The accompanying financial statements of the State have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants (AICPA). The financial statements for the college and university fund types have been prepared in conformity with GAAP as prescribed by the AICPA College Industry Audit Guide. In accordance with GASB Statement No. 20, the State does not apply FASB pronouncements issued after November 30, 1989, for proprietary activities, unless GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date. The Oregon Health Sciences University, a discretely presented component unit of the State, applies all relevant FASB pronouncements, including pronouncements issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity. The State was admitted to the Union in 1859 and is governed by an elected governor and a ninety-member elected legislative body. As required by GAAP, these financial statements present all the fund types and account groups of the State which includes all agencies, boards, commissions, authorities, courts, and colleges and universities that are legally part of the State (primary government) and its component units as discussed below. Component units are legally separate entities for which the primary government is financially accountable or other organizations for which the nature and significance of their relationship with the primary government is such that their exclusion would cause the State's financial statements to be misleading or incomplete.

Criteria outlined in GASB Statement No. 14, *The Financial Reporting Entity*, are used to determine the State's financial accountability over component units. GASB Statement No. 14 provides that a primary government is financially accountable if it appoints a voting majority of an organization's governing body and if it is able to impose its will on that organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government.

Discretely Presented Component Units. The component unit's columns in the combined financial statements include the data of the State's discretely presented component units. They are reported in a separate column to emphasize that they are legally separate from the State.

- *SAIF Corporation* (SAIF) is a public corporation financed through policyholder premiums which provides workers' compensation insurance to all Oregon employers, including the State. SAIF is governed by a board of directors appointed by the Governor. The term of office of a board member is four years, and board members serve at the pleasure of the Governor. SAIF, which reports on a fiscal year ended December 31, uses proprietary accounting principles. The December 31, 1998, financial statements of SAIF are included in this report.

- The Oregon Health Sciences University (OHSU) is a governmental entity performing governmental functions and exercising governmental powers. OHSU is an independent public corporation governed by a board of directors appointed by the Governor and confirmed by the Senate. It is an academic health center that provides education and training to health care professionals, conducts biomedical research, and provides patient care and public service. It is financed primarily through patient service fees, government grants and contracts, tuition charges, and other incidental fees. OHSU also receives general fund moneys from the State. The State legislature has acknowledged its intent to make funds available to pay any shortfall in general obligation bonds issued for OHSU purposes prior to the time that OHSU became an independent public corporation. OHSU applies not-for-profit accounting and financial reporting principles by following the AICPA's Statement of Position 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, as modified by appropriate standards of the Governmental Accounting Standards Board. Under this reporting model, revenues and expenses are recognized on the accrual basis.

Component Unit Financial Statements. Combining level financial statements for the discretely presented component units are included in the combined section of the general purpose financial statements. Complete financial statements of the individual component units can be obtained from their respective administrative offices or from the State Controller's Division, 155 Cottage Street NE, Salem, Oregon 97310-0310.

Related Organizations. In 1997, the Legislative Assembly established a pilot program to assess whether professional and occupational licensing boards should be converted to semi-independent status. The pilot program, effective from July 25, 1997 through June 30, 2001, made five licensing boards 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, and the Board of Optometry. The Governor appoints the administrators of these boards, which are all self-supporting. Although the State has some financial accountability for the Landscape Architect Board, it has none for the other four boards. In the interest of consistency, the State has chosen to treat all five boards as related organizations.

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

Oregon Short-Term Fund Financial Statements. Oregon is the sponsoring government of the Oregon Short-Term Fund (OSTF), a cash and investment pool used by State agencies and local governments. The Oregon State Treasurer administers the pool and prepares a separate financial report for the OSTF. Copies of the report can be obtained from the Oregon State Treasury, Finance Division, 350 Winter Street NE, Suite 100, Salem, Oregon 97310-0840. 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.

B. Basis of Presentation - Fund Accounting. The accounts of the State and its component units are organized on the basis of funds and account groups, each of which is considered a separate accounting entity with a self-balancing set of books. The various funds and account groups are established for the purpose of accounting for specific activities or attaining certain objectives in accordance with applicable laws, regulations, restrictions or limitations. The funds and account groups used by the State and its component units are described below.

- *Governmental Fund Types*

  The *General Fund* accounts for all financial resources and transactions not accounted for in another fund. It accounts for general governmental operations that are financed by legislatively approved appropriations funded from general revenues.

  Special Revenue Funds account for the proceeds of specific revenue sources, other than those for expendable trust funds or capital project funds, that finance specified activities as required by law or administrative regulation.

  Debt Service Funds account for the accumulation of resources for, and the payment of, interest and principal on general governmental obligations that are included in the General Long-Term Debt Account Group.

Capital Projects Funds account for financial resources segregated for the construction or acquisition of major capital facilities other than those financed by proprietary fund types, college and university fund types, or trust funds.

- *Proprietary Fund Types*

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods and services to the general public on a continuing basis are intended to be financed or recovered primarily through user charges.
Internal Service Funds account for the financing of goods and services provided by an agency on a cost-reimbursement basis to another governmental unit, whether state, federal, or local.

- *Fiduciary Fund Types*

The *Pension Trust Fund* accounts for the transactions, assets, liabilities, and net assets available for plan benefits related to the retirement system of the State and other member entities.

The *Investment Trust Fund* accounts for the transactions, assets, liabilities, and fund equity of the portion of the Oregon Short-Term Fund belonging to local governments.

Nonexpendable Trust Funds account for the transactions, assets, liabilities, and fund equity under formal trust agreements where the principal must be preserved intact but the income earned on the principal is available for expenditure for designated purposes.

Expendable Trust Funds account for assets held by the State in a trustee capacity where both principal and income may be expended in the course of the fund's designated operation.

Agency Funds account for assets held by the State as an agent for other funds, governmental units, organizations, or individuals.

- *College and University Funds*

Transactions related to resources received and used for operations of Oregon's institutions of higher education are accounted for in college and university funds, described as follows:

Current Funds account for unrestricted funds such as General Fund appropriations, tuition and fees, and auxiliary enterprise revenues, in addition to restricted funds from external donors and federal agencies available for current operating purposes.

Loan, Endowment, and Agency Funds account for assets held in a fiduciary capacity.

Plant Funds account for assets that have been or will be invested in property, plant, and equipment and that are reserved to retire debt issued to finance plant facilities.

- *Account Groups*

The *General Fixed Assets Account Group* accounts for fixed assets acquired by governmental fund types. General fixed assets do not represent financial resources available for appropriation or expenditure. Fixed assets acquired by enterprise funds, internal service funds, certain trust funds, and college and university fund types are not accounted for in the General Fixed Assets Account Group but are reported in the accounts of those funds.

The *General Long-Term Debt Account Group* accounts for all general long-term debt and other long-term liabilities relating to governmental funds and expendable trust funds. Long-term debt and liabilities include capital leases, contracts, bonds, notes, compensated absences, and arbitrage rebates.

Prior to fiscal year 1999, the combining statements were presented, by GAAP fund type, at the Governor's program level. This presentation grouped agencies by budgeted purpose: Education, Human Resources, Public Safety, Economic and Community Development, Natural Resources, Transportation, Consumer and Business Services, Administration, Legislative, and Judicial. With the conversion to a new statewide accounting system completed, Oregon fiscal information is now available at the GAAP fund level. Beginning with fiscal year ending June 30, 1999, the combining statements are now presented at GAAP fund within GAAP fund type.

C. Measurement Focus and Basis of Accounting. All governmental fund types and expendable trust funds are accounted for using the current financial resources measurement focus and are maintained on the modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) as changes in net current assets.

Under the modified accrual basis of accounting, revenues and related current assets are recognized in the year when they are both "measurable and available" to finance operations during the year or to liquidate liabilities existing at the end of the year. Primary revenue sources susceptible to accrual are income taxes, excise taxes, and federal revenues. Taxpayer assessed taxes, net of estimated refunds, are recognized in the accounting period in which they become measurable and available. Federal grant revenue is not recognized until the expenditure is recognized. Other revenues collected within 90 days of year end are considered to be "available."

Expenditures and other uses of financial resources are recognized when the related fund liability is incurred, except for items that are not planned to be liquidated with expendable available resources, such as the long-term portion of the liability for compensated absences or capital lease obligations. Long-term assets with an appropriate reservation of fund balance are also reported in governmental fund types and expendable trust funds.

Agency funds are accounted for on the modified accrual basis of accounting. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not measure the results of operations.

All proprietary fund types, nonexpendable trust funds, the investment trust fund and the pension trust fund are accounted for using the flow of economic resources measurement focus and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time related liabilities are incurred. All assets and liabilities associated with the operations of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

In the financial statements for the Public Employees Retirement System (PERS), plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The college and university fund types are accounted for on an accrual basis of accounting with the following exceptions: Depreciation expense is not recorded, interest income is not recorded until received in loan funds, and revenues and expenditures of an academic term encompassing more than one fiscal year are reported in the fiscal year in which the program is predominantly conducted.

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

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

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

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

The State does not budget by GAAP fund type. Appropriations (budgeted expenditure items) may be at the agency, program, or activity level. Accordingly, the legal level of budgetary control is at one of these various levels depending on the Legislature's view of the activity. The Statewide Financial Management System (SFMS) controls expenditures by budgeted expenditure item as established in approved appropriation bills. Each item on an approved appropriation bill is assigned an appropriation number. Expenditures may not exceed appropriations. In SFMS, appropriated funds are tied to one or more appropriation numbers to insure that appropriated expenditure amounts are not exceeded.

The accompanying "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual -Budgetary (Non-GAAP) Basis – All Budgeted Appropriated Funds" and the related combining level individual fund presentations are 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 1997-99 biennium as of June 30, 1999. A copy of this report is available at the State Controller's Division, 155 Cottage Street NE, Salem, Oregon 97310-0310.

Expenditures are monitored through the use of quarterly allotments. Allotments are required for appropriated and nonappropriated items and are used to establish spending limits. These spending limits are monitored by the Budget and Management Division of the Department of Administrative Services and are controlled by the SFMS.

Encumbrance accounting is used for additional budgetary control. Encumbrances represent commitments related to unperformed contracts for goods or services. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance. Under GAAP reporting, encumbrances outstanding at year end expected to be honored in the following year are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Unexpended appropriations at the end of each biennium are available for subsequent expenditure to the extent that encumbrances have been incurred at June 30, provided they are presented for payment during the succeeding six month "lapse period." Any remaining unexpended appropriations lapse December 31 following the end of the biennium. This does not apply to appropriations related to capital construction. Amounts for continuing contracts and contested claims are continuously appropriated.

The State does not formally budget revenues, with the exception of general fund revenues. While agencies are required to submit estimates of expected revenues for program revenue and segregated revenue categories, these estimates are not formally incorporated into the adopted budget. General fund revenues consist primarily of general taxes and other receipts that are paid into the general fund and are then available for appropriation by the Legislature. Revenues not recorded in the general fund consist of program revenues, which are credited by law to an appropriation to finance a specified program and segregated revenues that are paid into separate identifiable funds.

Budgets are prepared on the cash basis utilizing encumbrance accounting. Revenues in the accompanying "Combined Statement 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 original appropriations modified by Emergency Board actions taken during the year.

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

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

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

SFMS establishes the following budgeted appropriated funds to account for the State's budgetary activities:

Other Funds Capital Improvement	Other Funds Capital Construction
Other Funds	Other Funds Debt Service
Federal Funds Capital Improvement	Federal Funds Capital Construction
Federal Funds	General Fund
General Fund Capital Improvement	General Fund Capital Construction
General Fund Debt Service	

E. Cash and Cash Equivalents. Cash deposits not held in a cash management or investment pool are classified as cash and cash equivalents. Cash deposits that are held in a cash management or investment pool are classified as cash and cash equivalents when the pool has the general characteristics of a demand deposit account.

Cash and cash equivalents include: Cash on hand, cash and investments held by the State Treasury in the Oregon Short-Term Fund and cash deposits of debt proceeds in investment funds held by a trustee.

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

- Nonparticipating interest-earning investment contracts and certain investments not held for investment purposes.

- The Oregon Short-Term Fund reports short-term debt investments with remaining maturities of up to ninety days as of the balance sheet date at amortized cost. The State reports these investments as cash and cash equivalents on the balance sheet but as investments in Note 3.

Changes in the fair value of investments are recognized as revenue and reported as a component of investment income.

The fair value of debt and equity securities is determined by the custodial agent, which determines fair values using pricing services or prices quoted by one or more independent brokers. Equity securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, if applicable. Debt securities are generally valued at the midpoint between the bid and asked prices. A small percentage of debt securities cannot be priced in this manner, and for these, a similar "benchmark" security is used. The benchmark security is selected based on a similar rate, maturity date and market risk, along with considering the effects of current market conditions. The fair value of PERS' real estate investments is based on independent appraisals.

G. Derivatives. State policy defining which type of investments to include as derivative securities includes the following: Futures contracts, forwards, option contracts, contracts with interest rate caps, collars or floors, asset-backed securities including mortgage-backed securities, interest rate and currency swaps, floaters and inverse floaters, interest and principal only obligations, indexed debt instruments, and other financial instruments with similar characteristics.

H. Receivables. Receivables consist of revenues earned or accrued in the current period and are shown net of uncollectible accounts. Types of receivables included in this classification relate to taxes, investment income, amounts due from the federal government or other governments, and amounts due from the sale of goods and services.

I. Inventories. Inventories, which consist primarily of operating supplies, are stated at cost utilizing the first-in, first-out cost valuation method. In governmental fund types, inventories are recorded as expenditures when purchased. Reported inventories in governmental funds are equally offset by a reservation of fund balance since they are unavailable for appropriation. In proprietary fund types, inventories are expended when consumed. OHSU records inventories at the lower of average cost or market.

J. Food Stamps. The State electronically distributes food stamp benefits issued by the federal government. Revenues and expenditures are recognized in a special revenue fund when the food stamp benefits are distributed to eligible recipients.

K. Prepaid Items. Payments made to vendors for services that will benefit periods beyond June 30 are recorded as prepaid items.

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

M. Receivership Assets. Net assets of insurance companies which 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.

N. Fixed Assets. Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group. Fixed assets acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure and capitalized at cost in the General Fixed Assets Account Group. Roads, bridges, drainage systems, and other public domain infrastructure, which are immovable and of value only to the State, are not capitalized, except for airports. Interest expense incurred during construction of capital facilities is not capitalized when the related assets are reported in the General Fixed Assets Account Group.

Fixed assets acquired by proprietary, fiduciary, and college and university fund types are capitalized and recorded within those fund types. Proprietary fund types capitalize material interest costs incurred during capital construction.

Fixed assets are stated at cost or estimated historical cost if the original cost is not determinable. Donated fixed assets are reported at fair market value at the date of transfer. Fixed assets costing less than $5,000 or having a useful life of less than two years (one year for colleges and universities) are not capitalized.

Fixed assets in governmental funds are not depreciated. Depreciation or amortization of fixed assets in proprietary funds is charged as an expense against operations over the estimated useful lives using the straight-line method of depreciation or another accepted method to meet requirements of the federal government or other organization for rate determination or cost recovery purposes. Useful lives for buildings and related assets range from 20 to 50 years while useful lives of equipment and machinery range from 3 to 10 years.
Generally accepted accounting principles for college and university fund types do not require depreciation or amortization of fixed assets.

O. Compensated Absences. Employees accrue vacation leave at various accrual rates and may generally be paid for up to a maximum of 250 hours of accrued vacation at termination. Accumulated vacation leave that is expected to be paid with expendable available financial resources, generally within 90 days, is reported as an expenditure and a fund liability of the governmental fund type that will pay it. Amounts of accumulated vacation leave that are not expected to be liquidated with current resources are reported in the General Long-Term Debt Account Group. No expenditure is reported for these amounts. Accumulated vacation leave of proprietary fund types is recorded as an expense and a liability of those funds as the benefits accrue to the employees. No liability is recorded for nonvesting, accumulated sick pay benefits.

P. Fund Equity. In governmental funds, fund equity has been reserved to indicate that certain current resources are not available for expenditure or are legally segregated for a specific future use. No portion of the unreserved fund equity has been designated. In proprietary funds, portions of retained earnings are reserved to indicate external legal restrictions.

Contributed capital represents assets contributed to a proprietary fund. These assets are in the form of donated or transferred equipment and capital assessments which are reported as residual equity transfers on the operating statement.

The fund equity for college and university fund types as well as Oregon Health Sciences University, a discretely presented component unit, have been classified as either restricted or unrestricted. A summary of fund equity for college and university fund types is provided in Note 8.

Q. Bond Discounts, Premiums and Issuance Costs. In governmental fund types, bond discounts, premiums and issuance costs are recognized in the current period. Bond discounts, premiums and issuance costs for proprietary fund types are generally deferred and amortized over the term of the bonds using the effective interest method or the bonds outstanding method. In proprietary fund types, bond discounts are presented as a reduction of the face amount of bonds payable, premiums are presented as an addition to the face amount of bonds payable, and issuance costs are recorded as deferred charges.

R. Rebatable Arbitrage. Rebatable arbitrage is treated as a reduction of revenue.

S. Total Columns. Total columns on the combined statements are captioned "memorandum only" to indicate that they are presented only for use in financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Furthermore, this information is not comparable to a consolidation of funds as interfund transactions have not been eliminated.

2. BUDGETARY BASIS TO GAAP BASIS RECONCILIATION

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

Since 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 resulting timing, perspective, basis and entity differences in the excess (deficiency) of revenues over (under) expenditures/expenses and other sources (uses) of financial resources for the year ended June 30, 1999 is presented below. This reconciliation presents data for the primary government only, excluding Colleges and Universities and the Investment Trust Fund. Proprietary fund and similar fund types (enterprise, internal service and nonexpendable trust) are reconciled to Net Income (Loss) before Extraordinary Items. The Pension Trust Fund is reconciled to Net Increase.

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses							
	Budgetary Balances Classified into GAAP Fund Structure							
GAAP Fund Type	Budgetary General Fund	Federal Budgeted Funds	Other Budgeted Funds	Total Budgeted Funds	Timing Differences	Basis Differences	Entity Differences	GAAP Balances
General Fund	221,966	-	-	221,966	(71,238)	83,935	(58,707)	175,956
Special Revenue Funds	-	151,366	7,232	158,598	(104,727)	(118,578)	32,288	(32,419)
Debt Service Funds	-	-	3,868	3,868	9,997	6,872	(10,134)	10,603
Capital Projects Funds	-	(429)	(25,357)	(25,786)	(100,427)	35,506	-	(90,707)
Expendable Trust Funds	-	(26)	370	344	8	6,768	204,593	211,713
Enterprise Funds	-	-	20,759	20,759	(946)	191,741	(208,629)	2,925
Internal Service Funds	-	-	44,929	44,929	912	24,498	(66,574)	3,765
Nonexpendable Trust Funds	-	-	104,676	104,676	-	75,015	(15,696)	163,995

Pension Trust Funds	-	-	(16,652)	(16,652)	411	2,889,740	12,634	2,886,133
Totals (Memorandum Only) ..	221,966	150,911	139,825	512,702	(266,010)	3,195,497	(110,225)	3,331,964

3. DEPOSITS AND INVESTMENTS

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

The Treasurer maintains the Oregon Short-Term Fund (OSTF), a cash and investment pool that is available for use by all funds and local governments. Because the pool operates as a demand deposit account, each fund's portion of this pool is classified on the combined balance sheet as cash and cash equivalents. However, OSTF investments are disclosed in B below and classified by custodial credit risk for investments.

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

A separate financial report for the OSTF is prepared by the Treasurer in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Copies of the report can be obtained from the Treasurer as noted in Note 1.

Participants' account balances in the OSTF are determined by the amount of participants' deposits, adjusted for withdrawals and distributed interest. Interest is calculated and accrued daily on each participant's account based on the ending account balance and a variable interest rate determined periodically by the Oregon State Treasury. The interest rate approximates the actual yield of the OSTF exclusive of unrealized gains and losses.

The following schedule reconciles the carrying amounts in this disclosure to the Combined Balance Sheet for the reporting entity (in thousands):

	Cash and Cash Equivalents	Investments	Cash and Securities Held in Trust	Securities Lending Assets
Carrying Amount:				
Deposits - Primary Government	$1,510,248	$ -	$ -	$ -
Deposits - Discretely Presented Component Units	181,900	-	-	-
Investments - Primary Government	-	47,625,170	-	-
Investments - Discretely Presented Component Units	-	3,049,984	-	-
Subtotal	1,692,148	50,675,154	-	-
Cash Equivalents in Oregon Short-Term Fund (OSTF)	6,112,228	(6,112,228)	-	-
Amounts Held in Trust	(38,277)	(1,471,256)	1,509,533	-
Securities Lending:				
Cash and Reinvested Cash Collateral – Primary Government	-	(3,214,170)	-	3,214,170
Cash and Reinvested Cash Collateral – Component Units	-	(246,459)	-	246,459
Combined Balance Sheet	$7,766,099	$39,631,041	$1,509,533	$3,460,629

A. Deposits. There are three categories of custodial credit risk that apply to deposits of both the State's primary government and its discretely presented component units:

1. Insured or collateralized with securities held by the State or by its agent in the State's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the State's name.
3. Uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the State's name.

Deposit balances held in each category are as follows (in thousands):

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Primary Government	$ 34,155	$ 1,315	$39,374	$74,844	$ 281,975
Discretely Presented Component Units	-	-	144,526	144,526	181,900
U.S. Treasury Deposits	-	-	-	-	1,228,273
Total	$34,155	$ 1,315	$183,900	$219,370	$1,692,148

Approximately $0.8 million under the second risk category and $21.1 million under the third risk category is deposited with bond trustees who assume responsibility for those funds. U.S. Treasury deposits consist of unemployment compensation trust funds held in the Federal Reserve Bank and backed by the full faith and credit of the U.S. Government. Approximately $38.3 million of the carrying amount of the cash and cash equivalents shown above is reported as cash and securities held in trust.

B. Investments. There are three categories of custodial credit risk that apply to investments of both the State's primary government and its discretely presented component units:

1. Insured or registered, or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the State's name.

Investment balances held by the primary government in each category are as follows (in thousands):

Investments - Categorized	Category 1	Category 2	Category 3	Reported Amount	Fair Value
Investments not on Securities Loan:					
U.S. Government and Agency Securities	$ 6,765,382	$ 14,543	$1,477	$ 6,781,402	$ 6,785,541
Domestic Equity Securities	6,554,259	-	-	6,554,259	6,553,984
International Equity Securities	3,547,591	-	-	3,547,591	3,547,591
Commercial Paper	2,375,411	-	-	2,375,411	2,375,411
Corporate Bonds	2,407,629	-	100	2,407,729	2,407,729
Municipal Bonds	620,887	-	-	620,887	620,887
International Bonds	1,443,009	-	-	1,443,009	1,443,009
Bankers' Acceptances	22,714	-	-	22,714	22,714
Asset-Backed Securities	593,343	-	-	593,343	593,343
Repurchase Agreements	86,850	92,180	-	179,030	179,030
Other	1,739	-	542	2,281	2,280
Investments on Securities Loan for Securities and Tri-Party Agreement Collateral:					
Domestic Equity Securities	1,730	-	-	1,730	1,730
International Equity Securities	9,030	-	-	9,030	9,030
International Bonds	32,480	-	-	32,480	32,480
Subtotal	$24,462,054	$106,723	$2,119	24,570,896	24,574,759
Investments - Not Categorized					
Investments Held by Broker-Dealers Under Securities Loan with Cash Collateral:					
U.S. Government and Agency Securities				1,360,659	1,360,659
Domestic Equity Securities				846,229	846,229
International Equity Securities				838,598	838,598
Corporate Bonds				28,411	28,411
International Bonds				47,904	47,904
Securities Lending Short-Term Collateral Investment Pool				3,214,330	3,214,330
Mutual Funds				10,653,919	10,653,919
Alternative Equities				3,645,344	3,645,344
Real Estate and Real Estate Mortgages				1,819,815	1,819,815
Deferred Compensation Plan				544,668	544,668
Guaranteed Investment Contracts				43,546	43,546
Annuity Contracts				10,604	10,604
Other				247	247
Total Investments				$47,625,170	$47,629,033

Investment balances held by OHSU as of June 30, 1999, and by SAIF Corporation as of December 31, 1998, in each category are as follows (in thousands):

Investments - Categorized	Category 1	Category 2	Category 3	Reported Amount	Fair Value
Investments not on Securities Loan:					
U.S. Government and Agency Securities	$ 864,033	$ -	$ -	$864,033	$864,033
Domestic Equity Securities	282,512	-	-	282,512	282,512
Commercial Paper	44,248	-	-	44,248	44,248
Corporate Bonds	920,971	-	-	920,971	920,971
International Bonds	89,324	-	-	89,324	89,324
Bankers' Acceptances	211	-	-	211	211
Other	13,623	-	-	13,623	13,623
Subtotal	$2,214,922	$ -	$ -	2,214,922	2,214,922
Investments - Not Categorized					
Investments Held by Broker-Dealers Under Securities Loan with Cash Collateral:					
U.S. Government and Agency Securities				220,812	220,812
Domestic Equity Securities				5,014	5,014
Corporate Bonds				3,118	3,118
International Bonds				7,775	7,775
Securities Lending Short-Term Collateral Investment Pool				246,459	246,459
Mutual Funds				316,057	316,057
Real Estate and Real Estate Mortgages				4,009	4,009
Other				31,818	31,818
Total Investments				$3,049,984	$3,049,984

Repurchase Agreements and Reverse Repurchase Agreements. During the year ended June 30, 1999, repurchase agreements were made for short periods of time. No losses were incurred and there were no violations of legal, regulatory or contractual provisions of repurchase agreements. No reverse repurchase agreements were made during the year.

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, 1999 the primary government had restricted assets of $161.7 million in deposits and $1.6 billion in investments. The discretely presented component units had restricted assets of $31.7 million in deposits and $106.9 million in investments.

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

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

During the year, the State and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on loans from PERS was invested together with cash collateral of other qualified tax-exempt plan lenders in a collective investment pool ("Pool"). The cash collateral received on loans from State entities other than PERS was invested in the Oregon Short-Term Investment Fund ("Fund") maintained by State Street. The Fund is an "external investment pool" for GASB 31 reporting purposes. At June 30, 1999 the Pool had an average duration of 68 days and an average weighted maturity of 175.2 days, and the Fund had an average duration of 23 days and an average weighted maturity of 80.3 days. Because loans were terminable at will by either party, their duration did not generally match the duration of investments made with cash collateral in either the Pool or the Fund. For the primary government, the fair value of the collateral held and the securities on loan as of June 30, 1999, was $3.3 billion and $3.2 billion respectively. As of December 31, 1998, the fair value of collateral held and securities on loan for SAIF Corporation was $246.5 million and $236.7 million respectively. The State had no credit risk exposure to borrowers related to securities on loan.

Securities lent at year end for cash collateral are presented as not categorized in the preceding schedule of custodial credit risk. Cash collateral invested in the short-term investment fund maintained by State Street is presented as not categorized in the schedule of custodial credit risk. Securities lent for securities collateral are classified according to the category of the collateral received.

Derivative Instruments. The Governmental Accounting Standards Board's Technical Bulletin No. 94-1, *Disclosures about Derivatives and Similar Debt and Investment Transactions*, defines derivatives as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. In accordance with the investment policies of the State of Oregon, the Oregon State Treasury has invested either directly or through its outside investment managers on behalf of the State in asset-backed securities, including collateralized mortgage obligations, and floating-rate notes. Further, Oregon Public Employees Retirement Fund (OPERF) international investment managers use forward exchange contracts. Derivatives are generally used to enhance the return while managing the overall risk of investment portfolios. The Oregon State Treasury's direct investments in fixed income securities are not subject to any policies or rules which explicitly prohibit investments in derivative securities. The State does not hold or issue derivative financial instruments for trading purposes.

Below is a summary of derivative instruments held by the State as of June 30, 1999 (for SAIF Corporation as of December 31, 1998). The credit risk, market risk, and legal risk for these investments were not above and beyond those risks that are apparent in the financial statements or otherwise disclosed in the notes to the financial statements. Information regarding derivative holdings in mutual funds, which may be held by certain investment management firms as a component of their portfolios, is not available.

Asset-backed securities - The State holds asset-backed securities with a fair value of about $240.9 million as of June 30, 1999, the bulk of which are rate reduction bonds. The remainder of the asset-backed securities are collateralized mortgage obligations (CMOs), real estate mortgage investment conduits (REMICs), and securities issued by a major finance company collateralized by the revenue streams arising from its auto loan portfolio. SAIF Corporation held asset-backed securities with a fair value of approximately $45.2 million at December 31, 1998.

The State participates in a short-term investment fund maintained by the custodial agent in which the cash collateral received from securities loans is invested. At June 30, 1999, investments in asset-backed securities account for approximately $51.0 million or 8.3% of the total fair value of the fund at June 30, 1999.

Floating rate notes - As of June 30, 1999, the Oregon Short-Term Fund holds floating rate notes issued by agencies of the U.S. government totaling approximately $1 billion at fair value. The coupon rates on these notes are reset once per week with reference to the three-month U.S. Treasury bill rate. As of June 30, 1999, State agencies hold floating rate notes at fair value issued by agencies of the U.S. government of approximately $36.5 million. The coupon rates on these notes are reset quarterly with reference to the ten-year constant-maturity Treasury (CMT) rate. The credit risk associated with these investments is minimal since they are issued by agencies of the U.S. government. SAIF Corporation held approximately
$20.4 million in floating rate notes issued by U.S. government agencies at December 31, 1998.

PERS holds one international bond with a floating rate reset quarterly with reference to the three-month London Interbank Offered Rate (LIBOR) in the amount of approximately $20.5 million at fair value as of June 30, 1999.

The State participates in a short-term investment fund maintained by the custodial agent in which the cash collateral received from securities loans is invested. At June 30, 1999, investments in floating rate notes account for almost $220 million or 35.8% of the total fair value of the fund at June 30, 1999. PERS participates in a separate short-term investment fund maintained by the custodial agent in which the cash collateral received from PERS securities loans is invested. At June 30, 1999, investments in floating rate notes account for $5.6 million or 48.6% of the total fair value of the fund at June 30, 1999.

Forward exchange contracts - International investment managers for OPERF use forward exchange contracts ("forwards") to manage the influence of foreign currency exchange rate fluctuations on total foreign investment returns. Forwards are agreements to exchange a certain amount of a currency at a certain price denominated in another currency on a certain future date, called the value date. The value dates of forwards open as of June 30, 1999 ranged from 14 to 92 days after the balance sheet date.

As of June 30, 1999, OPERF had approximately $199.3 million in open forward contracts to buy foreign currencies, and $477.3 million in open forward contracts to sell foreign currencies, measured at forward exchange rates effective June 30, 1999 for contracts settling on the same value dates. Unrealized gains measured as the difference between the contracted currency amounts and the currency amounts based on June 30, 1999 forward exchange rates totaled $3.6 million at June 30, 1999.

Forward exchange contracts contain credit risk in that the counterparty may default on the contract. OPERF's international investment managers minimize credit risk by using only major financial institutions as counterparties to forward exchange contracts. Further, State Street Bank as custodial agent is responsible for monitoring the settlement of the contracts.

4. JOINT VENTURE

The Multi-State Lottery Association (MUSL) was established in 1987 by a joint venture agreement. Its members include the Oregon State Lottery, the District of Columbia Lottery and Charitable Games Control Board, the Iowa Lottery, the Kansas Lottery, the Missouri Lottery, the Rhode Island Lottery, the West Virginia Lottery, the Wisconsin Lottery, the Montana Lottery, the Idaho Lottery, the Minnesota State Lottery, the Hoosier Lottery (Indiana), the South Dakota Lottery, the Kentucky Lottery Corporation, the Arizona Lottery, the Nebraska Lottery, the Connecticut Lottery Corporation, the Louisiana Lottery Corporation, the Delaware State Lottery, the New Hampshire Sweepstakes Commission, and the New Mexico Lottery Authority. MUSL is governed by a Board of Directors, on which each party lottery is represented. The Board's responsibilities are to initiate, promulgate, and administer a multi-state lottery game for the mutual benefit of the party lotteries. MUSL holds semiweekly drawings with the prize amounts determined by wagers placed, except that the grand prize award is guaranteed to be no less than $10.0 million.

Each party lottery pays a share of the MUSL's operating expenses based upon the party lottery's proportionate share of total MUSL game sales. The Oregon State Lottery's share of the MUSL's operating expenses for the fiscal year ended June 30, 1999 was $65,482. A percentage, determined by the Board, of gross MUSL game sales are aggregated in a common prize pool. The revenues derived by each party lottery, that are not allocated to the common prize pool and to MUSL's operating expenses, will be the revenue of that party lottery. Upon termination of MUSL's existence, if such termination should occur, a party lottery would receive any proceeds determined available for distribution by the Board.

Long-term liabilities of the MUSL are limited to lottery prize annuities due, which are fully funded through investments that are secured by the United States Government. As of June 30, 1999, the Oregon State Lottery had $3.1 million on deposit with the MUSL for MUSL's prize reserve.

Complete separate financial statements for MUSL may be obtained at the Multi-State Lottery Association, Attention: Chuck Strutt, 1200 35th Street, Suite 701, West Des Moines, Iowa 50265-1908.

5. FIXED ASSETS

The following schedule summarizes the changes in the General Fixed Assets Account Group for the year ended June 30, 1999 (in thousands):

	July 1, 1998	Increases	Decreases	June 30, 1999
Land	$ 139,270	$ 98,731	$ 91,431	$ 146,570
Buildings	496,792	252,308	231,052	518,048
Improvements Other Than Buildings	166,172	13,351	10,833	168,690
Construction in Process	332,300	190,896	181,402	341,794
Equipment and Machinery	342,942	107,739	95,141	355,540
Data Processing Software	3,550	4,111	989	6,672
Leasehold Improvements	4,354	2,875	2,033	5,196
Total	$1,485,380	$670,011	$612,881	$1,542,510

The following schedule summarizes the investment in the General Fixed Assets Account Group by source as of June 30, 1999, and 1998 (in thousands):

	1999	1998
General Fund	$ 210,371	$ 138,152
Special Revenue Funds	611,363	575,523
Donations	3,747	-
Capital Projects Funds	717,029	771,705
Total	$1,542,510	$1,485,380

The following schedule summarizes the changes in the General Fixed Assets Account Group by function as of June 30, 1999 (in thousands):

	July 1, 1998	Increases	Decreases	June 30, 1999
Education	$ 11,276	$ 345	$ 114	$ 11,507
Human Resources	24,503	13,396	10,775	27,124
Public Safety	703,246	588,520	560,771	730,995
Economic and Community Development	13,772	865	805	13,832
Natural Resources	280,287	17,431	3,754	293,964
Transportation	372,414	44,235	31,847	384,802
Consumer and Business Services	9,924	427	2,273	8,078
Administration	28,669	3,374	2,013	30,030
Legislative	27,176	317	123	27,370
Judicial	14,113	1,101	406	14,808
Total	$1,485,380	$ 670,011	$ 612,881	$1,542,510

Fixed assets include 656,983 acres of forest and other lands valued at one dollar per acre.

The following schedule summarizes the fixed assets of the enterprise, internal service, trust and agency funds and the college and university fund types as of June 30, 1999 (in thousands):

	Enterprise	Internal Service	Trust and Agency	College and University
Land	$ 318	$ 10,892	$ 1,677	$ 36,186
Buildings	99,246	195,384	9,624	893,703
Improvements Other Than Buildings	6,764	3,249	194	69,631
Construction in Process	-	12,590	-	-
Equipment and Machinery	23,442	105,923	2,959	434,573
Data Processing Software	423	4,405	292	-
Leasehold Improvements	743	1,499	-	-
Capital Leased Property	6,683	-	-	-
Museum Collection	-	-	-	30,147
Allowance for Depreciation	(64,863)	(138,939)	(2,275)	-
Total	$ 72,756	$195,003	$12,471	$1,464,240

The following schedule summarizes the fixed assets of SAIF Corporation and Oregon Health Sciences University (OHSU), discretely presented component units of the State, as of December 31, 1998 and June 30, 1999, respectively, (in thousands):

	SAIF	OHSU
Land	$ 2,963	$ 5,513
Buildings	25,970	542,189
Construction in Process	-	16,975
Equipment and Machinery	20,546	270,057
Data Processing Software	8,468	-
Allowance for Depreciation	(25,630)	(305,693)
Total	$32,317	$529,041

6. LONG-TERM DEBT

A. General Obligation Bonds. Articles XI, section 7, XI-G, and XI-H of the State's constitution authorize the issuance of general obligation bonds for financing community colleges, highway construction, and pollution control facilities. Higher education institutions and activities and community colleges debt service requirements are financed through an appropriation from the General Fund. Facilities acquired under the pollution control program are required to conservatively appear to be at least 70% self-supporting and self-liquidating from revenues, gifts, federal government grants, user charges, assessments, and other fees. The debt associated with these bonds is reflected in the General Long-Term Debt Account Group.

Articles XI-A, XI-I(1), XI-I(2), and XI-J of the State's constitution authorize the issuance of general obligation bonds to make farm and home loans to veterans, provide loans for state residents to construct water development projects, provide credit for multi-family housing for elderly and disabled persons, and for small scale local energy projects. These programs are self-supporting and are accounted for as enterprise funds. Certain provisions of the Water Resources general obligation bond indenture conflict with State statutes. Upon the advice of the Attorney General, the method of handling investment interest is in compliance with the statutes rather than the bond indenture.

Articles XI-F(1) and XI-G of the State's constitution authorize the issuance of general obligation bonds for financing higher education building projects, facilities, institutions, and activities. These bonds are accounted for in the college and university fund types.

The following schedule summarizes the changes in general obligation bond debt for the year ended June 30, 1999 (in thousands):

	Balance July 1, 1998	Additions	Deductions	Balance June 30, 1999
General Long-Term Debt				
Community College and Education Center	$ 14,215	$ -	$ 1,650	$ 12,565
State Highway	6,875	-	1,035	5,840
Pollution Control	73,390	5,000	14,350	64,040
Total General Long-Term Debt	94,480	5,000	17,035	82,445
Enterprise Funds				
Veterans' Affairs	2,085,308	-	574,297	1,511,011
Housing and Community Services	242,970	37,543	4,867	275,646
Energy	189,328	51,283	43,529	197,082
Water Resources	5,209	-	1,041	4,168
Total Enterprise Funds	2,522,815	88,826	623,734	1,987,907
College and University Funds	380,311	82,789	54,442	408,658
Total General Obligation Bonds	$2,997,606	$176,615	$695,211	$2,479,010

The following schedule shows the debt service requirements for general obligation bonds, including interest of approximately $1.7 billion, as of June 30, 1999 (in thousands):

Year Ending June 30,	General Long-Term Debt	Enterprise Funds	College and University Funds	Total
2000	$ 10,627	$ 312,753	$ 34,869	$ 358,249
2001	10,467	265,837	32,581	308,885
2002	10,293	256,195	32,330	298,818
2003	9,777	234,836	33,338	277,951
2004	7,604	216,994	35,865	260,463
Thereafter	69,106	2,016,724	544,030	2,629,860
Total	$117,874	$3,303,339	$713,013	$4,134,226

B. Revenue Bonds. Oregon Revised Statutes (ORS) Chapter 367 authorizes the Department of Transportation to issue revenue bonds for the modernization of state highways. The debt service payments are funded by the State Highway User Tax.

Oregon Revised Statutes authorized state park lottery bonds in ORS 390.060 to 390.080, drinking water infrastructure lottery bonds authorized by ORS 285B.530 to 285B.548 and education lottery bonds authorized by ORS 327.700 to 327.727. The lottery bonds authorized are revenue only and the use will be restricted to the availability of unobligated net lottery proceeds. The bonds are accounted for in the

General Long-Term Debt Account Group for the education and parks projects and in the enterprise funds for the drinking water projects.

ORS Chapter 565 authorizes the State Fair and Exposition Center to issue revenue bonds for the acquisition, capital construction and improvements, and other expenses of the State Fair and Exposition Center. ORS Chapter 456 authorizes the Housing and Community Services Department to issue revenue bonds to fund lower income housing loans. ORS Chapter 285 authorizes the Economic Development Department to issue revenue bonds for construction and financing of eligible economic development projects. These bonds are self-supporting and are accounted for in enterprise funds.

As authorized by ORS Chapter 288, the Oregon Health Sciences University, a discretely presented component unit of the State, may issue revenue bonds for the purpose of construction and rehabilitation of facilities, the acquisition of equipment and to refund a portion of a debt service agreement between OHSU and the Oregon University System. The revenue bonds are payable from the revenues of OHSU and are accounted for in OHSU's Unrestricted Fund.

The bonds reported under PERS are guaranteed by the Public Employees Retirement Fund.

The following schedule summarizes the changes in revenue bond debt for the year ended June 30, 1999 (in thousands):

Primary Government:	Balance July 1, 1998	Additions	Deductions	Balance June 30, 1999
General Long-Term Debt				
State Highway	$ 79,705	$ -	$ 5,125	$ 74,580
Education	-	159,030	-	159,030
Parks and Recreation	16,540	-	370	16,170
Total General Long-Term Debt	96,245	159,030	5,495	249,780
Enterprise Funds				
State Fair	4,274	12	411	3,875
Housing and Community Services	772,380	347,866	157,877	962,369
Economic Development	80,674	19,169	8,599	91,244
Total Enterprise Funds	857,328	367,047	166,887	1,057,488
Pension Trust				
PERS	48,900	-	600	48,300
Total Primary Government	1,002,473	526,077	172,982	1,355,568
Discretely Presented Component Units:				
Oregon Health Sciences University	205,828	112,815	3,809	314,834
Total Revenue Bonds	$1,208,301	$638,892	$176,791	$ 1,670,402

The following schedule shows the debt service requirements for revenue bonds, including coupon interest and accreted interest of approximately $1.3 billion, as of June 30, 1999 (in thousands):

Year Ending June 30,	General Long-Term Debt	Enterprise Funds	Pension Trust	Discretely Presented Component Units	Total
2000	$ 26,486	$ 270,097	$ 5,014	$ 18,275	$ 319,872
2001	26,971	66,963	4,956	18,430	117,320
2002	26,973	68,358	4,997	20,001	120,329
2003	26,964	68,253	5,030	19,011	119,258
2004	26,969	68,229	4,955	16,633	116,786
Thereafter	221,513	1,333,563	93,690	537,521	2,186,287
Total	$355,876	$1,875,463	$118,642	$629,871	$2,979,852

C. Certificates of Participation. Oregon Revised Statutes, Chapter 283, authorizes the State to enter into financing agreements through the issuance of certificates of participation.

The Department of Employment, Department of Transportation, Department of Administrative Services, and the Oregon University System have used certificates of participation for the acquisition of computer systems. Also, certificates of participation have been used for the acquisition, construction, or remodeling of buildings by the Departments of Administrative Services, Fish and Wildlife, Agriculture, Oregon University System, Forestry, Military, Corrections, the State Fair, Public Employees Retirement System, and Oregon Youth Authority. Further, certificates of participation were used in the acquisition of a telecommunications system by the Department of Administrative Services, and the Adult and Family Services Division of the Department of Human Resources.

Certificates of participation may be accounted for in the General Long-Term Debt Account Group, Enterprise Funds, Internal Service Funds, Pension Trust Fund, or the College and University Fund types.

The following schedule summarizes the changes in the certificates of participation debt for the year ended June 30, 1999 (in thousands):

	Balance July 1, 1998	Additions	Deductions	Balance June 30, 1999
General Long-Term Debt				
Employment	$ 3,075	$ -	$ 1,500	$ 1,575
Human Resources	1,921	-	764	1,157
Transportation	20,724	-	5,414	15,310
Corrections	414,795	104,612	102,325	417,082
Agriculture	615	-	145	470
Oregon Youth Authority	47,005	-	3,235	43,770
Fish and Wildlife	6,682	-	322	6,360
Forestry	6,655	-	-	6,655
Military	1,000	-	30	970
Total General Long-Term Debt	502,472	104,612	113,735	493,349

Enterprise Funds				
State Fair	307	6	71	242
Internal Service Funds				
Department of Administrative Services	124,894	980	9,161	116,713
College and University Funds				
Oregon University System	29,141	-	6,779	22,362
Pension Trust				
Public Employees Retirement System	8,300	-	275	8,025
Total Certificates of Participation	$665,114	$105,598	$130,021	$640,691

The following schedule shows the debt service requirements for certificates of participation, including interest of approximately $330 million, as of June 30, 1999 (in thousands):

Year Ending June 30,	General Long-Term Debt	Enterprise Funds	Internal Service Funds	College and University Funds	Pension Trust	Total
2000	$ 44,288	$ 85	$ 13,881	$ 7,903	$ 710	$ 66,867
2001	42,211	86	13,833	7,092	712	63,934
2002	41,952	87	12,823	5,068	714	60,644
2003	42,027	-	12,412	2,628	709	57,776
2004	39,159	-	12,265	2,163	709	54,296
Thereafter	606,648	-	117,126	-	9,251	733,025
Total	$816,285	$258	$182,340	$24,854	$12,805	$1,036,542

D. Other Long-Term Debt. The following schedule summarizes the changes in the General Long-Term Debt Account Group for amounts other than those associated with bonded indebtedness as of June 30, 1999 (in thousands):

	Balance July 1, 1998	Additions	Deductions	Balance June 30, 1999
Obligations Under Capital Lease	$ 514	$ -	$ 203	$ 311
Claim Loss Liability	1,120,855	-	9,594	1,111,261
Compensated Absences Payable	55,028	10,680	508	65,200
Arbitrage Rebate Payable	1,974	3,007	1,787	3,194
Contracts Mortgages and Notes Payable	-	93,200	-	93,200
Total	$1,178,371	$106,887	$12,092	$1,273,166

The Reserve for Claim Loss Liability in the Special Revenue Fund is reported as Amount Available for Retirement of Long-term Debt in the General Long-Term Debt Account Group.

E. Demand Bonds. Included in long-term debt at June 30, 1999 is $370 million of State of Oregon, General Obligation, Veterans' Welfare Variable Rate Demand Bonds, Series 73 E, F, G, and H. The bonds are general obligations of the State of Oregon and are payable from revenues and reserves of the Veterans' Loan Program. These bonds may be tendered by the bondholder on specified dates at a price equal to principal plus accrued interest.

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

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

No tender advances or draws have been necessary to purchase any unremarketed bonds under the SBPA. Therefore, no tender advances or draws are outstanding as of June 30, 1999. If a tender advance did occur, it would accrue interest at the bank's base rate (either a prime lending rate or the federal funds rate plus ½ of 1%, whichever is higher.) If the tender advance is in default, interest would accrue at the bank's base rate plus 1%. Interest on tender advances must generally be repaid first before the principal portion of a tender advance is repaid. In most cases, tender advances are required to be paid off in approximately two years. Tender advances could be paid off earlier than two years if the Department elected to do so. If repayment of any tender advances does not occur within the specified timeframes contained in the SBPA, a default would have occurred.

Each bank's present purchase commitment consists of the payment of the purchase price equal to the principal of and up to 40 days' of accrued interest calculated at a rate of 14 percent per annum, if any, on the bonds of the applicable series tendered for purchase and not remarketed on the purchase date. The purchase commitment of each bank may be reduced from time to time upon occurrence of certain events specified in the SBPA. The Department is required to pay a yearly commitment fee, which is payable quarterly in arrears, at a rate of .08 percent per annum, applied to purchase commitment defined above.

The present purchase commitments by the banks will remain in effect from June 30, 1999 to the earlier of (a) June 28, 2000 (scheduled expiration date), unless extended at the option of the bank; (b) the conversion of all outstanding bonds of a given series to either a variable rate or a fixed (or term) rate; (c) the date on which no bonds of a given series are outstanding; (d) the date on which the commitment with respect to a particular series has been terminated in accordance with the SBPA.

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

The following schedule shows no-commitment debt as of June 30, 1999 (in thousands):

No-Commitment Debt	
Economic Development	$ 623,485
Health, Housing, Educational and Cultural Facilities Authority	325,072
Total No-Commitment Debt	$ 948,557

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

The following provides a brief description of the current/advance refunding issues that occurred between July 1, 1998, and June 30, 1999:

General Long Term Debt Account Group

Department of Corrections

On February 15, 1999, the Department of Administrative Services issued 1999 Series A Certificates of Participation on behalf of the Department of Corrections totaling approximately $104.6 million with an average interest rate of 5.0 percent. These certificates were issued to advance refund outstanding 1997 Series A Certificates totaling approximately $95.6 million with an average interest rate of 5.89 percent. The net proceeds were used to purchase United States Treasury Obligations and are held by Norwest Bank Minnesota, N.A. as escrow agent.

The advance refunding of these certificates reduces the total debt service payments over the next 25 years by approximately $3.2 million to have an economic gain of approximately $3.1 million.

Enterprise Funds

Department of Energy

On October 1, 1998, the Department of Energy issued four series of General Obligation, Alternate Energy Bonds totaling approximately $24.0 million with an average interest rate of 4.42 percent. These bonds were issued to current refund outstanding bonds totaling approximately $24.4 million with an average interest rate of 6.71 percent. Four prior bonds were refunded: 1992 Series D, 1985 Series D, 1991 Series B, and 1992 Series E. The net proceeds were deposited in the Small Scale Energy Loan Program Sinking Fund Bond Redemption Account and invested in the State Treasurer's Short Term Investment Pool.

The Department of Energy's current refunding of these bonds increased the total debt service payments over the next 30 years by approximately $100 thousand but will have an economic gain of approximately $2.6 million.

On April 1, 1999, the Department of Energy issued three series of General Obligation, Alternate Energy Bonds totaling approximately $20.0 million with an average interest rate of 4.88 percent. These bonds were issued to current refund outstanding bonds totaling approximately $18.7 million with an average interest rate of 6.59 percent. Four prior bonds were refunded: 1991 Series A, 1992 Series C, 1990 Series B, and 1992 Series F. The net proceeds were deposited in the Small Scale Energy Loan Program Sinking Fund Bond Redemption Account and invested in the State Treasurer's Short Term Investment Pool.

The Department of Energy's current refunding of these bonds reduces the total debt service payments over the next 13 years by approximately $2.05 million to have an economic gain of approximately $1.08 million.

Oregon Economic Development Department

On October 27, 1998, the Oregon Economic Development Department issued Revenue Refunding Bonds totaling approximately $6.1 million with an average interest rate of 4.54 percent. These bonds were issued to advance refund outstanding 1994 Series One Revenue Bonds totaling approximately $5.4 million with an average interest rate of 6.43 percent. The net proceeds were used to purchase United States Treasury Obligations and are held in a special trust account and irrevocable escrow.

The Economic Development Department's advance refunding of these bonds reduces the total debt service payments over the next 17 years by approximately $630 thousand to have an economic gain of approximately $314 thousand.

Internal Service Funds

Department of Administrative Services

On February 15, 1999, the Department of Administrative Services issued 1999 Series A Certificates of Participation totaling approximately $3.59 million with an average interest rate of 5.0 percent. These certificates were issued to advance refund outstanding 1997 Series A Certificates totaling approximately $3.28 million with an average interest rate of 5.88 percent. The net proceeds were used to purchase United States Treasury Obligations and are held by Norwest Bank Minnesota, N.A. as escrow agent.

The Department of Administrative Service's advance refunding of these certificates reduces the total debt service payments over the next 25 years by approximately $128 thousand to have an economic gain of approximately $107 thousand.

Colleges and University Funds

Oregon University System

On November 1, 1998, the Oregon University System issued three series of General Obligation, Baccalaureate Bonds totaling approximately $37.0 million with an average interest rate of 4.98 percent. These bonds were issued to advance refund outstanding bonds totaling approximately $32.6 million with an average interest rate of 5.98 percent. Two prior bonds were refunded: 1996 Series A and C. A portion of the net proceeds were used to purchase United States Treasury Obligations and are held by The Bank of New York as escrow agent.

The Oregon University System's current refunding of these bonds reduces the total debt service payments over the next 28 years by approximately $2.1 million to have an economic gain of approximately $1.4 million.

H. Summary of Defeased Debt. The following schedule summarizes the amount of bonds and certificates of participation outstanding that are considered defeased as of June 30, 1999 (in thousands):

General Long-Term Debt	
Corrections	$ 6,875
Transportation	9,620
Fish and Wildlife	3,275
Total General Long-Term Debt	19,770
Enterprise Funds	
Economic Development	22,595
Water Resources	13,005
Total Enterprise Funds	35,600

Internal Service Funds	
Administrative Services	74,960
College and University Funds	
Oregon University System	106,317
Total Defeased Bonds and Certificates of Participation	$236,647

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

The following schedule identifies outstanding arbitrage rebate liabilities as of June 30, 1999 (in thousands):

General Long-Term Debt	
Forestry	$ 61
Environmental Quality	187
Transportation	35
Corrections	2,504
Oregon Youth Authority	187
Fish and Wildlife	14
Agriculture	6
Military	5
Parks and Recreation	195
Total General Long-Term Debt	3,194
Enterprise Funds	
Energy	103
Housing and Community Services	2,427
Economic Development	77
Veterans' Affairs	151
Total Enterprise Funds	2,758
Internal Service Funds	
Administrative Services	173
Pension Trust Funds	
Public Employees Retirement System	24
College and University Funds	
Oregon University System	354
Total Arbitrage Rebate Liability	$6,503

7. INTERFUND TRANSACTIONS

The following schedule summarizes due to and from other funds as well as advances to and from other funds as of June 30, 1999 (in thousands):

Primary Government	Due From Other Funds	Due To Other Funds	Advances From Other Funds	Advances to Other Funds
General Fund	$ 50,157	$ 21,533	$ 8,162	$ 50,981
Special Revenue Fund				
Highway	2,764	15,523	240	-
Consumer and Business Services	4,348	6,466	-	-
Federal Grants and Programs	23,904	51,376	95	-
Other Grants and Programs	49,102	63,316	51,929	60
Wildlife	739	2,000	2,751	-
Human Services	59,466	8,604	-	-
Natural Resources	5,835	1,970	-	-
Residential Service Protection	-	43	-	-
Lottery	129,899	80,285	-	-
Total Special Revenue Funds	276,057	229,583	55,015	60
Debt Service Funds				
Revenue Bonds	9,997	-	-	-
Certificates of Participation	35	34	-	-
Pollution Control Bonds	-	11	-	-
Total Debt Service Funds	10,032	45	-	-
Capital Projects Funds	3,144	-	-	-
Enterprise Funds				
Housing and Community Services	452	124	-	3,691
Veterans' Affairs	27	-	-	734
Small Scale Energy	-	-	-	18,267
State Hospitals	14,610	3,283	1,531	-
Lottery	-	72,256	-	-
Liquor Control	-	1,425	-	-
Veterans' Home	-	-	734	-
Other	1,669	-	400	300
Total Enterprise Funds	16,758	77,088	2,665	22,992
Internal Service Funds				
Central Services	491	33,742	60	-
Legal Services	5	2,002	-	-
Audit Services	15	-	-	-
Inmate Work	-	-	2,557	-
Total Internal Service Funds	511	35,744	2,617	-
Pension Trust Fund	4,609	4,520	-	-
Nonexpendable Trust Funds				
Common School	1,444	1,505	-	-
Education Endowment	10,962	333	-	-
Other	35	182	-	2,751
Total Nonexpendable Trust Funds	12,441	2,020	-	2,751

	Due From Other Funds	Due To Other Funds	Advances From Other Funds	Advances to Other Funds
Expendable Trust Funds				
Unemployment Insurance	657	1,082	-	150
Conservatorship Trust	-	28	-	-
Deferred Compensation	-	89	-	-
Other	547	3,157	-	-
Total Expendable Trust Funds	1,204	4,356	-	150
Agency Funds	-	79	-	-
College and University Funds				
Unrestricted Current Funds	26,323	2,136	-	-
Restricted Current Funds	35	25,400	-	-
Unexpended Plant Funds	-	1,599	-	-
Investment in Plant	-	-	8,475	-
Renewal and Replacement Plant Funds	1,237	-	-	-
Total College and University Funds	27,595	29,135	8,475	-
Total Primary Government	402,508	404,103	76,934	76,934
Discretely Presented Component Units				
Oregon Health Sciences University	1,595	-	-	-
Total Reporting Entity	$ 404,103	$ 404,103	$ 76,934	$ 76,934

The following schedule summarizes operating transfers and residual equity transfers for the year ended June 30, 1999 (in thousands):

	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
Primary Government				
General Fund	$ 71,542	$ 387,199	$ 56	$ -
Special Revenue Fund				
Highway	42,289	83,091	-	-
Consumer and Business Services	27,388	32,329	-	-
Federal Grants and Programs	57,351	95,656	-	-
Other Grants and Programs	415,446	381,026	17	-
Education	400	-	-	-
Wildlife	3,356	9,554	-	-
Human Services	52,383	21,645	-	-
Natural Resources	49,264	16,462	-	527
Residential Service Protection	-	370	-	-
Lottery	524,966	319,740	5,155	5,157
Total Special Revenue Funds	1,172,843	959,873	5,172	5,684
Debt Service Funds				
Revenue Bonds	32,734	11,030	-	-
Certificates of Participation	9,603	864	-	-
General Obligation Bonds	2,361	-	-	-
Pollution Control Bonds	902	19	-	-
Total Debt Service Funds	45,600	11,913	-	-

	Operating Transfers In	Operating Transfers Out	Residual Equity Transfers In	Residual Equity Transfers Out
Capital Projects Funds	8,372	692	-	56
Enterprise Funds				
Housing and Community Services	14,584	12,449	-	-
Veterans' Affairs	210,282	210,282	-	-
Small Scale Energy	32,308	32,308	-	-
Water Resources	1,918	1,918	-	-
Business Development	65	365	-	-
Special Public Works	12,868	12,868	-	-
State Hospitals	42,055	21,301	-	-
Lottery	-	294,788	-	-
Liquor Control	63,439	126,603	-	-
Veterans' Home	40	30	-	-
Other	15,772	10,115	-	9
Total Enterprise Funds	393,331	723,027	-	9
Internal Service Funds				
Central Services	31,111	38,520	-	-
Legal Services	23,829	23,778	-	-
Audit Services	-	972	-	-
Forestry	-	351	573	-
Other	326	90	-	-
Total Internal Service Funds	55,266	63,711	573	-
Expendable Trust Funds				
Unemployment Insurance	918,477	924,561	-	-
Human Services Administrative Trust	1	-	-	15
Conservatorship Trust	-	59	-	-
Other	3,842	20,631	343	-
Total Expendable Trust Funds	922,320	945,251	343	15
Nonexpendable Trust Funds				
Common School	21,803	22,822	-	25
Education Endowment	57,573	333	-	-
Other	822	777	-	343
Total Nonexpendable Trust Funds	80,198	23,932	-	368
College and University Funds				
Unrestricted Current Funds	296,055	229	-	-
Restricted Current Funds	2,115	-	-	-
Unexpended Plant Funds	3,500	-	-	-
Retirement of Indebtedness	8,665	-	-	-
Total College and University Funds	310,335	229	-	-
Total Primary Government	3,059,807	3,115,827	6,144	6,132
Discretely Presented Component Units				
Oregon Health Sciences University	56,020	-	-	-
Total Reporting Entity	$3,115,827	$3,115,827	$ 6,144	$ 6,132

The net difference of $12,000 between residual equity transfers in and transfers out consists of transactions between internal service funds and the General Fixed Assets Account Group.

8. FUND EQUITY

A. *Deficit Retained Earnings.* The following funds had deficit retained earnings as of June 30, 1999 (in thousands):

	Deficit Retained Earnings
Internal Service Funds	
Other	$ (733)
Enterprise Funds	
Water Resources	(6,263)
Veterans' Home	(1,115)
Total Deficit Retained Earnings	$ (8,111)

B. *College and University Fund Equity.* The following schedule classifies college and university fund balances as of June 30, 1999 (in thousands):

	Fund Equity
Restricted	
Endowments	$ 29,785
Quasi-Endowments	29,228
Governmental Loan Funds	69,913
Institutional Loan Funds	8,909
Gifts, Grants and Contracts	37,267
Total Fund Balance - Restricted	175,102
Unrestricted	
Designated Accounts	63,708
Quasi-Endowments	6,908
Undesignated	33,585
Net Investment in Plant	1,158,672
Total Fund Balance - Unrestricted	1,262,873
Total Fund Balance	$1,437,975

C. *Change in Contributed Capital Accounts*

	Beginning Balance July 1, 1998	Contributed Capital Additions	Contributed Capital Reductions	Ending Balance June 30, 1999
Enterprise Funds:				
Housing and Community Services	$ 906	$ -	$ -	$ 906
Water Resources	7,405	-	-	7,405
Business Development	13,026	-	-	13,026
State Hospitals	12,631	-	-	12,631
Liquor Control	3	-	-	3
Veterans' Home	13,444	111	329	13,226
Other	5,433	1	-	5,434
Total Enterprise Funds	$ 52,848	$ 112	$ 329	$ 52,631

Internal Service Funds:				
Central Services	$ 88,390	$ -	$ -	$ 88,390
Audit Services	80	-	-	80
Forestry	4,462	215	-	4,677
Inmate Work	6,319	87	-	6,406
Other	3,381	-	-	3,381
Total Internal Service Funds	$ 102,632	$ 302	$ -	$102,934

9. INTERGOVERNMENTAL ASSISTANCE PROGRAMS

A. Surplus Food Commodities. The State distributes surplus food commodities received from the federal government. The financial activity associated with these surplus food commodity transactions is not reported in the accompanying financial statements. Total surplus food commodities distributed for the year ended June 30, 1999, were approximately $10.1 million. The balance of these surplus food commodities on hand as of June 30, 1999, totaled approximately $232 thousand. The values are based on the quantity of the surplus food commodity multiplied by the commodity's current retail value.

B. Guaranteed Student Loans. The State administers guaranteed student loans issued by the federal government and acts as a collection agent for defaulted loans. New guaranteed student loans made in the year ended June 30, 1999, totaled approximately $101.8 million. The outstanding receivable balance of defaulted guaranteed student loans as of June 30, 1999, totaled approximately $118.5 million. The financial activities and balances of these guaranteed student loans are not reported in the accompanying financial statements.

10. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The State provides many enterprise activities such as mortgage loan programs, lotteries, liquor control, and other services. The following schedule identifies selected financial information for major segments as of and for the year ended June 30, 1999 (in thousands):

	Housing and Community Services	Veterans' Affairs	Small Scale Energy	Special Public Works	State Hospitals	Lottery	Liquor Control	All Other	Total Enterprise Funds
Operating Revenues	$73,814	$127,144	$15,628	$6,236	$110,299	$736,385	$225,791	$26,302	$1,321,599
Depreciation and Amortization	1,712	475	-	516	1,357	7,607	434	1,366	13,467
Operating Income (Loss)	1,106	359	2,560	371	(47,592)	310,591	64,883	317	332,595
Operating Transfers In	14,584	210,282	32,308	12,868	42,055	-	63,439	17,795	393,331
Operating Transfers Out	12,449	210,282	32,308	12,868	21,301	294,788	126,603	12,428	723,027
Net Income (Loss)	2,737	(11,258)	2,560	371	(26,838)	15,803	1,758	5,674	(9,193)
Current Contributions:									
Residual Equity Trans Out	-	-	-	-	-	-	-	9	9
Property, Land, & Equipment:									
Additions	342	221	-	-	2,396	2,095	1,280	36	6,370
Deletions	65	2	-	-	-	22	39	10	138
Net Working Capital	391,293	576,498	25,745	28,625	20,335	107,980	14,067	56,381	1,220,924
Total Assets	1,404,608	1,672,107	219,639	111,864	51,615	243,360	33,530	136,919	3,873,642
Bonds and Other Long-term Liabilities Payable from Operating Revenues	1,022,976	1,369,136	166,303	51,184	6,022	83,805	446	44,607	2,744,479
Total Equity	124,949	78,606	12,281	55,859	30,175	47,462	19,243	86,270	454,845

11. EMPLOYEE RETIREMENT PLANS

A. Plan Descriptions. The Public Employees Retirement System (PERS) is a statewide defined benefit retirement plan for units of state government, school districts, community colleges, and political subdivisions of the State. PERS is administered by the Public Employees Retirement Board (Board) under the guidelines of Chapter 238 of the Oregon Revised Statutes, and it provides retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries.

PERS is a single pension plan that features both a cost-sharing multiple-employer pension plan and an agent multiple-employer pension plan. All plan assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of the plan. For units of State government, community colleges, and school districts, participation in the PERS cost-sharing multiple-employer plan is mandatory. For political subdivisions of the State, PERS is an agent multiple-employer plan. Participation by most political subdivisions is optional, but irrevocable if elected. The State has no obligation to contribute, and it does not contribute, to the agent multiple-employer pension plan. At June 30, 1999, PERS had 816 employer members consisting of:

State Agencies	115
Community Colleges	17
School Districts	215
Political Subdivisions	469
	816

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

Effective July 1, 1996, the Oregon Health Sciences University (OHSU) established the University Pension Plan (UPP). The UPP is a defined contribution plan that is available to employees as an alternative to PERS. Employees become fully vested in employer contributions over a four-year period. The Board determines contribution levels. Employer contributions to the plan are 6% of salary and employee contributions are an additional 6%. Currently OHSU is funding employee contributions.

The 1995 Oregon Legislature enacted legislation authorizing the Oregon University System (OUS) to offer a defined contribution retirement plan as an alternative to PERS. Beginning April 1, 1996, the Optional Retirement Plan (ORP) became available to OUS unclassified faculty and staff who were eligible for PERS.

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

Plan investments are reported at fair value. Open-end mutual funds, debt securities, equity securities, option contracts, stock warrants, and stock rights are valued at the last reported sales price if an active market for the investment exists. For investments that do not have an active market, fair value is estimated based on markets for similar investments. If no market information is available, a forecast of expected cash flows, discounted at a rate commensurate with the expected risk involved, is used to estimate fair value.

C. Funding Policies. The PERS funding policy provides for plan contributions to accumulate sufficient assets to pay retirement benefits when due. Plan member contributions are established by State statute; the Board, based on the required actuarially determined rate, establishes State employer contributions. The following schedule summarizes the required State employee contributions and the required State employer contributions, shown as a percentage of covered salary, for the PERS multiple-employer plans, as of June 30, 1999:

	Employee	Employer
State Agencies and Community Colleges.........	6.0%	8.20%
Judiciary...	7.0%	20.47%
School Districts	6.0%	9.93%
Political Subdivisions	6.0%	10.20%

The State employer contributions to PERS for the years ended June 30, 1999, 1998, and 1997 were approximately $150.4 million, $139.0 million, and $145.3 million, respectively, and were equal to the required contributions for each year.

	Employee	Employer
University Pension Plan (UPP).......................	6.0%	6.0%

The OHSU employer contributions to the UPP for the years ended June 30, 1999, 1998, and 1997 were approximately $2.5 million, $1.3 million and $674 thousand respectively, and were equal to the employee contributions for each year.

	Employee	Employer Tier 1, 2
Optional Retirement Plan (ORP)	6.0%	8.20%, 5.75%

The OUS offers a variety of retirement options including TIAA-CREF, FERS (federal) and regular Federal Retirement, with the two largest plans being PERS and ORP. The OUS employer contribution to the ORP for the year ending June 30, 1999 was approximately $6.3 million.

12. OTHER POSTEMPLOYMENT BENEFITS

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

Oregon Revised Statute 238.420 established the Retirement Health Insurance Account (RHIA) and authorized the payment of up to $60 toward the monthly cost of health insurance for eligible PERS members. To qualify, the member must: (1) have eight years or more qualifying service in the PERS system at the time of retirement, or receive a disability allowance as if the member had eight years or more of creditable service in the PERS system, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health plan.

A surviving spouse or dependent of a deceased PERS retiree who had been eligible to receive the contribution is eligible to receive the subsidy if the individual is receiving a retirement benefit or allowance from PERS, or the individual was insured at the time the member died and the member retired before May 1, 1991.

All PERS employers currently contribute 0.65 percent of covered payroll to fund the RHIA. This contribution is included in the employer contribution rates discussed in Note 11. The employer contribution rate covers the normal cost and an amount for amortization of the unfunded actuarial accrued liability over a 30-year period.

Employers' contributions are advance-funded on an actuarially determined basis. The employers' aggregate actual contribution for the year ended June 30, 1999, totaled approximately $34.9 million. The number of active plan participants totaled 31,163 for the year ended June 30, 1999.

Oregon Revised Statutes 238.415 established the Retirement Health Insurance Premium Account (RHIPA) and requires the board on or before January 1 of each year to calculate the average difference between the health insurance premiums paid by retired state employees under contracts entered into by the board and health insurance premiums paid by state employees who are not retired. ORS 238.415 authorizes payment of this average difference to qualified retired state employees. Retired state employees are qualified to receive this benefit if they had eight or more years of qualifying service in the system at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage.

A surviving spouse or dependent of a deceased retired state employee is eligible to receive the subsidy if he or she is receiving a retirement benefit or allowance from PERS or was insured at the time the member died and the member retired on or after September 29, 1991.

For state agencies, the actuarial valuation as of December 31, 1995 includes 0.16 percent of PERS covered salaries to fund the RHIPA. This rate went into effect July 1, 1997.

The number of active plan participants totaled 865 for the year ended June 30, 1999.

The postemployment retirement health care benefit obligation was determined as part of the actuarial valuation prepared by the PERS consulting actuary at December 31, 1997. Significant assumptions used in the actuarial update include: a rate of return on the investment of present and future assets of 8.0 percent per annum compounded annually, and additional projected salary increases attributable to seniority and merit.

There is no inflation assumption for postemployment retirement health care benefits because the Retirement Health Insurance Account payment amount is set by statute and is not adjusted for increases in health care costs.

13. DEFERRED COMPENSATION PLANS

The deferred compensation plans (plans) were authorized under Internal Revenue Code Section 457 and Oregon Revised Statutes 243.400 to 243.507. One plan is a benefit available to all State employees (State plan) wherein they may execute an individual agreement with the State for amounts earned by them to be paid at a future date; ORS 243.435 provides for PERS to administer this plan. A second plan is a benefit available to SAIF Corporation employees (SAIF plan) wherein they may execute an individual agreement with SAIF Corporation for amounts earned by them and paid at a future date. Participants in the plans are not required to pay federal or State income taxes on the deferred earnings until these earnings are received. Participants or their beneficiaries cannot receive the funds until at least one of the following circumstances is met: termination by reason of death; disability; resignation; retirement; or unforeseeable emergency. Payments to participants may be made over a period not to exceed the life expectancy of the participant and/or spouse. Employees of education institutions may participate in both the State plan described in this note and the 403(b) tax-deferred annuity programs.

Beginning in November 1996, PERS contracted with State Street Bank to maintain the Oregon Savings Growth Plan participant records. The Oregon State Treasury, as custodian of the assets, also contracted with State Street Bank to provide financial services. There are nine asset classifications with varying degrees of market risk, with account balances totaling $503.1 million. Three or more financial institutions provide investment services for each asset classification. A participant receives a blend of these funds within the asset class. Account balances totaling $41.6 million remain with various financial institutions, for participants who were receiving distributions. The records for these participants are maintained by the various financial institutions responsible for their assets.

Activity of the State plan is accounted for in an expendable trust fund as required by GASB Statement No. 32. The investments are valued at market and totaled approximately $544.7 million as of June 30, 1999.

The SAIF plan assets are held in a custodial account or an annuity contract by the plan provider for the exclusive benefit of the participants or beneficiary. In 1998, the plan was amended to comply with Internal Revenue Code 457(g). In accordance with GASB Statement No. 32, the plan assets and the corresponding liability are not reported in the SAIF Corporation balance sheet at December 31, 1998.

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

14. RISK FINANCING

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

- Direct physical loss or damage to State property
- Tort liability claims brought against the State, its officers, employees, or agents
- Inmate injury
- Workers' compensation
- Honesty and faithful performance bonds for employees, elected officials, and members of commissions and boards.

A commercial excess property policy with a limit of $300 million, and a blanket commercial excess bond with a limit of $20 million, back the fund. The division purchases commercial insurance for specific insurance needs not covered by the fund. The amount of claim settlements did not exceed insurance coverages for each of the past three fiscal years.

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

The division purchases workers' compensation insurance for the State from SAIF Corporation. The Insurance Fund reimburses SAIF Corporation for claim costs and service fees. The division purchased retrospective self-insurance plans for fiscal years 1994 through 1999 that have cash flow and investment earnings advantages. The plans are five years in length for fiscal years 1994 through 1996. They are ten years for fiscal years 1997 through 1999. The accumulated claim loss liability for the plans was approximately $18 million as of June 30, 1999. The division assesses a risk charge to each State agency based on its share of losses. Independent actuaries determine biennial loss forecasts.

The Insurance Fund reports liabilities when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims and legal expenses that have been incurred but not reported. The estimation process is not exact since actual claim liabilities depend on inflation and changes in legal doctrines and damage awards. The division reevaluates claim liabilities periodically, considering recently settled claims, the frequency of claims and other economic and social factors. The division discounts claim liabilities at four to seven percent. Contracted actuaries estimate claims and allocated and unallocated expenses, including legal expenses, which are incurred but not reported. They use the last 10 to 16 years of State claims data and the projected numbers of employees, payroll, vehicles and other property. They forecast ultimate losses by line of coverage.

The changes in the balances of aggregate claim liabilities for the years ended June 30, 1999, and 1998 (in thousands) are:

Fiscal Year	Beginning Balance	Increase in Claims or Estimate	Claim Payments	Ending Balance
1999	$ 64,636	$ (513)	$ (16,969)	$ 47,154
1998	60,049	21,600	(17,013)	64,636

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

The financial activity for SAIF Corporation is discretely presented in the financial statements. The liability for claims and claim adjustment expenses is generally based on experience. This includes provision for reported claims, claims incurred but not reported and claims that are currently closed but which experience indicates will be reopened.

SAIF Corporation discounts certain indemnity claim reserves to their present value at a rate of 3.5 percent. The total discount reflected in the claim reserves as of December 31, 1998, was $94.8 million.

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

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

Long-term liabilities were actuarially computed as of June 30, 1999 using the discounted cost valuation method. These liabilities are reported in the General Long-Term Debt Account Group.

15. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments over $5 million are included in total prior period adjustments by fund type in the accompanying financial statements:

General Fund - A restatement of fund balance due to cumulative errors discovered in the conversion to a new statewide financial reporting system resulted in a $7.3 million adjustment.

Special Revenue Funds – The Department of Transportation restated fund balances due to cumulative adjustments to prior year transaction activity. These restatements resulted in a $5.9 million adjustment.

Internal Service Funds – The Department of Administrative Services adjusted fixed assets that were incorrectly classified in prior accounting periods. These reclassifications resulted in a $6.4 million adjustment.

16. EXTRAORDINARY ITEMS

Oregon Housing and Community Services Department. During the year ended June 30, 1999, the agency called Mortgage Revenue Bonds and Elderly and Disabled Housing Bonds. These bonds were called at par, prior to maturity. The aggregate principal of the bonds was approximately $94 million. These early retirements resulted in a loss on bond call of about $501 thousand.

Oregon Department of Veterans' Affairs. During the year ended June 30, 1999, the agency called almost $394 million in general obligation bonds. These bonds were called at par, prior to maturity. These early bond redemptions resulted in a loss on bond call of about $12.3 million.

In October 1994, the Department, through the State Attorney General’s office, filed a lawsuit against a computer vendor for alleged failure to meet its contractual obligations. In July 1999, the Department, through the State Attorney Generals office, received about $654 thousand as a result of an agreed-upon settlement with that vendor.

17. COMMITMENTS

A. Construction. The Oregon University System capital project commitments as of June 30, 1999, totaled approximately $186.4 million. These commitments will be primarily funded from gifts, grants, bond proceeds, and other system funds and will be accounted for in the colleges and universities fund.

At June 30, 1999, the Department of Transportation had contractual commitments of approximately $395.3 million for construction of various highway projects. Funding for these future expenditures is expected to be provided by approximately $275.7 million in federal funds, approximately $99.7 million in state funds, and approximately $19.9 million in local funds and will be accounted for in special revenue funds.

The Department of Corrections has outstanding construction commitments related to building correctional facilities throughout the state. As of June 30, 1999, these commitments represent approximately
$604.6 million to be paid out of the proceeds of certificates of participation sales in the capital projects fund.

Other capital project commitments outstanding as of June 30, 1999 totaled approximately $68.1 million. These are ongoing projects at various agencies.

The Oregon Health Sciences University, a component unit of the State, had outstanding construction commitments of approximately $3.6 million as of June 30, 1999. The sources of payments for these commitments are primarily gifts, grants, bond proceeds, and other university funds.

Buildings, such as those occupied by the Departments of Military and Employment, were either paid for or were leased utilizing, in part, federal funds. This use of federal funds may create a federal equity in these buildings. The share of federal equity cannot be determined and thus is not reflected as a liability.

B. Lease Obligations. Financial reporting and accounting procedures differ between operating leases and capital leases. Operating leases are rental agreements where the payments on these leases are chargeable as rent and recorded in the services and supplies expenditure account. Capital leases are treated similar to purchases on contract. The property is capitalized at the present value when the lease is incurred and a corresponding liability is recorded.

Should the Legislature disallow the necessary funding for particular leases, all lease agreements contain termination clauses, which provide for cancellation of the lease as of the end of a fiscal year. The liability for capital leases of real and personal property is included in the accompanying financial statements. Lease obligations decrease each year because of lease expirations. It is expected these leases will be replaced with leases that have higher rental rates due to inflation.

The following schedule summarizes the minimum lease payments for operating and capital leases as of June 30, 1999, (in thousands):

	Operating Leases		Capital Leases				
Year Ending June 30, 1999	Primary Government	Component Unit	General Long-Term Debt	Enterprise Funds	Internal Service Funds	College and University Funds	Component Units
2000	$ 51,660	$ 5,536	$ 109	$ 3,558	$ 44	$ 845	$ 1,722
2001	46,385	4,680	87	2,676	21	841	1,076
2002	40,052	3,889	87	1,524	-	662	1,067
2003	35,619	3,669	58	282	-	120	1,067
2004	32,136	2,014	-	45	-	50	1,063
Thereafter	70,226	-	-	-	-	2	6,378
Total Future Minimum Lease Payments	$ 276,078	$ 19,788	341	8,085	65	2,520	12,373
Less Amounts Representing Interest			(30)	(845)	(4)	(1,331)	(4,812)
Present Value of Minimum Lease Payments			$ 311	$ 7,240	$ 61	$ 1,189	$ 7,561

C. Other Commitments. At June 30, 1999, the Department of Human Services had outstanding community services contract commitments of approximately $504.5 million. Funding for these future expenditures is expected to be provided from approximately $243.6 million in general funds, approximately $249.7 million in federal funds, and approximately $11.2 million in other funds.

Contract commitments outstanding at June 30, 1999, of approximately $18.0 million were made by the Department of State Police. The source for payment of these contracts is federal funds.

The Economic Development Department has outstanding contracts with local governments of approximately $70.3 million as of June 30, 1999, that are to be paid as follows: approximately $30.7 million from federal funds, approximately $17.4 million from lottery funds and approximately $22.2 million from other funds.

The Department of Environmental Quality's outstanding pollution control loan commitments as of June 30, 1999 totaled approximately $125.9 million. Approximately $124.5 million in federal funds and approximately $1.4 million in other funds will fund these loans.

The Judicial Department has outstanding contracts for Indigent Defense Services of approximately $42.1 million as of June 30, 1999, which are to be paid from the general fund.

18. CONTINGENCIES

A. Litigation. The State is involved in certain legal proceedings that, if decided against the State, may require the State to make significant future expenditures or may impair future revenue sources. Because of the prospective nature of these legal proceedings, no provision for these potential liabilities has been recorded in the accompanying financial statements, except for the first case. The following summarizes the significant legal claims pending against the State:

- Several cases were filed in the Oregon Tax Court and the State circuit courts challenging whether a 1991 increase in Public Employees Retirement System (PERS) benefits, to offset State taxation of PERS benefits, violated a holding by the United States Supreme Court in *Davis v. Michigan Department of Treasury*. On June 18, 1998, the Oregon Supreme Court decided these cases in *Vogl v. Department of Revenue*. The court found that the benefits paid to State retirees were, in effect, tax rebates, and discriminatory under principles of intergovernmental tax immunity. The court held that the federal retirees are entitled to an equivalent tax benefit. As of June 30, 1999, the Department of Revenue has paid $215.7 million in refunds and has accrued a liability for an additional $102.8 million. The Department estimates that $49.2 million of refunds in addition to these amounts is reasonably possible and may become a liability in the future.

- In *Young v. State*, a class action complaint has been filed against the State on behalf of State managerial employees for unpaid overtime and compensation time. In the 1995 session, the Oregon Legislative Assembly amended the statutes to require that certain persons who work over forty hours per week receive overtime or compensation time. However, State managerial employees were not included in the express statutory exceptions. In its 1997 session, the legislature enacted an exemption that covered State managerial employees after 1997. The Circuit Court for Marion County ruled in favor of the State on its motion for summary judgment. The plaintiffs appealed the ruling to the Oregon Court of Appeals, which reversed the decision by the Marion County Circuit Court and remanded the case for entry of judgment for plaintiffs. The State appealed the decision to the Oregon Supreme Court, which has denied review of the Court of Appeals decision. The State intends to file a request for reconsideration with the Supreme Court. Based on the information available, no reasonable estimate of the liability or of the class size can be made.

- In addition to the foregoing cases, as of June 30, 1999, there were 1,191 notices of tort claims filed against the State. Of those claims, 312 also have been filed as court actions, and are pending against the State. These cases generally are pending in State courts and are subject to the liability limitations stated in the Tort Claims Act of $500,000 per occurrence, $200,000 per individual for personal injury, and $50,000 per occurrence for property damage. The likelihood of an unfavorable outcome in these cases ranges from probable to remote. The State has established a reserve for these cases, including legal fees and incurred but not reported cases, of $30.3 million.

B. Debt Guarantees. Article XI-K of the Oregon Constitution authorizes the State to guarantee the general obligation bonded debt of Oregon school districts, community colleges and education service districts. The Article authorizes the issuance of State general obligation bonds to satisfy the guarantee. The guarantee may also be satisfied by short-term borrowing from eligible state funds. Ultimate responsibility for debt service payments remains the responsibility of the respective district, and the

Treasurer will seek recovery if payments are made on behalf of any district. As of June 30, 1999, a total of $221.6 million in bonds was outstanding and guaranteed under these provisions.

C. Unemployment Benefits. State agencies are subject to the Department of Employment Act. State employees who qualify are entitled to benefit payments during periods of unemployment. Each State agency is required to reimburse the Department of Employment for benefit payments made to former employees. There appears to be no practical method of estimating the amount of future benefit payments which may be made to former employees for wage credits earned prior to fiscal year end. Consequently, this potential obligation is not reported in the accompanying financial statements. Expenditures relating to these benefits for the year ended June 30, 1999, totaled approximately $5.8 million.

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

19. SUBSEQUENT EVENTS

The following schedule summarizes the debt transactions that have occurred since July 1, 1999 (in thousands):

Bond Issues

General Obligation Bonds

Housing and Community Services Department	$ 26,175
Oregon University System	91,282

Revenue Bonds

Economic and Community Development Department	$ 2,200
Housing and Community Services Department	186,445
Department of Administrative Services	155,410

Bond Calls

General Obligation Bonds

Office of Energy	$ 18,685
Department of Veterans' Affairs	18,240
Department of Environmental Quality	2,365

Revenue Bonds

Housing and Community Services Department................................	$ 87,095
Health, Housing, Education and Cultural Facilities Authority.........	700
Economic and Community Development Department......................	1,020

Refunding

On October 5, 1999, the Small Energy Loan Program (Office of Energy) completed a contract to sell $26 million of bonds that were sold in February 1999. This money from the 1999 Series A bonds will be used to call 1987 Series A and 1987 Series B bonds on January 1, 2000.

Debt Guarantees

Under Article XI-K of the Oregon Constitution, $15.6 million in bonds for Lane County School District 97J were issued and guaranteed on July 1, 1999 and on September 1, 1999, $6.5 million in bonds for Yamhill County School District 8 were issued and guaranteed. Debt service payments remain the ultimate responsibility of the respective district.

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

YEAR 2000 READINESS DISCLOSURE

The following disclosure is required by the Governmental Accounting Standards Board and is provided under the provisions of the Year 2000 Information and Readiness Disclosure Act, Public Law 105-271.

Oregon is currently addressing year 2000 issues relating to its information technology systems and other electronic equipment. The year 2000 issue refers to the fact that many computer programs use only the last two digits to refer to a year. Therefore, both 1900 and 2000 would be referred to as "00." Business functions that rely upon electronic organization and communication of information may be adversely affected by such systems. Also, the year 2000 problem could affect electronic equipment - such as environmental systems, elevators, and vehicles - containing embedded computer chips that have date recognition features.

The Department of Administrative Services has created a Statewide Year 2000 Project Office (office) to help address the year 2000 issue. The office has identified 78 statewide information systems that are critical to conducting the State's business.

There are several stages involved in making information systems ready for the year 2000. These stages are:

- Awareness - Establishing a project plan and budget for dealing with the year 2000 issue.
- Assessment - Identifying the information systems and their components and checking them for readiness.
- Remediation - Making changes to systems to achieve year 2000 readiness. This can involve purchasing new equipment or rewriting computer code.
- Validation and testing - Determining that the conversion of existing systems was successful.

The State has completed the awareness stage for all its mission-critical systems. The assessment stage is over 99 percent complete. Remediation is about 97 percent complete, and validation and testing are 90 percent complete. The State is also developing business continuation plans to deal with internal and external year 2000 issues. There was some $25 million in significant commitments associated with year 2000 compliance issues as of June 30, 1999.

Because of the unprecedented nature of the year 2000 problem, its effects and the success of related correction efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the State is or will be year 2000 ready, that the State's remediation efforts will be completely successful, or that parties with whom the State does business will be year 2000 ready.