558
Debt Issued	786,524	99,721	1,166,080	1,058,693
Refunding Debt Issued	200,745	14,310	33,997	106,354
Refunded Debt Payment to Escrow Agent	(210,383)	(15,036)	(35,261)	(182,531)
Total Other Financing Sources (Uses)	994,809	261,025	1,360,577	1,158,403
Special Items	-	-	-	-
Net Change in Fund Balances	\$ 435,313	\$ 27,394	\$ (388,570)	\$ (113,514)
Debt service as a percentage of noncapital expenditures	3.03%	3.24%	3.27%	3.55%

State of Oregon

	2011	2012	2013	2014	2015	2016
\$	7,952,882	\$ 8,570,880	\$ 8,969,867	\$ 9,542,069	\$ 10,460,831	\$ 10,899,473
	515,591	470,480	462,233	495,774	504,355	538,591
	7,971,721	7,251,929	7,480,379	8,623,136	10,166,298	10,553,352
	N/A	N/A	N/A	292,805	342,598	507,710
	289,562	372,361	356,418	250,738	229,578	239,976
	81,049	137,354	119,942	107,326	120,574	127,788
	14,930	15,645	16,258	17,293	17,312	17,435
	270,265	51,831	191,017	274,861	103,132	108,875
	97,178	91,906	105,796	124,071	126,601	136,989
	N/A	N/A	N/A	N/A	37,185	35,154
	57,757	24,135	32,694	44,372	50,342	38,610
	14	76	227	297	518	39
	77,426	78,940	78,909	86,924	76,600	80,239
	N/A	25,253	-	-	-	-
	5,608	5,681	6,196	N/A	N/A	N/A
	50,827	15,308	22,057	24,360	18,214	13,629
	342,268	440,679	429,523	281,831	222,011	280,196
	<u>17,727,078</u>	<u>17,552,458</u>	<u>18,271,516</u>	<u>20,165,857</u>	<u>22,476,149</u>	<u>23,578,059</u>
	3,978,423	4,062,244	3,884,393	4,421,231	4,702,795	5,572,518
	7,716,623	8,268,743	8,544,692	9,959,458	11,626,788	12,322,549
	1,158,601	1,219,852	1,241,057	1,289,232	1,281,050	1,425,482
	483,292	416,395	420,351	384,392	392,966	417,634
	656,626	623,461	647,606	685,357	750,784	758,592
	1,956,722	1,569,039	1,694,679	1,698,418	1,763,595	1,716,411
	463,899	281,556	269,701	299,925	288,066	298,410
	399,918	343,256	348,600	341,549	715,932	441,111
	36,058	33,289	39,405	36,319	42,923	38,984
	317,297	336,099	318,209	346,710	367,669	407,265
	127,409	129,337	88,583	73,976	66,071	61,522
	300,823	331,581	357,106	330,745	324,485	407,072
	354,718	350,874	338,645	339,476	322,091	431,197
	4,961	6,817	3,440	4,759	10,032	3,210
	<u>17,955,370</u>	<u>17,972,543</u>	<u>18,196,467</u>	<u>20,211,547</u>	<u>22,655,247</u>	<u>24,301,956</u>
	(228,292)	(420,085)	75,049	(45,690)	(179,098)	(723,897)
	2,813,236	2,361,835	2,809,301	2,223,916	2,434,341	3,811,108
	(2,607,036)	(2,232,819)	(2,679,360)	(2,054,506)	(2,024,246)	(1,813,474)
	3,140	676	2,224	1,839	2,502	6,027
	18	-	-	-	-	503
	425,955	265,197	155,311	596,488	740,191	341,923
	112,876	502,389	212,319	266,635	1,146,120	224,581
	(129,074)	(574,833)	(246,543)	(266,425)	(1,377,597)	(278,200)
	<u>619,115</u>	<u>322,445</u>	<u>253,252</u>	<u>767,947</u>	<u>921,311</u>	<u>2,292,468</u>
	-	-	-	-	(3,054)	-
\$	<u>390,823</u>	<u>\$ (97,640)</u>	<u>\$ 328,301</u>	<u>\$ 722,257</u>	<u>\$ 739,159</u>	<u>\$ 1,568,571</u>
	3.85%	3.95%	3.99%	3.42%	2.95%	3.55%

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

	2006	2007	2008	2009
Farm earnings	\$ 1,326,237	\$ 1,398,160	\$ 1,126,636	\$ 1,020,258
Forestry, fishing, and related activities	1,129,232	1,011,931	1,055,717	1,029,034
Mining	130,553	129,374	122,930	94,975
Utilities	510,218	302,034	604,700	483,531
Construction	7,612,273	7,833,358	7,435,549	5,946,642
Manufacturing	13,643,162	13,988,219	13,776,948	11,914,173
Wholesale trade	6,051,011	6,445,033	6,619,212	6,102,861
Retail trade	7,278,494	7,533,644	7,180,590	6,819,117
Transportation and warehousing	3,324,107	3,415,438	3,330,903	3,050,133
Information	2,563,602	2,793,218	2,861,022	2,765,794
Finance and insurance	4,854,558	4,924,136	4,708,225	4,740,755
Real estate, rental, and leasing	2,000,725	1,708,044	2,182,701	1,604,764
Professional, scientific, and technical	6,190,172	6,627,056	7,280,158	6,882,885
Management of companies	2,723,794	3,008,383	3,096,357	2,861,982
Administrative & waste mgmt. services	3,583,167	3,678,808	3,707,670	3,442,272
Educational services	1,110,017	1,130,279	1,216,709	1,301,260
Health care and social assistance	10,793,994	11,466,594	12,385,259	12,015,224
Arts, entertainment, and recreation	803,971	895,410	738,355	675,522
Accommodation and food services	3,113,921	3,307,649	3,271,658	3,020,208
Other services	3,946,171	3,988,201	3,797,295	3,690,415
Federal government, civilian	2,388,378	2,463,170	2,564,707	2,624,514
Military	449,638	453,307	485,682	551,319
State government	3,191,342	3,392,571	3,681,699	4,003,710
Local government	9,040,549	9,580,606	10,187,679	10,796,963
Other ¹	29,698,592	32,002,239	36,586,370	37,421,553
Total personal income	\$ 127,457,878	\$ 133,476,862	\$ 140,004,731	\$ 134,859,864
Overall effective tax rate ²	5.7%	5.7%	5.5%	5.5%

¹ Includes income from all sources other than wages, salaries, tips, etc.

² Overall effective tax rate equals tax as a percentage of adjusted gross income (AGI). Overall effective tax rate for 2015 will not be available until May 2017.

Source: US Department of Commerce, Bureau of Economic Analysis and the Oregon Department of Revenue.

State of Oregon

	2010	2011	2012	2013	2014	2015
\$	952,993	\$ 1,106,882	\$ 1,453,770	\$ 1,631,250	\$ 1,599,550	\$ 1,798,321
	1,168,132	1,127,787	1,280,090	1,271,800	1,325,312	1,417,099
	95,777	109,828	111,191	110,046	110,600	122,601
	635,566	783,679	656,970	644,982	648,147	624,266
	5,217,388	5,292,407	6,050,959	6,448,903	7,122,921	7,527,156
	12,310,825	13,031,038	13,973,777	14,121,185	14,570,977	15,587,529
	6,158,213	6,386,405	6,786,720	5,821,031	6,075,657	6,465,038
	6,955,417	7,058,217	7,390,719	7,594,951	7,899,578	8,319,801
	3,042,787	3,213,959	3,385,347	3,437,090	3,683,554	3,954,048
	2,684,059	2,781,609	2,911,610	2,886,909	3,103,619	3,410,243
	4,845,511	4,802,935	5,025,782	5,152,921	5,191,837	5,591,342
	1,099,683	999,697	1,407,793	1,643,477	1,874,795	2,238,620
	6,948,795	7,503,438	8,047,244	8,296,269	8,976,697	9,738,714
	2,852,488	2,974,872	3,135,188	4,838,927	5,194,012	5,986,383
	3,455,275	3,613,984	3,926,904	4,117,213	4,400,996	4,724,953
	1,340,724	1,403,256	1,554,339	1,569,929	1,613,065	1,673,119
	12,435,519	12,808,932	13,412,317	13,942,251	14,542,473	15,865,625
	703,485	889,548	1,013,485	1,036,094	1,137,303	1,185,211
	3,111,520	3,364,105	3,725,765	3,867,883	4,304,808	4,792,130
	3,733,811	3,848,025	4,151,958	4,202,947	4,503,993	4,784,801
	2,741,984	2,765,722	2,762,330	2,719,324	2,755,726	2,840,492
	539,235	509,568	477,452	461,634	435,085	423,355
	3,902,826	4,098,223	4,130,781	4,258,091	4,529,557	4,742,927
	11,189,671	11,515,110	11,430,894	11,435,540	11,966,380	12,562,151
	38,865,086	42,643,295	44,286,248	43,637,339	47,993,131	50,025,335
\$	136,986,770	\$ 144,632,521	\$ 152,489,633	\$ 155,147,986	\$ 165,559,773	\$ 176,401,260
	5.6%	5.6%	5.7%	5.8%	6.0%	N/A

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

Year	Top Rate	Top Income Tax Rate is Applied to Taxable Income in Excess of		Overall Effective Tax Rate ²
		Single & Married Filing Separately	Married/RDP ¹ Filing Jointly & Head of Household	
2006	9.0%	\$ 6,850	\$ 13,700	5.7%
2007	9.0%	7,150	14,300	5.7%
2008	9.0%	7,300	14,600	5.5%
2009	11.0% ³	250,000	500,000	5.5%
2010	11.0%	250,000	500,000	5.6%
2011	11.0%	250,000	500,000	5.6%
2012	9.9%	125,000	250,000	5.7%
2013	9.9%	125,000	250,000	5.8%
2014	9.9%	125,000	250,000	6.0%
2015	9.9%	125,000	250,000	N/A

¹ Registered Domestic Partners

² The overall effective tax rate equals tax as a percentage of adjusted gross income (AGI). The overall effective tax rate for 2015 will not be available until May 2017.

³ The increases in the top tax rate and applicable taxable income level beginning in 2009 are the result of passage of Oregon Measure 66 in January 2010. For tax year beginning 2012, the tax rate on households with income above \$250,000 (above \$125,000 for single filers) drops to 9.9 percent.

Source: Oregon Department of Revenue

Schedule 7
PERSONAL INCOME TAX FILERS AND TAX LIABILITY BY INCOME LEVEL
 Calendar Years 2005 and 2014
 (Dollars In Thousands)

2005

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$500,001 and higher	7,511	0.44%	\$ 860,744	17.98%
\$100,001–\$500,000	148,028	8.73%	1,600,433	33.43%
\$80,001–\$100,000	96,631	5.70%	487,738	10.19%
\$60,001–\$80,000	161,428	9.52%	583,274	12.19%
\$40,001–\$60,000	248,199	14.63%	594,867	12.43%
\$20,001–\$40,000	396,716	23.38%	500,161	10.45%
\$10,001–\$20,000	282,380	16.64%	128,521	2.68%
\$10,000 and lower	355,624	20.96%	31,046	0.65%
Total	1,696,517	100.00%	\$ 4,786,784	100.00%

2014

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$500,001 and higher	11,067	0.57%	\$ 1,137,148	17.17%
\$100,001–\$500,000	268,356	13.81%	2,937,944	44.36%
\$80,001–\$100,000	130,307	6.71%	629,404	9.50%
\$60,001–\$80,000	183,007	9.42%	646,550	9.76%
\$40,001–\$60,000	262,536	13.51%	623,869	9.42%
\$20,001–\$40,000	426,161	21.94%	504,585	7.62%
\$10,001–\$20,000	287,972	14.83%	116,487	1.77%
\$10,000 and lower	373,284	19.21%	26,449	0.40%
Total	1,942,690	100.00%	\$ 6,622,436	100.00%

Source: Oregon Department of Revenue

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the State's revenue. Tax year 2014 is the most current year available.

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

	2007	2008	2009	2010
Governmental Activities				
General Obligation Bonds	\$ 2,334,620	\$ 2,325,539	\$ 2,361,621	\$ 2,333,486
Revenue Bonds	2,098,181	2,040,137	2,770,290	3,326,393
Certificates of Participation	1,090,193	1,081,694	1,283,559	1,496,727
General Appropriation Bonds	383,655	351,958	296,002	235,916
Capital Leases	2,949	2,480	1,899	13,250
Business-type Activities				
General Obligation Bonds	2,065,472	2,271,016	2,335,703	2,265,774
Revenue Bonds	1,672,267	1,761,874	1,669,920	1,645,617
Certificates of Participation	31,589	31,320	97,097	120,933
Capital Leases	335	164	137	697
Total Primary Government	\$ 9,679,261	\$ 9,866,182	\$ 10,816,228	\$ 11,438,793
Percentage of Personal Income ¹	7.25%	7.05%	8.02%	8.35%
Per Capita ¹	\$ 2.60	\$ 2.62	\$ 2.84	\$ 2.98

¹ Ratios are calculated using personal income and population data found in Schedule 13.

Note: Details regarding the State's debt can be found in Notes 8 and 9 of the financial statements. Amounts of outstanding debt for bonds and certificates of participation represent the outstanding principal, net of discounts, premiums, and other adjustments.

State of Oregon

2011	2012	2013	2014	2015	2016
\$ 2,656,983	\$ 2,977,322	\$ 3,144,443	\$ 3,193,894	\$ 3,512,256	\$ 5,525,430
3,344,929	3,234,362	3,170,655	3,509,036	3,616,493	3,672,088
1,295,323	982,314	692,043	620,270	485,271	340,753
171,624	102,779	29,131	-	-	-
9,638	8,489	2,789	3,027	3,845	5,779
2,422,682	2,290,038	2,256,660	2,419,832	2,411,599	554,270
1,584,235	1,450,979	1,479,103	1,362,942	1,208,434	984,935
111,319	99,766	85,121	78,057	49,261	-
615	556	560	69	578	297
<u>\$ 11,597,348</u>	<u>\$ 11,146,605</u>	<u>\$ 10,860,505</u>	<u>\$ 11,187,127</u>	<u>\$ 11,287,737</u>	<u>\$ 11,083,552</u>
8.02%	7.31%	7.00%	6.76%	6.40%	5.99%
\$ 3.00	\$ 2.86	\$ 2.76	\$ 2.82	\$ 2.80	\$ 2.72

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

Year	General Obligation Bonds	Percentage of Personal Income ¹	Per Capita
2007	\$ 4,400,092	3.30%	\$ 1.18
2008	4,596,555	3.28%	1.22
2009	4,697,324	3.48%	1.23
2010	4,599,260	3.36%	1.20
2011	5,079,665	3.51%	1.31
2012	5,267,360	3.45%	1.35
2013	5,401,103	3.48%	1.38
2014	5,613,726	3.39%	1.41
2015	5,923,855	3.36%	1.47
2016	6,079,700	3.29%	1.49

¹ Ratios are calculated using personal income and population data found in Statistical Schedule 13.

Note: Details regarding the State's debt can be found in Notes 8 and 9 of the financial statements. Amounts of outstanding general bonded debt represent the outstanding principal, net of discounts, premiums, and other adjustments.

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Schedule 10
LEGAL DEBT MARGIN CALCULATION
For Fiscal Year 2016

	Constitutional/Statutory Provision	Constitutional Debt Limit ¹	Statutory Debt Limit
General Obligation Bonds			
General Purpose	Article XI Section 7	0.00%	\$ -
State Highway	Article XI Section 7	1.00%	-
Veterans' Welfare	Article XI-A	8.00%	-
State Power Development	Article XI-D	1.50%	-
Forest Rehabilitation	Article XI-E	0.19%	-
Higher Education	Article XI-F(1) & XI-G	1.50%	-
Pollution Control ²	Article XI-H/ORS 468.195	1.00%	260,000,000
Elderly and Disabled Housing	Article XI-I(2)	0.50%	-
Alternate Energy Projects	Article XI-J	0.50%	-
Oregon School Bond Guarantee	Article XI-K	0.50%	-
Oregon Opportunity Bonds (OHSU) ³	Article XI-L/ORS 353.556	0.50%	261,495,000
Seismic Rehab-Public Education Buildings	Article XI-M	0.20%	-
Seismic Rehab-Emergency Service Building	Article XI-N	0.20%	-
Pension Obligation	Article XI-O	1.00%	-
General Purpose GO's	Article XI-Q	1.00%	-
Revenue Bonds			
Highway User Tax	ORS 367.620	0.00%	3,240,000,000
Single and Multi-Family Housing Programs	ORS 456.661	0.00%	2,500,000,000

¹ Percentages listed are of Real Market Value (RMV) of all taxable real property in the State, based on the January 1, 2015, RMV of \$506,175,463,644.

² Issuance of Pollution Control bonds is limited by statute to \$260 million at any one time.

³ Bonds issued to finance capital costs of Oregon Health and Science University shall be in an aggregate principal amount that produces net proceeds in an amount that does not exceed \$200 million plus the amount of any costs and expenses of issuing the bonds.

Source: Oregon State Treasury, Debt Management Division, and Oregon Constitution

Note: The legal debt limit for lottery revenue bonds is based on the requirement that unobligated net lottery proceeds be at least 400 percent of the maximum annual debt service on outstanding bonds, including the estimated debt service on proposed new bonds. The debt limit for lottery bonds is not a specific dollar amount; the limit varies based on changes in estimated net lottery proceeds and changes in estimated debt service on proposed new bonds. Therefore, lottery revenue bonds are not included in this schedule.

State of Oregon

Legal Debt Limit	Amount Outstanding	Legal Debt Margin
\$ 50,000	\$ -	\$ 50,000
5,061,754,636	-	5,061,754,636
40,494,037,092	304,064,046	40,189,973,046
7,592,631,955	-	7,592,631,955
949,078,994	-	949,078,994
7,592,631,955	2,084,990,893	5,507,641,062
260,000,000	39,622,429	220,377,571
2,530,877,318	50,775,606	2,480,101,712
2,530,877,318	-	2,530,877,318
2,530,877,318	-	2,530,877,318
261,495,000	107,273,859	154,221,141
1,012,350,927	81,258,777	931,092,150
1,012,350,927	22,807,734	989,543,193
5,061,754,636	1,766,270,000	3,295,484,636
5,061,754,636	1,622,636,156	3,439,118,480
<u>\$ 81,952,522,712</u>	<u>\$ 6,079,699,500</u>	<u>\$ 75,872,823,212</u>
\$ 3,240,000,000	\$ 3,091,456,956	\$ 148,543,044
2,500,000,000	971,813,432	1,528,186,568
<u>\$ 5,740,000,000</u>	<u>\$ 4,063,270,389</u>	<u>\$ 1,676,729,612</u>

Schedule 11
LEGAL DEBT MARGIN INFORMATION
 Last Ten Fiscal Years
 (In Thousands)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Obligation Bonds				
Debt limit	\$ 72,505,925	\$ 83,591,921	\$ 87,606,697	\$ 83,182,525
Total debt applicable to limit	4,400,092	4,596,555	4,697,324	4,599,259
Legal debt margin	<u>\$ 68,105,833</u>	<u>\$ 78,995,366</u>	<u>\$ 82,909,373</u>	<u>\$ 78,583,266</u>
Total debt applicable to the limit as a percentage of debt limit	6.07%	5.50%	5.36%	5.53%
Revenue Bonds				
Debt limit	\$ 4,938,000	\$ 5,110,000	\$ 5,950,000	\$ 5,950,000
Total debt applicable to limit	3,051,456	3,086,639	3,728,117	4,229,615
Legal debt margin	<u>\$ 1,886,544</u>	<u>\$ 2,023,361</u>	<u>\$ 2,221,883</u>	<u>\$ 1,720,385</u>
Total debt applicable to the limit as a percentage of debt limit	61.80%	60.40%	62.66%	71.09%

Source: Oregon State Treasury, Debt Management Division, and state agencies' disclosures.

Note: Amounts of outstanding debt applicable to the debt limit represent the outstanding principal, net of discounts, premiums, and other adjustments.

State of Oregon

2011	2012	2013	2014	2015	2016
\$ 81,105,231	\$ 76,868,469	\$ 74,668,862	\$ 76,758,613	\$ 76,048,937	\$ 81,952,523
5,079,665	5,267,360	5,401,103	5,613,726	5,923,856	6,079,700
<u>\$ 76,025,566</u>	<u>\$ 71,601,109</u>	<u>\$ 69,267,759</u>	<u>\$ 71,144,887</u>	<u>\$ 70,125,081</u>	<u>\$ 75,872,823</u>
6.26%	6.85%	7.23%	7.31%	7.79%	7.42%
\$ 5,950,000	\$ 5,950,000	\$ 5,750,000	\$ 5,750,000	\$ 5,740,000	\$ 5,740,000
4,196,478	4,048,627	3,958,765	4,242,316	4,168,546	4,063,270
<u>\$ 1,753,522</u>	<u>\$ 1,901,373</u>	<u>\$ 1,791,235</u>	<u>\$ 1,507,684</u>	<u>\$ 1,571,454</u>	<u>\$ 1,676,730</u>
70.53%	68.04%	68.85%	73.78%	72.62%	70.79%

**Schedule 12
PLEGGED REVENUES
Last Ten Fiscal Years
(In Thousands)**

Lottery Revenue Bonds

Year	Revenues	Expenses	Interest Earnings on GICs ¹	Net Revenues Available for Debt Service	Debt Service Requirements			Coverage
					Principal	Interest	Total	
2007	\$1,219,556	\$577,103	\$ 3,536	\$ 645,989	\$ 48,970	\$ 25,984	\$ 74,954	8.62
2008	1,262,601	583,829	3,533	682,305	56,795	33,714	90,509	7.54
2009	1,111,945	543,662	3,257	571,540	65,985	32,380	98,365	5.81
2010	1,033,880	517,196	3,156	519,840	73,051	51,802	124,853	4.16
2011	1,039,710	514,350	3,156	528,516	75,850	51,601	127,451	4.15
2012	1,068,050	539,942	3,123	531,231	77,635	57,150	134,785	3.94
2013	1,065,255	495,524	3,013	572,744	74,525	54,088	128,613	4.45
2014	1,058,749	500,390	2,739	561,098	72,310	54,310	126,620	4.43
2015	1,122,230	525,143	1,357	598,444	76,470	47,313	123,783	4.83
2016	1,245,923	599,524	299	646,698	60,300	53,163	113,463	5.70

¹ In accordance with the bond indenture, interest earnings on Guaranteed Investment Contracts (GICs) have been included.

Source: Oregon State Lottery financial statements and the Oregon Department of Administrative Services, Chief Financial Office.

Lottery Bonds are secured by future unobligated net lottery proceeds. For additional information, refer to Note 11.

Highway User Tax Revenue Bonds

Year	Pledged Revenue	Debt Service Requirements			Coverage
		Principal	Interest	Total	
2007	\$ 502,431	\$ 14,290	\$ 42,723	\$ 57,013	8.81
2008	487,125	34,405	60,155	94,560	5.15
2009	447,288	34,365	58,287	92,652	4.83
2010	501,808	41,805	70,020	111,825	4.49
2011	593,995	47,720	103,837	151,557	3.92
2012	566,923	52,070	98,173	150,243	3.77
2013	555,971	56,705	91,187	147,892	3.76
2014	578,008	58,340	100,325	158,665	3.64
2015	588,295	70,020	99,528	169,548	3.47
2016	610,576	73,130	101,170	174,300	3.50

Source: Highway User Tax Bond official statements and the Oregon Department of Transportation.

Highway User Tax Revenue Bonds are secured by a pledge of motor fuels, weight-mile, and vehicle registration fees.

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

**Schedule 13
DEMOGRAPHIC AND ECONOMIC INDICATORS
Last Ten Calendar Years**

Year	Population	Personal Income¹	Per Capita Personal Income	Unemployment Rate
2007	3,722,417	\$ 133,476,862	\$ 35,858	5.2%
2008	3,768,748	140,004,731	37,149	6.5%
2009	3,808,600	134,859,864	35,409	11.3%
2010	3,837,972	136,986,770	35,692	10.6%
2011	3,868,509	144,632,521	37,387	9.5%
2012	3,899,444	152,489,633	39,105	8.8%
2013	3,928,030	155,147,986	39,498	7.9%
2014	3,971,202	165,559,773	41,690	6.8%
2015	4,028,977	176,401,260	43,783	5.7%
2016	4,076,400	185,000,000	45,383	5.0%

¹ Personal income presented in thousands.

Source: Population and personal income figures for 2007 through 2015 were supplied by the US Department of Commerce, Bureau of Economic Analysis. The unemployment rates for all years are annual averages and were provided by the Oregon Employment Department.

Population and personal income estimates for 2016 were provided by the Oregon Office of Economic Analysis.

Schedule 14
EMPLOYMENT BY INDUSTRY
 Calendar Year 2015 and Nine Years Prior

	2006		2015	
	Number of Employees	Percent of Total	Number of Employees	Percent of Total
Farm employment	67,182	2.96%	56,506	2.37%
Forestry, fishing, and related activities	29,515	1.30%	33,632	1.41%
Mining	3,763	0.17%	5,748	0.24%
Utilities	5,032	0.22%	4,792	0.20%
Construction	143,619	6.33%	116,556	4.88%
Manufacturing	218,317	9.62%	202,653	8.49%
Wholesale trade	88,120	3.88%	85,742	3.59%
Retail trade	248,496	10.95%	250,775	10.50%
Transportation and warehousing	67,720	2.98%	69,951	2.93%
Information	41,704	1.84%	42,235	1.77%
Finance and insurance	85,266	3.76%	91,085	3.81%
Real estate, rental, and leasing	99,084	4.37%	110,860	4.64%
Professional and technical services	123,969	5.46%	153,830	6.44%
Management of companies	30,052	1.32%	44,391	1.86%
Administrative and waste services	125,443	5.53%	128,578	5.39%
Educational services	49,433	2.18%	60,793	2.55%
Health care and social assistance	230,406	10.18%	278,614	11.66%
Arts, entertainment, and recreation	48,886	2.15%	59,141	2.48%
Accommodation and food services	155,702	6.86%	183,751	7.70%
Other services	120,609	5.32%	125,770	5.27%
Federal government, civilian	29,062	1.28%	27,820	1.17%
Military	12,591	0.55%	11,722	0.49%
State government	68,158	3.00%	63,030	2.64%
Local government	176,841	7.79%	179,610	7.52%
Total employment	2,268,970	100.00%	2,387,585	100.00%

Source: US Department of Commerce, Bureau of Economic Analysis

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

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Education	12,411	13,117	13,117	13,394	13,394	13,485	13,485	624	642	688
Human Services	9,200	9,753	9,753	11,145	11,145	11,478	11,379	11,694	11,671	12,373
Public Safety	8,187	9,021	9,021	9,069	9,069	8,562	8,532	8,615	8,618	8,667
Economic and Community Services	1,753	1,650	1,650	1,991	1,991	2,358	1,910	1,651	1,670	1,610
Natural Resources	4,272	4,367	4,367	4,332	4,332	4,304	4,288	4,338	4,348	4,324
Transportation	4,579	4,535	4,535	4,554	4,554	4,532	4,533	4,480	4,475	4,411
Consumer and Business Services	1,550	1,593	1,593	1,592	1,592	1,454	1,446	1,421	1,410	1,427
Administration	2,879	2,958	2,958	2,882	2,882	2,809	2,785	2,827	2,827	2,961
Legislative Branch	393	404	404	381	381	427	427	429	429	432
Judicial Branch	1,907	1,975	1,975	1,766	1,766	1,818	1,829	1,840	1,839	1,860
Total FTE Positions	47,131	49,373	49,373	51,106	51,106	51,227	50,614	37,919	37,929	38,753

Source: Department of Administrative Services, Chief Financial Office.

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

In 2014, the Oregon University System was legislatively approved to act as a private entity and will no longer be included in the Education FTE figure.

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

	2007	2008	2009
Governmental Activities			
Education			
Number of PreK-12 students	562,828	566,067	564,064
Number of FTE community college students	91,456	94,587	105,149
Special education school campuses	2	2	2
Human Services			
Number of individuals eligible for Oregon Health Plan	365,940	386,662	426,578
Average number of basic TANF individuals	39,096	42,338	48,321
Public Safety			
Number of sworn state police officers	557	646	604
Prison inmate population	13,497	13,553	13,925
Number of correctional facilities	13	14	14
Economic and Community Development			
Community development grants provided (in dollars)	9,607,717	10,704,034	2,791,056
Number of technical assistance grants provided	3	6	5
Natural Resources			
Forest acres burned	54,104	7,860	7,000
State park day use visitors (in millions)	41.4	40.3	40.1
Acreage of state parks	97,447	97,446	100,379
Miles of forest roads	3,202	3,225	3,255
Transportation			
Licensed drivers (in millions)	3.1	3.1	3.1
Vehicle miles traveled on state highway system (in billions)	20.6	19.5	19.8
State highway system miles	7,416	7,415	7,422
Number of state owned bridges	2,666	2,671	2,681
Consumer and Business Services			
Number of employers covered by workers' compensation	98,700	98,300	94,800
Historic premiums written for all insurance lines (in billions)	17.4	17.9	17.7
Average bank and credit union assets (in billions)	58.7	40.7	42.0
Construction employment (in thousands)	104.2	94.2	74.1
Administration			
Number of tax returns filed	1,835,095	1,805,843	1,768,397
Percent of returns filed electronically	62.0%	63.0%	67.0%
Uniform rent square footage	1,896,185	1,904,531	1,953,760
Leased office space square footage	4,372,625	4,425,500	4,532,405
Number of motor pool vehicles	3,922	3,922	4,247
Legislative			
Number of bills introduced	2,744	87	2,613
Number of bills becoming law	909	54	914
Length of legislative session (in days)	171	19	169
Capitol building	1	1	1
Judicial			
Cases filed in circuit courts	605,753	610,334	599,605
Number of circuit court judges	173	173	173

Sources: Various state agencies

Note: Figures for 2015 and 2016 that are not available until a later date are indicated with N/A.

State of Oregon

2010	2011	2012	2013	2014	2015	2016
561,698	561,331	560,951	563,714	567,100	570,857	576,407
121,815	124,988	117,653	117,233	104,339	97,362	90,478
1	1	1	1	1	1	1
495,872	590,406	619,994	672,210	971,104	1,050,178	1,109,321
54,994	61,768	70,881	74,313	70,046	60,188	50,490
660	773	610	606	606	719	732
14,021	14,026	14,186	14,578	14,632	14,706	14,721
14	14	14	14	14	14	14
15,065,341	8,093,200	12,496,300	17,299,550	18,590,649	20,287,281	12,055,779
4	4	5	6	5	1	4
6,065	2,272	17,396	103,836	53,018	87,793	5,649
41.2	40.0	40.4	42.1	43.2	47.6	51.5
103,474	105,684	108,613	108,654	108,499	109,587	107,960
3,305	3,377	3,400	3,432	3,456	3,488	3,528
3.0	3.0	3.0	3.1	3.1	3.1	N/A
19.7	19.4	19.4	19.5	19.8	20.7	N/A
7,415	7,403	7,401	7,401	7,399	7,401	N/A
2,693	2,703	2,709	2,717	2,725	2,726	2,738
93,900	99,900	101,400	100,300	107,400	111,800	N/A
17.2	17.5	18.0	19.7	19.5	20.6	N/A
40.5	39.1	44.0	45.0	56.6	61.0	N/A
67.7	68.6	69.9	74.0	80.1	83.2	N/A
1,791,680	1,824,788	1,846,257	1,886,438	1,942,678	N/A	N/A
75.0%	79.0%	81.0%	83.0%	84.0%	N/A	N/A
1,953,760	1,954,332	1,954,332	1,954,332	1,954,332	1,954,332	1,954,332
4,676,051	5,104,986	4,518,791	4,020,638	4,569,927	4,550,154	4,986,265
4,247	4,183	3,993	3,994	3,993	4,022	4,130
195	3,021	275	2,511	252	2,641	253
105	732	112	788	126	847	124
25	150	34	156	36	155	32
1	1	1	1	1	1	1
565,397	552,601	549,803	544,687	536,922	522,377	491,681
173	173	173	173	173	173	173

(continued on next page)

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

	2007	2008	2009
Business-Type Activities			
Housing and Community Services			
Number of low income single family home loans closed	1,195	1,850	836
Number of affordable rental units produced	522	1,003	421
Veterans' Loan			
Number of outstanding loans	5,672	4,883	4,069
Percent of delinquent loans	0.25%	0.10%	0.47%
Lottery Operations			
Number of retailers	3,691	3,785	3,855
Number of video terminals	11,831	12,205	12,365
Unemployment Compensation			
Number of claims paid	2,050,678	3,275,097	8,422,488
Amount of claims paid (in millions)	569.4	954.9	2,688.4
University System			
Total headcount enrollment	76,339	77,778	82,868
Degrees awarded	17,116	16,897	16,944
Number of university campuses	7	7	7
State Hospital System			
Number of mental health patient days served	282,993	284,640	268,052
Number of state owned hospital beds	790	788	756
Liquor Control			
Number of state retail outlets	241	242	240
Number of cases sold	2,431,531	2,551,732	2,572,865
Other Business-type Activities			
Number of residents in Oregon Veterans' Homes	140	140	138
Number of state owned parking spaces	4,656	4,665	4,568

* Starting with FY 2016, the university system is no longer part of the primary government and will no longer be reported.

State of Oregon

2010	2011	2012	2013	2014	2015	2016
171	383	520	360	394	334	410
-	144	239	-	94	564	479
3,404	2,850	2,408	2,050	1,934	1,881	1,864
0.73%	1.54%	1.45%	1.61%	1.45%	0.80%	0.80%
3,916	3,901	3,907	3,848	3,843	3,939	3,920
12,344	12,202	12,175	12,037	11,951	11,925	11,909
8,762,507	6,764,818	5,035,594	3,552,320	1,762,202	1,604,461	N/A
2,704.1	1,953.0	1,489.8	1,067.4	561.7	544.9	N/A
87,968	91,345	92,925	93,657	94,129	94,011	*
17,920	18,694	20,209	20,830	21,359	21,429	*
7	7	7	7	7	7	*
247,104	232,892	226,104	231,355	222,776	218,127	220,202
709	719	771	685	727	786	786
243	247	249	248	248	248	248
2,573,935	2,676,106	2,791,591	2,911,100	2,955,352	3,021,190	3,127,664
144	140	140	144	140	155	235
4,545	4,544	4,484	4,742	4,605	4,616	4,595

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APPENDIX C

FORM OF BOND COUNSEL OPINION

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May __, 2017

State Treasurer of the State of Oregon
State of Oregon Department of Administrative Services
Salem, Oregon

\$ _____
State of Oregon
General Obligation Bonds
(Higher Education)

2017 Series I
(Article XI-F(1) University Projects)
(Tax-Exempt)

2017 Series J
(Article XI-G Community College Projects)
(Tax-Exempt)

2017 Series L
(Article XI-G University Projects)
(Tax-Exempt)

(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 (the “Issuer”) in connection with the issuance of \$ _____ aggregate principal amount of State of Oregon General Obligation Bonds (Higher Education) 2017 Series I (Article XI-F(1) University Projects) (Tax-Exempt) (the “2017 Series I Bonds”), \$ _____ aggregate principal amount of State of Oregon General Obligation Bonds (Higher Education) 2017 Series J (Article XI-G Community College Projects) (Tax-Exempt) (the “2017 Series J Bonds”) and \$ _____ aggregate principal amount of State of Oregon General Obligation Bonds (Higher Education) 2017 Series L (Article XI-G University Projects) (Tax-Exempt) (the “2017 Series L Bonds” and together with the 2017 Series I Bonds and the 2017 Series J Bonds, the “Bonds”). The Bonds are issued pursuant to an Issuance Certificate, dated May __, 2017 (the “Issuance Certificate”) executed and delivered by the Issuer, with the concurrence of the Director of the Oregon Department of Administrative Services (the “Department”), at the request of the Higher Education Coordinating Commission (the “Commission”) dated March 7, 2017 (the “Request”), for the benefit of certain public universities with independent governing boards (each a “Public University”) and certain community colleges (each a “Community College”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Issuance Certificate.

In such connection, we have reviewed the Issuance Certificate, the Loan Agreements, the Grant Agreements, the Request, the Tax Certificate and Agreement, dated the date hereof

including the Exhibits thereto (collectively, the “Tax Certificate”), certificates of the Issuer, the Department, the Commission, the Public Universities, the Community Colleges, the Fiscal Agent and others, opinions of counsel to each Public University, and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein.

Due to the affiliation of Salem Health, an Oregon nonprofit corporation (“Salem Health”), with Oregon Health and Science University, we have relied on the opinion of Parks, Bauer, Sime, Winkler & Fernety LLP, counsel to Salem Health, regarding, among other matters, the current qualification of Salem Health as an organization described in Section 501(c)(3) of the Internal Revenue Code (the “Code”). We note that the opinion is subject to a number of qualifications and limitations. Failure of Salem Health to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

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 and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs 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, receivership, 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), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, 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 electronic version of the Official Statement dated April __, 2017 and posted on April __, 2017, 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 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 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 for the payment of the principal of and interest on the Bonds in any fiscal year in which other amounts available for such payments are not sufficient.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and 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 amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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FORM OF CONTINUING DISCLOSURE CERTIFICATE

§ _____
STATE OF OREGON
GENERAL OBLIGATION BONDS
(HIGHER EDUCATION)

2017 Series I
(Article XI-F(1) University Projects)
(Tax-Exempt)

2017 Series J
(Article XI-G Community College Projects)
(Tax-Exempt)

2017 Series L
(Article XI-G University Projects)
(Tax-Exempt)

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the State of Oregon (the “State”), acting by and through the Office of the State Treasurer (the “State Treasurer”), in connection with the issuance of the State of Oregon General Obligation (Higher Education) Bonds 2017 Series I (Article XI-F(1) University Projects) (Tax-Exempt), in the aggregate principal amount of \$_____, State of Oregon General Obligation Bonds (Higher Education) 2017 Series J (Article XI-G Community College Projects) (Tax-Exempt), in the aggregate principal amount of \$_____, and State of Oregon General Obligation Bonds (Higher Education) 2017 Series L (Article XI-G University Projects) (Tax-Exempt), in the aggregate principal amount of \$_____ (collectively, the “Bonds”). The Bonds are being issued for the purpose of financing projects for the benefit of higher education institutions and community colleges or activities pursuant to the provisions of Article XI-F(1) of the Oregon Constitution or Article XI-G of the Oregon Constitution, as applicable to a particular series of Bonds, the statutes of the State, including without limitation Oregon Revised Statutes chapter 286A, as amended, an Issuance Certificate, of the State, acting by and through the Office of the State Treasurer (collectively, the “Issuer”), dated the date of delivery of the Bonds (the “Issuance Certificate”), with the concurrence of the Director of the Oregon Department of Administrative Services, and at the request of the Higher Education Coordinating Commission for the benefit of certain public universities with independent governing boards and certain community colleges.

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 April ___, 2017, 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 28 of Appendix A “General Information Relating to the State of Oregon” of the Official Statement and (ii) in the Basic Financial Statements for the State for the Year Ended June 30, 2016 (which are presented in Appendix B of the Official Statement in audited form).

(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, 2017. 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.

(d) The State may provide any of the financial information listed above in the form of a reference to another document that is available to the public on EMMA. The State shall clearly identify such other document provided by reference. The State may modify the format in which this information is presented in the State's discretion, if the State determines that the modified format is consistent with the Rule and the purposes of this Certificate.

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 May 2017.

STATE OF OREGON

By: _____
Laura Lockwood-McCall
Director, Debt Management Division
Office of the State Treasurer

APPENDIX E

DESCRIPTION OF DTC AND ITS BOOK-ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2017 Bonds. The 2017 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 2017 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 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2017 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2017 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 2017 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 2017 Bonds, except in the event that use of the book-entry system for the 2017 Bonds is discontinued.

To facilitate subsequent transfers, all 2017 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 2017 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 2017 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2017 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 2017 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2017 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents relating to the 2017 Bonds. For example, Beneficial Owners of 2017 Bonds may wish to ascertain that the nominee holding the 2017 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 2017 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 2017 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 2017 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments represented by the 2017 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 2017 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 2017 Bonds.

So long as Cede & Co. is the registered owner of the 2017 Bonds, as nominee for DTC, references herein to the holders or registered owners of the 2017 Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2017 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 2017 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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