OHSU Board of Directors Meeting

October 31, 2011
SON – 358/364
11:00 a.m. – 12:00 p.m.

OREGON HEALTH & SCIENCE UNIVERSITY
BOARD OF DIRECTORS MEETING

October 31, 2011

11:00 a.m. – 12:00 p.m.

School of Nursing, Rooms 358 & 364

11:00 a.m.	Call to Order/ Chairman's Comments President's Comments	Charles Wilhoite Joe Robertson
11:05 a.m.	Review of FY 2011 Audit **(Action)**	Lawrence Furnstahl Drew Corrigan, KPMG Sara Opfer, KMPG
12:00 p.m.	Other Business; Adjournment	Charles Wilhoite

Next meeting: Thursday, December 1, 2011
OHSU School of Nursing
SON 358/364 – 1:00 – 3:00 p.m.

KPMG

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Oregon Health & Science University

Board of Directors Meeting

October 31, 2011

Andrew Corrigan
Sarah Opfer

Contents

- Purpose and scope of audit examinations
- Auditors’ responsibilities for communication with the board of directors

Purpose and scope of audit examinations

Purpose of audit

- To express an opinion that the financial statements "present fairly, in all material respects, the financial position and results of operations" of OHSU
- An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OHSU's internal control over financial reporting
- External audit procedures do not replace internal audit or management controls

Audit scope

- Oregon Health & Science University – Consolidated Report
  - University Hospital/Doernbecher Children's Hospital
  - University Activity
  - Faculty Practice Plan (FPP)
  - Research Activity
- Oregon Health & Science University Foundation
- Doernbecher Children's Hospital Foundation
- Oregon Health & Science University – OMB Circular A-133 (Federal grant audit)
- Oregon Health & Science University – Richmond Health Center
- OHSU Insurance Company (InsCo)
- OHSU – Child Development and Rehabilitation Center (CDRC) Supplement
- Agreed-upon Procedures: United Healthcare Contract

Auditors’ responsibilities for communication with the board of directors

The Auditor’s Responsibility under Auditing Standards Generally Accepted in the United States of America. Communicate responsibility assumed for the internal control structure, material errors, irregularities and illegal acts, etc.

- Our audit was designed in accordance with Government Auditing Standards to provide reasonable assurance that the financial statements are free of material misstatement.
- We have the responsibility to obtain sufficient understanding of internal control to plan our audits and determine the nature, timing and extent of procedures to be performed.
- We noted no material errors, irregularities or illegal acts. The changing regulatory environment places greater risk of compliance with regulatory requirements.
- We will issue an unqualified opinion stating that the financial statements of OHSU are fairly presented, in all material respects, in accordance with GAAP.

Significant Accounting Policies. The Board should be informed about the initial selection of and changes in significant accounting policies as well as the methods used to account for significant unusual transactions.

- No significant new accounting policies in the current year.

Auditors' responsibilities for communication with the board of directors (continued)

Non-routine Transactions. The Board should be informed about the methods used to account for significant or non-routine transactions

- We identified the following significant or non-routine transactions/events
  - New OUS debt

Management Judgments and Accounting Estimates. The Board should be informed about the process used by management in forming particularly sensitive accounting estimates and about the basis for the auditor's conclusions regarding the reasonableness of those estimates

- We agree with the estimates made in the financial statements, which primarily include:
  - Patient accounts receivable and related reserves
  - Third party reserves
  - Self-insurance reserves
  - Investment valuation

Auditors’ responsibilities for communication with the board of directors (continued)

Passed Adjustments. Any passed audit adjustments proposed by the auditor impacting earnings, but not recorded by the client, should be communicated to the Board

- Reversal of $2.1M in revenue for GME payments to the School of Dentistry received in prior year
- Reversal of $4.7M in revenue representing reimbursement for student loan disbursements that occurred during FY 2010

Recorded Audit Adjustments impacting earnings. All significant recorded audit adjustments arising from the audit should be communicated to the Board

- $2.3M reduction to revenue for update to estimate of FPP revenue accrual (based on additional information that became available after year-end)

Disagreements with Management. Disagreements with management, whether or not satisfactorily resolved, about matters that could be significant to the financial statements or the auditors’ report should be communicated to the Board

- There were no such disagreements

Other information in documents containing audited financial statements

- Management Discussion and Analysis
- Child Development and Rehabilitation Center Supplemental Financial Statements
- Combined and Combining Schedules

Auditors' responsibilities for communication with the board of directors (continued)

Difficulties Encountered in Performing the Audit. Serious difficulties encountered in dealing with management that relate to the performance of the audit are required to be brought to the attention of the Board.

- No difficulties were encountered in performing our audits.
- We received excellent cooperation from management and staff.

Deficiencies in Internal Control. Any deficiencies in internal control encountered while performing the audit are required to be brought to the attention of the Board.

- There were no material weaknesses noted in the internal control structure.

Auditor Independence.

- KPMG is independent of OHSU.

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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Final Editorial Review Completed

PLEASE COMPLETE

Date/Time Due ______________________

Services Requested:

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______	*Editorial Review*	______	*Print*

Name: *S. Opfer*

Tel./Ext.: ______________________

Special Instructions:

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OREGON HEALTH & SCIENCE UNIVERSITY

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

OREGON HEALTH & SCIENCE UNIVERSITY

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Independent Auditors' Report

The Board of Directors
Oregon Health & Science University:

We have audited the accompanying statements of financial position of Oregon Health & Science University (OHSU), an Oregon public corporation and a component unit of the State of Oregon, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of OHSU's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OHSU's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oregon Health & Science University as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in the notes to the financial statements, OHSU adopted the provisions of Governmental Accounting Standards Board Statement 53, *Accounting and Financial Reporting for Derivative Instruments*, as of July 1, 2009, for the recognition, measurement and disclosure of information regarding derivative instruments in the financial statements.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in management's discussion and analysis on pages 3 through 12 and the postemployment healthcare benefit plan schedule of funding progress on page 51 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the consolidating statements of financial position as of June 30, 2011 and 2010 and the consolidating statements of revenues, expenses and changes in net assets for the years then ended is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 1, 2011

OREGON HEALTH & SCIENCE UNIVERSITY

Management's Discussion and Analysis

June 30, 2011 and 2010

Introduction

The following discussion and analysis provides an overview of Oregon Health & Science University's (OHSU or the University) financial activities and should be read in conjunction with the financial statements and related footnote disclosures. This discussion was prepared by management and is designed to focus on current activities, resulting changes, and current known facts. During fiscal year 2011, OHSU no longer recorded federal direct student lending on its Statements of Revenues, Expenses, and Changes in Net Assets. Beginning fiscal year 2011, these transactions are treated as a pass-through on the Statements of Financial Position. The following management discussion and analysis excludes the effects of this change.

Financial Highlights

Fiscal year 2011 was one of continued progress and accomplishment, despite the challenging economic environment. OHSU's researchers secured approximately $358 million in new grant awards. Enrollment increased by 5.5% to 2,657 students. Patient revenues for the Hospital and Faculty Practice Plan increased by over 6%, on higher admissions, surgeries, emergency room and clinic visits, and an increased complexity of cases. Significant progress was made in providing market competitive compensation to highly productive clinical staff. University-wide efforts focused on strategy development and business plan review that identified over $90 million in potential future savings opportunities from productivity and process redesign. The OHSU Foundations secured over $100 million in new gifts and a nearly 20% total investment return on endowment funds.

OHSU's operating revenues increased by 7.5% to nearly $1.9 billion, driven by the 6% increase in patient revenues and a 13% increase in revenues from gifts, grants, and contracts, excluding federal direct student lending, which included spending on federal grants from the American Recovery and Reinvestment Act. Supported by this revenue growth, total assets increased by 7% to nearly $3 billion. Net income totaled $152 million, an increase of nearly 30% from fiscal year 2010. Net income includes $57 million from operations and State appropriations, and $95 million from investment returns and other nonoperating items, which reflect significant recovery in the financial markets. Nonexpendable donations, contributions for capital, and other net gains not included within net income totaled another $22 million.

As a result, OHSU's net assets—the difference between total assets and total liabilities, and the broadest measure of financial resources—grew by $174 million or 10% to nearly $1.9 billion. Included within this total are the Oregon Health & Science University Foundation and the Doernbecher Children's Hospital Foundation (together, the Foundations), which achieved a $45 million increase in net assets during fiscal year 2011, after transferring $40 million in gift funds to the University for the Collaborative Life Sciences Building project, plus $49 million of other program support.

OUS/OHSU Collaborative Life Sciences Building and Skourtes Tower (CLSB)

In June 2011, the OHSU Board of Directors approved proceeding with the Collaborative Life Sciences Building project. The $295 million new facility will place programs of OHSU and the Oregon University System (OUS) under one roof at the Schnitzer campus on the South Waterfront. In doing so, the facility will strengthen partnerships between OHSU and OUS institutions, especially Portland State University and Oregon State University, expanding their teaching facilities, student enrollment, and research activities, while creating new employment opportunities. Thousands of students across undergraduate, graduate, and professional education programs from multiple institutions will learn at the CLSB. The approximately 500,000 square foot facility, plus parking, will include lecture halls, classrooms, laboratories, specialty research centers, office space, and a complete replacement of the OHSU School of Dentistry.

The project has two parts that will be built together. The first part is a $160 million joint project of OUS and OHSU, including education, research, and support space, funded by $110 million in State bonds ($50 million in Article XI G-Bonds and $60 million in Article XI F-Bonds), an anonymous $40 million gift from an OHSU donor, and $10 million in TriMet support for a new transit station adjacent to the building. Under the terms of the Tenancy In Common Agreement, OHSU will assume debt service for $30 million related to the State Article XI F-Bonds issued to fund the construction, which is recorded on the June 30, 2011 statement of financial position.

The second part is an OHSU project of $135 million, funded by $43 million in OHSU philanthropy, $85 million from new OHSU debt (to be issued in fiscal year 2013), and $7 million cash reserves. This component will provide space for the new OHSU Center for Spatial Systems Biomedicine, additional built-out and shelled laboratory space for leading edge research in basic and applied science, and education and clinical space for the School of Dentistry in the Skourtes Tower. The complete replacement of the School of Dentistry from its current 1950s building on Marquam Hill was made possible by lead gifts from Dr. Gene and Bonnie Skourtes, Oregon Dental Service (ODS) and A-dec, plus additional funds raised by hundreds of other supporters.

In summary, $205 million of the $295 million CLSB project will be funded by OHSU, with approximately $115 million in debt and $90 million from gifts and cash reserves.

Statement of Financial Position

The statement of financial position (commonly called the balance sheet) includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector organizations. As noted above, net assets – the difference between assets and liabilities – are among the broadest measures of the financial health of an institution. The following summarizes OHSU's statements of financial position for the past three years by major category of assets, liabilities, and net assets. Over the past two years, assets have increased by 13%, liabilities by 4%, and net assets by nearly 20%. The cumulative growth in OHSU's financial strength since 2009 reflects strong operations, successful philanthropy, and recovery (with volatility) in financial markets since the economic crisis.

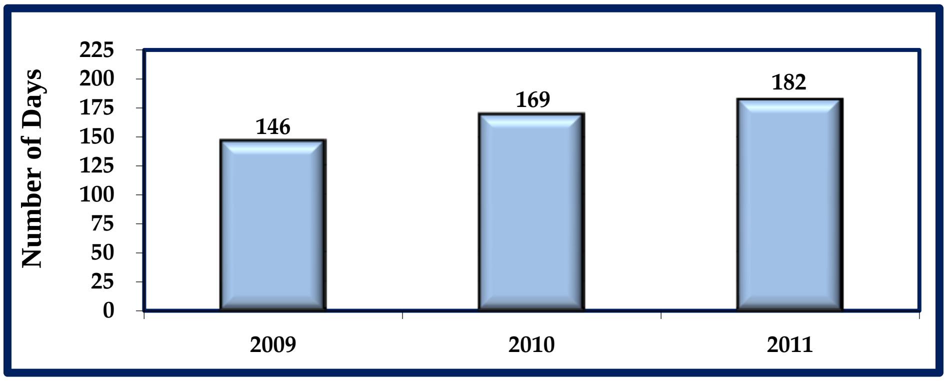
Condensed Statements of Financial Position

	2011	2010 (In thousands)	2009
Assets:			
Current assets	$ 675,193	444,087	439,300
Capital assets	1,237,155	1,215,021	1,245,205
Other noncurrent assets	1,043,889	1,099,707	921,883
Total assets	$ 2,956,237	2,758,815	2,606,388
Liabilities:			
Current liabilities	$ 295,006	279,336	233,960
Noncurrent liabilities	791,143	783,805	807,753
Total liabilities	1,086,149	1,063,141	1,041,713
Net assets:			
Invested in capital assets, net of related debt	585,242	572,384	570,144
Restricted, expendable	346,172	344,729	332,885
Restricted, nonexpendable	165,488	142,686	127,160
Unrestricted	773,186	635,875	534,486
Total net assets	1,870,088	1,695,674	1,564,675
Total liabilities and net assets	$ 2,956,237	2,758,815	2,606,388

Assets

The largest components of OHSU's assets are cash and investments and capital assets, or physical plant. OHSU's cash and short-term investments increased significantly from 2010 due to a combination of earnings and a strategic restructuring of the investment portfolio. In 2011, OHSU converted a portion of its mid- to long-term investments into high-quality, short-term instruments in response to continuing volatile market conditions. This increase to cash and short-term investments was approximately $149 million. Total investments, including long-term investments and funds held by trustee, increased by over 6% from $1,038 million to $1,104 million.

The unrestricted portion of cash and investments is represented in the calculation of day's cash on hand for OHSU, including the Foundations, as illustrated below. Comparatively, cash increased to 182 days in 2011 from 169 days in 2010 and 146 days in 2009. (For internal management purposes, OHSU uses a somewhat different calculation of an average day's expenditures, excluding bad debt expense. Under this method, 2011 days cash on hand would be 185 days, or approximately 3 days higher.) Total noncurrent assets decreased by $34 million during 2011, the result of the conversion of long-term investments to current assets.



Days Cash on Hand

Capital assets, net of accumulated depreciation, increased by $22 million for fiscal year 2011, after decreasing by $30 million in fiscal year 2010. After a reduction in capital spending in 2010 to rebuild liquidity after the economic crisis, there was a renewed institutional focus on capital improvements in 2011. Large capital expenditures for the years ended June 30, 2011 and 2010 include: Kohler Pavilion 9th floor Inpatient and Observation Unit of $4.5 million, which will open in September 2011; Kohler Pavilion Vault 4 Linear Accelerator of $4.2 million; OHSU Hospital Exterior Upgrade of $6.4 million ($3.7 million in 2011 and $2.7 million in 2010); Richard Jones Hall HVAC Upgrade and Neurosurgery move of $7.4 million ($3.8 million in 2011 and $3.6 million in 2010); OHSU Hospital 4C Pharmacy of $5.4 million ($3.6 million in 2011 and $1.8 million in 2010); Information Technology Group Infrastructure Upgrade of $2.9 million; and OHSU Hospital Mechanical Upgrade of $9.1 million ($3.5 million in 2011, $3.0 million in 2010 and $2.6 million in 2009). The remainder reflects smaller routine capital purchases within the Hospital and other University areas, offset by depreciation expense.

Liabilities

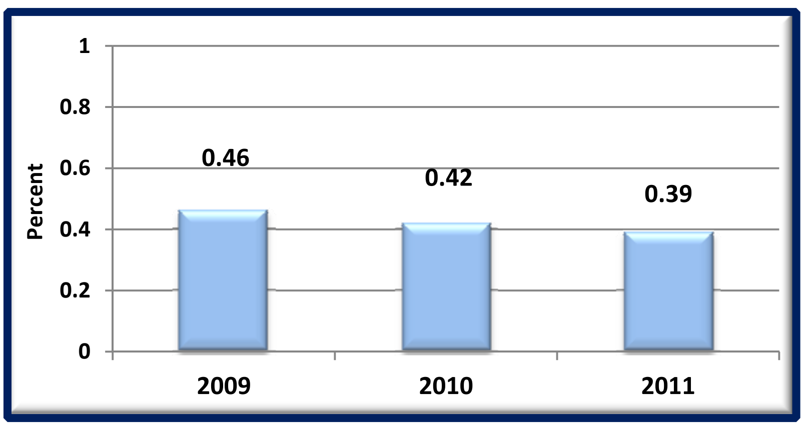
Total liabilities increased by $23 million in 2011 due primarily to new debt associated with the planned Collaborative Life Sciences Building and increased accounts payable and accrued expense, offset by a decrease in the self-funded insurance program liability resulting from better self-insurance claims experience. Total liabilities increased by $21 million in 2010 due to an increase in accounts payable, self-funded insurance program liability, and accrued salaries and wages, offset by decreases in debt and deferred revenue. This 2010 increase was due in part to the increased accruals for salaries, benefits, and expenses resulting from the first full year of integration of OHSU Medical Group and the School of Medicine.

Current liabilities consist primarily of the current portion of long-term debt, including capital leases, and self-funded insurance, accounts payable and accrued expenses, drafts payable, salaries, wages, and benefits payable, and deferred revenue. Current liabilities increased $16 million in fiscal year 2011 primarily due to increases in accounts payable and accrued expenses driven by increased spending of ARRA (stimulus) grants in the fourth quarter as many deadlines for spending approach in fiscal year 2012.

Current liabilities increased $45 million in fiscal year 2010 primarily due to increases in current portions of long-term debt and self-funded insurance program liabilities, accounts payable and accrued expenses, and accrued salaries, wages, and benefits.

Total noncurrent liabilities increased $7 million in fiscal year 2011, driven by an increase in long-term debt associated with the Collaborative Life Sciences Building project, offset by repayment of existing debt and the decrease in the self-funded insurance program liability resulting from better self-insurance claims experience. Total noncurrent liabilities decreased $24 million in 2010 due primarily to repayment of long-term debt.

Long-term Debt to Net Assets



Debt Management

At the close of fiscal year 2011, OHSU had a total of approximately $723 million in long-term debt and capital leases outstanding, net of current portion. Of that, approximately 28% was variable-rate debt issued in the form of auction rate securities or variable-rate demand bonds (VRDBs). Both auction rate securities and VRDBs are bonds with longer term maturities that reset through either an auction process or a periodic remarketing process. Over the past several years, the auction process throughout the bond market has been impacted significantly when investment banks no longer bought these bonds for their own inventory in the case of a failed auction.

A failed auction is not the same as a default. In a failed auction, there are not enough buyers to purchase the bonds put up for sale by current holders, which prevents holders from disposing of their bond inventory. A default implies that the borrower has failed to make principal and/or interest payments on time, according to the terms of the debt documents. At no time during the year, nor at any other time in its history, has OHSU defaulted on any of its borrowings.

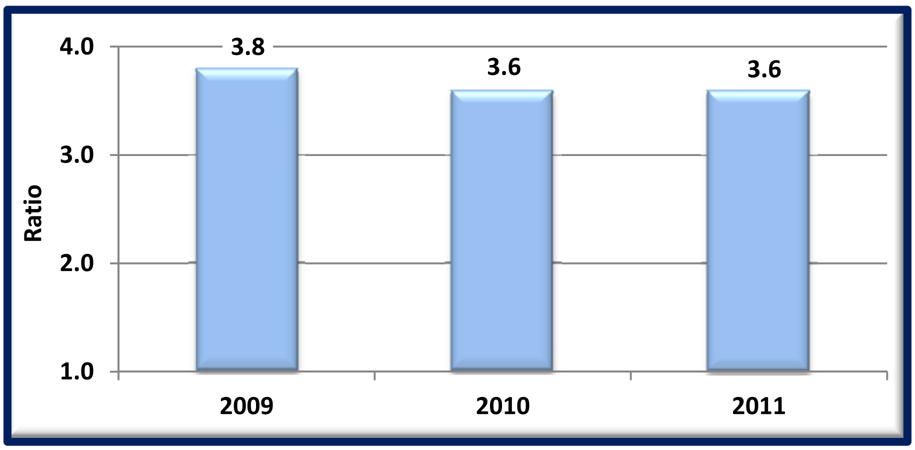
The impact of these market forces on OHSU's long-term debt costs has been mixed. Approximately 62% of OHSU's variable-rate debt are of the type where the failed auction rate is based on a predetermined formula, which is generally 175% of the interest rate of AA rated commercial paper or similar investments. Based on downward pressure on these indices, these bonds (Series 1998 and 2002) reset during most of fiscal year 2011 at an overall interest rate averaging 3.8% for the year, including the interest rate swap payments. The 2009B VRDBs, also covered by interest rate swap payments, set at the variable rate plus the fee for the Irrevocable Standby Letter of Credit, averaging 5.88% during 2011. Combined, OHSU's variable-rate portfolio averaged an interest rate of 4.58% for 2011.

Therefore, OHSU's interest expense has been somewhat mitigated by the effects of the weak overall economy on general interest rates, and this has allowed OHSU time to plan how best to position its debt portfolio for the long term.

Maximum Annual Debt Service Coverage

The maximum annual debt service coverage ratio for an entity represents the amount of cash flow available to meet the maximum annual interest and principal payment on debt. Under the University's borrowing agreements, OHSU must maintain a maximum annual debt service coverage ratio (excluding the Foundations) of 1.4 or greater. The University has exceeded this minimum requirement, achieving a ratio of 3.6 in both fiscal years 2010 and 2011.

Maximum Annual Debt Service Coverage Ratio*



Calculation excludes the Foundations.

Net Assets

As noted in the introduction, total net assets increased by approximately $174 million during fiscal year 2011, as compared to $131 million during fiscal year 2010. Most of the 2011 increase occurs within unrestricted net assets (up $138 million), reflecting unrestricted net income for the current fiscal year. By comparison, in fiscal year 2011, assets invested in capital assets, net of related debt, increased by $13 million, and restricted net assets (mostly endowments held at the Foundations) increased by $23 million.

When evaluating OHSU's net assets, it is important to note that OHSU's Marquam Hill property is leased from the State of Oregon for renewable 99-year periods, at a lease payment equal to the debt service on bonds outstanding at the time of OHSU's separation from the Oregon University System. As that debt service is relatively low, the capitalized net present value of those lease payments significantly understates the fair value of the included land and buildings.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results of OHSU, as well as its nonoperating revenues and expenses. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. In accordance with generally accepted accounting principles for a governmental entity, annual state appropriations are considered nonoperating revenue, but in practice are budgeted for operations because they support operating costs for specific education and service programs. In fiscal year 2011, State appropriations totaled $39.2 million, which for internal management purposes is added to the operating gain of $17.5 million for a total "management basis" operating income of approximately $57 million.

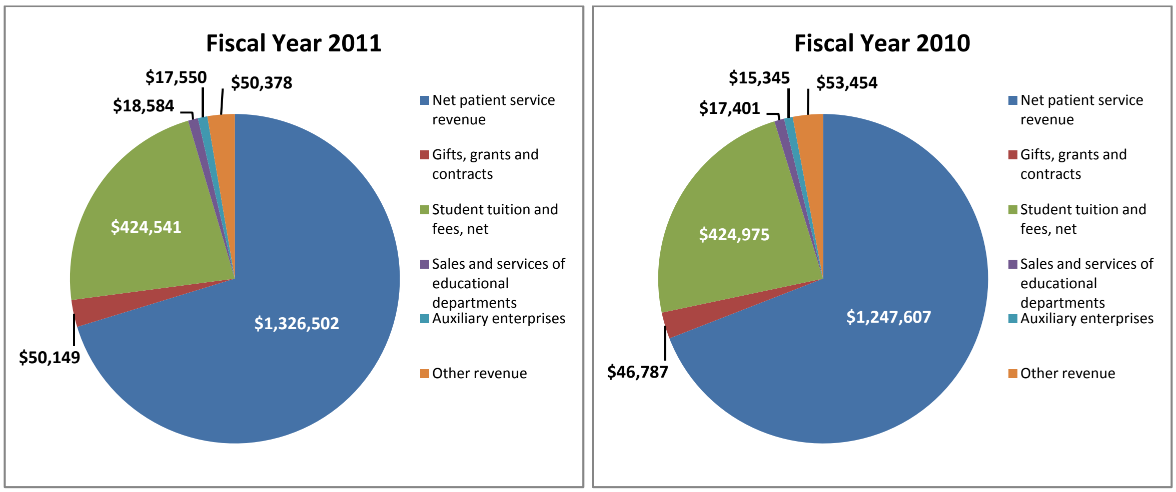
	2011	2010	2009
		(In thousands)	
Operating revenues	$ 1,887,704	1,805,569	1,728,099
Operating expenses	1,870,250	1,795,250	1,594,310
Operating gain (loss)	17,454	10,319	133,789
Nonoperating revenues	134,592	107,017	(56,423)
Contributions for capital and other	4,281	2,431	7,841
Nonexpendable donations	18,087	11,232	5,947
Change in net assets	174,414	130,999	91,154
Net assets – beginning of year	1,695,674	1,564,675	1,473,521
Net assets – end of year	$ 1,870,088	1,695,674	1,564,675

Total Operating Revenues

OHSU's total operating revenues increased approximately $82 million or 4.5% during fiscal year 2011. Absent the change in accounting for federal direct student lending, OHSU's total operating revenues increased by $132 million, or 7.5%, during fiscal year 2011. This included increases in net patient service revenue of $79 million, primarily due to increased volume and complexity of cases, and gifts, grants, and contracts revenue of $50 million due mostly to federal ARRA (stimulus) grant spending and growth in gifts. Fiscal year 2010 showed a decrease in contributions from the prior year primarily related to the receipt of a $100 million gift for the Knight Cancer Institute in 2009 and the $65 million contribution due to the integration of the OHSU Medical Group into the University, also in 2009.

Figure 1

Operating Revenue by Source
Fiscal Year 2011 and 2010 (Total $1.9 billion and $1.8 billion, respectively)
(Dollars in thousands)



Total Operating Expenses

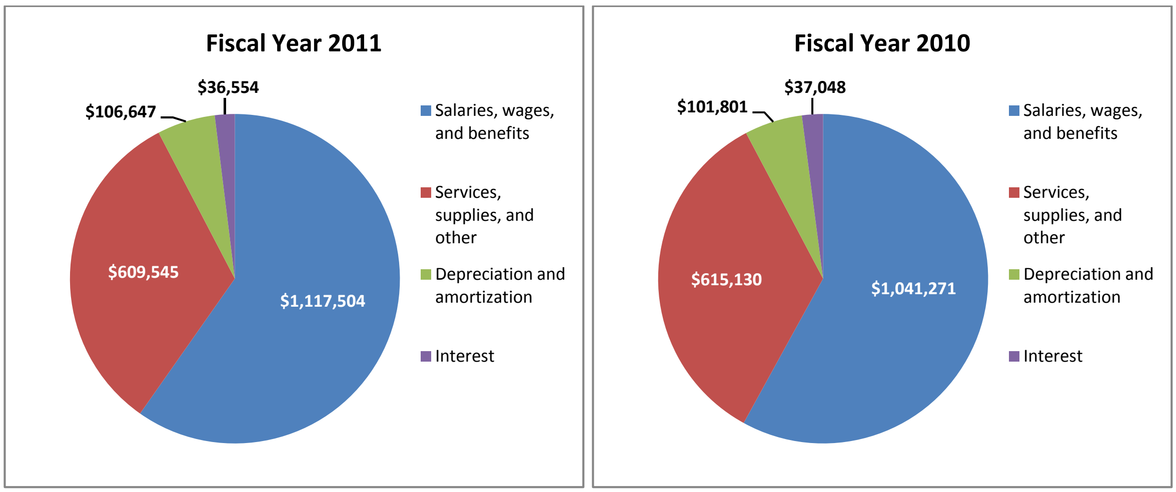
OHSU's operating expenses increased by $75 million or approximately 4% in fiscal year 2011, and $201 million or 12.6% in fiscal year 2010. Absent the change in accounting for federal direct student lending, OHSU's operating expenses increased by $125 million or 7% during fiscal year 2011 compared to a $192 million or 12% increase in fiscal year 2010.

Salaries, wages, and benefits, which comprise approximately 60% of the total operating expenses, increased by $76 million in the current year as compared to $100 million in fiscal year 2010. The increase in 2011 in part reflects adjustments to market compensation levels for a highly productive clinical staff. The 2010 increase was primarily due to increases in expenses for staffing levels to address higher patient volumes and annual salary, wage, and benefit increases associated with the first full year of integration of OHSU Medical Group.

Services, supplies, and other expenses increased $44 million and $79 million in fiscal years 2011 and 2010, respectively, exclusive of federal direct student lending in 2010 and 2009. The increase in fiscal year 2011 included an approximate $10 million investment in consulting services supporting strategy development, productivity improvements, and business process redesign. Increases in 2010 were primarily due to increased clinical costs associated with higher patient volumes and the first full year of integration of the OHSU Medical Group.

Figure 2

Operating Expenses
Fiscal Year 2011 and 2010 (Total $1.9 billion and $1.8 billion, respectively)
(Dollars in thousands)



Operating Expenses (By Functional Classification)

Years ended June 30, 2011, 2010, and 2009

(Dollars in thousands)

		2011	2010	2009
Instruction, research, and public service	$	376,102	361,537	336,139
Clinical activity		1,169,095	1,073,144	899,274
Auxiliary activities		9,738	9,866	9,566
Internal service centers		6,717	6,999	11,832
Student services		15,478	62,132	57,971
Academic support		33,259	39,571	37,605
Institutional support		48,622	44,611	43,143
Operations, maintenance, and other		79,192	74,025	76,121
Direct foundation expenditures		25,401	21,564	29,354
Depreciation and amortization		106,646	101,801	93,305
Total operating expenses	$	1,870,250	1,795,250	1,594,310

(Continued)

Economic Outlook

The general economy in both Oregon and the nation continues to be weak, with persistent unemployment and a slower pace of economic recovery than usual after recessions. Compounding these factors are large projected deficits in both the federal and State budgets. Although the total State appropriation to OHSU, at $39 million in fiscal year 2011, including $3.7 million of one-time funds, is a small percentage of the University's $1.9 billion revenue base, it plays a vital part in helping OHSU meet its missions, especially in education and service to the people of Oregon. The wind-down of ARRA funding, especially for research, combined with national and State healthcare reform legislation, adds to the current environment of uncertainty.

Notwithstanding these challenges, the fiscal year 2011 results show that OHSU's overall financial position is very solid, with strong earnings from operations, significant philanthropic support, and a carefully controlled balance sheet. The University's long-range financial plans and its fiscal year 2012 budget continue on this trajectory, with focused strategic investments in leading programs across education, research, patient care, and outreach missions, while securing a broad-based portfolio of revenues and improving productivity and business processes across the institution.

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Financial Position

June 30, 2011 and 2010

(Dollars in thousands)

Assets		2011	2010
Current assets:			
Cash and cash equivalents	$	190,537	99,629
Short-term investments		78,491	20,601
Current portion of funds held by trustee		72,692	21,629
Patients accounts receivable, net of contractual and bad debt allowances of $20,327 in 2011 and $26,653 in 2010		193,154	185,756
Student and grant receivables		34,382	37,787
Interest receivable		2,509	3,432
Current portion of pledges and estates receivable		23,175	19,383
Other receivables, net		51,103	29,337
Inventories, at cost		15,635	13,372
Prepaid expenses		13,515	13,161
Total current assets		675,193	444,087
Noncurrent assets:			
Capital assets, net of accumulated depreciation		1,237,155	1,215,021
Funds held by trustee – less current portion		57,025	63,333
Long-term investments:			
Long-term investments, restricted		379,828	365,395
Long-term investments, unrestricted		516,280	567,198
Total long-term investments		896,108	932,593
Deferred financing costs, net		15,284	16,659
Pledges and estates receivable – less current portion		71,406	84,260
Other noncurrent assets		4,066	2,862
Total noncurrent assets		2,281,044	2,314,728
Total assets	$	2,956,237	2,758,815

See accompanying notes to financial statements.

Liabilities and Net Assets		2011	2010
Current liabilities:			
Current portion of long-term debt	$	17,666	17,245
Current portion of long-term capital leases		1,141	1,825
Current portion of self-funded insurance programs liability		20,253	29,337
Accounts payable and accrued expenses		104,791	85,967
Drafts payable		14,907	13,065
Accrued salaries, wages, and benefits		56,123	48,115
Compensated absences payable		52,313	48,599
Deferred revenue		26,920	33,364
Other current liabilities		892	1,819
Total current liabilities		295,006	279,336
Noncurrent liabilities:			
Long-term debt – less current portion		718,560	703,290
Long-term capital leases – less current portion		4,664	5,238
Liability for self-funded insurance programs – less current portion		35,838	41,406
Liability for life income agreements		17,134	16,906
Other noncurrent liabilities		14,947	16,965
Total noncurrent liabilities		791,143	783,805
Total liabilities		1,086,149	1,063,141
Net assets:			
Invested in capital assets, net of related debt		585,242	572,384
Restricted, expendable		346,172	344,729
Restricted, nonexpendable		165,488	142,686
Unrestricted		773,186	635,875
Total net assets		1,870,088	1,695,674
Total liabilities and net assets	$	2,956,237	2,758,815

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

(Dollars in thousands)

		2011	2010
Operating revenues:			
Patient service revenue, net of provision for bad debts of $44,567 in 2011 and $53,807 in 2010	$	1,326,502	1,247,607
Student tuition and fees, net		50,149	46,787
Gifts, grants, and contracts		424,541	424,975
Sales and services of educational departments		18,584	17,401
Auxiliary enterprises		17,550	15,345
Other revenue		50,378	53,454
Total operating revenues		1,887,704	1,805,569
Operating expenses:			
Salaries, wages, and benefits		1,117,504	1,041,271
Services, supplies, and other		609,545	615,130
Depreciation and amortization		106,647	101,801
Interest		36,554	37,048
Total operating expenses		1,870,250	1,795,250
Operating gain		17,454	10,319
Nonoperating revenues, net:			
Investment income and gain in fair value of investments, net		88,728	64,432
State appropriations		39,159	37,853
Other		6,705	4,732
Total nonoperating revenues, net		134,592	107,017
Net income before contributions for capital and other		152,046	117,336
Contributions for capital and other		4,281	2,431
Other changes in net assets:			
Nonexpendable donations		18,087	11,232
Total other changes in net assets		18,087	11,232
Total increase in net assets		174,414	130,999
Net assets – beginning of year		1,695,674	1,564,675
Net assets – end of year	$	1,870,088	1,695,674

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Dollars in thousands)

	2011	2010
Cash flows from operating activities:		
Receipts for patient services	$ 1,319,104	1,253,083
Receipts from students	53,554	39,682
Receipts of gifts, grants, and contracts	432,679	440,284
Receipts from sales and services of educational departments	18,584	27,330
Receipts from auxiliary services	17,550	15,345
Other receipts	25,359	57,833
Payments to employees for services	(1,105,782)	(1,025,545)
Payments to suppliers	(607,075)	(603,194)
Net cash provided by operating activities	153,973	204,818
Cash flows from noncapital financing activities:		
Nonexpendable donations and life income agreements	20,322	12,882
State appropriations	39,159	37,853
Net cash provided by noncapital financing activities	59,481	50,735
Cash flows from capital and related financing activities:		
Scheduled principal payments on long-term debt	(17,245)	(11,784)
Interest payments on long-term debt	(33,036)	(33,648)
Proceeds from new long-term debt	28,859	393
Acquisition of capital assets	(129,078)	(74,488)
Proceeds from sale of capital assets	1,440	218
Payments on capital leases	(1,258)	(1,869)
Contributions for capital and other	4,281	2,431
Net cash used in capital and related financing activities	(146,037)	(118,747)
Cash flows from investing activities:		
Purchases of investments	(1,005,162)	(714,989)
Proceeds from sales and maturities of investments	988,910	552,044
Interest on investments and cash balances	39,743	22,096
Net cash provided by (used in) investing activities	23,491	(140,849)
Net increase (decrease) in cash and cash equivalents	90,908	(4,043)
Cash and cash equivalents, beginning of year	99,629	103,672
Cash and cash equivalents, end of year	$ 190,537	99,629

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Dollars in thousands)

		2011	2010
Supplemental disclosures of noncash financing activities:			
Unrealized change in fair value of investments	$	49,908	41,832
Gain on sale of capital assets		2,181	1,384
Change in value of derivative liabilities		2,289	1,698
Reconciliation of operating gain to net cash provided by operating activities:			
Operating gain	$	17,454	10,319
Adjustments to reconcile operating gain to net cash provided by operating activities:			
Depreciation and amortization		106,647	101,801
Provision for bad debts		44,567	53,807
Donation of land recorded as operating expense		—	1,730
Interest expense reported as operating expense		36,554	37,048
Net changes in assets and liabilities:			
Patient accounts receivable		(51,965)	(48,331)
Student receivables		3,405	(7,105)
Pledges and estates receivable		9,062	17,257
Other receivables and other assets		(25,019)	4,379
Inventories		(2,263)	317
Prepaid expenses		(354)	(1,221)
Accounts payable and accrued expenses		18,824	15,566
Drafts payable		1,842	128
Accrued salaries, wages, and benefits		8,008	12,189
Compensated absences payable		3,714	3,537
Other current liabilities		(927)	149
Annuity payment liability		228	(101)
Deferred revenue		(4,106)	(1,184)
Liability for self-funded insurance programs		(14,652)	5,196
Other noncurrent liabilities		2,954	(663)
Net cash provided by operating activities	$	153,973	204,818

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

As the only academic health center in the State of Oregon (the State), Oregon Health & Science University (OHSU) is dedicated to the education and training of healthcare professionals, research, patient care, and public service. In addition to the School of Medicine, School of Nursing, and the School of Dentistry, OHSU comprises several research units, including the Vollum Institute for Advanced Biomedical Research, Center for Research on Occupational and Environment Toxicology, Biomedical Information Communication Center, Oregon National Primate Research Center, Neurological Sciences Institute, and the Vaccine and Gene Therapy Institute. OHSU also comprises several clinical units, including University Hospital (the Hospital), the Faculty Practice Plan (FPP), and the Child Development and Rehabilitation Center. Doernbecher Children's Hospital is a unit of the Hospital serving the pediatric community. The Knight Cancer Institute is the only NCI-designated cancer center in the State. In addition, OHSU operates a captive insurance company domiciled in Arizona for self-insurance purposes, OHSU Insurance Company (INSCO), which is consolidated in the accompanying financial statements.

Pursuant to an act of the Oregon Legislature (the Act), on July 1, 1995, OHSU was restructured from one of eight component units of the Oregon University System (OUS) to an independent public corporation. OHSU remains a component unit of the State.

The majority of the real property that constitutes OHSU's main campus on Marquam Hill (and certain off-campus properties) in Portland is owned by the State. Pursuant to the Act, the State retained title of such real property and OHSU was granted exclusive care, custody, and control of such real property. To evidence this condition, the State and OHSU entered into a 99-year lease, dated July 1, 1995 (the State Lease), under which the State leased to OHSU all of the State's leasable interest in such real property. Under the terms of the State Lease, the State may terminate the State Lease if, prior to such termination, the State causes the defeasance or discharge of all then-outstanding obligations of OHSU that were issued to finance improvements on the property subject to the State Lease or to refinance obligations of OHSU to the State. Under the State Lease, improvements include completed and partially completed buildings, fixtures, structures, and other improvements constructed on the property subject to the State Lease. In addition, OHSU was granted ownership of all personal property of the University, as it existed prior to the enactment of the Act.

Oregon Health & Science University Foundation (OHSU Foundation) and Doernbecher Children's Hospital Foundation (together, the Foundations) are separately incorporated nonprofit foundations affiliated with OHSU. The primary purpose of the Foundations is to raise money for OHSU research, scientific, charitable, and educational purposes and to promote support for Doernbecher Children's Hospital. Consequently, the financial position and the results of operations of the Foundations are consolidated in the accompanying financial statements.

(b) Accounting Standards

The accounting policies of OHSU conform to accounting principles generally accepted in the United States of America. OHSU's financial statements and note disclosures are based on all applicable Government Accounting Standards Board (GASB) pronouncements and interpretations.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting. OHSU uses proprietary fund accounting. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, OHSU has elected to apply all applicable GASB pronouncements as well as the Financial Accounting Standards Board (FASB) statements, which do not conflict and were issued on or before November 30, 1989. OHSU does not apply FASB statements and interpretations issued after that date.

OHSU prepares and presents its financial information in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), known as the "Reporting Model" statement. GASB 34 established the requirements and reporting model for annual financial statements. GASB 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the reporting entity in the form of "management's discussion and analysis" (MD&A). This reporting model also requires the use of a direct method cash flow statement.

OHSU has also adopted GASB Statement No. 35, *Basic Financial Statements – and Management Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*. This statement establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB 34.

(c) Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present OHSU, the primary government, and its component units, entities for which OHSU is considered to be financially accountable. Blended component units, although separate legal entities, are in substance part of OHSU's operations and have been included in the financial statements. The following component units meet the requirement for blending: INSCO, OHSU Foundation, and Doernbecher Children's Hospital Foundation. All transactions between OHSU and its blended component units are eliminated upon consolidation.

Financial reports for INSCO, OHSU Foundation, and Doernbecher Children's Hospital Foundation that include financial statements and required supplementary information are publicly available. These reports may be obtained by contacting the management of OHSU.

(d) *Basis of Accounting*

Basis of accounting refers to the timing of when revenues and expenses are recognized in the accounts and reported in the financial statements. OHSU reports as a proprietary fund within the governmental model. OHSU's financial statements have been prepared using the accrual basis of accounting with the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

(e) *Use of Estimates*

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in OHSU's financial statements include patient accounts receivable allowances, third-party payor settlements, liabilities related to self-insurance programs, the fair value of investments, and the fair value of interest rate swap agreements.

(f) *Cash and Cash Equivalents*

OHSU considers money market funds and all highly liquid investments with an original or remaining maturity of three months or less as cash equivalents. OHSU had cash equivalents of $141,897 and $44,573 at June 30, 2011 and 2010, respectively.

(g) *Investments*

Investments are carried at fair value. Fair values are determined based on quoted market prices, where available. Investments in joint ventures are recorded using the equity method of accounting. Alternative investments, which are not readily marketable, are carried at estimated fair values as provided by investment managers, primarily using net asset values. OHSU reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. These estimated fair values may differ from the values that would have been used had a ready market for those securities existed.

Net unrealized gains and losses are included in the net unrealized gain (loss) in fair value of investments in nonoperating revenues in the statements of revenues, expenses, and changes in net assets. Interest, dividends, and realized gains and losses on investments are included in nonoperating revenues as investment income when earned.

(h) *Inventories*

Inventories consist primarily of supplies in organized stores at various locations across the campus and in the Hospital. Inventories are recorded at the lower of cost or fair value and are accounted for using either the average cost method or first-in, first-out method.

(i) Capital Assets

Capital asset acquisitions are stated at cost. Donated items are recorded on the basis of fair market value at the date of donation. OHSU capitalizes equipment additions greater than three thousand dollars and capital projects greater than ten thousand dollars. Maintenance, repairs, and minor replacements are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recorded as other in nonoperating revenue.

Interest on borrowed amounts during major construction is capitalized and amortized over the depreciable life of the related asset. During fiscal years 2011 and 2010, OHSU capitalized interest expense of approximately $1,965 and $848, respectively. This was net of approximately $76 and $0 of interest income, respectively, on unspent project funds.

The provision for depreciation is determined by the straight-line method at rates calculated to amortize the cost of assets over the shorter of their estimated useful lives or the related lease term as follows: buildings and other improvements, 10 to 40 years; and equipment, 3 to 20 years.

(j) Net Asset Classifications

Net assets are classified into four net asset categories, in accordance with donor-imposed restrictions.

- *Net assets invested in capital assets, net of related debt* represents the depreciated value of capital purchases, net of related debt.
- *Net assets restricted, expendable* carry externally imposed time or purpose restrictions that expire in the future.
- *Net assets restricted, nonexpendable* carry externally imposed restrictions that never expire.
- *Net assets unrestricted* carry no externally imposed restrictions.

Investment income earned on donor-restricted endowment funds in excess of the annual spending distribution is accounted for in the expendable restricted net asset category.

The Foundations first apply restricted resources to an expense where an expense in incurred for a purpose for which both restricted and unrestricted net assets are available.

(Amounts in thousands)

A summary of restricted assets by restriction category for fiscal years ended June 30, 2011 and 2010 is as follows:

		2011	2010
Restricted expendable:			
Research	$	155,221	162,938
Academic support		45,135	35,722
Instruction		22,230	13,445
Capital projects and planning		21,578	45,664
Student aid		52,734	43,784
Clinical support		25,808	20,782
Institutional support		6,403	5,738
Other		17,063	16,656
	$	346,172	344,729
Restricted nonexpendable:			
Research	$	18,946	19,889
Instruction		37,429	32,774
Clinical support		2,535	2,520
Public service		1,104	954
Academic support		55,710	47,778
Student aid		36,745	24,986
Other		13,019	13,785
	$	165,488	142,686

(k) Endowments

The endowment corpus is accounted for in the restricted, nonexpendable net asset category, and reported on the statements of financial position as restricted long-term investments. The Foundation’s spending policy for endowment funds is determined by the Board of Trustees and is based on a three-year moving average of the fair value of the endowment fund. The Board of Trustees authorized a 4.5% distribution in the year ended June 30, 2011 and a 4.5% distribution in the year ended June 30, 2010.

The Foundations’ management and investment of donor-restricted endowment funds are subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA) enacted by the State of Oregon in January 2008.

The endowment fund investment pool (endowment fund) is the repository for funds from restricted, nonexpendable contributions where the principal amount cannot be used but a spending distribution, described below, can be used for the designated purpose. The endowment fund also holds quasi-endowment funds, which have been designated as endowment by the Foundation’s Board of Trustees. All interest, dividends, and changes in fair value on the endowment fund are allocated to the appropriate unrestricted or restricted net asset classification as specified by the donor at the time of receipt. Endowment accounts receive spending distributions subject to the Foundation's Board of Trustees approved spending policy, which provides a predetermined amount of total return that can be spent for purposes designated by the donor. All expendable income restricted by the donor is carried as restricted, expendable net assets until such time as the restriction has been met. At June 30, 2011 and 2010, the fair value of investments in the endowment fund was $359,600 and $298,600, respectively.

Spending distributions were not made for certain endowment accounts during 2011 or 2010 because the market value of the individual endowment accounts dropped below the corpus. Spending distributions on these accounts will be resumed if specifically authorized by the Foundation's Board of Trustees or at the time that the earnings of the endowment are sufficient to restore the corpus and support the annual spending distribution. At June 30, 2011, the fair value of endowment accounts below corpus was $17,500 and the original corpus on these same accounts was $17,800. At June 30, 2010, the fair value of endowment accounts below corpus was $68,600 and the original corpus on these same accounts was $75,300.

(l) Federal Income Taxes

OHSU, as a division of the State, is not subject to federal income taxes of the Internal Revenue Code, except for unrelated business income.

(m) State Appropriations

The Oregon State Legislature makes an appropriation to OHSU on a biennial basis. The appropriation is recognized as income ratably over the related appropriation period.

(n) Research Activity

Restricted grants receivable represent receivables for grant activities on which OHSU has met all applicable eligibility requirements and on which the funds are available from the granting agency. The balance in deferred revenue as of year-end represents amounts advanced for which OHSU has not met all applicable eligibility requirements. As of June 30, 2011 and 2010, the grant receivable balance was $23,024 and $15,347, respectively, and was included in other receivables in the accompanying statements of financial position.

(o) Operating Revenues

OHSU includes patient service revenue, student tuition and fees, gifts, grants and contracts, and other income from sales and services of educational departments and auxiliary enterprises in operating revenues. These revenues are key components of the operations of OHSU.

(p) Net Patient Service Revenue

Net patient service revenue related to the Hospital, the Child Development and Rehabilitation Center, and the FPP is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated settlements under reimbursement agreements with third-party payors. Settlement adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(Amounts in thousands)

Services are rendered to patients under contractual arrangements with Medicaid and Medicare programs, various commercial insurance carriers and preferred provider and health maintenance organizations (PPOs and HMOs), which provide for payment or reimbursement at amounts different from published rates. Contractual adjustments represent the difference between published rates for services and amounts paid or reimbursed by these third-party payors. Medicaid and Medicare programs pay a prospective fixed price for the major portion of services rendered to hospital inpatients primarily on the basis of diagnosis related groups. Payments for Medicare outpatient services are based on prospectively determined rates. Payments for Medicaid outpatient services are based on a percentage of cost. Reimbursement from commercial insurance carriers and PPOs and HMOs is based on prospectively negotiated rates or a percentage of charges.

Included as an increase in net patient service revenue in fiscal year 2011 is $3,677 for prior year Medicare and Medicaid cost report and appeal settlements. Included as an increase in net patient service revenue in fiscal year 2010 is $8,047 for prior year Medicare and Medicaid cost report and appeal settlements.

A summary of patient service revenues during the years ended June 30, 2011 and 2010 is as follows:

		2011	2010
Gross patient charges	$	2,370,591	2,177,927
Contractual discounts		(999,522)	(876,513)
Provision for bad debts		(44,567)	(53,807)
Net patient service revenues	$	1,326,502	1,247,607

(q) Student Tuition and Fees Revenues

A summary of student tuition and fees revenues during the years ended June 30, 2011 and 2010 is as follows:

		2011	2010
Gross student tuition	$	59,778	56,395
Exemptions		(9,629)	(9,608)
Student tuition and fees revenues, net	$	50,149	46,787

(Amounts in thousands)

(r) Gifts, Grants, and Contracts Revenues

A summary of gifts, grants and contracts revenues during the years ended June 30, 2011 and 2010 is as follows:

		2011	2010
Gifts and grant revenues	$	424,941	374,975
Federal student loan disbursements		—	50,000
Student tuition and fees revenues, net	$	424,941	424,975

During fiscal year 2011, OHSU no longer recorded federal direct student lending on its Statements of Revenues, Expenses, and Changes in Net Assets. Beginning fiscal year 2011, these transactions are treated as a pass-through on the statements of financial position, resulting in the change noted above to gifts, grants and contract revenues, as well as a similar change to services, supplies and other expense.

(s) Charity Care

OHSU provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its published rates. Because OHSU does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

OHSU maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. Charity care provided, measured as charges forgone, based on established rates, was $75,950 and $71,970 in 2011 and 2010, respectively.

(t) Pledges and Estates Receivable

Pledges and estates receivable are recorded as receivables and revenues in the appropriate net asset category based upon donor-imposed restrictions and are reported at fair value at the date the promise is received. The majority of pledges are received within five years of the date the commitment was received. The majority of estates are received within one year. Pledges and estates receivable, less reserves for estimated uncollectible amounts, are discounted to their present value using rates that range from 0.50% to 5.33%.

(u) Life Income Agreements

The Foundations have been named as remainder beneficiaries for various life income agreements. Life income agreements provide for contractual payments to designated beneficiaries for a specific period, after which the remaining principal and interest revert to the Foundations. Contributions received under life income agreements are included in long-term investments, restricted with the corresponding commitment to the beneficiary included in liability for life income agreements in the accompanying statements of financial position.

(Amounts in thousands)

(v) Reclassifications of Previously Issued Financial Statements

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(2) Cash and Investments

OHSU holds substantially all of its cash, cash equivalents, and investment balances at financial institutions. All of OHSU's cash and cash equivalents, and a substantial portion of its investments, are either insured by the FDIC subject to investment limits, collateralized deposits as required under Oregon Revised Statutes and are held in OHSU's name by OHSU or by an agent of OHSU, or held in liquid guaranteed securities backed by the full faith of the U.S. government.

OHSU's investment policies are approved by the Board of Directors and are accounted for as prescribed by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in the fair value of investments are included in nonoperating revenues. The composition of investments at fair value at June 30, 2011 and 2010 is as follows:

		2011	2010
Short-term investments:			
Cash and cash equivalents	$	1,069	693
U.S. government securities		34,999	—
U.S. agency securities		7,351	1,234
Corporate obligations		20,628	10,935
Fixed income		14,444	7,739
	$	78,491	20,601
Funds held by trustee, current portion:			
Cash and cash equivalents	$	72,445	21,334
Other		247	295
	$	72,692	21,629
Funds held by trustee – less current portion:			
Cash and cash equivalents	$	17,357	23,154
U.S. government securities		18,413	18,417
U.S. agency securities		21,255	21,762
	$	57,025	63,333

(Amounts in thousands)

		2011	2010
Long-term investments – less current portion:			
Cash and cash equivalents	$	30,408	30,544
U.S. government securities		215,204	253,056
U.S. agency securities		34,934	62,922
Corporate obligations		138,511	184,871
Fixed income		60,650	54,902
Equities		192,195	143,102
Alternative investments		133,744	119,858
Joint ventures and partnerships		50,941	47,023
Real estate investments and other		39,521	36,315
	$	896,108	932,593

(3) Investments and Related Policies

(a) Interest Rate Risk

As of June 30, 2011, OHSU had the following investments and maturities at fair value:

			Maturity				
Investment type	Standard & Poor's credit rating		Less than 1 year	1 – 5 years	6 – 10 years	More than 10 years or none	Total
Cash and money market funds	n/a	$	121,280	—	—	—	121,280
U.S. government securities	n/a		48,482	180,889	32,428	6,817	268,616
U.S. agency securities	AAA		29,205	34,335	—	—	63,540
Domestic equity securities	n/a		—	—	—	65,047	65,047
International equity securities	n/a		—	—	—	127,148	127,148
International debt securities	AAA		—	2,426	770	2,353	5,549
	AA		—	542	354	1,914	2,810
	A		400	872	1,880	678	3,830
	BBB		—	373	780	—	1,153
	BB		—	—	77	467	544
Commercial paper	A+		3,500	—	—	—	3,500
	A		3,996	—	—	—	3,996
	A-1		3,000	—	—	—	3,000
Corporate securities	AAA		9,275	5,369	—	—	14,644
	AA+		2,352	—	1,755	—	4,107
	AA		3,787	11,642	—	—	15,429
	AA-		—	1,568	—	—	1,568
	A+		1,336	—	796	—	2,132
	A		7,108	27,570	4,099	—	38,777
	A-		—	2,736	—	—	2,736
	BBB+		358	599	3,574	—	4,531
	BBB		1,341	19,659	2,408	—	23,408
	BBB-		796	1,468	1,898	—	4,162
	B-		—	248	—	—	248

OREGON HEALTH & SCIENCE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands)

Investment type	Standard & Poor's credit rating	Maturity: Less than 1 year	1 – 5 years	6 – 10 years	More than 10 years or none	Total
Non-U.S. corporate securities	AAA	$ —	6,848	—	—	6,848
	AA	—	16,834	—	—	16,834
	AA-	5,024	2,337	—	—	7,361
	A+	—	1,858	—	—	1,858
	A	1,526	930	—	—	2,456
	A-	381	592	2,723	—	3,696
	BBB+	—	393	783	—	1,176
	BBB	—	5,495	142	—	5,637
	BBB-	—	1,117	415	—	1,532
Interest receivable	various	247	—	—	—	247
Asset-backed securities	AAA	3,949	24,308	2,790	516	31,563
	BBB+	—	900	—	—	900
Joint ventures and partnerships	n/a	—	—	—	50,940	50,940
Mutual funds – fixed income only	AAA	70	1,263	440	123	1,896
	AA	—	2,231	586	10	2,827
	A	146	437	391	17	991
	BBB	8	547	271	13	839
	BB	15	26	37	2	80
	B	17	10	37	1	65
	Below B	3	5	17	1	26
	Not Rated	47	6	29	4	86
Municipal bonds	AAA	—	3,270	—	—	3,270
	AA	—	3,978	—	—	3,978
	A	—	4,191	—	—	4,191
Mutual funds – other	n/a	—	—	—	14,438	14,438
Alternative investments	n/a	—	—	—	133,744	133,744
Real estate investments and other	n/a	—	—	—	25,082	25,082
		$ 247,649	367,872	59,480	429,315	1,104,316

OREGON HEALTH & SCIENCE UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands)

As of June 30, 2010, OHSU had the following investments and maturities at fair value:

Investment type	Standard & Poor's credit rating	Maturity: Less than 1 year	Maturity: 1 – 5 years	Maturity: 6 – 10 years	Maturity: More than 10 years or none	Total
Cash and money market funds	n/a	$ 75,725	—	—	—	75,725
U.S. government securities	n/a	9,939	224,677	36,857	—	271,473
U.S. agency securities	AAA	6,322	78,980	616	—	85,918
Domestic equity securities	n/a	—	—	—	61,059	61,059
International equity securities	n/a	—	—	—	82,043	82,043
International debt securities	AAA	2,119	1,032	2,117	2,897	8,165
	AA	—	421	—	—	421
	A	473	338	1,926	2,026	4,763
	BB	—	—	—	540	540
	Not Rated	—	—	—	592	592
Corporate bonds	AAA	—	12,728	—	—	12,728
	AA+	—	2,415	2,176	—	4,591
	AA	12,996	24,699	—	—	37,695
	AA-	1,514	2,229	—	—	3,743
	A+	2,926	1,382	817	—	5,125
	A	9,719	20,313	5,400	3	35,435
	A-	—	1,679	1,125	—	2,804
	BBB+	411	2,179	5,909	—	8,499
	BBB	1,539	14,444	5,963	—	21,946
	BBB-	413	2,123	6,624	—	9,160
Non-U.S. corporate bonds	AAA	—	10,672	—	—	10,672
	AA	—	26,294	—	—	26,294
	AA-	—	2,340	—	—	2,340
	A+	—	1,206	—	—	1,206
	A	—	2,426	—	—	2,426
	A-	—	400	2,236	—	2,636
	BBB+	—	681	2,498	—	3,179
	BBB	566	1,995	897	—	3,458
	BBB-	181	1,688	—	—	1,869
Interest receivable	Various	295	—	—	—	295
Asset-backed securities	AAA	15,472	22,792	1,791	965	41,020
	BBB+	—	860	—	—	860
Joint ventures and partnership	n/a	—	—	—	47,023	47,023
Mutual funds – fixed income only	AAA	406	1,180	1,649	420	3,655
	AA	31	188	248	61	528
	A	73	201	406	42	722
	BBB	73	258	446	28	805
	BB	1	19	104	4	128
	B	2	13	58	1	74
	Below B	2	16	26	—	44
	Not rated	253	61	5	5	324
Mutual funds – equity securities	n/a	—	—	—	11,626	11,626
Alternative investments	n/a	—	—	—	119,858	119,858
Real estate investments and other	n/a	—	—	—	24,689	24,689
Total		$ 141,451	462,929	79,894	353,882	1,038,156

All Standard & Poor's credit ratings are as of June 30 of the respective year-end.

OHSU held $32,464 and $41,880 of asset-backed securities collateralized primarily by auto loans and credit card receivables and collateralized mortgage obligations as of June 30, 2011 and 2010, respectively. These securities are valued at their estimated fair values. The valuation of these securities is sensitive to principal prepayments, which may result from a decline in interest rates, and they are sensitive to an increase in average maturity, which may result from interest rate increases that lead to decreasing prepayments. These factors may increase the interest rate volatility of this component of OHSU's investment portfolio.

At June 30, 2011 and 2010, OHSU had certain joint ventures and partnerships, alternative investments, real estate investments, and other investments. These investments may contain elements of both credit and market risk. Such risks may include limited liquidity, absence of regulatory oversight, dependence upon key individuals, and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

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

The endowment portfolio, which is included in long-term investments, restricted in the accompanying statements of financial position, seeks to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. The Foundations' investment policies are set based on the investment objectives of the portfolio. Each portfolio has its own Board-authorized asset allocation guideline. The current fund seeks to preserve principal and generate an above average rate of return. The current fund may invest in cash, cash equivalents, and fixed income securities, which have a maturity or average life of five years or less and the average weighted maturity of the portfolio shall not exceed three years. The endowment fund may invest in cash and cash equivalents, fixed income securities, U.S. and non-U.S. equity securities, and other alternative investments. Fixed income securities held in this fund shall have a medium to long average duration (three to eight years).

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

(b) Credit Risk

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

	Minimum Moody's rating	Minimum Standard & Poor's rating
Bankers acceptances	A-1	P-1
Commercial paper	A-1	P-1
Certificates of deposit	A	A-1/P-1
Deposit notes	A	A-1/P-1
Eurodollar CDs or eurodollar time deposits	A	A-1/P-1
Yankee CDs	A-1	P-1
Corporate debt	Baa3	BBB-
Foreign government and supranational debt	Baa3	BBB-
Insurance company annuity contracts and guaranteed investment contracts	Aaa	AAA
Mortgage pass-through securities	Aaa	AAA
Structured securities including asset-backed securities	Aaa	AAA
Pooled investments	Aa	AA

The endowment portfolio requires a weighted average credit rating of each fixed income portfolio (within the pool) of A or higher and an avoidance of the prospect of credit failure or risk of permanent loss. Issues of state or municipal agencies are prohibited, except under unusual circumstances. The endowment portfolio may hold up to a maximum of 10% of the fixed income portion of the fund in below investment grade (but rated B or higher by Moody's or Standard & Poor's) fixed income securities.

The charitable gift annuity and charitable trust investments require a minimum credit quality rating in investment grade Baa/BBB bond investments and a minimum rating of A1-P1 for investments in commercial paper.

(c) Concentration of Credit Risk

OHSU's operating and trustee held portfolios limit investments in any one issue to a maximum of 10%, depending upon the investment type, except for issues of the U.S. Government or agencies of the U.S. Government, which may be held without limitation. The endowment and charitable gift annuity portfolios limit investments in any one issue to a maximum of 5%, except for issues of the U.S. Government or agencies of the U.S. Government, which may also be held without limitation. The charitable trusts place no limit on the amount that may be invested in any one issuer. As of June 30, 2011 and 2010, OHSU had no investments in excess of the thresholds discussed above.

(Amounts in thousands)

(d) Foreign Currency Risk

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

The following table details the fair value of foreign denominated securities by currency type:

	Value (U.S. dollar)	
Foreign currency	**2011**	**2010**
Australian dollar	$ 34	85
Brazilian real	8	592
British sterling pound	6,617	3,107
Canadian dollar	571	497
Chinese renminbi	580	321
Euro	4,239	375
Hungarian forint	373	—
Indonesian rupiah	544	540
South Korean won	670	715
Malaysian ringgit	702	811
Mexican peso	678	594
New Zealand dollar	32	766
Norwegian krone	811	937
Polish zloty	945	940
South African rand	435	206
Singapore dollar	293	84
Swedish krona	—	467
Swiss Franc	2,125	—
Turkish lira	589	582
Total	$ 20,246	11,619

(4) Due from/to Contractual Agencies

Due from/to contractual agencies represents amounts receivable from or payable to the State Medicaid Program (Medicaid), the Federal Medicare Program (Medicare), and other contractual agencies. As of June 30, 2011, $21,641 was the net amount due from Medicaid, $8,971 was the net amount due to Medicare, and $4,560 was due to contractual agencies related to other settlement activity. As of June 30, 2010, $17,877 was the net amount due from Medicaid, $8,758 was the net amount due to Medicare, and

(Amounts in thousands)

$7,101 was due to contractual agencies related to other settlement activity. At June 30, 2011 and 2010, the net receivable is included in other receivables in the statements of financial position.

(5) Capital Assets

Capital assets for fiscal years ended June 30, 2011 and 2010 are listed by category below:

	2011	2010
Land and land improvements	$ 58,770	57,470
Buildings and other improvements	1,447,556	1,404,075
Equipment	651,218	609,611
Construction in progress	59,406	29,021
Accumulated depreciation	(979,795)	(885,156)
Total capital assets, net	$ 1,237,155	1,215,021

The following is a summary of capital assets for the fiscal years ended June 30, 2011 and 2010:

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Capital assets not depreciated:				
Land and land improvements	$ 57,470	1,300	—	58,770
Construction in progress	29,021	79,805	(49,420)	59,406
Total capital assets not depreciated	86,491	81,105	(49,420)	118,176
Other capital assets:				
Buildings and other improvements	1,404,075	43,569	(88)	1,447,556
Equipment	609,611	53,824	(12,217)	651,218
Total other capital assets	2,013,686	97,393	(12,305)	2,098,774
Less accumulated depreciation:				
Buildings and other improvements	(452,772)	(48,128)	2,197	(498,703)
Equipment	(432,384)	(58,519)	9,811	(481,092)
Total accumulated depreciation	(885,156)	(106,647)	12,008	(979,795)
Other capital assets, net	1,128,530	(9,254)	(297)	1,118,979
Total capital assets, net	$ 1,215,021	71,851	(49,717)	1,237,155

(Amounts in thousands)

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets not depreciated:				
Land and land improvements	$ 59,200	—	(1,730)	57,470
Construction in progress	51,716	47,694	(70,389)	29,021
Total capital assets not depreciated	110,916	47,694	(72,119)	86,491
Other capital assets:				
Buildings and other improvements	1,348,634	55,961	(520)	1,404,075
Equipment	599,910	41,811	(32,110)	609,611
Total other capital assets	1,948,544	97,772	(32,630)	2,013,686
Less accumulated depreciation:				
Buildings and other improvements	(407,267)	(45,889)	384	(452,772)
Equipment	(406,988)	(55,912)	30,516	(432,384)
Total accumulated depreciation	(814,255)	(101,801)	30,900	(885,156)
Other capital assets, net	1,134,289	(4,029)	(1,730)	1,128,530
Total capital assets, net	$ 1,245,205	43,665	(73,849)	1,215,021

During fiscal year 2007, OHSU sold all of the real property that currently constitutes Oregon Graduate Institute's main campus, including all land and buildings and other improvements, in the amount of approximately $44,400 to an unrelated third party. Simultaneously, OHSU entered into an operating lease with the third party to lease the entire campus with a seven-year term with two additional three-year options to extend the lease at the option of OHSU. OHSU deferred a gain in the amount of approximately $16,300, which is being ratably recognized over the minimum lease term of seven years. During fiscal years 2011 and 2010, OHSU recognized approximately $2,338 and $2,338, respectively, of this gain, which is included in other nonoperating revenues in the accompanying statements of revenues, expenses, and changes in net assets.

(6) Compensated Absences Payable

Vacation pay for classified employees is earned at 8 to 18.67 hours per month, depending on the length of service, with a maximum accrual of up to 364 hours per employee and a maximum payment upon separation of up to 364 hours. Vacation pay for unclassified employees is earned at 14.67 hours per month, with a maximum accrual of 256 hours and a maximum payment upon separation of up to 250 hours.

Sick leave is recorded as an expenditure when paid. Sick leave for employees is earned at the rate of 8 hours per month with no restrictions on maximum hours accrued. No liability exists for terminated employees.

(7) Retirement Plans

Various pension plans are available for all qualified employees. Many employees participate in the State of Oregon Public Employees Retirement System (PERS), which includes a defined benefit plan (PERS Tier 1 and Tier 2/OPSRP) and a defined contribution plan. All qualified employees hired subsequent to August 29, 2003 who elect PERS benefits are enrolled in the OPSRP. PERS, a multi-employer retirement plan, is administered by the Public Employees Retirement Board (Retirement Board) under the guidelines of Oregon Revised Statutes.

OHSU's total payroll, excluding fringe benefits, for the years ended June 30, 2011 and 2010 was $896,596 and $861,576, respectively. Payroll applicable for employees covered by PERS for the years ended June 30, 2011 and 2010 was $388,383 and $362,929, respectively. PERS collects contributions from both employers and employees for the purpose of funding retirement benefits. Beginning July 1, 1979, the employees' contribution for both plans under PERS has been assumed and paid by OHSU at the 6% rate set by law. The employer contribution rate is established by the Retirement Board based upon actuarial valuations, which are performed once every two years to determine the level of employer contributions. The employer contribution rates for the PERS Tier 1 and Tier 2 were 2.97% from July 1, 2009 – June 30, 2011. The employer contribution rate for the OPSRP was 3.68% from July 1, 2007 – June 30, 2011.

The State of Oregon PERS issues a publicly available financial report that includes financial statements and required supplementary information, including 10-year historical trend information showing the accumulation of sufficient assets to pay benefits when due. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 73, Portland, Oregon 97207-0073.

Information regarding normal retirement age, early retirement age, and vesting can be found on the Oregon PERS web site at http://pershelp.pers.state.or.us/Robo/.

(Amounts in thousands)

Effective July 1, 1996, OHSU established the University Pension Plan (UPP). The UPP is a defined contribution plan, which is available to employees as an alternative to PERS. Employees become fully vested in employer contributions over a three- to four-year period (depending on collective bargaining agreements) or upon reaching age 50. Contribution levels are determined by the Board of Directors of OHSU. In fiscal years 2011 and 2010, all employer contributions to the plan were 6% of salary and employee contributions were an additional 6%. Currently, OHSU is funding the employee portion of the contributions.

		2011	2010
PERS:			
Employer contribution	$	12,487	11,638
Employee contribution (1)		23,925	21,775
	$	36,412	33,413
UPP:			
Employer contribution	$	21,598	18,364
Employee contribution (1)		21,598	18,364
	$	43,196	36,728

(1) Of the employees’ share, the employer paid $45,523 and $40,139, including both PERS and UPP, in 2011 and 2010, respectively.

OHSU offers all eligible employees, full and part time, an option to participate in one of two tax deferred savings plans through the University Voluntary Savings Program. The 403(b) Plan is often referred to as a tax deferred investment plan while the 457(b) Plan is referred to as a deferred compensation plan. Both plans offer a variety of investment options. The contribution and investment earnings under these plans are tax deferred, which may be accumulated by the employee for distribution at a future date. All contributions to these plans are made by the employee and are fully vested at the time of the contribution.

The Foundations have defined contribution plans available for substantially all employees. The plans are funded through the purchase of a group annuity contract with an insurance company at a discretionary amount equal to 12% of eligible compensation. Contributions are fully vested after five years. The Foundations contributed $607 and $563 for the purchase of retirement annuities during the fiscal years ended June 30, 2011 and 2010, respectively.

(8) Postemployment Healthcare Plan

OHSU administers a single employer defined benefit healthcare plan. OHSU retiring employees are eligible to receive medical coverage for self and spouse until age 65. Retirees must pay the full premium for the coverage elected. The plan funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. Full-time active employees also make contributions. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes.

(Continued)

(Amounts in thousands)

The following table shows the components of OHSU's annual other postretirement employee benefit (OPEB) cost for the fiscal year ended June 30, 2011, the amount actually contributed to the plan, and changes in OHSU's net OPEB obligation to the plan:

		2011	2010	2009
Annual required contribution	$	1,719	2,262	2,355
Interest on net OPEB obligation		145	102	185
Annual OPEB cost		1,864	2,364	2,540
Contributions made		1,008	1,064	960
Increase in OPEB obligation		856	1,300	1,580
Net OPEB obligation – beginning of fiscal year		4,215	2,915	1,335
Net OPEB obligation – end of fiscal year	$	5,071	4,215	2,915
Percentage of annual OPEB cost contributed		54%	45%	38%

The funded status of the OHSU plan as of the most recent actuarial valuation date is as follows:

Actuarial valuation date		Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded accrued liability (UAAL) (b-a)	Funded ratio (a/b)		Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
January 1, 2008	$	—	19,120	19,120	—%	$	525,932	3.6%
January 1, 2010		—	19,185	19,185	—		669,000	2.9

The actuarially determined amounts above use an assumed discount rate of 3.5% in the January 1, 2010 valuation. The assumed healthcare cost trend rate was 8.7% in 2011, declining gradually to 4.5% in 2027 and remaining at 4.5% thereafter.

The actuarial cost method used is the projected unit credit method. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future; therefore, actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the types of benefits provided under the terms of the plan at the time of valuation and on the pattern of sharing costs between the employer and plan members to that point.

(9) Long-Term Debt, Bonds, and Capital Leases

(a) Debt Service Payment Agreement (DSPA)

In connection with OHSU becoming an independent public corporation, OHSU entered into a DSPA dated July 1, 1995 with OUS. The Act, which established OHSU as an independent public corporation, required that OUS and OHSU establish, in a written agreement, the responsibility of OHSU for the payment to OUS of amounts sufficient to pay when due all principal, interest, and any other charges on bonds, certificates of participation, financing agreements, or other agreements for the borrowing of money issued prior to the effective date of the Act for equipment or projects for OHSU. Payment under the terms of the DSPA by OHSU represents full satisfaction of any legal obligation related to such outstanding indebtedness.

(b) Tenancy in Common (TIC) Agreement – Collaborative Life Sciences Building (CLSB)

During fiscal year 2011, OHSU entered into a joint construction project with Oregon University Systems (OUS) to build the Collaborative Life Sciences Building (CLSB) on OHSU's Schnitzer Campus located in Portland's South Waterfront to be jointly owned, developed, and operated. As partial consideration for OHSU's receipt of 50% undivided percentage interest in the tenancy in common of the CLSB, OHSU agreed to pay to OUS one half of each scheduled 2011 F Bond debt service payment issued to fund the construction of the project, not later than 30 days before the State of Oregon is required to make each scheduled F Bond debt service payment. Payment under the terms of the Tenancy in Common Agreement by OHSU represents full satisfaction of any legal obligation related to such outstanding indebtedness.

(c) Bonds Payable

During fiscal year 1996, OHSU issued Insured Revenue Bonds Series A and B (1995 Revenue Bonds) for the purpose of construction and rehabilitation of facilities, the acquisition of equipment, to refund a portion of the DSPA, to fund a debt service reserve account, and to pay certain costs of issuance of the 1995 Revenue Bonds. The 1995 Revenue Bonds mature beginning July 1, 1996 through July 1, 2028 and require semiannual interest payments at 3.60% to 5.75%. The 1995 Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 1995 Revenue Bonds are not general obligations of OHSU and are payable solely from the revenue pledged.

During fiscal year 1999, OHSU issued Insured Revenue Bonds Series A and B (1998 Revenue Bonds), a series of auction rate securities, for the purpose of construction and rehabilitation of facilities, the acquisition of equipment, to fund a debt service reserve account, and to pay certain costs of the issuance of the bonds. The 1998 Series A Revenue Bonds mature beginning July 1, 2001 through July 1, 2020 and the Series B Revenue Bonds mature beginning July 1, 2020 through July 1, 2029, and require interest payments every 35 days. The interest rate is variable and is adjusted every 35 days. The rate was 0.25% and 0.51% at June 30, 2011 and 2010, respectively. The 1998 Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 1998 Revenue Bonds are not general obligations of OHSU and are payable solely from revenue pledged.

During fiscal year 2003, OHSU issued Insured Revenue Bonds Series A, a series of fixed-rate bonds, and B, a series of auction rate securities (2002 Revenue Bonds), for the purpose of construction and rehabilitation of facilities, the acquisition of equipment, to fund the debt service reserve account and to pay certain costs of issuance of the 2002 Revenue Bonds. The 2002 Series A Revenue Bonds mature beginning July 1, 2007 through July 1, 2032 and require semiannual interest payments at 3.00% to 5.07%. The 2002 Series B Revenue Bonds mature on July 1, 2032 and require interest payments every 35 days. The variable interest rate on the Series B Revenue Bonds is adjusted every 35 days and was 0.35% and 0.49% at June 30, 2011 and 2010, respectively. Both the Series A and the Series B Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2002 Revenue Bonds are not general obligations of OHSU and are payable solely from revenue pledged.

The 2009 Series A Revenue Bonds mature beginning July 1, 2033 through July 1, 2039 and the Series B-1 and B-2 Revenue Bonds mature beginning July 1, 2010 through July 1, 2027. The Series A Revenue Bonds require interest payments semiannually and the Series B-1 and B-2 Revenue Bonds require interest payments on the last day of every month. The interest rate on the Series A Revenue Bonds is fixed and ranges from 5.750% and 5.875%. The interest rate on the Series B-1 and Series B-2 bonds is variable, is adjusted weekly, and was 0.053% and 0.260% at June 30, 2011 and 2010, respectively. The Series B-1 and B-2 Revenue Bonds, while subject to a long-term amortization period, may be put to OHSU at the option of the bondholders in connection with certain remarketing dates. OHSU entered into a three-year irrevocable Standby Letter of Credit with U.S. Bank, NA effective July 17, 2009. The Letter of Credit will fund any put made by bond holders that is not successfully remarketed. In the event the standby Letter of Credit funds a put by bondholders, no principal payments are due for 367 days. If at that time the bonds have not been remarketed or redeemed, the principal is due over a 30-month period. As a result, the Series B-1 and B-2 Bonds are classified as long-term except for the portion that matures within 12 months after June 30, 2011. The 2009 Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2009 Revenue Bonds are not general obligations of OHSU and are payable solely from revenue pledged.

Under the terms of the 1995, 1998, 2002, and 2009 Revenue Bonds, OHSU is required to maintain funds held by a trustee for reserve requirements in amounts sufficient to pay specified principal and interest payments. The indenture and other loan agreements contain, among other things, provisions placing restrictions on additional borrowings and leases and require the maintenance of a debt service coverage ratio. Management asserts that it is in compliance with its debt covenants.

(d) Local Improvement District Assessments

During fiscal years 2007 and 2008, OHSU entered into various Local Improvement District agreements (LIDs) with the City of Portland, Oregon for assessments related to certain improvements to Portland's South Waterfront District. These LIDs are improvements to the real property in the amount of $30,000 and are considered to be nonrecourse obligations to OHSU. Total assessments to OHSU in the amount of $33,777 will be repaid over twenty years in equal semiannual installments at adjustable interest rates of 4.19% to 4.71% and have been included in long-term debt in the statements of financial position.

(Amounts in thousands)

(e) Interest Rate Swap Agreement

OHSU holds a total of four interest rate swap agreements (collectively, the swaps) as follows:

		Notional amount, June 30, 2011	Notional amount, June 30, 2010	Fair value, June 30, 2011	Fair value, June 30, 2010
Swap:					
2005 Swap #1	$	44,475	44,650	(4,206)	(5,328)
2005 Swap #2		44,450	44,625	(4,209)	(5,330)
2004 Swap #1		52,350	53,700	(955)	(2,384)
2004 Swap #2		52,350	53,700	(955)	(2,383)
	$	193,625	196,675	(10,325)	(15,425)

The notional amounts of the swaps and the principal amounts of the associated debt decline over time and terminate on January 1 and January 3, 2012, respectively, for the 2004 Swaps and on July 1, 2028 for the 2005 Swaps. The 2004 Swaps originated on January 1, 2007, and the 2005 Swaps originated on October 18, 2005. The 2005 Swap is callable in 2014. For the 2005 Swaps, OHSU is currently making fixed rate interest payments of 3.358% to the counterparty and receives variable rate payment computed as 62.67% of the London Interbank Offered Rate (LIBOR) plus 0.18%. For the 2004 Swaps, OHSU pays the counterparties a fixed payment of 3.37% and receives a variable payment computed as 67% of the London Interbank Offered Rate (LIBOR). The fair value represents the estimated amount that OHSU would pay or receive if the swap agreements were terminated at year-end, taking into account current interest rates and the creditworthiness of the underlying counterparty. Total cash payments made to swap counterparties were $6,017 and $6,127 during the years ended June 30, 2011 and 2010, respectively.

Each of the above swaps was established as part of a hedging arrangement during fiscal year 2009, as a hedge of total cash flows associated with the interest payments on the Series 1998A, Series 1998B, Series 2002B, and Series 2009B Bonds. Management has evaluated the effectiveness of the current hedges assuming hybrid instruments; each swap consists of a companion debt instrument, representing the value of the swap at the inception of the current hedge, and a hedging instrument, representing the hypothetical value of the swap had it held a $0 value at the inception of the hedge.

The companion debt instrument for the 2005 swaps is reported in other liabilities, with an offsetting balance in other assets, as it was part of a previous hedging relationship. The liability is being amortized over the remaining term of the swap agreements as an offset to interest expense. The asset is being amortized according to the same schedule as other debt issuance costs associated with the Series 2005A and Series 2005B bonds, as an offset to amortization expense. The liability value is $5,808 and $6,426 and the asset value is $5,159 and $5,793, as of June 30, 2011 and 2010, respectively.

The companion debt instrument for the 2004 swaps is reported in other liabilities, with no offsetting asset balance, as it was not part of a previous hedging relationship. The liability is being amortized over the remaining term of the swap agreements as an offset to interest expense. The liability value is $1,153 and $3,459 as of June 30, 2011 and 2010, respectively.

The current hedging instruments for both the 2004 swaps and the 2005 swaps are recorded in other liabilities, with an offsetting balance recorded in other assets. Any subsequent changes to the value of the hedging instruments are recorded by increasing or decreasing these balance sheet accounts. The total value of both the asset and liability are $815 and $2,862 as of June 30, 2011 and 2010, respectively.

OHSU is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2011, the counterparties' credit ratings were A+ from Standard & Poor's, Aa3 from Moody's, and A+ from Fitch. Additionally, the swap exposes OHSU to basis risk, which is the risk that arises when the relationship between the rates on the variable rate bonds and the swap formulas noted above vary from historical norms. If this occurs, swap payments received by OHSU may not fully offset its bond interest payments. As these rates change, the effective synthetic rate on the bonds will change.

OHSU is additionally responsible for posting collateral if the total swap liability for swaps with one of the counterparties exceeds a predetermined value on their reporting date. The collateral posting limit was $15,000, compared to a total relevant swap liability value of $9,371 as of June 30, 2011, resulting in a requirement that OHSU post collateral totaling $0 as of June 30, 2011.

OHSU or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contracts.

(Amounts in thousands)

(f) Capital Leases

OHSU has entered into agreements for the lease of certain equipment, property, and improvements. Amortization of the capitalized value of these assets is included in depreciation and amortization expense on the statements of revenues, expenses, and changes in net assets. Future minimum lease payments under these agreements are as follows:

Year ending June 30:		
2012	$	1,460
2013		4,182
2014		419
2015		148
2016		124
		6,333
Less amount representing interest		(528)
		5,805
Less current portion		(1,141)
	$	4,664

(g) Summary of Long-Term Debt, Bonds, and Capital Leases

Long-term debt and capital leases at June 30, 2011 and 2010 are as follows:

		2011	2010
Debt service payment agreement (DSPA)	$	18,443	22,100
Bonds payable, revenue bonds, Series 2009 A and B		230,243	230,264
Bonds payable, revenue bonds, Series 2002 A and B		239,774	242,641
Bonds payable, revenue bonds, Series 1998 A and B		86,800	89,100
Bonds payable, revenue bonds, Series 1995 A and B		95,832	99,017
Tenancy in Common Agreement (TIC) – CLSB		30,205	—
Local improvement district agreements		27,139	28,830
B of A capital equipment loans		6,122	8,190
Lower Columbia Eye Clinic		142	283
Astoria Eye Clinic		—	110
Hood River/The Dalles Eye Clinic		226	—
Bates Property Note		1,300	—
Other capital leases		5,805	7,063
Less current portion of debt and capital leases		(18,807)	(19,070)
	$	723,224	708,528

(Amounts in thousands)

Amounts due under the DSPA, the 1995 Revenue Bonds, the 2002 Revenue Bonds, the 2009 Revenue Bonds, and the Tenancy in Common Agreement – CLSB are included in long-term debt in the accompanying statements of financial position and are shown net of unamortized discounts and premiums of $3,136 and $4,974 as of June 30, 2011 and 2010, respectively, and net of unamortized loss on refunding of $4,006 and $4,353 as of June 30, 2011 and 2010, respectively. Amounts due under the DSPA and the 1995 Revenue Bonds include accreted interest of $40,260 and $39,667 as of June 30, 2011 and 2010, respectively. Interest is accreted on the DSPA and the 1995 Revenue Bonds from the date the obligations were issued until maturity using the effective-interest method.

Scheduled principal and interest repayments under the DSPA, the various revenue bond obligations, and the local improvement district agreements are as follows:

	Principal	Interest	Total
Year ending June 30:			
2012	$ 17,666	36,106	53,772
2013	18,198	33,631	51,829
2014	18,826	32,846	51,672
2015	18,554	33,567	52,121
2016	19,340	33,960	53,300
2017 – 2021	79,204	182,089	261,293
2022 – 2026	130,262	128,416	258,678
2027 – 2031	152,073	86,821	238,894
2032 – 2036	141,515	47,302	188,817
2037 – 2041	105,710	13,104	118,814
2042	1,760	44	1,804
	$ 703,108	627,886	1,330,994

The cost of obtaining debt is deferred and amortized over the term of the related debt using the effective-interest method.

(Amounts in thousands)

(h) Changes in Noncurrent Liabilities

Changes in OHSU's total noncurrent liabilities during the fiscal years ended June 30, 2011 and 2010 are summarized below:

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Liability for self-funded insurance programs	$ 41,406	14,371	(19,939)	35,838
Liability for life income agreements	16,906	4,742	(4,514)	17,134
Long-term debt	703,290	32,079	(16,809)	718,560
Long-term capital leases	5,238	567	(1,141)	4,664
Other noncurrent liabilities	16,965	3,963	(5,981)	14,947
	$ 783,805	55,722	(48,384)	791,143

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Liability for self-funded insurance programs	$ 48,262	17,547	(24,403)	41,406
Liability for life income agreements	17,007	4,134	(4,235)	16,906
Long-term debt	717,941	393	(15,044)	703,290
Long-term capital leases	6,890	—	(1,652)	5,238
Other noncurrent liabilities	17,653	2,364	(3,052)	16,965
	$ 807,753	24,438	(48,386)	783,805

(10) Life Income Fund – Annuities

Assets contributed as life income agreements are recorded at their fair value. The present value of estimated future payments to beneficiaries of annuity agreements is recorded as a liability. The present values of these estimated payments were determined on the basis of published actuarial factors for the ages of the respective annuity beneficiaries. Differences between the assets contributed and the expected payments to be made to beneficiaries have been recorded as donations in the year established.

(Continued)

(Amounts in thousands)

Life income contributions, included in gifts, grants, and contracts in the accompanying statements of revenues, expenses, and changes in net assets are as follows for the fiscal years ended June 30, 2011 and 2010:

	2011			2010		
	Agreements	Asset	Liability	Agreements	Asset	Liability
Charitable remainder unitrusts	6	$ 992	303	3	$ 900	234
Charitable gift annuities	11	296	173	11	834	495
Total	17	$ 1,288	476	14	$ 1,734	729

The assets and corresponding liabilities related to life income agreements are included in long-term investments, restricted, and the liability for life income agreements in the accompanying statements of financial position. Total life income agreements held at June 30, 2011 and 2010 are as follows:

	2011			2010		
	Agreements	Asset	Liability	Agreements	Asset	Liability
Charitable remainder unitrusts	78	$ 20,385	9,422	80	$ 18,201	8,595
Charitable remainder trust annuities	10	1,718	938	13	2,001	1,070
Charitable gift annuities	201	8,829	6,040	199	8,751	6,413
Life estate agreements	7	1,744	734	8	2,045	828
Total	296	$ 32,676	17,134	300	$ 30,998	16,906

Nineteen of the 296 life income agreements have been reinsured with insurance carriers in order to reduce liability exposure. Under the reinsurance contracts, the future beneficiary payments are paid by the insurance carrier. To the extent the insurance carriers are unable to perform under the contract, OHSU would be responsible for payment.

(11) Funds Held in Trust by Others

Funds held in trust by others, for which OHSU is an income beneficiary, are not recorded in the financial statements. The approximate fair market value of such trusts was $7,535 and $6,822 on June 30, 2011 and 2010, respectively.

The Foundations are the named beneficiaries of twenty-one trusts held by outside trustees. The reported fair market value of trust assets held by others was $17,700 and $15,700 as of June 30, 2011 and 2010, respectively. The Foundations record contributions as trust distributions occur. Trust distributions of $900 and $600 were recorded as contributions during the fiscal years ended June 30, 2011 and 2010, respectively.

(Amounts in thousands)

(12) Pledges and Estates Receivables

The Foundations had the following pledges and estates receivable as of June 30, 2011 and 2010:

		2011	2010
Pledges maturing within 1 year	$	22,387	19,232
Pledges maturing within 2 – 10 years		77,873	93,364
		100,260	112,596
Less allowance for uncollectible pledges		(2,189)	(1,507)
		98,071	111,089
Less discount for net present value		(4,869)	(7,942)
Total net pledges receivable		93,202	103,147
Estates receivable		1,452	522
Less allowance for uncollectible estates		(73)	(26)
Total net estates receivable		1,379	496
Total pledges and estates receivable	$	94,581	103,643

(13) Commitments and Contingencies

(a) Liability for Self-Funded Insurance Programs

Coverage for Professional Liability, General Liability, Automobile Liability, Directors and Officers Liability, and Employment Practices Liability is provided through OHSU's solely owned captive insurance company, OHSU Insurance Company, up to a coverage limit of $105 million individually and in aggregate.

The coverage limits for claims made on or after July 1, 2009 are $3,000 for each and every claim for Professional Liability, General Liability, and Automobile Liability and $1,000 for each and every claim on all other liability coverages with an annual aggregate of $17,500. OHSU Insurance Company has entered into reinsurance agreements with various insurers to fully reinsure this coverage for claims that may exceed these limits. Coverage is written on a claims-made basis.

The coverage limits for claims made after July 1, 2002 and prior to July 1, 2009 are $5,000 for each and every claim for Professional Liability with no annual aggregate, General Liability, and Automobile Liability and $1,000 for each and every claim on all other liability coverages with no annual aggregate.

Coverages for claims made prior to July 1, 2002 are $1,000 for each claim with an annual aggregate of $4,000. OHSU Insurance Company has entered into reinsurance agreements with various insurers to fully reinsure this coverage for claims that may exceed these limits. Coverage is written on a claims-made basis.

(Amounts in thousands)

OHSU has contracted with independent actuaries to estimate the ultimate costs of settlement related to the coverage provided by OHSU Insurance Company. The liability has been discounted at 5% in 2011 and 2010 and, in management's opinion, provides an adequate reserve for loss contingencies.

In December 2007, the Oregon Supreme Court found unconstitutional certain provisions of the Oregon Tort Claims Act (OTCA) that limited OHSU's liability for the acts of its employees and agents in large damages cases.

Effective July 1, 2009, the OTCA was amended by Senate Bill 311 for events occurring on or after December 28, 2007. The new OTCA limits are as follows:

Date of event		New OTCA limit	Occurrence aggregate
12/28/2007 – 06/30/2010	$	1,500	3,000
07/01/2010 – 06/30/2011		1,600	3,200
07/01/2011 – 06/30/2012		1,700	3,400
07/01/2012 – 06/30/2013		1,800	3,600
07/01/2013 – 06/30/2014		1,900	3,800
07/01/2014 – 06/30/2015		2,000	4,000

The impact of this decision has been included in the liability for self-funded insurance programs in the accompanying financial statements.

Prior to January 1, 2006, workers compensation coverage was insured through OHSU Insurance Company. The management and payment of claims was performed by Liberty Northwest Insurance Company (LNW); OHSU Insurance Company reimbursed LNW for all claims and expenses. Coverage was provided in compliance with the statutory requirements of the State of Oregon. Employers liability coverage was provided with a $500 per occurrence limit after $500 self-insured retention. Aon Global Consulting calculates developed claims costs. These costs are recorded by OHSU Insurance Company. As of February 28, 2010, OHSU Insurance Company is no longer financially responsible for these claims.

On January 1, 2006, Workers Compensation coverage for all employees was placed with the SAIF Corporation (SAIF) in accordance with statutory requirements. SAIF also provides employers liability coverage in the amount of $500 per claim, without retention. The SAIF policy is written as a paid loss retrospective plan. SAIF charges a minimum premium quarterly. This paid premium is an estimate and varies with audited payroll. In addition, SAIF bills monthly for the prior month's paid losses, adding a loss conversion factor. Six months after the policy term, and every twelve months thereafter, a retrospective evaluation is completed to determine any additional amounts to be paid, including outstanding reserves, for claims relating to the policy year. OHSU's liability includes an incurred but not reported estimate based on annual actuarial projections.

(b) Unemployment Compensation

Unemployment compensation claims are administered by the Oregon Employment Division pursuant to Oregon Revised Statutes. Actual benefits paid by OHSU are reimbursed from the State's Unemployment Compensation Trust Fund. The estimated amount of future benefits payments to claimants and the resulting liability to OHSU have been reflected as accrued salaries, wages, and benefits in the accompanying statements of financial position.

(c) Employee Health Programs

Beginning January 1, 2006, OHSU is self-insured for its risk of loss related to costs to insure its employees for medical, dental, and vision coverage. OHSU has utilized a third-party actuary to assist in the estimation of its liability for the employee health programs related to claims payable and those claims incurred but not yet paid or reported of approximately $12,733 and $13,559 as of June 30, 2011 and 2010, respectively. These amounts are included in current portion of self-funded insurance program liabilities in the accompanying statements of financial position.

(d) Labor Organizations

Approximately 15% of OHSU's employees are nurses represented by the Oregon Nurses Association (ONA). Approximately 39% of OHSU's employees are represented by the American Federation of State, County, and Municipal Employees (AFSCME), for a total of 54% of OHSU's employees being represented by labor organizations. OHSU's contract with ONA expires on September 30, 2013, and the current contract with AFSCME expires on June 30, 2012.

(e) Construction Contracts

OHSU had outstanding commitments on unexpended construction contracts totaling approximately $5,539 and $14,017 at June 30, 2011 and 2010, respectively. These commitments will be primarily funded from gifts, grants, funds held by trustee, and other investment accounts.

(f) Legal Proceedings

The healthcare industry and academic medical centers are subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, laws and regulations related to licensure, accreditation, government health program participation, reimbursement for patient services, Medicare and Medicaid fraud and abuse, and laws and regulations governing the conduct of federally funded research, research involving human and animal subjects, and other facets of research. Government monitoring and enforcement activity continues with respect to possible violations of fraud and abuse laws and regulations, and other laws and regulations applicable to healthcare providers and healthcare institutions, including academic medical centers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties and repayments for patient services previously billed. Management believes OHSU is in compliance with applicable fraud and abuse laws and regulations, as well as other applicable government laws and regulations. OHSU's compliance with the referenced laws and regulations may be subject to current or future

(Continued)

(Amounts in thousands)

government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

OHSU is involved in litigation and is periodically the subject of regulatory inquiries in the normal course of its business. In past years, OHSU was subject to several federal healthcare audits as a part of national initiatives targeting large numbers of hospitals and academic medical centers, and was the subject of government-issued subpoenas and postpayment reviews concerning specific OHSU billing practices. OHSU responded to these audits, subpoenas, and reviews, and these matters were resolved or are expected to be resolved without material adverse effect on OHSU's financial position or results of operations.

(g) Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases, with the related rentals charged to operations as incurred.

Rental expenses under operating leases were approximately $22,915 and $24,210 in 2011 and 2010, respectively. The following is a schedule of future minimum rental commitments under operating leases as of June 30, 2011 that have initial or remaining lease terms in excess of one year:

Year ending June 30:		
2012	$	16,509
2013		16,041
2014		12,724
2015		10,296
2016		10,080
2017 – 2021		37,307
2022 – 2025		7,678
	$	110,635

(h) Healthcare Reform

As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of health care costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. This federal healthcare reform legislation does not affect the 2011 financial statements.

(Continued)

(14) Oregon Opportunity Grant

During fiscal year 2003, the Oregon State Legislature approved the Oregon Opportunity Act, which authorized the State to provide $200,000 to OHSU by issuing general obligation bonds. The State and OHSU executed a grant agreement whereby the proceeds of this bond offering would be conveyed to OHSU to be used for qualifying capital and noncapital expenditures under the Oregon Opportunity program.

OHSU received the disbursements of Oregon Opportunity grant funds in the amount of approximately $104,220 and $93,650 during the fiscal years ended June 30, 2004 and 2003, respectively. OHSU has cumulatively recognized approximately $200,000 of gifts, grants, and contracts revenue in its statements of revenues, expenses, and changes in net assets in accordance with GASB No. 33 to date through June 30, 2011. OHSU has recorded $4,795 and $2,575 of gifts, grants, and contracts in the accompanying statements of revenues, expenses, and changes in net assets for the fiscal years ended June 30, 2011 and 2010, respectively. The remaining unexpended grant proceeds, including investment income, of approximately $0 and $4,805 have been recorded as deferred revenue in the statements of financial position as of June 30, 2011 and 2010, respectively.

OREGON HEALTH & SCIENCE UNIVERSITY

Unaudited Supplemental Information

June 30, 2011

Required Supplementary Information – Unaudited
Postemployment Healthcare Benefit Plan
Schedule of Funding Progress

The funded status of the OHSU plan as of the most recent actuarial valuation date is as follows (amounts in thousands):

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded actuarial accrued liability (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
January 1, 2008	$ —	19,120	19,120	—%	$ 525,932	3.6%
January 1, 2010	—	19,185	19,185	—	669,000	2.9

The actuarially determined amounts above use an assumed discount rate of 3.5% in the January 1, 2010 valuation. The assumed healthcare cost trend rate was 8.7% in 2011, declining gradually to 4.5% in 2027 and remaining at 4.5% thereafter.

OREGON HEALTH & SCIENCE UNIVERSITY

Consolidating Statements of Financial Position

June 30, 2011 and 2010

(Unaudited – See accompanying independent auditors' report)

(Dollars in thousands)

Assets		Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2011	2010
Current assets:								
Cash and cash equivalents	$	255,547	(68,208)	187,339	3,198	—	190,537	99,629
Short-term investments		68,747	8,675	77,422	1,069	—	78,491	20,601
Current portion of funds held by trustee		2,781	69,911	72,692	—	—	72,692	21,629
Patients accounts receivable, net of contractual and bad debt allowances of $20,327 and $26,653 at June 30, 2011 and 2010, respectively		150,632	42,522	193,154	—	—	193,154	185,756
Student and grant receivables		—	34,382	34,382	—	—	34,382	37,787
Interest receivable		857	583	1,440	1,069	—	2,509	3,432
Current portion of pledges and estates receivable		—	—	—	23,175	—	23,175	19,383
Other receivables, net		12,575	52,335	64,910	—	(13,807)	51,103	29,337
Inventories, at cost		12,813	2,822	15,635	—	—	15,635	13,372
Prepaid expenses		8,960	4,484	13,444	71	—	13,515	13,161
Total current assets		512,912	147,506	660,418	28,582	(13,807)	675,193	444,087
Noncurrent assets:								
Capital assets, net of accumulated depreciation		530,951	705,640	1,236,591	564	—	1,237,155	1,215,021
Funds held by trustee – less current portion		36,244	20,781	57,025	—	—	57,025	63,333
Long-term investments:								
Long-term investments, restricted		—	27,425	27,425	352,403	—	379,828	365,395
Long-term investments, unrestricted		102,097	143,687	245,784	270,496	—	516,280	567,198
Total long-term investments		102,097	171,112	273,209	622,899	—	896,108	932,593
Deferred financing costs, net		8,867	6,417	15,284	—	—	15,284	16,659
Pledges and estates receivable – less current portion		—	—	—	71,406	—	71,406	84,260
Other noncurrent assets		1,308	(493)	815	3,251	—	4,066	2,862
Interest in the Foundations		—	691,165	691,165	—	(691,165)	—	—
Total noncurrent assets		679,467	1,594,622	2,274,089	698,120	(691,165)	2,281,044	2,314,728
Total assets	$	1,192,379	1,742,128	2,934,507	726,702	(704,972)	2,956,237	2,758,815
Liabilities and Net Assets								
Current liabilities:								
Current portion of long-term debt	$	7,792	9,874	17,666	—	—	17,666	17,245
Current portion of long-term capital leases		913	228	1,141	—	—	1,141	1,825
Current portion of self-funded insurance programs liability		—	20,253	20,253		—	20,253	29,337
Accounts payable and accrued expenses		48,782	53,437	102,219	2,572	—	104,791	85,967
Drafts payable		7,433	7,474	14,907	—	—	14,907	13,065
Accrued salaries, wages, and benefits		19,195	36,928	56,123	—	—	56,123	48,115
Compensated absences payable		24,138	28,175	52,313		—	52,313	48,599
Deferred revenue		10	26,910	26,920	—	—	26,920	33,364
Other current liabilities		1,681	(799)	882	13,817	(13,807)	892	1,819
Total current liabilities		109,944	182,480	292,424	16,389	(13,807)	295,006	279,336
Noncurrent liabilities:								
Long-term debt – less current portion		374,681	343,879	718,560	—	—	718,560	703,290
Long-term capital leases – less current portion		699	3,965	4,664	—	—	4,664	5,238
Liability for self-funded insurance programs – less current portion		—	35,838	35,838	—	—	35,838	41,406
Liability for life income agreements		—	—	—	17,134	—	17,134	16,906
Other noncurrent liabilities		4,549	8,384	12,933	2,014	—	14,947	16,965
Total noncurrent liabilities		379,929	392,066	771,995	19,148	—	791,143	783,805
Total liabilities		489,873	574,546	1,064,419	35,537	(13,807)	1,086,149	1,063,141
Net assets:								
Invested in capital assets, net of related debt		185,010	400,232	585,242	—	—	585,242	572,384
Restricted, expendable		—	346,172	346,172	264,208	(264,208)	346,172	344,729
Restricted, nonexpendable		—	165,488	165,488	165,488	(165,488)	165,488	142,686
Unrestricted		517,496	255,690	773,186	261,469	(261,469)	773,186	635,875
Total net assets		702,506	1,167,582	1,870,088	691,165	(691,165)	1,870,088	1,695,674
Total liabilities and net assets	$	1,192,379	1,742,128	2,934,507	726,702	(704,972)	2,956,237	2,758,815

See accompanying independent auditors' report.

OREGON HEALTH & SCIENCE UNIVERSITY

Consolidating Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

(Unaudited – See accompanying independent auditors' report)

(Dollars in thousands)

	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2011	2010
Operating revenues:							
Patient service revenue, net of provision for bad debts of $44,567 in 2011 and $53,807 in 2010	$ 1,032,907	293,595	1,326,502	—	—	1,326,502	1,247,607
Student tuition and fees, net	—	50,149	50,149	—	—	50,149	46,787
State appropriations	1,168	37,991	39,159	—	(39,159)	—	—
Gifts, grants, and contracts	773	406,852	407,625	59,875	(42,959)	424,541	424,975
Sales and services of educational departments	—	18,584	18,584	—	—	18,584	17,401
Auxiliary enterprises	—	17,550	17,550	—	—	17,550	15,345
Other revenue	40,132	9,398	49,530	2,719	(1,871)	50,378	53,454
Total operating revenues	1,074,980	834,119	1,909,099	62,594	(83,989)	1,887,704	1,805,569
Operating expenses:							
Salaries, wages, and benefits	490,201	618,224	1,108,425	9,079	—	1,117,504	1,041,271
Services, supplies, and other	449,392	150,868	600,260	94,115	(84,830)	609,545	615,130
Depreciation and amortization	53,547	52,949	106,496	151	—	106,647	101,801
Interest	19,308	17,246	36,554	—	—	36,554	37,048
Total operating expenses	1,012,448	839,287	1,851,735	103,345	(84,830)	1,870,250	1,795,250
Operating gain (loss)	62,532	(5,168)	57,364	(40,751)	841	17,454	10,319
Nonoperating revenues (expenses):							
Investment income and gain in fair value of investments	7,998	15,309	23,307	65,421	—	88,728	64,432
State appropriations	—	—	—	—	39,159	39,159	37,853
Other	(95)	4,566	4,471	2,234	—	6,705	4,732
Total nonoperating revenues, net	7,903	19,875	27,778	67,655	39,159	134,592	107,017
Net income before contributions for capital and other	70,435	14,707	85,142	26,904	40,000	152,046	117,336
Contributions for capital and other	(535)	44,816	44,281	—	(40,000)	4,281	2,431
Change in interest in the Foundations	—	44,991	44,991	—	(44,991)	—	—
Nonexpendable donations	—	—	—	18,087	—	18,087	11,232
Total other changes in net assets	(535)	89,807	89,272	18,087	(84,991)	18,087	11,232
Total increase in net assets	69,900	104,514	174,414	44,991	(44,991)	174,414	130,999
Net assets – beginning of year	632,606	1,063,068	1,695,674	646,174	(646,174)	1,695,674	1,564,675
Net assets – end of year	$ 702,506	1,167,582	1,870,088	691,165	(691,165)	1,870,088	1,695,674

See accompanying independent auditors' report.

RESOLUTION 2011-10-06
OREGON HEALTH & SCIENCE UNIVERSITY
BOARD OF DIRECTORS

It is RESOLVED by the Board of Directors of Oregon Health & Science University that the Board hereby accepts the *Financial Statements and Independent Auditors' Report* as detailed by KPMG (attached) for Oregon Health & Science University for the Fiscal Year 2011 (July 1, 2010 – June 30, 2011).

This Resolution is adopted this 31st day of October, 2011.

Yeas ______

Nays ______

Signed by the Secretary of the Board on October 31, 2011.

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Amy M. Wayson
Board Secretary