OHSU Board of Directors Meeting

October 24, 2013
SON – 358/364
1:00 p.m. – 3:00 p.m.

OREGON HEALTH & SCIENCE UNIVERSITY
BOARD OF DIRECTORS MEETING

October 24, 2013
1:00 – 3:00 p.m.
School of Nursing, Rooms 358 & 364

1:00 p.m.	Call to Order/ Chairman's Comments President's Comments Approval of Minutes **(Action)**	Charles Wilhoite Joe Robertson, M.D. Charles Wilhoite
1:15 p.m.	FY13 Financial Statement Audit **(Action)**	Lawrence Furnstahl Drew Corrigan
	Revisions to OHSU Investment Policy **(Action)**	Lawrence Furnstahl
.	FY14 First Quarter Financial Results	Lawrence Furnstahl
2:05 p.m.	Governance Committee Report • Report on Board Survey • Committee appointments **(Action)**	MardiLyn Saathoff
2:30 p.m.	Re-Commissioning OHSU officers **(Action)**	Greg Moawad
2:45 p.m.	Roman Hernandez resolution **(Action)**	Charles Wilhoite
	Charles Wilhoite resolution **(Action)**	Jay Waldron
	Election of Board Officers and Committee Appts. **(Action)**	Charles Wilhoite
	Other Business; adjournment	Charles Wilhoite

OREGON HEALTH & SCIENCE UNIVERSITY

Next meeting
Thursday, January 30, 2014
School of Nursing, rooms 358/364
1:00-3:00 p.m.

Oregon Health & Science University
Board of Directors Meeting
September 12, 2013

Board Members in Attendance: Charles Wilhoite, Ken Allen, Román Hernández, Poorav Patel, Maria Pope, Joe Robertson, MardiLyn Saathoff, Jay Waldron, David Yaden

Staff Presenters: Lawrence Furnstahl, Jeanette Mladenovic, Greg Moawad, Steven Shea

Chair's Comments

Mr. Wilhoite called the meeting to order, welcoming all in attendance and outlining the agenda for the meeting. He stated that Amy Wayson, general counsel, is retiring. Ms. Wayson has brought passion, commitment, and expert legal guidance to OHSU in her role as general counsel over the last eight years. On behalf of the Board and OHSU, Mr. Wilhoite commended Ms. Wayson for her valuable contributions and thanked her for her service. Janet Billups will be returning to the legal department and serving as interim general counsel.

President's Comments

Dr. Robertson echoed the sentiments of Mr. Wilhoite, thanking Ms. Wayson for her service and contributions to OHSU. Dr. Robertson introduced Ms. Billups and described that she began at OHSU long ago and eventually came to write Senate Bill 2, the legislation that enabled OHSU to become a public corporation in 1995. She later served as general counsel and carried out many projects, including bringing 36 private practices together as a non-profit with OHSU as the member. Ten years later, Ms. Wayson helped merge that entity into OHSU.

Dr. Susan Bakewell-Sachs and Dr. Phillip Marucha are the new deans in the Schools of Nursing and Dentistry, respectively. They were both hired for their demonstrated collaboration and innovation, the key elements in Vision 2020. They will play a pivotal role in changing the model of care, acting as agents in healthcare reform, and changing OHSU's educational models.

Dr. Louis Picker is very close to creating a true HIV vaccine. The candidate vaccine has successfully cleared the HIV virus from 50% of the monkeys receiving the vaccine, which is significant news. The goal is that human trials will begin in a few years.

Norman and Linda Brendan and the Colson Family Foundation gave a $25 million gift to support research and care in pancreatic cancer. Pancreatic cancer is one of the deadliest cancers and is most resistant to advances in treatment. This gift will give the pancreatic center the opportunity to make a significant difference in the outcomes for patients with this condition.

The Foundation had a record year for philanthropy, raising over $197 million. Contributions came from all 50 states and 11 countries. There were 19 individual gifts of $1 million or more, up from 13. The endowment grew by 7%, finishing the fiscal year at $464 million and establishing seven new endowed positions. In August, there was a celebration recognizing $25 million of cumulative giving by the Oregon Elks Association; this shows the powerful effect of philanthropy over time.

The Collaborative Life Sciences Building (CLSB) is nearing completion. Class sizes are increasing and the interprofessional educational model is being implemented in anticipation of the new facility. The student orientation in the fall combined the schools instead of having separate orientations for each school as done in previous years. With the opening of the CLSB, enrollment in the medical school class will increase from 120 to 160, the dental school class will increase from 75 to 90, the physician assistant program from 40 to 50, and the pharmacy program will change from 90 students to 115.

Approval of Minutes

Upon motion duly made and seconded, the minutes of the June 27, 2013 Board meeting were unanimously approved.

Financial Update

Mr. Furnstahl presented the unaudited results for the fiscal year ending June 30, 2013. KPMG will report the final results to the Board in October upon completion of the audit. On a revenue base of $2.1 billion, the operating income for FY '13 was $96 million, which was $36 million above budget and 15% above last year's results. Operating cash flow, which funds new programs and capital additions, was a positive $88 million, with OHSU's net worth reaching $2.2 billion. This is a nearly 70% increase over the last seven years.

Operating revenue was $45 million above budget and 5% over last year. Operating expenses were $9 million over budget and 5% over last year. Of the additional $9 million in expenses, $5 million was higher Medicaid provider tax that was set after the budget was approved; on the positive side, this resulted in a higher reimbursement rate. The increase in patient revenue was the largest driver of revenue, resulting from the increase in higher complexity patient cases.

Seventy percent of revenue is from patient care. Twenty percent is related to research grants, contracts, and gifts. The remaining ten percent is primarily related to education. Sixty percent of expenses are salaries and benefits, while a third of expenses come from services and supplies. Only seven percent of the annual expenses are related to capital.

August 2012 through January 2013 saw a declining trend in earnings with external factors affecting the bottom line. As a result, significant corrective actions were implemented including a hiring freeze, reductions in central administrative and support costs, and acceleration of productivity and process redesign. These reversed the declining trend, with income ending the year at levels needed to clear upcoming challenges. Effective July 1, 2013, there was a net increase in PERS pension expenses of $10 million a year. Sequestration will impact Medicare and the research program, for a net impact of $18 million a year. In addition, the CLSB will cost $17 million to operate once it is open. Responding to Ms. Saathoff, Mr. Furnstahl confirmed that the $17 million increase in costs due to the CLSB will be partially offset by an incremental increase in enrollment.

Key performance drivers of FY '13 included $2 million in one-time revenue and $6 million in favorable accounting adjustments. The year ended almost 5% over budget in case mix and outpatient adjusted admissions. All schools and institutes met or exceeded their budget target. The School of Medicine performed especially well with a $13 million unrestricted gain. Central administrative and support areas were $9 million below budget. The debt restructuring and refinancing lowered annual interest payments from $35 million two years ago to $25 million currently, achieving savings of $10 million each year.

On a $2.1 billion revenue base, OHSU's consolidated net worth is $2.2 billion, compared to $1.3 billion seven years ago. Of this amount, $1.4 billion is in cash and investments, including the endowment that is consolidated from the Foundation. Physical plant and technology worth $1.4 billion are leveraged with $800 million in debt. These assets support the intellectual capital of the university – its 2,000 faculty and 12,000 staff.

There was a 3.3% net increase in activity across missions in FY '13 supported by a 1.1% increase in faculty and staff. This productivity increase is helping to offset the effects of sequestration and reduced reimbursement rates. With strong operating earnings and philanthropy, OHSU has made nearly $1.2 billion in new capital additions over the last eight years, compared to $750 million in depreciation. The strongest national peers, academic health centers rated AA, average a capital addition-depreciation ratio of 158%; with the completion of the CLSB this year, OHSU will achieve that benchmark.

A $2 million affiliation payment will be invested into the commercialization of ORATECH, OHSU's center for research in aging with technology. An additional $2 million will be added to the Diversity fund to recruit students and faculty, doubling the amount from FY '12. Funds will be directed to world-class science and also to backstop the transition to a new faculty compensation plan that will be the core of next year's budget process. The remaining income will be added to cash reserves to further strengthen the balance sheet in an increasingly uncertain external environment.

Key financial challenges underlying the budget include the national slowing of healthcare spending and the corresponding flattening of our payment rates, federal sequestration and reduction in research funding, and PERS funding for approximately half of OHSU's employees. Between 1992 and 2013, grant funding increased from about $50 million a year to $350 million. From this level, grant funding declined 4-5% from 2012 to 2013 as a direct result of sequestration that impacted the NIH and NSF budget, with OHSU maintaining market share of grant awards. In addition, important new facilities are coming online and have associated costs, while efforts to reduce the relatively high tuition and student debt loads are continuing.

Half of OHSU's employees are in the University Pension Plan, a defined contribution plan that contributes 12% of the employee's salary. As a defined benefit plan with liabilities exceeding assets, PERS has projected significant contribution increases over the next several years. In response, OHSU is phasing in employee contributions of 6% to the plan by FY '16. Legislation was recently passed that reduces cost of living increases and other pension costs, lowering contributions by 2.5% a year. However, the PERS Board lowered the expected investment return from 8% to 7.75%, thereby increasing necessary PERS contributions by 1.5%. Current projections for FY '16 show OHSU contributions of 17% of salary and employees contributing 6% of salary, before any addition action by the legislature. Uncertainty exists as the Oregon Supreme Court may not uphold the legislation that reduced PERS. Each percentage point in PERS contributions equals $4 million a year for OHSU.

The hospital is continuing to focus on maximizing throughput and working with community partners to keep less acute patients in local hospitals and in outpatient settings. Research enterprises will be scaled to continue excellence and growth with an overall lower level of federal funding. Productivity and process redesign efforts are continuing. The Knight Cancer Institute plan and Knight Cardiovascular Institute are being implemented, and the CLSB will open in mid-June 2014. OHSU continues to navigate in a period of uncertainty, with 40% of revenue ultimately is sourced through the federal government, where there is little forward visibility on the federal budget. Significant efforts are underway to create a more integrated approach to the OHSU budget. Responding to a question from a board member, Mr. Furnstahl explained that the $17 million to open the CLSB does not include the cost to educate the students, or tuition revenues. This is strictly the fixed cost to open the building, including interest, depreciation, operations and maintenance. There will be incremental costs to educate the students but OHSU will also receive additional tuition revenue from those students. Responding to a board member's question, the additional costs will be offset in other areas and with continued fundraising. The strong push to cut costs in FY '13 was in anticipation of this added expense to the budget.

Public Safety Training Plan Presentation

Greg Moawad, Director of Public Safety, recapped the history of OHSU's Public Safety program evolution from a staff of security officers to a professional police department. In 2008, OHSU convened a Task Force to evaluate OHSU's ability to adequately protect its community from criminal threats. This group, chaired by State Senator Ginny Burdick, recommended that OHSU be more proactive in heading off incidents as well as enhancing the ability to respond in the event of a mass casualty or shooter incident.

The average police response to campus is seven minutes for the first officer and fifteen minutes for a team of officers sufficient to engage an active shooter. Protocol requires a team presence before action can be taken. The Virginia Tech incident from start to finish lasted seven minutes. The topography at OHSU poses an additional challenge once the officers arrive; the physical buildings and tunnels can take months or even years to learn, thus making it difficult for an outside agency to provide support. The taskforce also noted that public safety officers only had probable cause arrest authority and did not have the ability to intervene in an imminent act of violence unless and until a criminal law was broken.

The task force recommended that OHSU seek legislation to provide officers with full police officer authority and that OHSU should either arm public safety officers or contract with a police agency to provide an armed law enforcement presence. In 2009, Senate Bill 658 commissioned public safety officers as university police, requiring police officer training, but did not give them the authority to carry firearms. It was soon determined that employing outside personnel to maintain an armed presence was untenable. Senate Bill 565 was passed this year to authorize the OHSU Board to commission armed police officers. Authorization will be requested at the October Board meeting to re-commission the officers effective January 1, 2014, though arming will be held in abeyance.

A multi-disciplinary team is designing a training regimen to address communication, de-escalation, and mental health interaction. The proposed training regimen will be brought before the Board in late winter or early spring. An internal group is meeting to discuss policies, procedures, and practices that will be in effect should the Board decide to deploy firearms on campus. An active complaint process will be instituted that will include internal controls in addition to community oversight. A Board vote on an armed police force will be presented between June and September 2014.

Responding to comments from board members, Mr. Moawad stated that:

- The OHSU community will be involved in the complaint process
- There will be four separate shifts with armed officers. The day shift may have up to six or seven people capable of handling an armed response; the night shift is expected to have three armed officers.

Board members made several observations:

- Long-term recruitment of the high quality officers could be affected by safety concerns; unarmed officers in uniforms could be targets who are unable to defend themselves.
- The data shows that the OHSU community is at a safety risk.
- This is a serious decision and it is clear that OHSU is acting in a thoughtful, deliberate manner.
- Mr. Moawad was commended for emphasizing de-escalation where incidents involve mentally ill or stressed people.
- The 2008 Task Force faced initial opposition to an armed presence on campus as it was not consistent with the vision of an academic health center; in addition, there was a general fear and uncertainty regarding firearms on campus. This view has changed with the development of the professional police department and compilation of safety data.

- The perception of a single police officer engaging an active shooter is not based on fact; police protocol requires the first officer to hold the scene until other officers arrive. During that time, potential lives could be lost.

Oregon Institute of Occupational Health Sciences Presentation

Dr. Steven Shea, Director of CROET, presented the mission and activities of CROET (Center for Research and Occupational and Environmental Toxicology). Legislation was recently passed changing the name of CROET to the Oregon Institute of Occupational Health Sciences (OIOHS). Part of the reason for the name change is that only 2% of Workers' Compensation claims are related to chemical exposure. About half of the claims are related to back pain or pain medication management; there is a greater emphasis on rehabilitation as well as prevention.

The mission of the institute is to conduct basic and applied research, outreach, and education to address Oregon's occupational health needs. Outreach professionals engage with the various levels of government. The toxicology information center gives free consultations on hazardous materials. There is also a large blog presence providing Oregonians with occupational health and safety information.

OIOHS has 12 primary faculty and three secondary faculty that are all grant funded. Total income from grants and Workers' Compensation is around $10 million a year. OIOHS also receives $3 million in funding each year from Workers' Compensation; that revenue has been reduced because the revenue is tied to hours worked by Oregonians; hours worked have gone down in recent years.

The Total Worker Health Program is a new initiative funded by the National Institute of Occupational Health Sciences to develop, test, disseminate programs, and integrate safety and health information into a single program to reduce injuries and to improve health. It includes the assessment of toxic chemical exposure such as the impact of pesticides on farmers and their families. Strategies and training programs are being developed for vulnerable workers such as young, solitary, or agricultural workers to address risks and safety solutions while helping with their overall health and wellness.

Health risks to shift workers are also addressed by the OIOHS; besides fatigue and safety issues, shift workers face an increased likelihood of hypertension, obesity, diabetes, and some forms of cancer. Expertise is being grouped into themes to better compete for large program grants from the federal government.

A list of all of OIOHS's accomplishments is catalogued on the website. The Oregon Healthy Workforce Center focuses on total worker health and draws on expertise from OHSU, PSU, U of O, and OSU and includes creating healthy and safe communities for home care workers, team-based work life and safety for construction workers, and health promotion to reduce health risks in correctional officers.

A summer intern program began in 1995 for students who either live in Oregon or attend a university in Oregon. They complete a scientific project to learn about occupational health sciences and give them insight into future career opportunities.

There are typically two large health and safety seminars at OHSU each year. Examples of topics covered include workplace accommodations and return to work, creating a healthy workforce, and sleep in shift work with its associated health, safety, and productivity impacts, sometimes in collaboration with Oregon OSHA and Portland State University. There is outreach to many conferences and exhibits across Oregon each year, including the Oregon Governor's Occupational Safety and Health Conference (OGOSH). Facebook pages, Twitter pages, and blogs have been created to expand outreach throughout the community.

Responding to board questions, Dr. Shea explained that the center tests interventions to see if they work in a specific environment and then translates that to different environments. Interactions with over 90 companies occurred last year during partners' lunches where the center discussed their research and the companies explained their needs.

Resolution 2013-09-04

Mr. Wilhoite called for approval of Resolution 2013-09-04, appointing Connie Seeley as Board Secretary and Janet Billups as Assistant Secretary. Upon motion duly made and seconded, the resolution was unanimously approved.

Adjournment

Hearing no further business, Mr. Wilhoite adjourned the meeting.

Respectfully submitted,

Connie Seeley
Board Secretary

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Final Editorial Review Completed

PLEASE COMPLETE

Date/Time Due ____________

Services Requested:

_____ *Format* _____ *Revisions*

_____ *Editorial Review* _____ *Print*

Name: Ashley Carlile / Sarah Opfer

Tel./Ext.: ____________

Special Instructions:

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OREGON HEALTH & SCIENCE UNIVERSITY

(a component unit of the State of Oregon)

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

OREGON HEALTH & SCIENCE UNIVERSITY

Table of Contents

Independent Auditors' Report

The Board of Directors
Oregon Health & Science University:

We have audited the accompanying financial statements of Oregon Health & Science University, an Oregon public corporation and a component unit of the State of Oregon, which comprise the statement of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 from material misstatement.

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

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

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, 2013 and 2012, and the changes in its financial position and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, including RSI on page 54, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

October 25, 2013

OREGON HEALTH & SCIENCE UNIVERSITY

Management's Discussion and Analysis

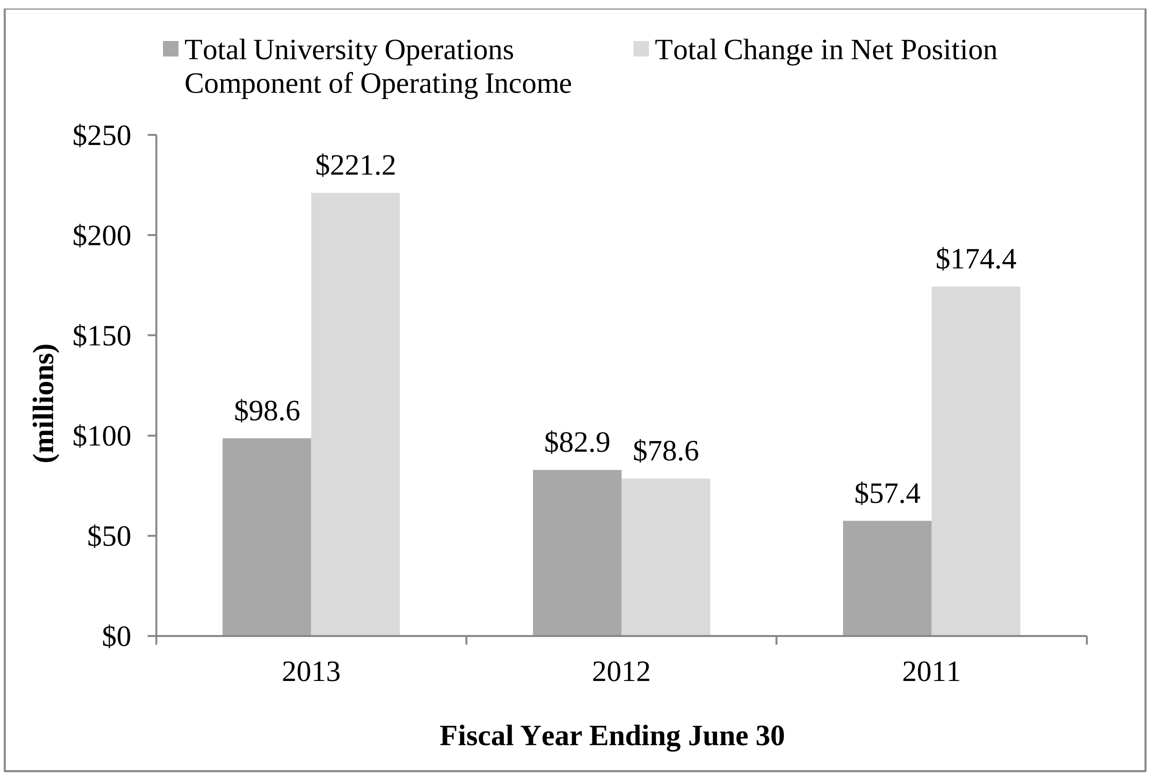
June 30, 2013 and 2012

Introduction and Financial Highlights

The following discussion and analysis provides an overview of the financial activities of Oregon Health & Science University (OHSU or the University) and should be read in conjunction with the financial statements and related note disclosures. This discussion was prepared by management and is designed to focus on current activities, resulting changes, and current known facts.

Financial Highlights

To manage its operations and monitor its financial position, OHSU focuses on two key indicators: the total university operations component of operating income (before consolidation of the Foundations and reclassification of state appropriations to nonoperating revenues), and the total change in consolidated net position, which includes the Foundations, investment income and other nonoperating items. The chart below shows these key indicators for the past three fiscal years. Fiscal year 2013 showed continued strong operating results and a further strengthening of the University's financial position, capping three years during which consolidated net position increased by $474 million. Total university operations contributed $239 million, and investments returned almost all of the remainder of the gain.



The following table reconciles these components to consolidated OHSU net position for fiscal years 2013, 2012 and 2011. This summary follows the methodology of the more detailed consolidating table included at the end of these financial statements.

Components of OHSU Change in Net Position
(Dollars in thousands)

	2013	2012	2011
Components of operating income:			
Hospital operations	$ 79,708	80,949	62,532
Other university operations	18,940	1,909	(5,168)
Total university operations	98,648	82,858	57,364
Foundations operations	57,126	(35,829)	(40,751)
Eliminations for capital contributions and other	(655)	(3,958)	40,000
Reclassification of state appropriations	(30,146)	(35,389)	(39,159)
Consolidated operating income	124,973	7,682	17,454
State appropriations	30,146	35,389	39,159
Investment and other nonoperating income	53,038	19,888	95,433
Consolidated net income	208,157	62,959	152,046
Capital/nonexpendable contributions and other	13,092	15,650	22,368
Total change in net position	221,249	78,609	174,414
Beginning net position	1,948,697	1,870,088	1,695,674
Ending net position	$ 2,169,946	1,948,697	1,870,088

University operations showed continued strength and improvement in 2013, increasing nearly $16 million over 2012. This reflects a 4.7% or $96.4 million growth in revenues, driven by increased complexity of patient care plus application of gift funds in the Knight Cancer Institute and other programs, supported by a smaller 4.1% or $80.7 million growth in expenses. The smaller expense increase reflects savings in supply chain, administrative and support costs, plus a $6 million reduction in interest expense from a lower interest rate environment, restructuring debt and principal repayment. These factors represent continued implementation of OHSU's strategy and redesign efforts, begun in 2011 and 2012 and described further below. Nonrecurring items are largely consistent from the prior year: 2013 results include $9 million from favorable accounting adjustments and a $2 million affiliation payment, while 2012 included $9 million in one-time operating revenues from a FICA tax settlement for OHSU residents trained in prior years.

The nearly $26 million improvement in 2012 over 2011 included $19 million from nonrecurring items: $10 million invested in process redesign in 2011 but not 2012, plus $9 million in one-time operating revenues in 2012 from the FICA tax settlement. The remaining $7 million improvement was the net of two factors: a $21 million increase in required contributions for the defined benefit component of the PERS pension plan, which was more than offset by a nearly $28 million improvement in core operating performance.

These core improvements reflect implementation of the strategy and redesign efforts, including enhanced focus on tertiary and quaternary care, improvements in revenue cycle and competitive pricing, supply chain and workforce productivity, better self-insurance experience, and restructuring OHSU's debt to secure a lower cost of capital. The hospital operations segment exceeded its 5% operating margin target in each of the past three years, while the other university operations segment (which includes the clinical faculty practice, education, research and outreach missions) has exceeded its target of balanced revenues and expenses in both 2012 and 2013.

Within the total university operations component of operating income, gifts and endowment payout are recorded when transferred from the Foundations to OHSU as program support. This tends to yield a more even flow of philanthropic revenues within this earnings metric.

Within the Foundations' component of operating income, the contribution of program support to the University, together with the costs of running the Foundations, are recorded as operating expenses. These are largely funded by two sources: expendable gifts recorded as operating revenue, and investment income recorded as a nonoperating item. Over time, this can result in negative operating income on the Foundations' statements, because operating expenses (program and support costs) are supported by both operating revenues (largely gifts) and nonoperating revenues (largely investment returns). This was the case in 2012 when the Foundations showed a net operating loss of ($35.8) million.

The receipt of very large gifts is episodic, resulting in a gain in one year when the gift is made or recorded, offset by losses in subsequent years when the gift is transferred to the University in support of the intended program or purpose. This was illustrated in 2013 when the Foundations' operating income increased by $93 million primarily due to recording the major component of a $125 million gift from Phil and Penny Knight for the establishment of the OHSU Knight Cardiovascular Institute. Finally, the Foundations record expendable gifts for capital (such as buildings and equipment) within operating income, while the University records them as nonoperating items, requiring a reclassification in consolidation. This was particularly notable in 2011, when the $40 million anonymous gift was transferred to the University for the Collaborative Life Sciences Building.

These recording and timing effects have become increasingly significant with larger gifts to OHSU, and with volatility in the financial markets and investment returns. Recent large gifts include the $40 million anonymous gift for education in 2007, the $100 million Knight cancer institute gift in 2009, the $25 million Moore Nutrition Institute gift in 2012, and the $125 million OHSU Knight Cardiovascular Institute gift, which, as mentioned above, is the largest donation in the University's 125 year history. In September 2013, the Knight family challenged OHSU to raise $500 million in the next two years, which they would match for a total of $1 billion. If the challenge is successfully met, these funds will be used to help in the fight to eradicate cancer, particularly through advanced early detection.

To capture all of these various effects, OHSU uses a second key financial indicator: total change in net position. By design, this metric fluctuates much more than the total university component of operating income, but taken over several years, it provides a comprehensive picture of changes in OHSU's financial strength. Net position increased over $221 million or 11.4% in 2013, compared to $79 million or 4.2% in 2012 and $174 million or 10.3% in 2011. The largest contributors to changes in this indicator have been the Knight Cardiovascular Institute gift in 2013, and the change in investment and other nonoperating income, which was $53 million in 2013, compared to a $20 million in 2012, and $95 million in 2011. Investment returns have been closely correlated with year-by-year performance in the overall stock and bond markets.

The net impact of all of these factors – investments in strategy, productivity and process redesign with subsequent improved operations, the timing and recording of gifts, and the volatility in investment returns – has

(Continued)

been a 28% increase in consolidated OHSU net position over three years, from $1,696 million on June 30, 2010 to $2,170 million on June 30, 2013.

OHSU's consolidated statement of revenues, expenses and changes in net position includes a third indicator of financial performance: net income. Net income largely tracks the change in total net position, but excludes donations for capital and nonexpendable purposes, such as endowment. In 2013, consolidated net income was $208 million, compared to $63 million in 2012 and $152 million in 2011. The changes in net income over these three years largely reflect the increase then decrease in investment income plus the gift timing impacts noted above.

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

In fiscal year 2012, OHSU began construction of the CLSB and Skourtes Tower. This new $295 million facility, approved by the OHSU board in June 2011, 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 be educated 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 construction of the project commenced in October 2011 and, as of the end of fiscal year 2013 was on schedule for occupancy in late spring 2014. Total OHSU project expenditures as of fiscal year-end 2013 were $137 million, with the remaining portion of the project expense expected to occur largely during fiscal year 2014.

The project consists of two parts that are being 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 assumed 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, 2013 and 2012 statements of financial position.

The second part is an OHSU project of $135 million, funded by $50 million in OHSU philanthropy and cash reserves, and $85 million from new OHSU debt issued in May 2012. This component will provide space for the new OHSU Center for Spatial Systems Biomedicine, additional build-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, Moda Health (formerly ODS Health) and A-dec, plus additional funds raised by hundreds of other supporters.

Collectively, $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.

FICA Tax Refund

In March of 2010, the IRS made an administrative determination to exempt medical residents from FICA taxes based on the student exception for tax periods ending before April 1, 2005, the effective date of a change in Treasury Department regulations that addressed the resident/student issues more expressly. OHSU had filed protective claims for 1996 – 2001 and 2004 – forward. In July 2012, OHSU received notification from the IRS that, with limited exceptions, claims for refunds to OHSU and to its residents for FICA taxes paid in 1996 through the first quarter of 2005 were officially approved. As a result of that notification, in fiscal year 2012, OHSU accrued $9 million as other operating revenue and $11 million of interest earnings as nonoperating revenue. An additional amount of $19 million was also recorded as a receivable that represented the resident portion of the FICA tax and interest, with an offsetting liability to refund that amount to them once it was received. In the second quarter of fiscal year 2013, OHSU received the refunds from the IRS for both OHSU's and the residents' portions, which were recorded against the related receivables. OHSU then refunded the medical residents their share, offsetting the liability recorded in 2012.

Statements of Net Position

The Statements of Net Position 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 position – the difference between assets and liabilities – is among the broadest measures of the financial health of an institution. The following summarizes OHSU's statements of net position for the past three years by major category of assets, liabilities, and net position. Over the past two years, assets have increased by 14%, liabilities by 9%, and net position by 15%. The cumulative growth in OHSU's financial strength since 2010 reflects strong operations, successful philanthropy, and recovery (with volatility) in financial markets since the economic crisis.

Condensed Statements of Net Position
(Dollars in thousands)

		2013	2012	2011
Assets:				
Current assets	$	809,805	837,569	675,193
Capital assets		1,413,810	1,282,647	1,237,155
Other noncurrent assets		1,134,483	1,018,114	1,043,889
Total assets	$	3,358,098	3,138,330	2,956,237
Liabilities:				
Current liabilities	$	348,883	327,566	295,006
Noncurrent liabilities		839,269	862,067	791,143
Total liabilities		1,188,152	1,189,633	1,086,149
Net position:				
Net investment in capital assets		721,618	629,095	585,242
Restricted, expendable		396,599	309,035	346,172
Restricted, nonexpendable		181,156	175,023	165,488
Unrestricted		870,573	835,544	773,186
Total net position		2,169,946	1,948,697	1,870,088
Total liabilities and net position	$	3,358,098	3,138,330	2,956,237

(Continued)

Assets

The largest components of OHSU's assets are cash and investments and capital assets, or physical plant. OHSU's unrestricted and restricted cash and short-term investments increased significantly from 2012 to 2013 mostly due to strong earnings. In 2012, OHSU shifted a portion of its mid- to long-term investments into balanced mutual funds in response to market conditions including continued low interest rates.

This increase to unrestricted and restricted cash and short-term investments in 2013 was approximately $69 million over 2011. Total cash and investments, including long-term investments, increased from $1,230 million to $1,371 million, showing a steady rise of 11.5% and 5.5% in fiscal years 2013 and 2012, respectively. This is a reflection of improved operating gains, as well as increased cash inflows from financing associated with the Collaborative Life Sciences Building.

Consolidated Asset Allocation of
Unrestricted and Restricted Cash and Investments
(Dollars in thousands)

	Fiscal Years Ended June 30		
	2013	2012	2011
Unrestricted Cash and Investments			
Cash and Equivalents	$ 103,296	$ 156,317	$ 188,312
Fixed Income Investments	555,437	443,767	396,366
Equity Investments	77,987	70,549	81,975
Mutual Funds	102,075	57,480	4,229
Other	90,036	85,732	85,983
Subtotal	$ 928,831	$ 813,845	$ 756,865
Restricted Cash and Investments			
Cash and Equivalents	$ 32,368	$ 40,792	$ 33,643
Fixed Income Investments	156,653	140,183	130,415
Equity Investments	112,744	101,433	110,220
Mutual Funds	10,764	10,045	10,209
Other	129,795	123,350	123,784
Subtotal	$ 442,324	$ 415,803	$ 408,271
Totals	$ 1,371,155	$ 1,229,648	$ 1,165,136

(Continued)

The unrestricted portion of cash and investments is represented in the calculation of days cash on hand for OHSU, as defined in the restated Master Trust Indenture, including the Foundations, as illustrated below.

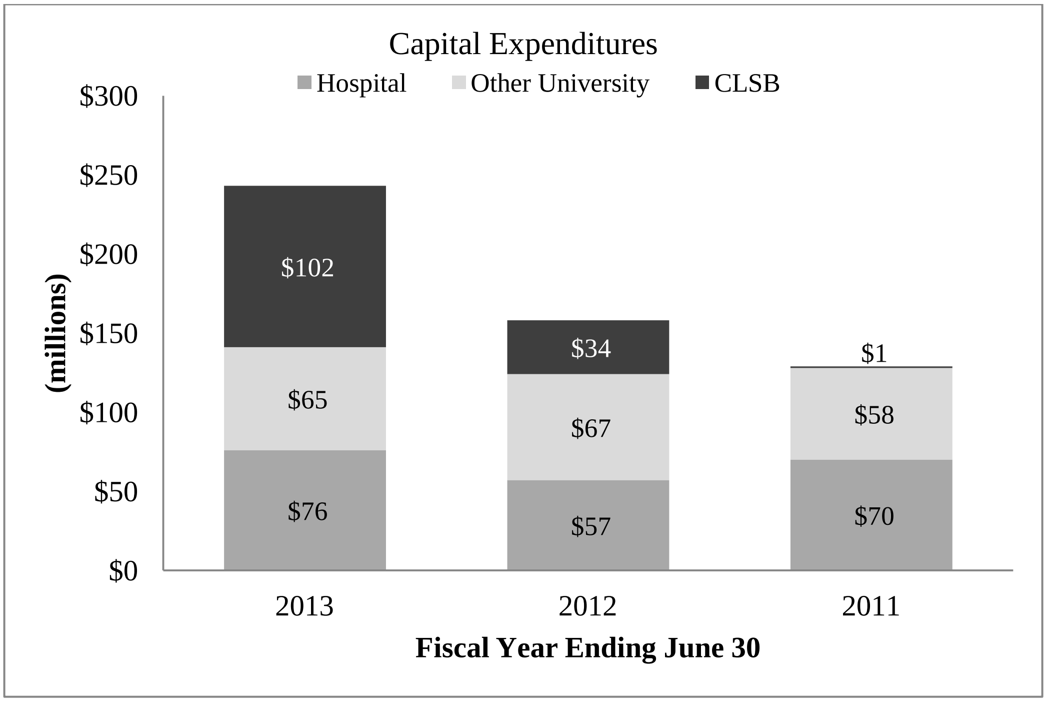
Days of cash on hand decreased from 186 days in 2011 to 183 days in 2012, then increased significantly to 199 days in 2013, due to improved financial results and positive cash flow, offset in part by higher daily expenditures. Total long-term investments increased by over $83 million during 2013 compared to 2012, which reflects OHSU's receipt of the FICA refund, as well as continued improvement in financial performance.

Days Unrestricted Cash and Investments on Hand

(Dollars in Thousands)

	Fiscal Years Ended June 30		
	2013	**2012**	**2011**
OHSU			
Unrestricted Cash and Investments	$ 637,504	$ 545,901	$ 483,171
Less NonOperating Cash and Investments	(33,245)	(23,365)	(11,968)
Operating Cash and Investments	604,259	522,536	471,203
Unrestricted Operating Expenses			
Total Operating Expenses	$ 1,734,346	$ 1,651,539	$ 1,532,670
Less Depreciation and Amortization	(100,330)	(97,898)	(92,641)
Net Unrestricted Operating Expenses	1,634,016	1,553,641	1,440,029
Daily Expense	$ 4,477	$ 4,245	$ 3,945
Days Cash on Hand	135	123	119
OHSU plus OHSU and Doernbecher Foundations			
Unrestricted Cash and Investments	$ 928,831	$ 813,845	$ 756,865
Less NonOperating Cash and Investments	(33,245)	(23,365)	(11,968)
Operating Cash and Investments	895,586	790,480	744,897
Unrestricted Operating Expenses			
Total Operating Expenses	$ 1,745,313	$ 1,675,242	$ 1,558,223
Less Depreciation and Amortization	(100,491)	(98,055)	(92,792)
Net Operating Expenses	1,644,822	1,577,187	1,465,431
Daily Expense	$ 4,506	$ 4,309	$ 4,015
Days Cash on Hand	199	183	186

Capital assets, net of accumulated depreciation, increased by $132 million for fiscal year 2013, after increasing by $45 million in fiscal year 2012. This largely reflects construction of the CLSB, as well as timing of projects to increase hospital capacity. Capital expenditures for the years ended June 30, 2013, 2012 and 2011 are listed below.



Liabilities

Total liabilities decreased slightly by $1.5 million or 0.12% in 2013 compared to 2012 and increased $103 million or 9.5% in 2012 compared to 2011, driven by new debt associated with the planned Collaborative Life Sciences Building and increased accounts payable and accrued expense. Current liabilities consist primarily of the current portion of long-term debt, including capital leases, and self-funded insurance, accounts payable and accrued expenses, salaries, wages, and benefits payable, and deferred revenue. Current liabilities increased $21 million in fiscal year 2013 compared to 2012 due to increases in accounts payable and accrued expenses driven by an increase in accrued expenses associated with work performed but not yet invoiced or paid on the Collaborative Life Sciences Building. This was also the case in 2012 as well as increases in accrued salary, wages and benefits due to the accrual of most of the expense related to the last two-week payroll period of the year. Current liabilities increased $32.6 million in fiscal year 2012 compared to 2011 primarily due to increases in accounts payable and accrued expenses driven by increased spending of ARRA (stimulus) grants as deadlines for spending continue to be reached.

Total noncurrent liabilities decreased $23 million in fiscal year 2013 compared to 2012, due to repayment of existing debt. Total noncurrent liabilities increased $71 million in 2012 compared to 2011, driven by an increase in long-term debt associated with the debt financing of the CLSB, offset by repayment of existing debt.

Debt Management

At the close of fiscal year 2013, OHSU had a total of approximately $752 million in long-term debt and capital leases outstanding, net of current portion. Of that, approximately 27% was variable-rate debt issued in the form of variable-rate demand bonds (VRDBs). In December 2012, OHSU continued the restructuring of its bond portfolio it began in May 2012 and issued series 2012E. This issue refinanced the remaining portion of the 2002A bonds. The series 2012E bonds were issued December 20, 2012 and will mature July 1, 2032. In May 2012, as part of a comprehensive bond portfolio restructuring, OHSU issued refunding Revenue Bonds, Series 2012A, Series 2012C and Series 2012D, which refinanced over 50% of its currently outstanding debt portfolio in order to reduce interest expense as well as convert its previously issued auction rate mode bonds to variable rate demand bonds backed by either irrevocable Standby Letters of Credit or as a direct placement. In this refunding, the 1995B, 1998A, 1998B and 2002B Bonds were currently refunded in their entirety as well as advance refunding a portion of the 2002A Bonds. Due to OHSU's strong credit ratings (Moody's A1, Standard & Poor's A+, and Fitch A+, all with stable outlooks), existing debt service reserve requirements on the refunded bonds were released and applied to downsize the refunding bond par amount by more than $9 million, resulting in further savings.

Additionally, during the refunding process, OHSU simultaneously issued approximately $85 million of new fixed-rate tax-exempt revenue bonds, the 2012B Series, to pay for certain costs of construction and other costs of issuance for phase two of the CLSB Skourtes Tower project. The Skourtes Tower will house the new OHSU School of Dentistry, whose construction will have significant philanthropic support, as well as built-out and shelled laboratory space for leading edge research in basic and applied science.

In April 2013, OHSU also restructured its interest rate swaps, which were originally entered into with UBS in 2005 and amended by the University and UBS in 2009 and again in 2012. Under the terms agreement, UBS held a call option beginning in April 2014, which was expected to be exercised. For this reason, in April 2013, OHSU executed a swap novation, simultaneously terminating the agreement with UBS and entering into an agreement with a new counterparty, U.S. Bank. Under the new terms, OHSU's effective rate on a notional amount of $82 million went from 3.358% to 3.45935%.

One measure of the degree of leverage on the University's balance sheet is the ratio of long-term debt to net position, shown below. From fiscal 2011 to 2013, this metric improved, as the addition of new debt for the CLSB in 2012 was offset by operating and investment earnings, improved regular repayments of principal, and the restructuring of the debt portfolio.

(dollars in millions)	2013	2012	2011
Long term debt	$ 769	$ 796	$ 736
Net position	2,170	1,949	1,871
Long term debt to net position	0.35	0.41	0.39

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 Master Indenture, OHSU (excluding the Foundations) must maintain a coverage ratio (excluding the Foundations) of 1.10x or greater. The University has significantly exceeded this minimum requirement, achieving a ratio of 4.84 in fiscal year 2013 and 4.55 in 2012.

Calculation of Maximum Annual Debt Service Coverage Ratio - Unrestricted

(Dollars in Thousands)

	2013	2012	2011
Total Excess of Revenues over Expenses	$ 208,157	$ 62,959	$ 152,046
Add/subtract Restricted Net Loss/Gain	(85,975)	36,764	(42,341)
Unrestricted Excess of Revenues over Expenses	$ 122,182	$ 99,723	$ 109,705
Adjustments			
Net Unrealized(gain) loss in Fair Value of Investments	$ (9,412)	$ 11,793	(20,822)
(Gain)Loss on Disposal of Assets	(658)	(1,592)	(2,181)
Interest Expense	28,144	33,482	35,623
Annual Refund on Trust Reserves held in Parity	-	1,824	1,248
Depreciation and Amortization	100,491	98,054	92,792
	$ 118,565	$ 143,561	$ 106,660
Income Available for Debt Service	$ 240,747	$ 243,284	$ 216,365
Maximum Annual Debt Service	$ 49,788	$ 53,512	$ 56,833
Maximum Annual Debt Service Coverage	4.84	4.55	3.81

Net position

As noted earlier, total net position increased $221 million during fiscal year 2013, as compared to an increase of $79 million during fiscal year 2012. Most of the increase in both fiscal years occurs within net investment in capital assets, (up $79 million in 2013 and $44 million in 2012), and in unrestricted, up $35 million in 2013 and $62 million in 2012. Restricted components of net position increased in 2013 with the Knight Cardiovascular Institute gift, after decreasing in 2012, largely due to the use of restricted gifts received in prior years for their intended program or purpose.

When evaluating OHSU's net position, 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 is significantly less than the fair value of the included land and buildings.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the operating results, net income and change in net position of OHSU on a consolidated basis with the Foundations. 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 2013 and 2012, State appropriations totaled $30 million and $35 million, respectively.

Consolidated net income for OHSU including the Foundations totaled $208 million in fiscal year 2013, compared to $63 million in 2012 and $152 million in 2011. As noted above, the major driver of the year-to-year changes in net income was the Knight Cardiovascular Institute Gift in 2013, combined with reduction in investment return between 2011 and 2012, followed by an increase in 2013, recorded within nonoperating revenues.

Condensed Statements of Revenues, Expenses, and Changes in Net Position
(Dollars in thousands)

		2013	2012	2011
Total operating revenues	$	2,169,516	1,975,605	1,887,704
Total operating expenses		2,044,543	1,967,923	1,870,250
Operating gain (loss)		124,973	7,682	17,454
Nonoperating revenues, incl. state appropriations		83,184	55,277	134,592
Net income before other changes in net position		208,157	62,959	152,046
Contributions for capital and other		9,013	4,059	4,281
Nonexpendable donations		4,079	11,591	18,087
Change in net position		221,249	78,609	174,414
Net position – beginning of year		1,948,697	1,870,088	1,695,674
Net position – end of year	$	2,169,946	1,948,697	1,870,088

Total Operating Revenues

Total operating revenues on a consolidated basis (including the Foundations and reclassification of State appropriations to nonoperating revenues), totaled $2,170 million in fiscal year 2013, an increase of $194 million or 10% from 2012. The largest components of this growth were an increase of $116 million or 30% in gifts, grants, and contracts, due primarily to the Knight cardiovascular gift mentioned earlier, as well as an increase of $79 million or 6% in net patient service revenues, driven by continued increases in volume and complexity of cases.

In fiscal year 2012, total operating revenues on a consolidated basis were $1,976 million, an increase of $88 million or 5% from 2011. An increase of $115 million or 9% occurred in net patient service revenues as the healthcare mission implemented improvements to increase volume and the complexity of cases. Higher patient revenues were partially offset by a reduction of $43 million or 10% in revenues from gifts, grants and contracts, which reflects both lower research spending with the phase-out of ARRA (stimulus) grants, as well as the timing effects of gifts received by the Foundations, noted in the introduction.

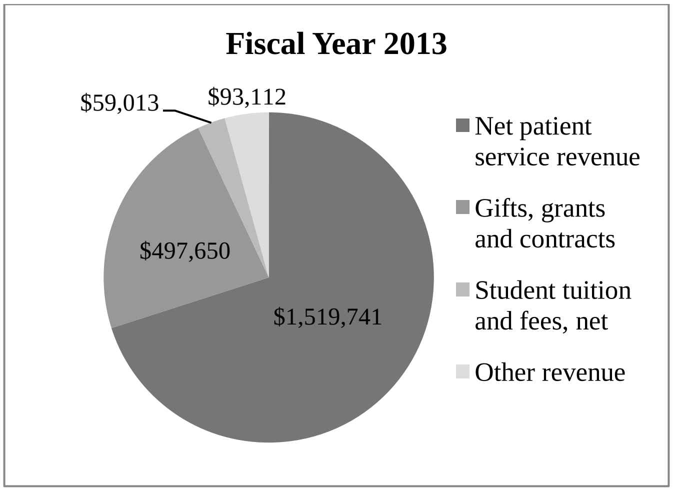
OREGON HEALTH & SCIENCE UNIVERSITY

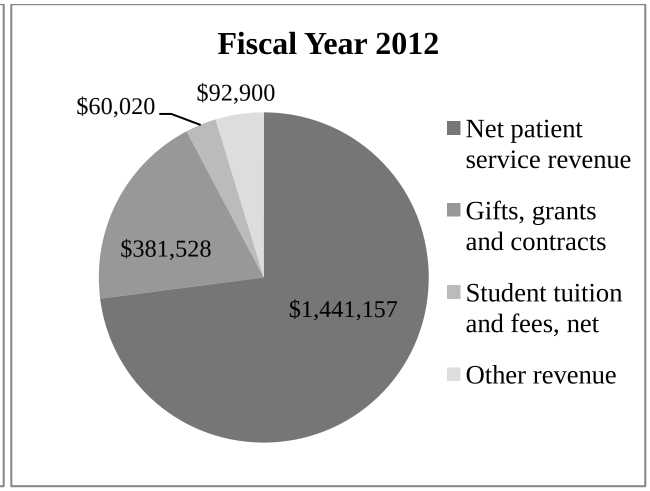
Management's Discussion and Analysis

June 30, 2013 and 2012

Operating Revenue by Source

Fiscal Year 2013 and 2012 (Total $2.2 billion and $2.0 billion, respectively)
(Dollars in thousands)





Total Operating Expenses

OHSU's total operating expenses on a consolidated basis increased by $77 million or 3.9% in fiscal year 2013, and $98 million or 5.2% in fiscal year 2012. Much of these increases in expenses was in direct correlation and support of the program growth driving the increases in revenue mentioned earlier. In fiscal year 2013, revenues grew by 10% supported by only 4% growth in expenses. In fiscal year 2012, revenue showed slower growth of 5%, supported by an equal growth in expenses of 5%. However, strong growth in most components of 2012 operating revenue were offset by a 10% reduction in gifts, grants and contracts due the schedule end of stimulus grant funding.

Salaries, wages and benefits, which comprise over 61% of total expenses, increased by $64 million in 2013 and $77 million in 2012. In addition to increased staffing to support program growth, and regular increases in salaries to maintain market competitive compensation, in the 2012-2014 biennium there was a $21 million annual increase in required contributions for the defined benefit component of the PERS pension plan. About half of OHSU's pension-eligible employees participate in PERS, with the other half covered by the University Pension Plan, a defined contribution plan. The PERS defined benefit increase was anticipated and planned for, and was mitigated by the implementation of key productivity initiatives. OHSU has announced changes to its benefits plans under which employees participating in PERS will start to contribute to its higher cost, phased in beginning in 2014. In addition, Oregon has entered legislation to reduce PERS costs, largely through lower cost of living allowances. The legislation is subject to review by the Oregon Supreme Court. The increase in compensation for 2012 primarily reflected adjustments to market compensation levels for highly productive clinical staff, as well as recruitment for clinical programs that supported the growth in patient revenues seen in 2012.

Services, supplies and other expenses increased $18 million or 3% in fiscal year 2013 and 2012, reflecting the nonlabor costs associated with the continued program growth mentioned above. These modest increases continue to reflect the ongoing focus on the University's supply chain, especially in the clinical enterprise, the improved experience in self-insurance programs, and cost saving initiatives within central services.

OREGON HEALTH & SCIENCE UNIVERSITY

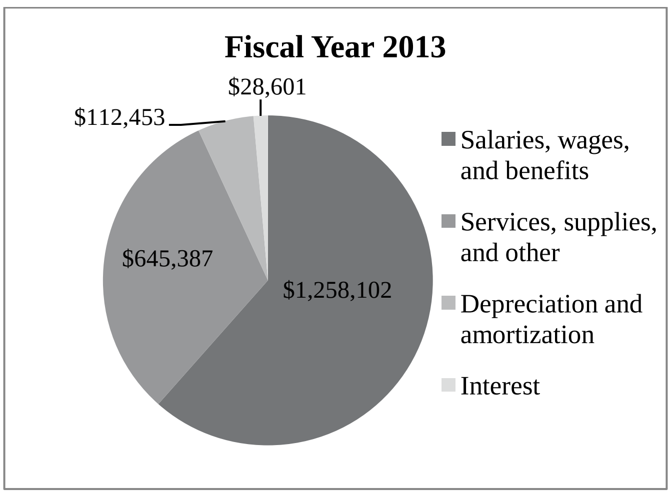
Management's Discussion and Analysis

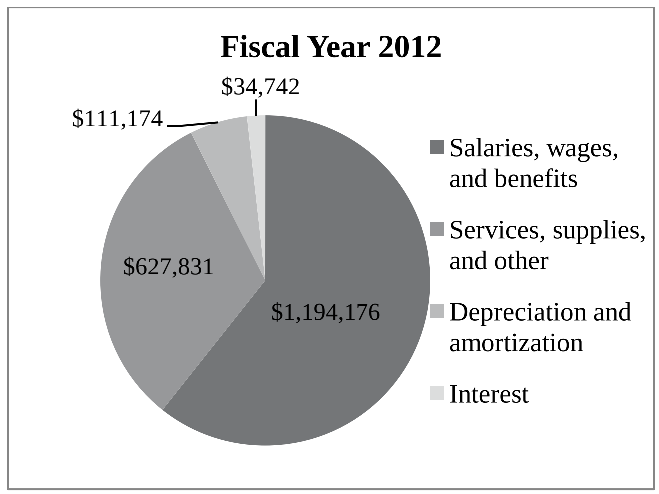
June 30, 2013 and 2012

Depreciation and amortization, which represents the reduction in value of capital assets with the passage of time due, in particular, to the wear and tear, represented a steady 6% of the University's total expenses in both fiscal years 2013 and 2012. Interest expense declined in fiscal year 2013 and 2012 due to the favorable restructuring of a substantial portion of OHSU's debt in April 2012 and December 2012. Interest decreased $6 million or 18% in 2013 and $2 million or 5% in 2012.

Operating Expenses

Fiscal Year 2013 and 2012 (Total $2.04 billion and $1.97 billion, respectively)
(Dollars in thousands)





Operating Expenses
By Functional Classification
(Dollars in thousands)

		2013	2012	2011
Instruction, research, and public service	$	384,801	381,684	376,102
Clinical activity		1,323,280	1,256,940	1,169,095
Auxiliary activities		10,662	10,872	9,738
Internal service centers		6,054	5,690	6,717
Student services		16,863	12,799	15,478
Academic support		39,364	43,531	33,259
Institutional support		55,361	48,424	48,622
Operations, maintenance, and other		75,020	73,263	79,192
Direct foundation expenditures		20,685	23,546	25,401
Depreciation and amortization		112,453	111,174	106,646
Total operating expenses	$	2,044,543	1,967,923	1,870,250

(Continued)

Economic Outlook

The general economy in both Oregon and the nation continues to recover, but at a slower pace than usual after a recession. Real growth in the U.S. GDP from the quarter ending June 30, 2012 to the quarter ending June 30, 2013 was only 1.9%, well below the historical average since 1947 of 3.3%. The Oregon unemployment rate has fallen gradually, from 9.7% in August 2011, to 8.8% in August 2012 and 8.1% in August 2013, compared to 7.3% nationally. Interest rates have increased somewhat from historical lows, with the 10-year Treasury rate rising from 1.66% at the end of fiscal year 2012 to 2.48% at the end of fiscal year 2013, after falling from 3.16% during the prior year, while the stock market rose by 18% in fiscal year 2013, compared to 3% in the prior year. Monetary policy to support economic recovery may keep interest rates relatively low for a protracted period of time, reducing earnings on cash and investment balances and increasing funding requirements for defined benefit pension plans.

There is significant uncertainty in the national policy landscape, with the impact of sequestration on Medicare payments and federal funding of research; conflict in the process of approving federal budgets, continuing resolutions and increases to the debt ceiling; and the Federal Reserve's anticipated tapering down of bond purchases. Healthcare reform is proceeding both nationally with the Affordable Care Act (ACA), and in Oregon with Medicaid transformation. The State of Oregon has agreed with the federal government to lower the rate of growth in Medicaid spending per member from 5.4% per year currently to 3.4% per year in the future, while maintaining quality and access. In return, the federal government is providing $1.9 billion over 5 years to support transformation.

Oregon healthcare transformation includes the organization of Medicaid into coordinated care organizations (CCOs), charged with integrating physical, behavioral, and oral health for populations of Medicaid members across providers and care settings, under a global budget but with increased flexibility to implement new and innovative care models. Over the next several years, Oregon's Medicaid enrollment is expected to increase from approximately 600,000 to 900,000 members, including coverage expansion under the ACA. OHSU is a founding member of Health Share of Oregon, a collaboration of public and private entities that have formed the principal CCO for the tri county region surrounding Portland. In addition, half of OHSU's patients come from outside the tri county area, so the University will partner with CCOs across Oregon. A parallel reduction in the rate of growth of healthcare expenditures will likely be necessary in other healthcare programs to help bring federal and state budgets into balance over the long run. Oregon's health plans for state employees and teachers expect to implement this coordinated care approach in the coming years. Government budget deficits are also putting downward pressure on funding for research and education.

OHSU's strategic plan calls for partnering to make Oregon a leader in health and science innovation, to improve the health and well being of Oregonians. The economic trends described above are major inputs to OHSU's financial planning, and in response, the University is refining its strategy to accelerate the application of new knowledge and education across disciplines to better manage the health of populations. In the face of these challenges, results over the past several fiscal years, and especially in 2013, show that OHSU's financial position is both very solid and getting stronger, with increased earnings from total university operations, significant philanthropic support, and a carefully managed balance sheet. The University's long range financial plans and its fiscal year 2014 budget continue on this trajectory, with leadership in healthcare transformation and 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 Net Position

June 30, 2013 and 2012

(Dollars in thousands)

Assets		2013	2012
Current assets:			
Cash and cash equivalents	$	96,694	155,774
Short-term investments		299,636	182,212
Current portion of funds held by trustee		53,050	132,415
Patients accounts receivable, net of bad debt allowances of $12,787 in 2013 and $9,838 in 2012		217,850	207,307
Student receivables		18,805	20,787
Grant and contract receivables		34,723	28,923
Interest receivable		2,746	2,330
Current portion of pledges and estates receivable		39,090	21,262
Other receivables, net		12,130	53,239
Inventories, at cost		19,829	18,060
Prepaid expenses		15,252	15,260
Total current assets		809,805	837,569
Noncurrent assets:			
Capital assets, net of accumulated depreciation		1,413,810	1,282,647
Funds held by trustee – less current portion		25,643	39,121
Long-term investments:			
Long-term investments, restricted		403,076	380,089
Long-term investments, unrestricted		571,749	511,573
Total long-term investments		974,825	891,662
Deferred financing costs, net		26,707	27,646
Pledges and estates receivable – less current portion		102,618	56,119
Other noncurrent assets		4,690	3,566
Total noncurrent assets		2,548,293	2,300,761
Total assets	$	3,358,098	3,138,330

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Net Position

June 30, 2013 and 2012

(Dollars in thousands)

Liabilities and Net Assets		2013	2012
Current liabilities:			
Current portion of long-term debt	$	17,872	18,467
Current portion of long-term capital leases		613	4,034
Current portion of self-funded insurance programs liability		18,303	18,678
Accounts payable and accrued expenses		140,846	122,941
Drafts payable		17,215	17,360
Accrued salaries, wages, and benefits		64,315	65,554
Compensated absences payable		55,411	52,933
Deferred revenue		30,645	26,837
Other current liabilities		3,663	762
Total current liabilities		348,883	327,566
Noncurrent liabilities:			
Long-term debt – less current portion		751,563	777,810
Long-term capital leases – less current portion		690	629
Liability for self-funded insurance programs – less current portion		43,521	42,550
Liability for life income agreements		16,513	16,235
Other noncurrent liabilities		26,982	24,843
Total noncurrent liabilities		839,269	862,067
Total liabilities		1,188,152	1,189,633
Net position:			
Net Investment in capital assets		721,618	629,095
Restricted, expendable		396,599	309,035
Restricted, nonexpendable		181,156	175,023
Unrestricted		870,573	835,544
Total net position		2,169,946	1,948,697
Total liabilities and net position	$	3,358,098	3,138,330

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
Operating revenues:			
Patient service revenue, net of bad debt adjustments of $62,266 in 2013 and $48,206 in 2012	$	1,519,741	1,441,157
Student tuition and fees, net		59,013	60,020
Gifts, grants, and contracts		497,650	381,528
Other revenue		93,112	92,900
Total operating revenues		2,169,516	1,975,605
Operating expenses:			
Salaries, wages, and benefits		1,258,102	1,194,176
Services, supplies, and other		645,387	627,831
Depreciation and amortization		112,453	111,174
Interest		28,601	34,742
Total operating expenses		2,044,543	1,967,923
Operating income		124,973	7,682
Nonoperating revenues, net:			
Investment income and gain in fair value of investments		50,411	16,509
State appropriations		30,146	35,389
Other		2,627	3,379
Total nonoperating revenues, net		83,184	55,277
Net income before contributions for capital and other		208,157	62,959
Other changes in net position:			
Contributions for capital and other		9,013	4,059
Nonexpendable donations		4,079	11,591
Total other changes in net position		13,092	15,650
Total increase in net position		221,249	78,609
Net position – beginning of year		1,948,697	1,870,088
Net position – end of year	$	2,169,946	1,948,697

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

		2013	2012
Cash flows from operating activities:			
Receipts for patient services	$	1,509,198	1,435,114
Receipts from students		60,995	73,615
Receipts of gifts, grants, and contracts		436,359	399,073
Other receipts		134,357	50,613
Payments to employees for services		(1,256,863)	(1,184,125)
Payments to suppliers		(625,891)	(606,392)
Net cash provided by operating activities		258,155	167,898
Cash flows from noncapital financing activities:			
Federal direct loan proceeds		59,035	63,134
Federal direct loan disbursements		(60,397)	(56,784)
Nonexpendable donations and life income agreements		30,146	11,710
State appropriations		6,110	35,389
Net cash provided by noncapital financing activities		34,894	53,449
Cash flows from capital and related financing activities:			
Scheduled principal payments on long-term debt		(18,466)	(17,666)
Interest payments on long-term debt		(10,632)	(18,858)
Proceeds from issuance of long-term debt		126,365	343,473
Repayment on debt		(152,972)	(284,025)
Acquisition of capital assets		(245,358)	(157,650)
Proceeds from sale of capital assets		—	105
Payments on capital leases		(3,360)	(1,141)
Contributions for capital and other		9,013	4,058
Net cash used for capital and related financing activities		(295,410)	(131,704)
Cash flows from investing activities:			
Purchases of investments		(1,359,054)	(1,255,911)
Proceeds from sales and maturities of investments		1,278,335	1,089,650
Interest on investments and cash balances		24,000	41,855
Net cash used for investing activities		(56,719)	(124,406)
Net increase in cash and cash equivalents		(59,080)	(34,763)
Cash and cash equivalents, beginning of year		155,774	190,537
Cash and cash equivalents, end of year	$	96,694	155,774

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 124,973	7,682
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	112,453	111,174
Provision for bad debts	62,266	47,883
Interest expense reported as operating expense	28,601	34,742
Net changes in assets and liabilities:		
Patient accounts receivable	(72,809)	(53,926)
Student receivables	1,982	205
Grant and contracts receivable	(4,438)	8,184
Pledges and estates receivable	(64,327)	17,200
Other receivables and other assets	41,245	(39,806)
Inventories	(1,769)	(2,425)
Prepaid expenses	8	(1,745)
Accounts payable and accrued expenses	17,905	18,150
Drafts payable	(145)	2,453
Accrued salaries, wages, and benefits	(1,239)	9,431
Compensated absences payable	2,478	620
Other current liabilities	2,901	(130)
Annuity payment liability	278	(899)
Deferred revenue	6,146	2,255
Liability for self-funded insurance programs	596	5,137
Other noncurrent liabilities	1,050	1,713
Net cash provided by operating activities	$ 258,155	167,898
Supplemental schedule of noncash capital and related financing and investing activities:		
Unrealized change in fair value of investments	$ 27,025	(25,167)
Gain on sale of capital assets	596	1,458
Change in value of derivative liabilities	(1,030)	1,802

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY

Notes to Financial Statements

June 30, 2013 and 2012

(Amounts in thousands)

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

As the only health sciences university and major 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, outreach and public service. In addition to the School of Medicine, School of Nursing, and School of Dentistry, and the joint College of Pharmacy with Oregon State University, OHSU comprises several other academic and research units, including the Vollum Institute for Advanced Biomedical Research, the Vaccine and Gene Therapy Institute, Oregon National Primate Research Center, OHSU Brain Institute, the Center for Research on Occupational and Environment Toxicology, Oregon Clinical and Translational Research Institute, and the Biomedical Information Communication Center. OHSU also comprises several clinical units, including OHSU 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 pediatric patients. The Knight Cancer Institute is the only National Cancer Institute (NCI) designated cancer center in the State, and the Knight Cardiovascular Institute provides the State's most comprehensive clinical and research heart program. In addition, OHSU operates a captive insurance company domiciled in Arizona for self-insurance purposes, OHSU Insurance Company (INSCO), which is blended 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 seven 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 blended in the accompanying financial statements.

 (Continued)

As of fiscal year 2013, the University Medical Group (UMG) is included as a blended component unit of OHSU. UMG is an Oregon public benefit corporation, organized and operated to provide billing and reporting services for the Faculty Practice Plan (FPP) within the School of Medicine at OHSU. The FPP Management Committee acts as the Board of Directors for UMG and is responsible for the day-to-day oversight of the clinical practice. As the Board of UMG is under the supervision and control of the FPP, and therefore OHSU, UMG is a blended component unit of OHSU. The net position contributed as a result of blending UMG as of June 30, 2013 was $5,892 including $1,039 in current year net income recorded in the statement of revenues, expenses, and changes in net position. Also included as part of this transaction was $6,638 in cash and cash equivalents.

(b) Accounting Standards

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's financial statements and note disclosures are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements and interpretations. OHSU uses proprietary fund accounting.

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's 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) New Accounting Pronouncements

In December 2010, GASB issued Statement No. 61 (GASB 61), *The Financial Reporting Entity Omnibus*, which amended the standards for reporting component units in a government's financial statements. This standard was effective for fiscal year 2013. The adoption of GASB 61 modifies certain requirements for inclusion of component units as well as amends the criteria for blending component units with the primary government. Additionally, the statement requires that the primary government report an asset for its equity interest in its discretely presented component units. The primary government has evaluated the financial reporting entity in accordance with these provisions. The adoption of this standard did not have an impact on OHSU's financial statements, although it did result in additional disclosures regarding the financial results of the blended component units.

In December 2010, GASB issued Statement No. 62 (GASB 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. That statement supersedes Statement No. 20, Accounting and Financial Reporting

(Continued)

for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. This standard was effective for fiscal year 2013. The adoption of GASB 62 did not have an impact on OHSU's financial statements.

In June 2011, GASB issued Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which changes how governments organize their statements of financial position. This standard was effective for fiscal year 2013. The adoption of GASB 63 resulted in the establishment of net position. Additionally, OHSU's transactions were evaluated against the criteria for "deferred outflows of resources" and "deferred inflows of resources," and management determined that no material balances meet the definitions within the accounting standard.

(d) Financial Reporting Entity

As defined by generally accepted accounting principles (GAAP), the financial reporting entity consists of Oregon Health & Science University as the primary government, and its component units, which are legally separate organizations for which the primary government is financially accountable. Financial accountability is defined as a) appointment of the voting majority of the component units' board, and either (1) the ability to impose will by the primary government, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government, or (b) the component unit is financially dependent on and there is potential for the component unit to provide specific financial benefits to, or impose specific burdens on the primary government.

Component units are reported as part of the reporting entity under the blended or discrete method of presentation. Blending involves merging the component unit data with the primary government. There are three situations when blending is allowed: (1) when the board of the component unit is substantially the same as that of the primary government and there is there is a financial benefit or burden relationship between the primary government and the component unit or management of the primary government has operational responsibility for the component unit, (2) when the component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it, or (3) the component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government. Oregon Health & Science University Foundation, Doernbecher Children's Hospital Foundation, OHSU Insurance Company, and University Medical Group are considered to be blended component units as they serve the primary government exclusively. All transactions between OHSU and its blended component units are eliminated upon consolidation.

Financial reports for INSCO, UMG, 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.

(e) 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.

(f) 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.

(g) 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. Cash and cash equivalents include $135,812 and $163,894 of overnight repurchase agreements, commercial paper, bankers' acceptances, and short-term Treasury and Agency securities with an initial term of less than three months at June 30, 2013 and 2012, respectively.

(h) 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 position. Interest, dividends, and realized gains and losses on investments are included in nonoperating revenues as investment income when earned.

(i) Inventories

Inventories consist primarily of supplies in organized stores at various locations across the campus and in the Hospital. Inventories are recorded using several different methodologies dependent upon the operational use of the supplies and system capabilities. OHSU utilizes standard cost, and average cost methodologies to record and report inventory value.

(j) 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 2013 and 2012, OHSU capitalized interest expense of approximately $4,075 and $2,505, respectively. This was net of approximately $132 and $164 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.

(k) Net Position Classifications

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

- Net investment in capital assets, net of related debt represents the depreciated value of capital purchases, net of related debt.
- Net position restricted, expendable carries externally imposed time or purpose restrictions that expire in the future.
- Net position restricted, nonexpendable carries externally imposed restrictions that never expire.
- Net position unrestricted carries 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 position category.

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

(Amounts in thousands)

A summary of restricted funds by restriction category for fiscal years ended June 30, 2013 and 2012 is as follows:

		2013	2012
Restricted expendable:			
Research	$	208,309	129,736
Academic support		38,761	35,235
Instruction		23,890	21,208
Capital projects and planning		27,116	26,495
Student aid		49,333	48,781
Clinical support		27,132	25,651
Institutional support		5,165	5,283
Other		16,893	16,646
		396,599	309,035
Restricted nonexpendable:			
Research		21,578	21,206
Instruction		39,689	37,972
Clinical support		2,571	2,534
Public service		1,113	1,069
Academic support		63,482	62,466
Student aid		38,286	36,738
Other		14,437	13,038
	$	181,156	175,023

(l) Endowments

The endowment corpus is accounted for in the restricted, nonexpendable net position category, and reported on the balance sheets as restricted long-term investments. The Foundations' spending policy for endowment funds is determined by the Boards of Trustees and is based on a three-year moving average of the fair value of the endowment fund. The Boards of Trustees authorized a 4.5% distribution in each of the years ended June 30, 2013 and 2012.

The Foundations' management and investment of donor-restricted endowment funds are subject to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Foundations' Boards of Trustees. All interest, dividends, and changes in fair value on the endowment fund are allocated to the appropriate unrestricted or restricted net position classification as specified by the donor at the time of receipt. Endowment accounts receive spending distributions subject to the Foundations' Boards 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 position until such time as the restriction has been met. At June 30, 2013 and 2012, the fair value of investments in the endowment fund was $378,100 and $349,800, respectively.

Spending distributions were not made for certain endowment accounts during 2013 or 2012 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 Foundations' Boards 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, 2013, the fair value of endowment accounts below corpus was $6,496 and the original corpus on these same accounts was $6,600. At June 30, 2012, the fair value of endowment accounts below corpus was $63,500 and the original corpus on these same accounts was $65,700.

(m) 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.

(n) State Appropriations

The Oregon State Legislature makes an appropriation to OHSU on a biennial basis. The appropriation is recognized as income over the related appropriation period as applicable eligibility requirements are met.

(o) 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. As of June 30, 2013 and 2012, the grants receivable balance was $19,903 and $18,508, respectively, and was included in grant and contract receivables in the accompanying statements of financial position. 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, 2013 and 2012, the grants deferred revenue balance was $17,531 and $14,030, respectively, and was included in deferred revenue in the accompanying statements of financial position.

(p) Operating Revenues

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

(q) Net Patient Service Revenue

Net patient service revenue related to the Hospital, the Institute on Development and Disability, and the Faculty Practice Plan 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 and Medicaid outpatient services are based on prospectively determined rates. Reimbursement from commercial insurance carriers and PPOs and HMOs is based on prospectively negotiated rates or a percentage of charges.

Included as prior year adjustments in net patient service revenue in fiscal year 2013 are an increase of $9,784 and $5,322 for fiscal years 2013 and 2012, respectively.

A summary of patient service revenues during the years ended June 30, 2013 and 2012 is as follows:

		2013	2012
Gross patient charges	$	3,076,328	2,830,238
Contractual discounts		(1,494,321)	(1,340,875)
Bad debt adjustments		(62,266)	(48,206)
Net patient service revenues	$	1,519,741	1,441,157

(r) Student Tuition and Fees Revenues

A summary of student tuition and fees revenues during the years ended June 30, 2013 and 2012 is as follows:

		2013	2012
Gross student tuition	$	71,290	68,052
Exemptions		(12,277)	(8,032)
Student tuition and fees revenues, net	$	59,013	60,020

(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 $110,478 and $91,811 in 2013 and 2012, 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 0.30% to 4.82%.

(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.

(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 is insured by the Federal Deposit Insurance Corporation subject to investment limits. Additionally, a substantial portion of investments are collateralized deposits as required under Oregon Revised Statutes or held in liquid securities backed by the full faith of the U.S. government.

OREGON HEALTH & SCIENCE UNIVERSITY

Notes to Financial Statements

June 30, 2013 and 2012

(Amounts in thousands)

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, 2013 and 2012 is as follows:

		2013	2012
Short-term investments:			
Cash and cash equivalents	$	1,127	1,688
Mutual funds		97,468	53,230
U.S. government securities		17,673	27,330
U.S. agency securities		39,770	15,510
Corporate obligations		63,629	38,382
Fixed income		79,969	46,072
		299,636	182,212
Funds held by trustee, current portion:			
Cash and cash equivalents		32,983	132,313
Fixed Income		20,037	—
Other		30	102
		53,050	132,415
Funds held by trustee – less current portion:			
Cash and cash equivalents		12,991	15,469
U.S. government securities		757	4,273
U.S. agency securities		8,787	19,379
Fixed Income		3,108	—
		25,643	39,121
Long-term investments – less current portion:			
Cash and cash equivalents		37,843	39,647
U.S. government securities		134,397	146,705
U.S. agency securities		42,661	35,068
Corporate obligations		199,596	142,977
Fixed income		134,395	131,906
Equities		190,731	171,982
Alternative investments		112,042	119,302
Joint ventures and partnerships		58,517	58,759
Real estate investments and other		64,643	45,316
		974,825	891,662
Total investments, all categories	$	1,353,154	1,245,410

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY

Notes to Financial Statements

June 30, 2013 and 2012

(Amounts in thousands)

(3) Investments and Related Policies

(a) Interest Rate Risk

As of June 30, 2013, OHSU had the following investments and maturities at fair value:

Investment type	Credit Rating Standard & Poor's or equivalent	Maturity: Less than 1 year	1 – 5 years	6 – 10 years	More than 10 years or none	Total
Cash and money market funds	n/a	$ 84,944	—	—	—	84,944
U.S. government securities	n/a	20,936	107,802	21,308	2,781	152,827
U.S. agency securities	n/a	45,466	45,752	—	—	91,218
Domestic equity securities	n/a	—	—	—	57,754	57,754
International equity securities		—	—	—	132,977	132,977
Commercial paper	A-1+	14,440	—	—	—	14,440
	A-1	84,810	—	—	—	84,810
U.S. Corporate securities	AA+	4,011	1,882	—	—	5,893
	AA	7,155	5,889	389	—	13,433
	AA-	22,533	10,020	—	—	32,553
	A+	1,763	7,770	—	—	9,533
	A	3,957	28,689	1,138	—	33,784
	A-	8,464	5,746	4,143	—	18,353
	BBB+	—	1,284	3,453	—	4,737
	BBB	6,423	32,985	3,052	667	43,127
	BBB-	276	946	504	—	1,726
Non-U.S. Corporate securities	AAA	349	4,391	—	—	4,740
	AA	—	24,447	—	—	24,447
	AA-	19,686	7,741	398	—	27,825
	A+	7,498	213	—	—	7,711
	A	1,601	18,893	209	—	20,703
	A-	—	711	2,551	—	3,262
	BBB+	—	341	818	—	1,159
	BBB	—	6,822	1,981	—	8,803
	BBB-	861	174	402	—	1,437
Interest receivable	various	30	—	—	—	30
Asset backed securities	AAA	29,426	32,726	259	—	62,411
	AA+	482	4,250	844	—	5,576
	A	—	870	—	—	870
Joint ventures and partnerships	n/a	—	—	—	58,517	58,517
Mutual funds – fixed income only	AAA	3,675	537	8,052	31	12,295
	AA	2,547	64	3,914	60	6,585
	A	2,145	112	4,798	20	7,075
	BBB	4,692	147	3,407	7	8,253
	BB	282	26	5,383	—	5,691
	B	145	26	5,404	—	5,575
	Below B	—	8	2,251	—	2,259
	Not Rated	3	52	366	2	423
Municipal Bonds	AAA	751	—	—	—	751
	AA	7,149	4,458	—	—	11,607
	A	6,392	2,495	—	—	8,887
Mutual funds, other	n/a	—	—	—	112,839	112,839
Alternative investments	n/a	—	—	—	112,042	112,042
Real estate investments and other	n/a	—	—	—	49,272	49,272
		$ 392,892	358,269	75,024	526,969	1,353,154

(Amounts in thousands)

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

Investment type	Credit Rating Standard & Poor's or equivalent	Maturity Less than 1 year	1 – 5 years	6 – 10 years	More than 10 years or none	Total
Cash and money market funds	n/a	$ 189,117	—	—	—	189,117
U.S. government securities	n/a	37,386	111,553	24,904	4,465	178,308
U.S. agency securities	AAA	30,882	38,360	715	—	69,957
Domestic equity securities	n/a	—	—	—	50,351	50,351
International equity securities	n/a	—	—	—	121,631	121,631
International debt securities	AAA	1,376	658	546	1,779	4,359
	AA	—	1,120	641	148	1,909
	A	332	494	905	2,573	4,304
	BBB	—	—	798	—	798
	BB	—	681	66	—	747
	B	—	58	—	—	58
Commercial paper	A-1+	22,673	—	—	—	22,673
	A-1	27,415	—	—	—	27,415
Corporate debt securities	AA+	—	—	1,845	—	1,845
	AA	1,290	4,129	398	—	5,817
	AA-	1,215	—	—	—	1,215
	A+	—	317	—	—	317
	A	203	17,624	1,448	—	19,275
	A-	1,597	5,987	3,361	—	10,945
	BBB+	258	917	3,800	388	5,363
	BBB	1,950	32,731	3,019	—	37,700
	BBB-	—	1,558	804	—	2,362
Non-U.S. corporate debt securities	AAA	3,651	8,124	—	—	11,775
	AA	6,430	17,077	—	—	23,507
	AA-	17,894	463	—	—	18,357
	A+	7,469	693	—	—	8,162
	A	2,502	15,709	—	—	18,211
	A-	—	—	1,300	—	1,300
	BBB+	—	—	1,190	—	1,190
	BBB	3,510	7,321	2,275	—	13,106
	BBB-	—	912	—	—	912
Interest receivable	various	102	—	—	—	102
Asset backed securities	AAA	9,774	32,053	296	—	42,123
	AA+	409	25,256	860	436	26,961
	BBB+	—	901	—	—	901
Joint ventures and partnerships	n/a	—	—	—	58,759	58,759
Mutual funds – fixed income only	AAA	4,871	482	2,414	1,517	9,284
	AA	1,348	119	427	137	2,031
	A	2,573	137	361	342	3,413
	BBB	3,309	121	411	466	4,307
	BB	261	26	126	18	431
	B	19	15	78	11	123
	Below B	3	5	58	9	75
	Not Rated	3	45	24	60	132
Municipal Bonds	AAA	3,244	—	—	—	3,244
	AA	2,454	4,217	—	—	6,671
	A	3,791	12,228	—	—	16,019
Mutual funds-other	n/a	—	—	—	67,525	67,525
Alternative investments	n/a	—	—	—	119,302	119,302
Real estate investments and other	n/a	—	—	—	31,021	31,021
		$ 389,311	342,091	53,070	460,938	1,245,410

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

OHSU held $68,857 and $69,985 of asset-backed securities collateralized primarily by auto loans and credit card receivables and collateralized mortgage obligations as of June 30, 2013 and 2012, 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, 2013 and 2012, 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.

(Continued)

(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, 2013 and 2012, 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:

Foreign currency		Value (U.S. dollar) 2013	2012
Australian dollar	$	1,234	70
Brazilian real		—	487
British sterling pound		4,462	6,172
Canadian dollar		1,613	—
Chilean Peso		—	558
Euro		3,231	3,307
Hungarian forint		—	609
South Korean won		—	672
Malaysian ringgit		—	666
Mexican peso		—	1,503
New Zealand dollar		—	66
Polish zloty		—	875
South African rand		—	589
Swiss Franc		1,810	1,548
Turkish lira		—	651
Total	$	12,350	17,773

(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, 2013, $18,624 was the net amount due from Medicaid, $6,164 was the net amount due to Medicare, and $8,743 was due to various contractual agency related settlement activity. As of June 30, 2012, $20,214 was the net amount due from Medicaid, $8,764 was the net amount due to Medicare, and $9,564 was due to contractual agencies related to other settlement activity. At June 30, 2013 and 2012, the net receivable is included in patient accounts receivable in the balance sheets.

(Amounts in thousands)

(5) Capital Assets

Capital assets for fiscal years ended June 30, 2013 and 2012 are listed by category below:

		2013	2012
Land and land improvements	$	72,443	72,443
Buildings and other improvements		1,550,174	1,511,882
Equipment		726,187	681,102
Construction in progress		234,906	83,860
Accumulated depreciation		(1,169,900)	(1,066,640)
Total capital assets, net	$	1,413,810	1,282,647

The following is a summary of capital assets for the fiscal years ended June 30, 2013 and 2012:

		Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not depreciated:					
Land and land improvements	$	72,443	—	—	72,443
Construction in progress		83,860	217,269	(66,223)	234,906
Total capital assets not depreciated		156,303	217,269	(66,223)	307,349
Other capital assets:					
Buildings and other improvements		1,511,882	39,464	(1,172)	1,550,174
Equipment		681,102	56,803	(11,718)	726,187
Total other capital assets		2,192,984	96,267	(12,890)	2,276,361
Less accumulated depreciation:					
Buildings and other improvements		(551,334)	(56,196)	931	(606,599)
Equipment		(515,306)	(58,203)	10,208	(563,301)
Total accumulated depreciation		(1,066,640)	(114,399)	11,139	(1,169,900)
Other capital assets, net		1,126,344	(18,132)	(1,751)	1,106,461
Total capital assets, net	$	1,282,647	199,137	(67,974)	1,413,810

(Continued)

(Amounts in thousands)

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets not depreciated:				
Land and land improvements	$ 58,770	13,673	—	72,443
Construction in progress	59,406	126,203	(101,749)	83,860
Total capital assets not depreciated	118,176	139,876	(101,749)	156,303
Other capital assets:				
Buildings and other improvements	1,447,556	65,157	(831)	1,511,882
Equipment	651,218	54,366	(24,482)	681,102
Total other capital assets	2,098,774	119,523	(25,313)	2,192,984
Less accumulated depreciation:				
Buildings and other improvements	(498,703)	(53,189)	558	(551,334)
Equipment	(481,092)	(57,985)	23,771	(515,306)
Total accumulated depreciation	(979,795)	(111,174)	24,329	(1,066,640)
Other capital assets, net	1,118,979	8,349	(984)	1,126,344
Total capital assets, net	$ 1,237,155	148,225	(102,733)	1,282,647

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 2013 and 2012, 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 position.

(6) Compensated Absences Payable

Vacation pay for classified employees is earned at 8 to 24 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 176 hours.

Sick leave is recorded as an expense 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, 2013 and 2012 was $955,001 and $914,971, respectively. Payroll applicable for employees covered by PERS for the years ended June 30, 2013 and 2012 was $378,893 and $392,494, 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 9.12% from July 1, 2011 – June 30, 2013. The employer contribution rate for the OPSRP was 7.58% from July 1, 2011 – June 30, 2013.

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 2013 and 2012, 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.

		2013	2012	2011
PERS:				
Employer contribution	$	32,272	33,458	12,487
Employee contribution (1)		22,739	23,549	23,925
	$	55,011	57,007	36,412
UPP:				
Employer contribution	$	27,072	24,220	21,598
Employee contribution (1)		27,072	24,220	21,598
	$	54,144	48,440	43,196

(1) Of the employees' share, the employer paid $49,811, $47,769, and $45,523 including both PERS and UPP, in 2013, 2012 and 2011, 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 $823 and $614 for the purchase of retirement annuities during the fiscal years ended June 30, 2013 and 2012, 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.

(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, 2013, the amount actually contributed to the plan, and changes in OHSU's net OPEB obligation to the plan:

		2013	2012	2011
Annual required contribution	$	1,692	2,207	1,719
Interest on net OPEB obligation		225	173	145
Annual OPEB cost		1,917	2,380	1,864
Contributions made		1,020	1,020	1,008
Increase in OPEB obligation		897	1,360	856
Net OPEB obligation – beginning of fiscal year		6,431	5,071	4,215
Net OPEB obligation – end of fiscal year	$	7,328	6,431	5,071
Percentage of annual OPEB cost contributed		53%	43%	54%

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, 2012	$	—	19,894	19,894	—%	$	791,382	2.5%

The actuarially determined amounts above use an assumed discount rate of 3.5% in the January 1, 2012 valuation. The assumed healthcare cost trend rate was 8.75% in 2013, declining gradually to 4% in 2032 and remaining at 4% 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.

(Amounts in thousands)

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

Long-term debt, including related unamortized issuance costs, and capital leases at June 30, 2013 and 2012 are as follows:

		2013	2012
Debt service payment agreement (DSPA)	$	12,290	14,701
Bonds payable, revenue bonds, Series 2009 A and B		151,803	151,308
Bonds payable, revenue bonds, Series 2002 A and B		1,422	154,578
Bonds payable, revenue bonds, Series 1998 A and B		2,808	3,212
Bonds payable, revenue bonds, Series 1995 A and B		57,934	56,938
Bonds payable, revenue bonds, Series 2012 A, B, C, D, and E		483,683	351,158
Tenancy in Common Agreement (TIC) – CLSB – OUS Bonds		29,541	30,130
Local improvement district agreements		28,219	30,167
B of A capital equipment loans		1,735	3,971
Hood River/The Dalles Eye Clinic		—	114
Other capital leases		1,303	4,663
Less current portion of debt and capital leases		(18,485)	(22,501)
	$	752,253	778,439

(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 Series F/G (OUS Bonds) 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 OUS Bonds 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. In May 2012, the 1995B Series Bonds were currently refunded as part of the 2012 Series Bonds, further described below. The remaining 1995 Revenue Bonds mature beginning July 1, 2008 through July 1, 2028 and require semiannual interest payments at 5.35% 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 2003, OHSU issued Insured Revenue Bonds Series 2002A, a series of fixed-rate bonds, and 2002B, 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. A portion of the 2002A Series Bonds were advance refunded during fiscal year 2012 as part of the 2012 Series Bond Issuance. Additionally the entire 2002B Series was refunded during fiscal year 2013 and are no longer outstanding as of June 30, 2013.

The 2009 Series A Revenue Bonds mature beginning July 1, 2033 through July 1, 2039. The Series A Revenue Bonds require interest payments semiannually. The interest rate on the Series A Revenue Bonds is fixed and ranges from 5.750% and 5.875%. The 2009A 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.

In May 2012, as part of a comprehensive bond portfolio restructuring, OHSU issued refunding Revenue Bonds, Series 2012A, Series 2012C and Series 2012D, which refinanced over 50% of its currently outstanding debt portfolio, in order to reduce interest expense as well as convert its previously issued auction rate mode bonds to variable rate demand bonds backed by either irrevocable Standby Letters of Credit or as a direct placement. In this refunding, the 1995 Current Interest Bonds, 1995B, 1998A, 1998B, and 2002B, Bonds were currently refunded in their entirety as well as advance refunding of $38,550 of the Series 2002A bonds, which were defeased but still outstanding as of June 30, 2012. As part of the refinancing, OHSU realized deferred gain on extinguishment of debt of $3,212 for the 1998AB bonds and $1,737 for the 2002B bonds, respectively, which will be amortized over the life of the original bonds. The 2012A Series was issued as fixed rate bonds with maturities July 1, 2012 to July 1, 2028 and rates from 2.0% to 5.0%. The Series 2012C variable rate bonds, mature July 1, 2012 to July 1, 2027, and the 2012D bonds, direct placement variable rate bonds mature July 1, 2012 to July 1, 2032. Due to OHSU's stable credit worthiness, existing debt service reserve requirements on the refunded bonds in excess of $9 million was released and applied to downsize the refunding bond par, resulting in further savings. Then Series 2012E bonds, fixed rate bonds, refinanced the remaining 2002A bonds. The 2013E were issued December 20th, 2012 and will mature July 1, 2032.

(Amounts in thousands)

Additionally, during the refunding process, OHSU simultaneously issued approximately $85 million of new tax-exempt revenue bonds, the 2012B Series, to pay for certain costs of construction and other costs of issuance for the expanded CLSB Skourtes Tower project, which will become the new OHSU School of Dentistry. The 2012B-1, B-2 and B-3 bonds, all variable rate demand bonds, have maturities July 1, 2040 to July 1, 2042.

As part of the 2012 financing, OHSU entered into multiple credit enhancement facilities, including irrevocable Standby Letters of Credit with Union Bank and U.S. Bank NA as noted in the table below

2012 BCD Variable Rate Debt as of June 30, 2013

Series	Facility counterparty	Bond Par (000's)	Facility matures	LT Ratings S&P/moodys/ Fitch	Reset
2012 B-1	Union Bank – LOC	$ 28,525	5/15/2017	A+ / A2 / A	weekly
2012 B-2	Union Bank – LOC	28,525	5/15/2017	A+ / A2 / A	weekly
2012 B-3	Union Bank – LOC	28,520	5/15/2017	A+ / A2 / A	daily
2012 C	US Bank, NA – LOC	18,210	11/15/2015	AA- / Aa2 / AA-	daily
2012 D	US Bank, NA – Direct Placement	86,300	11/1/2016	AA- / Aa2 / AA-	monthly
		$ 190,080			

The Letters of Credit will fund any put made by bondholders 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.

The average interest rate on the combined 2012B Bonds at June 30, 2013 is 0.07%, the rate on the 2012Cs is 0.06% and the 2012Ds, which are a direct placement with U.S. Bank, NA is 0.706%. All interest payments on the 2012B, 2012C and 2012D Bonds are due and payable to the bondholders on the first business day of each month.

Under the terms of the outstanding 1995 and 2009 Revenue Bonds, OHSU is required to maintain funds held by a trustee for reserve requirements for each of these series of bonds 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 believes that it is in compliance with its debt covenants.

(d) Local Improvement District Assessments

OHSU initially entered into various Local Improvement District agreements (LIDs) with the City of Portland, Oregon during fiscal years 2007 and 2008 for real improvements to Portland's South Waterfront District, of which $30 million of the initial debt is considered to be nonrecourse obligations to OHSU. During fiscal year 2012, OHSU entered into additional LIDs with the City of Portland for real improvements to the same Portland South Waterfront District for $4.8 million. All LID debt is scheduled to be repaid in semiannual installments with final maturities between ten and twenty years at interest rates ranging between 4.19% and 6.00%. The total outstanding balances due as of June 30, 2013 and 2012 were $28.2 million and $30.2 million, respectively, and have been included in long-term debt in the statements of financial position.

(Amounts in thousands)

(e) Interest Rate Swap Agreement

As of June 30, 2013 and 2012, OHSU held a total of two interest rate swap agreements, respectively (collectively, the swaps). The balances of all currently held swaps as of June 30, 2013 and 2012 follows:

		Notional amount June 30		Fair value June 30	
		2013	**2012**	**2013**	**2012**
Swap:					
2005A Swap UBS	$	—	42,725	—	(8,509)
2005B Swap UBS		—	42,700	—	(8,510)
2005A US Bank Swap		40,925	—	(5,838)	—
2005B US Bank Swap		40,900	—	(5,838)	—
	$	81,825	85,425	(11,676)	(17,019)

The notional amounts of the outstanding swaps and the principal amounts of the associated debt decline over time and terminate on July 1, 2028. The Swaps are currently callable as of June 30, 2013 and 2012. Under each agreement OHSU makes fixed rate interest payments of 3.459% to the counterparty and receives variable rate payment computed as 62.67% of the London Interbank Offered Rate (LIBOR) plus 0.177%. 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 $2,511 and $4,230 during the years ended June 30, 2013 and 2012, respectively. Each of the Swaps were novated during fiscal year 2013, and reassigned to a new counterparty under substantially equivalent terms.

Each of the UBS swaps above was established as part of a hedging arrangement during fiscal year 2009, as a hedge of total cash flows associated with the interest payments on the Series 1998A, Series 1998B, Series 2002B, and Series 2009B Bonds. As part of the 2012 refinancing, the hedging effectiveness was reevaluated, and the swaps were reassigned as hedges of the interest payments on the 2012B−1, 2012B−2 and 2012B−3 Series Bonds. The fair value of the swap liability at that time was treated as an unrealized loss on refunding of debt, and is appropriately being amortized utilizing the effective interest method over the shorter of the remaining life of the original debt or the new debt. The unamortized balance of the loss on refunding of debt related to the swap agreements was $13,820 and $15,136 as of June 30, 2013 and 2012. In 2013 OHSU novated its swap agreements, replacing UBS with U.S. Bank, and effectively creating a new off-market interest rate swap agreement. These new swap agreements with U.S. Bank are assigned as hedges of the 2012B-1, 2012B-2, and 2012B-3 Series Bonds.

(Amounts in thousands)

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 total value of the companion debt instrument is as follows:

Instrument	Hedged bonds	Beginning date	Beginning balance	Ending date balance	Ending balance	Change in value
2005A	Off Market SWAP	6/30/2012	$ 2,620	6/30/2013	$ 2,458	(162)
2005A	2012B-1/2012B-2	6/30/2012	4,948	6/30/2013	4,539	(409)
2005B	Off Market SWAP	6/30/2012	2,621	6/30/2013	2,429	(192)
2005B	2012B-1/2012B-2	6/30/2012	4,947	6/30/2013	4,539	(408)

The companion debt instrument for the U.S. Bank swaps was determined at the date of novation during fiscal year 2013, and is reported in other liabilities. The liability is being amortized over the remaining term of the swap agreements on a straight-line basis as an offset to interest expense.

The fair value of the current hedging instrument asset (liability) for the U.S. Bank swaps are recorded in other assets (liabilities), with an offsetting balance recorded in other deferred (debits) credits. Any subsequent changes to the value of the hedging instruments are recorded by increasing or decreasing these balance sheet accounts. The total value of the asset (liability) are $2,082 and ($821) as of June 30, 2013 and 2012, respectively.

OHSU is exposed to swap credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2013, the counterparties' credit ratings were A+ from Standard & Poor's, A2 from Moody's, and A+ from Fitch. Additionally, the swaps expose OHSU to basis risk, which is the risk that arises when the relationship between the rates on the variable rate bonds and the swap formulas noted above vary from historical norms. If this occurs, swap payments received by OHSU may not fully offset its bond interest payments. As these rates change, the effective synthetic rate on the bonds will change.

OHSU is additionally responsible for posting collateral if the total swap liability for swaps with one of the counterparties exceeds a predetermined value on their reporting date. The collateral posting limit was $30,000, compared to a total relevant swap liability value of $11,676, as of June 30, 2013 and $17,019 as of June 30, 2013, resulting in a requirement that OHSU post zero collateral as of June 30, 2013 and 2012.

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:		
2014	$	672
2015		352
2016		289
2017		91
2018		5
		1,409
Less amount representing interest		(106)
		1,303
Less current portion		(613)
	$	690

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

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 balance sheets and are shown net of unamortized discounts and premiums of $31,065 and $14,401 as of June 30, 2013 and 2012, respectively, and net of unamortized loss on refunding of $3,353 and $3,672 as of June 30, 2013 and 2012, respectively. Amounts due under the DSPA and the 1995 Revenue Bonds include accreted interest of $41,904 and $40,657 as of June 30, 2013 and 2012, 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.

(Amounts in thousands)

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:				
2014	$	17,872	26,833	44,705
2015		17,410	31,597	49,007
2016		18,144	32,126	50,270
2017		15,981	35,656	51,637
2018 – 2022		73,274	173,486	246,760
2023 – 2027		125,544	110,540	236,084
2028 – 2032		170,606	86,471	257,077
2033 – 2037		91,833	52,056	143,889
2038 – 2042		139,765	18,180	157,945
2043		29,390	72	29,462
	$	699,819	567,017	1,266,836

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

(h) Changes in Long-term Liabilities

Changes in OHSU's total long-term liabilities during the fiscal years ended June 30, 2013 and 2012 are summarized below:

		Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Liability for self-funded insurance programs	$	61,228	14,661	(14,065)	61,824
Liability for life income agreements		16,235	4,056	(3,778)	16,513
Long-term debt		796,277	134,016	(160,858)	769,435
Long-term capital leases		4,663	949	(4,309)	1,303
Other noncurrent liabilities		24,843	3,431	(1,292)	26,982
	$	903,246	157,113	(184,302)	876,057

(Amounts in thousands)

		Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Liability for self-funded insurance programs	$	56,091	16,478	(11,341)	61,228
Liability for life income agreements		17,134	1,862	(2,761)	16,235
Long-term debt		736,226	354,521	(294,470)	796,277
Long-term capital leases		5,805	—	(1,142)	4,663
Other noncurrent liabilities		14,947	13,966	(4,070)	24,843
	$	830,203	386,827	(313,784)	903,246

(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.

Life income contributions, included in gifts, grants, and contracts in the accompanying statements of revenues, expenses, and changes in net position are as follows for the fiscal years ended June 30, 2013 and 2012:

	2013			2012		
	Agreements	Asset	Liability	Agreements	Asset	Liability
Charitable remainder unitrusts	5	$ 172	41	5	$ 145	20
Charitable gift annuities	18	1,901	1,340	9	1,089	795
Life estate agreements	1	17	2	—	—	—
Total	24	$ 2,090	1,383	14	$ 1,234	815

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 balance sheets. Total life income agreements held at June 30, 2013 and 2012 are as follows:

	2013			2012		
	Agreements	Asset	Liability	Agreements	Asset	Liability
Charitable remainder unitrusts	77	$ 18,718	8,282	78	$ 18,119	8,427
Charitable remainder trust annuities	9	1,706	463	10	1,391	864
Charitable gift annuities	209	10,639	7,181	200	9,123	6,331
Life estate agreements	6	1,573	578	6	1,738	613
Total	301	$ 32,636	16,504	294	$ 30,371	16,235

(Continued)

(Amounts in thousands)

Twenty-four charitable gift annuities, included above, 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 $6,972 and $7,048 on June 30, 2013 and 2012, respectively.

The Foundations are the named beneficiaries of thirty trusts held by outside trustees. The reported fair market value of trust assets held by others was $40,500 and $32,500 as of June 30, 2013 and 2012, respectively. The Foundations record contributions as trust distributions occur. Trust distributions of $1,800 and $1,400 were recorded as contributions during the fiscal years ended June 30, 2013 and 2012, respectively.

(12) Pledges and Estates Receivables

The Foundations had the following pledges and estates receivable as of June 30, 2013 and 2012:

		2013	2012
Pledges maturing within 1 year	$	37,879	20,863
Pledges maturing within 2 – 10 years		106,097	60,685
		143,976	81,548
Less allowance for uncollectible pledges		(1,296)	(1,781)
		142,680	79,767
Less discount for net present value		(2,663)	(3,286)
Total net pledges receivable		140,017	76,481
Estates receivable		1,780	947
Less allowance for uncollectible estates		(89)	(47)
Total net estates receivable		1,691	900
Total pledges and estates receivable	$	141,708	77,381

(13) Commitments and Contingencies

(a) Liability for Self-Funded Insurance Programs

Coverage for professional liability, general liability and automobile liability are provided through OHSU’s solely-owned captive insurance company, OHSU Insurance Company. Current coverage limits, for claims made on or after July 1, 2012 are $3.6 million for each and every claim for professional liability and $3.0 million for general liability. There is an annual aggregate of $17.5 million for professional liability and general liability. Coverage for claims made prior to July 1, 2002 are $1.0 million for each claim with an annual aggregate of $4.0 million.

(Amounts in thousands)

Coverage for the Directors and Officers liability and employment practices liability deductible is also provided through OHSU Insurance Company. Current coverage limits, for claims made on or after July 1, 2012 are $1.0 million for each and every claim with no annual aggregate.

Coverage for the cyber liability deductible is also provided through OHSU Insurance Company. The coverage limit for cyber liability is $250,000 for each and every claim.

Excess coverage and reinsurance is provided by a variety of insurers for claims that may exceed these limits. Coverage is written on a claims-made basis.

OHSU has contracted with independent actuaries to estimate the ultimate costs of settlement related to the coverage provided by OHSU Insurance Company. The liabilities are discounted at 3% in 2013 and 2012 and, in management's opinion, provide 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.

On January 1, 2006, Workers Compensation coverage for all employees was placed with the SAIF Corporation in accordance with statutory requirements. SAIF also provides Employers Liability coverage in the amount of $500,000, 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 16.5% loss conversion factor to the paid loss costs. Six months after the policy term, and every 12 months thereafter, a retrospective evaluation is completed to determine any additional amounts to be paid, including outstanding reserves, for claims relating to the policy year.

(Continued)

(b) Unemployment Compensation

Unemployment compensation claims are administered by the Oregon Employment Division pursuant to Oregon Revised Statutes. 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 balance sheets.

(c) Employee Health Programs

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 $12,730 and $13,809 as of June 30, 2013 and 2012, respectively. These amounts are included in current portion of self-funded insurance program liabilities in the accompanying balance sheets.

(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 expired on September 30, 2013, with a one month extension expiring on October 31, 2013. The current contract with AFSCME expires on June 30, 2015.

(e) Construction Contracts

OHSU had outstanding commitments on unexpended construction contracts totaling approximately $57,651 and $4,801 at June 30, 2013 and 2012, 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.

(Continued)

(Amounts in thousands)

OHSU's compliance with the referenced laws and regulations may be subject to current or future 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, results of operations, or liquidity.

(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 $18,956 and $19,294 in 2013 and 2012, respectively. The following is a schedule of future minimum rental commitments under operating leases as of June 30, 2013 that have initial or remaining lease terms in excess of one year:

Year ending June 30:		
2014	$	16,546
2015		13,289
2016		12,687
2017		10,783
2018		7,306
2019 – 2023		28,944
2024 – 2028		617
2029 – 2033		683
	$	90,855

(h) Healthcare Reform

As a result of recently enacted federal and state 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 healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. On July 5, 2012, the Centers for Medicaid and Medicare (CMS) approved Oregon's 1115 Medicaid Waiver that was necessary to implement Medicaid transformation in Oregon.

(14) Blended Component Units

Condensed combining statements for OHSU and its blended component units are shown below:

(Amounts in thousands)

Condensed combining information for the statement of financial position as of June 30, 2013 is as follows:

Assets		University	INSCO	UMG	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total consolidated
Current assets	$	780,834	8,686	8,241	49,119	1,297	(38,372)	809,805
Noncurrent assets:								
Capital assets, net of accumulated depreciation		1,412,726	—	567	509	8	—	1,413,810
Other Non Current Assets		287,295	77,133	—	718,498	51,557	—	1,134,483
Total noncurrent assets		1,700,021	77,133	567	719,007	51,565	—	2,548,293
Total assets	$	2,480,855	85,819	8,808	768,126	52,862	(38,372)	3,358,098
Liabilities and Net Position								
Current liabilities	$	346,633	134	2,791	35,808	1,889	(38,372)	348,883
Noncurrent liabilities		790,703	30,309	132	15,808	2,317	—	839,269
Total liabilities		1,137,336	30,443	2,923	51,616	4,206	(38,372)	1,188,152
Net position:								
Net investment in capital assets		721,101	—	—	509	8	—	721,618
Restricted, expendable		76,039	—	—	299,128	21,432	—	396,599
Restricted, nonexpendable		—	—	—	166,664	14,492	—	181,156
Unrestricted		546,379	55,376	5,885	250,209	12,724	—	870,573
Total net position		1,343,519	55,376	5,885	716,510	48,656	—	2,169,946
Total liabilities and net position	$	2,480,855	85,819	8,808	768,126	52,862	(38,372)	3,358,098

(Continued)

(Amounts in thousands)

Condensed combining information for the statement of financial position as of June 30, 2012 is as follows:

Assets		University	INSCO	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total Consolidated
Current assets	$	826,199	6,506	32,180	1,273	(28,589)	837,569
Noncurrent assets:							
Capital assets, net of accumulated depreciation		1,282,084	—	551	12	—	1,282,647
Other Non Current Assets		265,473	73,019	631,329	48,293	—	1,018,114
Total noncurrent assets		1,547,557	73,019	631,880	48,305	—	2,300,761
Total assets	$	2,373,756	79,525	664,060	49,578	(28,589)	3,138,330
Liabilities and Net Position							
Current liabilities	$	325,032	156	28,936	2,031	(28,589)	327,566
Noncurrent liabilities		809,438	34,668	15,933	2,028	—	862,067
Total liabilities		1,134,470	34,824	44,869	4,059	(28,589)	1,189,633
Net position:							
Net investment in capital assets		628,532	—	551	12	—	629,095
Restricted, expendable		67,240	—	224,360	17,435	—	309,035
Restricted, nonexpendable		—	—	161,132	13,891	—	175,023
Unrestricted		543,514	44,701	233,148	14,181	—	835,544
Total net position		1,239,286	44,701	619,191	45,519	—	1,948,697
Total liabilities and net position	$	2,373,756	79,525	664,060	49,578	(28,589)	3,138,330

(Amounts in thousands)

Condensed combining information related to revenues, expenses, and changes in net position for the year ended June 30, 2013 is as follows:

	University	INSCO	UMG	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total consolidated
Operating revenues:							
Patient service revenue	$ 1,519,741	—	—	—	—	—	1,519,741
Student tuition and fees, net	59,013	—	—	—	—	—	59,013
State appropriations	30,146	—	—	—	—	(30,146)	—
Gifts, grants, and contracts	428,644	—	—	140,967	14,946	(86,907)	497,650
Other revenue	94,679	11,957	15,421	2,764	161	(31,870)	93,112
Total operating revenues	2,132,223	11,957	15,421	143,731	15,107	121,923	2,169,516
Operating expenses:							
Salaries, wages, and benefits	1,236,540	764	10,024	11,208	—	(434)	1,258,102
Services, supplies, and other	667,727	774	4,230	76,105	14,239	(117,688)	645,387
Depreciation and amortization	112,162	—	130	156	5	—	112,453
Interest	28,601	—	—	—	—	—	28,601
Total operating expenses	2,045,030	1,538	14,384	87,469	14,244	(118,122)	2,044,543
Operating income	87,193	10,419	1,037	56,262	863	(30,801)	124,973
Nonoperating revenues (expenses):							
Investment income and gain (loss) in fair value of investments	12,930	256	3	35,161	2,061	—	50,411
State appropriations	—	—				30,146	30,146
Other	596	—		2,184	(153)	—	2,627
Total nonoperating revenues (expenses), net	13,526	256	3	37,345	1,908	30,146	83,184
Net income (loss) before other changes in net position	100,719	10,675	1,040	93,607	2,771	(655)	208,157
Other changes in net position:							
Contributions for capital and other	3,513	—	4,845	—	—	655	9,013
Change in interest in the Foundations	—	—	—	—	—	—	—
Nonexpendable donations	1	—	—	3,712	366	—	4,079
Total other changes in net position	3,514	—	4,845	3,712	366	655	13,092
Total increase (decrease) in net position	104,233	10,675	5,885	97,319	3,137	—	221,249
Net position – beginning of year	1,239,286	44,701	—	619,191	45,519	—	1,948,697
Net position – end of year	$ 1,343,519	55,376	5,885	716,510	48,656	—	2,169,946

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY

Notes to Financial Statements

June 30, 2013 and 2012

(Amounts in thousands)

Condensed combining information related to revenues, expenses, and changes in net position for the year ended June 30, 2012 is as follows:

	University	INSCO	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total Consolidated
Operating revenues:						
Patient service revenue	$ 1,441,157	—	—	—	—	1,441,157
Student tuition and fees, net	60,020	—	—	—	—	60,020
State appropriations	35,389	—	—	—	(35,389)	—
Gifts, grants, and contracts	404,238	—	36,256	9,750	(68,716)	381,528
Other revenue	94,972	12,817	2,675	130	(17,694)	92,900
Total operating revenues	2,035,776	12,817	38,931	9,880	(121,799)	1,975,605
Operating expenses:						
Salaries, wages, and benefits	1,182,978	745	10,453	—	—	1,194,176
Services, supplies, and other	627,426	8,827	64,518	9,512	(82,452)	627,831
Depreciation and amortization	111,017	—	152	5	—	111,174
Interest	34,742	—	—	—	—	34,742
Total operating expenses	1,956,163	9,572	75,123	9,517	(82,452)	1,967,923
Operating income	79,613	3,245	(36,192)	363	(39,347)	7,682
Nonoperating revenues (expenses):						
Investment income and gain (loss) in fair value of investments	15,143	3,702	(1,878)	(458)	—	16,509
State appropriations	—	—	—	—	35,389	35,389
Other	3,260	—	425	(306)	—	3,379
Total nonoperating revenues (expenses), net	18,403	3,702	(1,453)	(764)	35,389	55,277
Net income (loss) before other changes in net position	98,016	6,947	(37,645)	(401)	(3,958)	62,959
Other changes in net position:						
Contributions for capital and other	101	—	—	—	3,958	4,059
Change in interest in the Foundations	—	—	—	—	—	—
Nonexpendable donations	—	—	11,500	91	—	11,591
Total other changes in net position	101	—	11,500	91	3,958	15,650
Total increase (decrease) in net position	98,117	6,947	(26,145)	(310)	—	78,609
Net position – beginning of year	1,141,169	37,754	645,336	45,829	—	1,870,088
Net position – end of year	$ 1,239,286	44,701	619,191	45,519	—	1,948,697

(Amounts in thousands)

Condensed combining information related to cash flows for the year ended June 30, 2012 is as follows:

	University	INSCO	UMG	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total consolidated
Net cash provided by operating activities	$ 258,851	8,493	2,257	(11,803)	357	—	258,155
Net cash provided by noncapital financing activities	23,372	—	—	11,244	278	—	34,894
Net cash used in capital and related financing activities	(294,919)	—	(356)	(135)	—	—	(295,410)
Net cash (used in) provided by investing activities	(50,478)	(6,301)		697	(637)	—	(56,719)
Net increase in cash and cash equivalents	(63,174)	2,192	1,901	3	(2)	—	(59,080)
Cash and cash equivalents, beginning of year	148,362	916	4,737	1,598	161	—	155,774
Cash and cash equivalents, end of year	$ 85,188	3,108	6,638	1,601	159	—	96,694

(Amounts in thousands)

Condensed combining information related to cash flows for the year ended June 30, 2012 is as follows:

	University	INSCO	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total consolidated
Net cash provided by operating activities	$ 176,408	11,201	(21,925)	2,214	—	167,898
Net cash provided by noncapital financing activities	39,771	—	14,222	(544)	—	53,449
Net cash used in capital and related financing activities	(131,570)	—	(134)	—	—	(131,704)
Net cash (used in) provided by investing activities	(116,477)	(12,657)	6,517	(1,789)	—	(124,406)
Net increase in cash and cash equivalents	(31,868)	(1,456)	(1,320)	(119)	—	(34,763)
Cash and cash equivalents, beginning of year	184,967	2,372	2,918	280	—	190,537
Cash and cash equivalents, end of year	$ 153,099	916	1,598	161	—	155,774

OREGON HEALTH & SCIENCE UNIVERSITY

Required Supplementary Information (Unaudited)

June 30, 2013

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%
January 1, 2012	—	19,894	19,894	—	791,382	2.5%

The actuarially determined amounts above use an assumed discount rate of 3.5% in the January 1, 2012 valuation. The assumed healthcare cost trend rate was 8.75% in 2013, declining gradually to 4% in 2032 and remaining at 4% thereafter.

See accompanying independent auditors’ report.

Schedule 1

OREGON HEALTH & SCIENCE UNIVERSITY

Consolidating Schedules of Net Position

June 30, 2013 and 2012

(Dollars in thousands)

Assets	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2013	2012
Current assets:							
Cash and cash equivalents	$ 193,738	(98,804)	94,934	1,760	—	96,694	155,774
Short-term investments	272,153	26,356	298,509	1,127	—	299,636	182,212
Current portion of funds held by trustee	1,715	51,335	53,050	—	—	53,050	132,415
Patients accounts receivable, net of bad debt allowances of $12,787 in 2013 and $9,838 in 2012	171,904	45,946	217,850	—	—	217,850	207,307
Student receivables	—	18,805	18,805	—	—	18,805	20,787
Grant and contract receivable	—	34,723	34,723	—	—	34,723	28,923
Interest receivable	1,032	467	1,499	1,247	—	2,746	2,330
Current portion of pledges and estates receivable	—	—	—	39,090	—	39,090	21,262
Other receivables, net	6,154	34,703	40,857	6,970	(35,697)	12,130	53,239
Inventories, at cost	17,398	2,431	19,829	—	—	19,829	18,060
Prepaid expenses	9,612	5,418	15,030	222	—	15,252	15,260
Total current assets	673,706	121,380	795,086	50,416	(35,697)	809,805	837,569
Noncurrent assets:							
Capital assets, net of accumulated depreciation	548,432	864,861	1,413,293	517	—	1,413,810	1,282,647
Funds held by trustee – less current portion	15,194	10,449	25,643	—	—	25,643	39,121
Long-term investments:	—	—		—	—		
Long-term investments, restricted	—	27,814	27,814	375,262	—	403,076	380,089
Long-term investments, unrestricted	119,222	162,960	282,182	289,567	—	571,749	511,573
Total long-term investments	119,222	190,774	309,996	664,829	—	974,825	891,662
Deferred financing costs, net	15,288	11,419	26,707	—	—	26,707	27,646
Pledges and estates receivable – less current portion	—	—	—	102,618	—	102,618	56,119
Other noncurrent assets	1,162	920	2,082	2,608	—	4,690	3,566
Interest in the Foundations	—	765,166	765,166	—	(765,166)	—	—
Total noncurrent assets	699,298	1,843,589	2,542,887	770,572	(765,166)	2,548,293	2,300,761
Total assets	$ 1,373,004	1,964,969	3,337,973	820,988	(800,863)	3,358,098	3,138,330
Liabilities and Net Position							
Current liabilities:							
Current portion of long-term debt	$ 8,206	9,666	17,872	—	—	17,872	18,467
Current portion of long-term capital leases	265	348	613	—	—	613	4,034
Current portion of self-funded insurance programs liability	—	18,303	18,303	—	—	18,303	18,678
Accounts payable and accrued expenses	57,077	81,813	138,890	1,956	—	140,846	122,941
Drafts payable	9,721	7,494	17,215	—	—	17,215	17,360
Accrued salaries, wages, and benefits	21,859	42,456	64,315	—	—	64,315	65,554
Compensated absences payable	26,595	28,816	55,411	—	—	55,411	52,933
Deferred revenue	371	30,274	30,645	—	—	30,645	26,837
Other current liabilities	573	3,046	3,619	35,741	(35,697)	3,663	762
Total current liabilities	124,667	222,216	346,883	37,697	(35,697)	348,883	327,566
Noncurrent liabilities:							
Long-term debt – less current portion	346,144	405,419	751,563	—	—	751,563	777,810
Long-term capital leases – less current portion	—	690	690	—	—	690	629
Liability for self-funded insurance programs – less current portion	—	43,521	43,521	—	—	43,521	42,550
Liability for life income agreements	—	—	—	16,513	—	16,513	16,235
Other noncurrent liabilities	9,521	15,849	25,370	1,612	—	26,982	24,843
Total noncurrent liabilities	355,665	465,479	821,144	18,125	—	839,269	862,067
Total liabilities	480,332	687,695	1,168,027	55,822	(35,697)	1,188,152	1,189,633
Net position:							
Net investment in capital assets	210,726	510,375	721,101	517	—	721,618	629,095
Restricted, expendable	—	396,599	396,599	320,560	(320,560)	396,599	309,035
Restricted, nonexpendable	—	181,156	181,156	181,156	(181,156)	181,156	175,023
Unrestricted	681,946	189,144	871,090	262,933	(263,450)	870,573	835,544
Total net position	892,672	1,277,274	2,169,946	765,166	(765,166)	2,169,946	1,948,697
Total liabilities and net position	$ 1,373,004	1,964,969	3,337,973	820,988	(800,863)	3,358,098	3,138,330

See accompanying independent auditors' report.

OREGON HEALTH & SCIENCE UNIVERSITY

Consolidating Schedules of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2013	2012
Operating revenues:							
Patient service revenue, net of bad debt adjustments of $62,266 in 2013 and $48,206 in 2012	$ 1,186,558	333,183	1,519,741	—	—	1,519,741	1,441,157
Student tuition and fees, net	—	59,013	59,013	—	—	59,013	60,020
State appropriations	1,066	29,080	30,146	—	(30,146)	—	—
Gifts, grants, and contracts	514	428,130	428,644	155,913	(86,907)	497,650	381,528
Other revenue	46,411	48,269	94,680	2,925	(4,493)	93,112	92,900
Total operating revenues	1,234,549	897,675	2,132,224	158,838	(121,546)	2,169,516	1,975,605
Operating expenses:							
Salaries, wages, and benefits	550,601	696,293	1,246,894	11,208	—	1,258,102	1,194,176
Services, supplies, and other	530,143	115,645	645,788	90,344	(90,745)	645,387	627,831
Depreciation and amortization	57,884	54,409	112,293	160	—	112,453	111,174
Interest	16,213	12,388	28,601	—	—	28,601	34,742
Total operating expenses	1,154,841	878,735	2,033,576	101,712	(90,745)	2,044,543	1,967,923
Operating income	79,708	18,940	98,648	57,126	(30,801)	124,973	7,682
Nonoperating revenues (expenses):							
Investment income and gain (loss) in fair value of investments	7,539	5,652	13,191	37,220	—	50,411	16,509
State appropriations	—	—	—	—	30,146	30,146	35,389
Other	(33)	629	596	2,031	—	2,627	3,379
Total nonoperating revenues (expenses), net	7,506	6,281	13,787	39,251	30,146	83,184	55,277
Net income (loss) before contributions for capital and other	87,214	25,221	112,435	96,377	(655)	208,157	62,959
Other changes in net position:							
Contributions for capital and other	(26)	8,384	8,358	—	655	9,013	4,059
Change in interest in the Foundations	—	100,456	100,456	—	(100,456)	—	—
Nonexpendable donations	—	—	—	4,079	—	4,079	11,591
Total other changes in net position	(26)	108,840	108,814	4,079	(99,801)	13,092	15,650
Total increase (decrease) in net position	87,188	134,061	221,249	100,456	(100,456)	221,249	78,609
Net position – beginning of year	805,484	1,143,213	1,948,697	664,710	(664,710)	1,948,697	1,948,697
Net position – end of year	$ 892,672	1,277,274	2,169,946	765,166	(765,166)	2,169,946	2,027,306

See accompanying independent auditors' report.

cutting through complexity

Oregon Health & Science University

Board of Directors Meeting

October 24, 2013

Andrew Corrigan
Jacque Cabe

Contents

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 OHSU’s internal control over financial reporting
- External audit procedures do not replace internal audit or management controls

Purpose and scope of audit examinations (continued)

Audit scope

- Oregon Health & Science University – Consolidated Report
  - University Hospital/Doernbecher Children’s Hospital
  - University Activity, including the 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 – Family Medicine at Richmond
- OHSU Insurance Company (InsCo)
- University Medical Group (UMG)
- OHSU – Institute on Development and Disability (IDD) Supplement

Key audit areas

Key processes and controls

- Patient revenue
- Student tuition
- Grant revenue
- Expenditure cycle
- Payroll
- Risk Management
- Oracle and Epic IT Controls

Significant account balances

- Property, Plant and Equipment additions
- Investments, including alternative investments
- Debt, including capitalized interest

Areas of high judgment and estimate

- Accounts receivables contractual and bad debt reserves
- Third party reserves, and other unique accruals
- Self-insurance reserves
- Investment valuation

A-133 audit federal grant activity

- Audit focuses on compliance areas outlined by government
- Significant test work performed on programs deemed "major"
  – Research & Development Cluster
  – Student Financial Aid Cluster

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 unmodified 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.

- New accounting policies in current year include
  - GASB 61, *The Financial Reporting Entity: Omnibus*
  - GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

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
  - Swap novation

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, including regulatory reserves such as RAC and OIG
  - Self-insurance reserves, including professional liability, workers’ compensation, employment practices, and employee medical
  - 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 $4.7M of current year gain, for write off of reserve related to liver transplant reimbursement rates. Entry considers the prior year impact of passed entry to remove the accrual at 6/30/12.
- $17.5M reclassification to decrease cash and decrease accounts payable for outstanding checks that were moved by management to a liability.
- $5.6M in current year expense reductions to self insurance reserve as the reserve falls outside the range of reasonableness determined by KPMG actuary
- $2.6M increase to revenue for cost report settlements received after year-end which related to FY'13 and prior

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

- Reduction of employee medical self-insurance reserves by $2.6M for elimination of level premium adjustment

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

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

Other information in documents containing audited financial statements

- Management Discussion and Analysis
- Required Supplementary Information: Postemployment benefit liabilities
- Institute on Development and Disability Supplemental Schedules (formerly CDRC)
- Combining Schedules

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.

Quality of earnings (000’s)

Quality of Earnings (000’s)		
Net Income as Reported in Financial Statements	**$**	**208,157**
▪ Medicare & Medicaid settlement activity		(9,784)
▪ FICA payments to VA		5,030
▪ FICA payments for unfiled years		4,739
▪ InsCo favorable settlements		(5,669)
▪ Remove employee medical level premium factor		(4,941)
▪ Other reserve adjustments		(1,441)
Net impact		**(12,066)**
Net Income as Adjusted for Quality of Earnings Items	**$**	**196,091**

KPMG

cutting through complexity

FY13 Audited Financial Results

OHSU Board of Directors
September 24, 2013

Overview of FY13 Audited Results

- OHSU's audited FY13 operating income ended at $98.6 million, somewhat above preliminary report because we reversed a $2.6 million reserve against intra-year timing of health benefit costs, which was non-GAAP and not required.
- Final earnings were nearly $39 million above budget, of which ~$9 million are one-time and non-cash accounting adjustments.
- Remaining $30 million improvement reflects increased complexity of patient activity, brought to the bottom line through tight control of expenses, including overhead.
- Foundations operating income was $51 million, up from negative $(35) million in FY12, largely due to booking the major component of the Knight Cardiovascular Institute gift.
- Foundations operating earnings move between gains and losses for timing reasons—the receipt then application of large gifts—and because part of Foundations' expense is funded by non-operating investment income on endowment and cash reserves.

OREGON HEALTH & SCIENCE UNIVERSITY

FY13 Audited Results (continued)

- Page 62 of audited statements shows how OHSU and Foundations operating income are added together, and then reclassified for GASB accounting:

(millions)	FY12	FY13
OHSU operating income	$82.9	$98.6
Foundation operating income	(35.8)	57.1
Reclassify State appropriations	(35.4)	(30.1)
Reclassify capital contributions	(4.0)	(0.6)
Consolidated operating income	$7.7	$125.0

- Put another way, consolidated operating income rises from FY12 to FY13 largely because of the Knight Cardiovascular Institute gift
- Pages 3 – 16 of the audited statements provide management's discussion and analysis of results

OREGON HEALTH & SCIENCE UNIVERSITY

RESOLUTION 2013-10-06
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 set out by KPMG (attached) for Oregon Health & Science University for the Fiscal Year 2012 (July 1, 2012 – June 30, 2013).

This Resolution is adopted this 24th day of October, 2013

Yeas ______

Nays ______

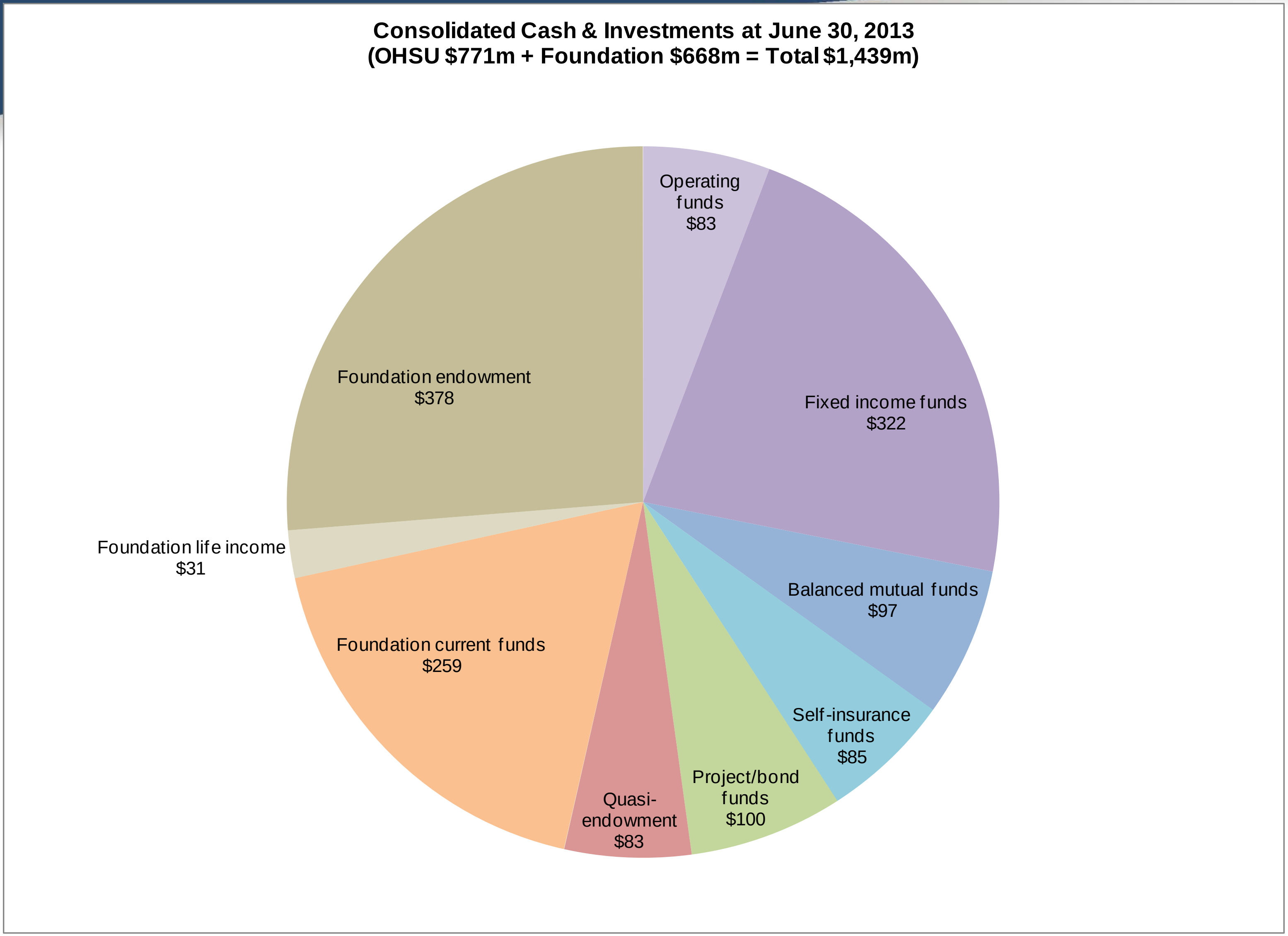
Signed by the Secretary of the Board on October 24, 2013.

____
Connie Seeley
Board Secretary

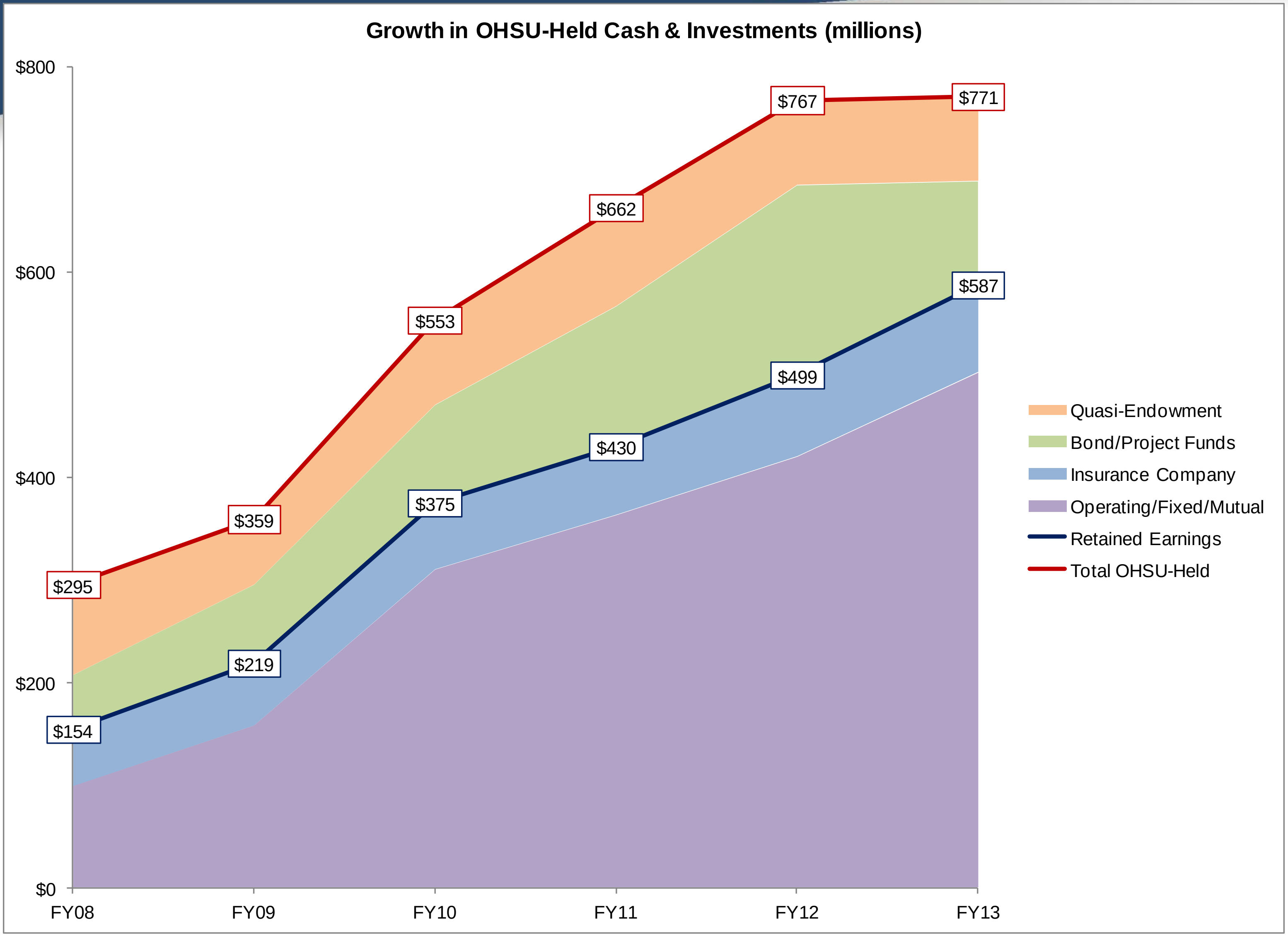
FY13 Investment Results and Fixed-Income Investment Policy

OHSU Board of Directors
October 24, 2013

Consolidated Investments Exceed $1.4B



OHSU-Held Funds Up $467M in 5 Years



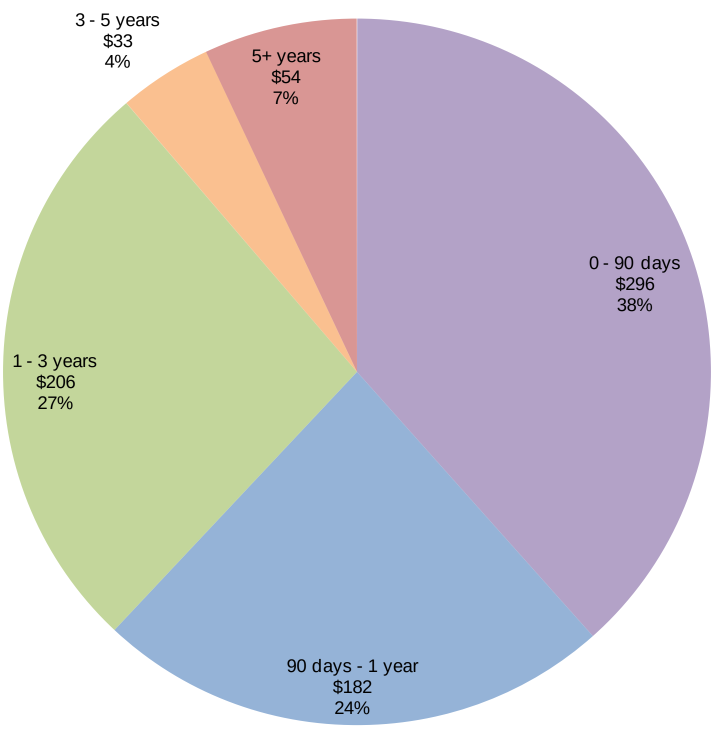
FY13 Return on Investable Assets

- In FY13, OHSU booked $16.3 million of investment total return on cash and other investable assets, representing a 2.1% rate of return on an average balance of $774 million on OHSU-held funds.
- This is slightly (-0.18%) below benchmark.
- FY13 returns reflect the negative impact of increasing interest rates in May and June, partially offset by strong stock market returns in the equity components of the Vanguard balanced index fund and the quasi-endowment.
- After an RFP process with six firms, we are transitioning ~$320 million of short and intermediate term fixed income investments to JP Morgan, and propose several refinements to OHSU's investment policy to facilitate their new management approach.
- Foundation endowment, which is largely in equities, returned 9.6% during FY13, which is above benchmark.

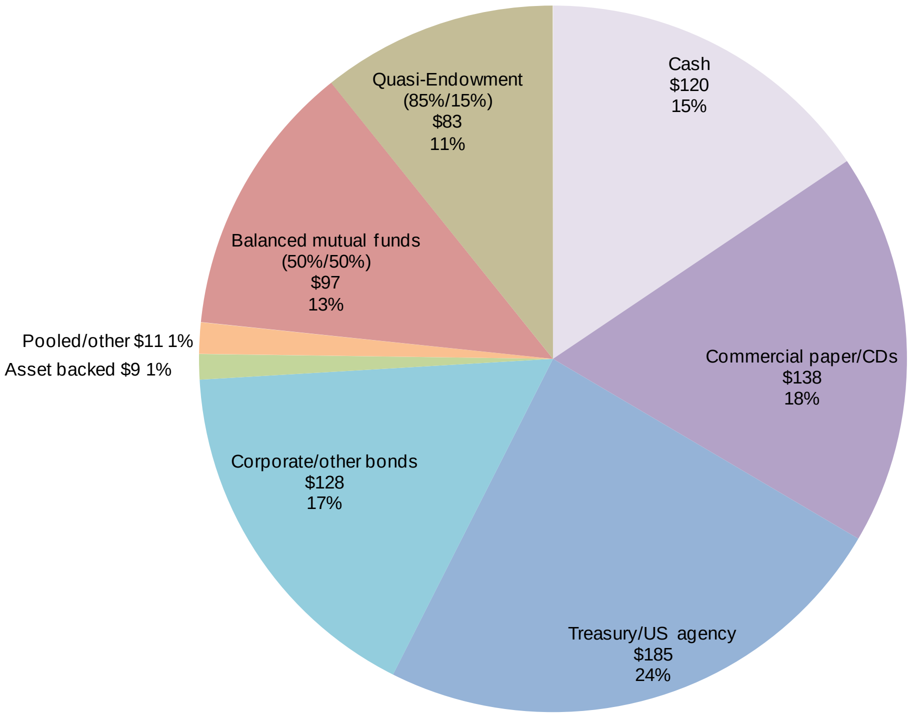
OREGON HEALTH & SCIENCE UNIVERSITY

Most OHSU Funds in 0 - 3 Year Fixed Income

OHSU Cash & Investments at June 30, 2013 by Maturity (Total = $771m)



OHSU Cash & Investments at June 30, 2013 by Asset Class (Total = $771m)



Proposed Changes to Investment Guidelines

- We selected JP Morgan to manage ~$320 million of fixed income funds to JP Morgan, selected for their analytical, disciplined approach, superior reporting, consistent strong position in fixed income markets, and superior returns against benchmarks over 1 / 3 / 5 / 10 year periods
- So far, the quality and responsiveness of the new manager relationship has confirmed that we chose the right firm
- We have worked with JP Morgan to review OHSU's existing investment guidelines, and identify appropriate refinements
- The core guideline—corporate indebtedness must be investment grade—is unchanged; we are conforming other guidelines to be consistent with this standard
- After review at the Investment Committee on October 7th and the Finance & Audit Committee on October 21st, we are proposing these changes for approval by the full Board today

OREGON HEALTH & SCIENCE UNIVERSITY

Investment Guidelines: Benchmarks

- New benchmarks more accurately reflect portfolio design and fund objectives:
  - Short Term (weighted average)
    - 65% BofA ML 9-12 Month US Treasury Index
    - 15% BofA ML 0-1 Year AAA-A Corporate Index
    - 20% BofA ML 1-2 Year AAA-A Corporate Index
  - Intermediate Term
    - Barclay’s 1-5 Year Gov/Credit Index
- The duration of OHSU’s portfolios will be within 25% of the underlying benchmark
- This will give JPM the tactical flexibility to go somewhat short or long of the benchmarks as market conditions change, but within limits
- The blended target duration of the two portfolios is 2.2 years

Investment Guidelines (continued)

- Minimum credit quality guideline, BBB-/Baa3/BBB- for corporate indebtedness, remains unchanged.
- Minimum short-term credit guideline is expanded from A-1/P-1/F-1 to A-2/P-2/F-2, to be consistent with the long-term guideline
- Certificates of Deposit credit guidelines changed to match corporate indebtedness (BBB- or A-2), and Yankee CDs are explicitly allowed
- Guaranteed Investment Contracts credit guidelines changed from AAA to A- to be more consistent with the corporate indebtedness guideline and market availability (there are no AAA GICs anymore, and most GICs are rated a notch above other corporate debt of the issuing insurance company)
- New limits on maximum percent of total portfolio and on issue/issuer concentration are set, with somewhat higher limits for dollar-dominated debt of foreign governments or agencies (rated at least A/A2/A), and for AAA-rated agency mortgage backed securities

OREGON HEALTH & SCIENCE UNIVERSITY

Investment Guidelines (continued)

- Commercial real estate mortgage-backed securities (rated AAA) and taxable or tax-exempt municipal bonds (rated at least A or A-1) are explicitly permitted
- Maximum final effective maturity limited to 5 years and 2 weeks from settlement date, for these two fixed income portfolios
- If there are three ratings (S&P, Moody's and Fitch), the middle rating is used, but if there are only two ratings, the lower is used

OREGON HEALTH & SCIENCE UNIVERSITY

RESOLUTION 2013-10-05
OREGON HEALTH & SCIENCE UNIVERSITY
BOARD OF DIRECTORS

WHEREAS, the Investment Committee and Finance and Audit Committee conduct periodic reviews of certain policies adopted by the Board of Directors;

WHEREAS, members of the Committees reviewed the Investment Policy and provided their comments to the Board at the October 24, 2013 Board meeting; and

WHEREAS the Board now wishes to adopt certain amendments to this policy;

NOW, THEREFORE, BE IT RESOLVED:

The Board hereby approves the amendments to Exhibit A of the Investment Policy as reflected on the Exhibit 1 to this Resolution attached hereto, effective immediately.

This Resolution is adopted this 24th day of October, 2013

Yeas ______

Nays ______

Signed by the Secretary of the Board on October 24, 2013.

____
Connie Seeley
Board Secretary

FY14 First Quarter Financial Results

OHSU Board of Directors
September 24, 2013

Summary of FY14 First Quarter Results

- OHSU's FY14 operating income through September (3 months) is $19.7 million
  - $6 million above budget
  - 2% above FY13 Q1
  - $(5) million shortfall in revenues, largely due to slower application of gifts, more than offset by $(11) million reduction in compensation, supplies and services
- Hospital above target with 6% operating margin, while other university operations have essentially balanced revenues and expenses
- Patient activity lagging budget but above last year (not unusual for first quarter), with shift from inpatient admissions to observation cases and ambulatory visits
- Nonetheless, patient revenues are on budget with more favorable mix of cases: commercially-insured share of activity1.5% points above budget

OREGON HEALTH & SCIENCE UNIVERSITY

FY14 Q1 Operating Income at $19.7M

First Quarter (millions)	FY13 Last Year	FY14 Budget	FY14 Actual	Actual - Budget	Actual / Last Year
Net patient revenue	$369.6	$395.9	$396.2	$0.3	7.2%
Grants & contracts	88.3	88.6	88.0	(0.5)	-0.3%
Gifts applied to operations	10.9	17.7	13.2	(4.5)	20.4%
Tuition & fees	15.0	13.0	13.2	0.2	-12.2%
State appropriations	7.5	8.1	8.6	0.5	14.2%
Other revenue	19.9	24.2	23.1	(1.1)	16.0%
Operating revenues	511.4	547.5	542.3	(5.2)	6.1%
Salaries & benefits	304.3	327.1	324.4	(2.7)	6.6%
Services & supplies	139.4	155.8	147.6	(8.3)	5.9%
Medicaid provider tax	12.5	16.6	16.5	(0.1)	31.9%
Depreciation	27.7	28.2	28.3	0.1	2.2%
Interest	8.1	6.3	5.9	(0.5)	-27.6%
Operating expenses	492.0	534.0	522.6	(11.5)	6.2%
Operating income:					
Hospital	20.6	14.4	20.2	5.7	-2.2%
Other university	(1.3)	(1.0)	(0.4)	0.5	-66.2%
Total OHSU	$19.3	$13.5	$19.7	$6.3	2.1%

Patient Activity Lags Budget but Above FY13

First Quarter Patient Activity	FY13 Last Year	FY14 Budget	FY14 Actual	Actual / Budget	Actual / Last Year
Inpatient admissions	7,697	7,737	7,438	-3.9%	-3.4%
Average length of stay	5.4	5.5	5.6	1.8%	3.7%
Average daily census	443	454	449	-1.1%	1.4%
Surgical cases	7,585	7,758	7,789	0.4%	2.7%
Emergency visits	11,934	11,628	11,479	-1.3%	-3.8%
Ambulatory visits	184,037	197,868	190,113	-3.9%	3.3%
Case mix index	1.90	1.96	1.96	0.0%	3.2%
Outpatient share of activity	42.4%	43.5%	44.0%	1.1%	3.8%
CMI/OP adjusted admissions	25,401	26,841	26,053	-2.9%	2.6%

OREGON HEALTH & SCIENCE UNIVERSITY

FY14 First Quarter Balance Sheet

- Consolidated net worth up $58 million or 2.7% through September, with $19.7 million operating gain, solid investment results and $25 million gift for pancreatic disease from Norman and Linda Brenden and the Colson Family Foundation
- Despite the increase in net worth, operating cash flow is negative $(66) million in the first three months, but this largely reflects timing issues that reverse later in the fiscal year, including:
  - $17 million of annual principal repayment and bond sinking fund deposits made in first quarter
  - $6 million from lump sum deposit of $7.5 million to PERS side account
  - $15 million timing difference between payment of A/P for capital projects vs. draws on CLSB project funds
  - $26 million from federal student loans disbursed in September but reimbursed to OHSU in October

OREGON HEALTH & SCIENCE UNIVERSITY

Net Worth Up but Cash Down with Payments

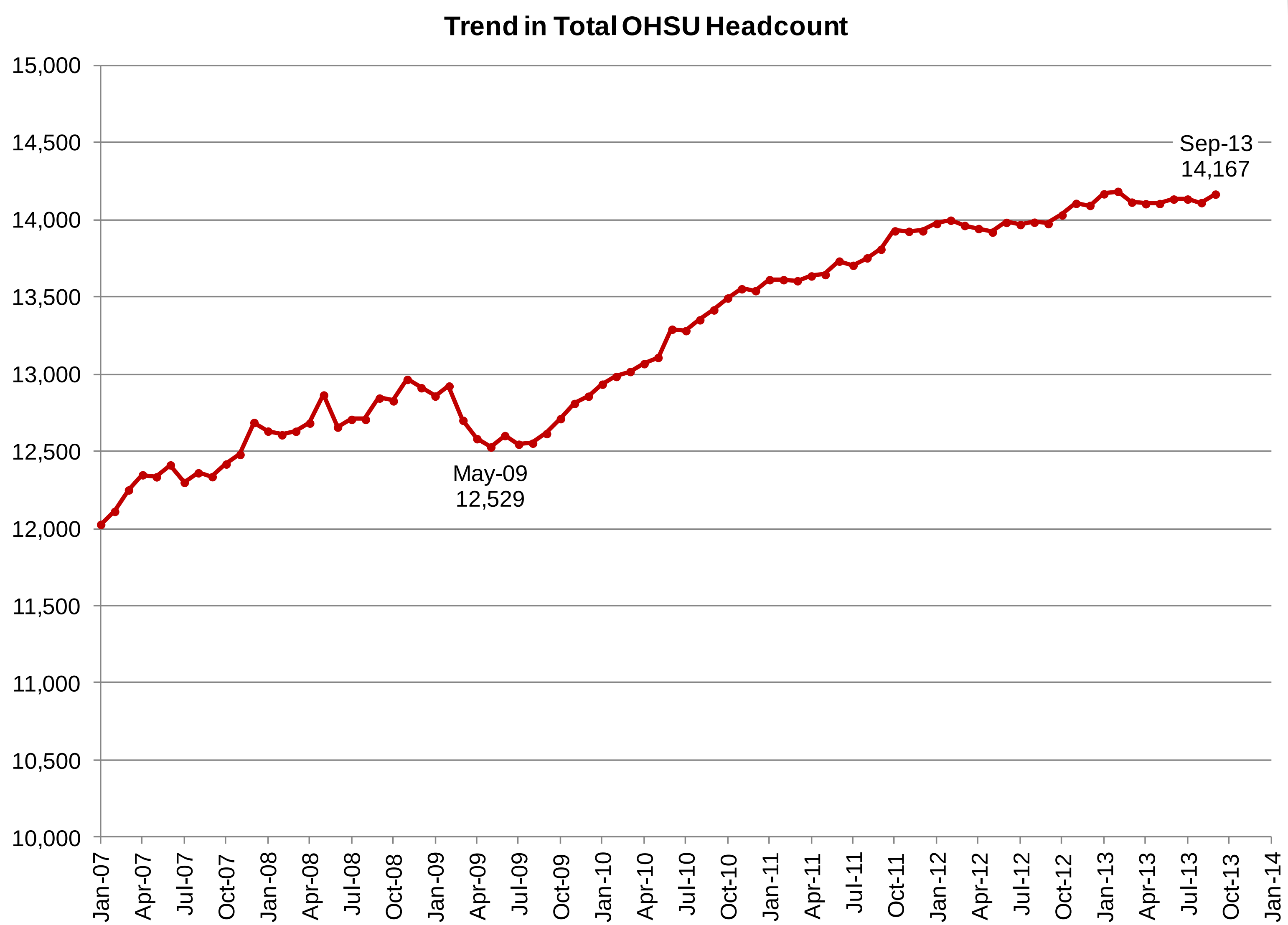
Balance Sheet (millions)	6/30/12 Year-End	9/30/12 Actual	Sep YTD Change
Cash & investments	$587	$521	$(66)
Quasi-endowment	83	88	6
Bond-related funds	49	51	1
CLSB project funds	51	32	(19)
OHSU-held cash & investments	771	693	(78)
Net physical plant	1,413	1,436	23
Interest in Foundations	765	805	40
Long-term debt	(771)	(756)	15
Working capital & other, net	(8)	50	58
OHSU net worth	2,170	2,228	58

Operating income	20
Investment total return	7
Gain on Foundations	40
Accounting change	(9)
Other changes, net	0
Change in net worth	$58

Operating Cash Flow (millions)	FY14 Sep YTD
Operating income	$20
Depreciation	28
Investment total return	7
Sources of cash	55
Capital additions	(51)
CLSB project funds applied	19
Change in CLSB/capital A/P	(34)
Use of cash for capital	(66)
Debt repayment & sinking fund	(17)
Federal student loan timing	(26)
Patient A/R, PERS & other, net	(12)
Total uses of cash	(121)
Sources less uses	(66)
6/30/13 cash & investments	587
9/30/13 cash & investments	$521

OREGON HEALTH & SCIENCE UNIVERSITY

1,640 Jobs Created Since Financial Crisis



RESOLUTION 2013-10-07
OREGON HEALTH & SCIENCE UNIVERSITY
BOARD OF DIRECTORS

WHEREAS, the Board wishes to identify and appoint the members of each of the Board Committees, as well as identify the Board members who serve on the Integrity Program Oversight Council and the University Health System Board;

NOW, THEREFORE, BE IT RESOLVED:

Committee Appointments. The following persons are appointed to the following committees to serve at the pleasure of the Board of Directors:

Finance & Audit Committee
Maria Pope (Chair)
MardiLyn Saathoff
Jay Waldron

Governance Committee
MardiLyn Saathoff (Chair)
Ken Allen
Poorav Patel

Human Resources Committee
Amy Tykeson, (Interim Chair)
Jay Waldron
Charles Wilhoite

Board Members Appointed to Integrity Program Oversight Council
David Yaden (Interim Chair)
Ken Allen
Poorav Patel

Board Members Appointed to Investment Committee
Maria Pope
David Yaden

Board Members Appointed to University Health System Board
Joe Robertson
Jay Waldron
David Yaden

This Resolution is adopted this 24th day of October, 2013

Yeas ______

Nays ______

Signed by the Secretary of the Board on October 24, 2013.

____
Connie Seeley
Board Secretary

Senate Bill 565 Implementation

October 24, 2013

Police Officer Authority

- Senate Bill 658 (2009)
  - Granted OHSU's administration the ability to commission police officers
  - Enhanced lawful abilities
    - Probable cause arrests
    - Stop and frisk
    - Police officer mental health holds
  - Commissioning authority repealed by Senate Bill 565, effective January 1, 2014

OREGON HEALTH & SCIENCE UNIVERSITY

Police Officer Authority

- Senate Bill 565 (2013)
  - Took effect May 16, 2013
  - Grants OHSU Board of Directors, or university officials acting under authority of the board, the ability to commission officers as of January 1, 2014
  - Restores officers to the same legal and practical footing they are on today
  - Arming withheld pending Board approval next year

OREGON HEALTH & SCIENCE UNIVERSITY

Commissioning

- Final step of hiring process; required to legally “activate” an individual officer
- Has traditionally been a management function
- No November or December Board meeting
- Employee turnover and operational needs dictate direct managerial oversight of commissioning process

OREGON HEALTH & SCIENCE UNIVERSITY

RESOLUTION NO. 2013-10-09
OREGON HEALTH & SCIENCE UNIVERSITY
BOARD OF DIRECTORS

WHEREAS in OHSU has authority to establish a police department and commission university police officers, with the limitation that such officers will not carry firearms; and

WHEREAS the University has engaged in ongoing review and evaluation of its critical incident readiness to ensure the continued safety of the OHSU community; and

WHEREAS one result of that ongoing effort was the passage of Senate Bill 565 in 2013, which authorizes OHSU to establish a police department and commission police officers without the previous limitation on firearms; and

WHEREAS one result of SB 565 is that all current university police officers must be re-commissioned before January 1, 2014; and

WHEREAS the commissioning of university police officers is currently a management function that is, by written policy, carried out by the OHSU Chief Administrative Officer; and

WHEREAS SB 565 provides that either the Board of Directors or university officials acting under the authority of the board shall commission the university police officers; and

WHEREAS the Board wishes to continue to delegate to management the authority to commission officers; and

WHEREAS this Resolution does not constitute an authorization for officers to carry firearms, and recognizes that a request for such authorization will be presented to the board at a later date;

NOW THEREFORE, BE IT RESOLVED that the Board hereby delegates to the President or the President's designee the authority to commission individuals as police officers for OHSU.

This Resolution is adopted this 24th day of October, 2013.

Yeas ________
Nays ________

Signed by the Secretary of the Board on October 24, 2013

____
Connie Seeley, Board Secretary

RESOLUTION 2013-10-11
OREGON HEALTH & SCIENCE UNIVERSITY
BOARD OF DIRECTORS

WHEREAS, the Board of Directors of Oregon Health & Science University wishes to recognize the service of Román D. Hernández on the OHSU Board:

NOW THEREFORE, BE IT RESOLVED, that Oregon Health & Science University expresses its sincere appreciation for the valuable service and dedication of Román Hernández throughout his tenure on the OHSU Board of Directors, including his service as Chair of the Human Resources Committee and as a member of the Governance Committee of the Board, and for advancing OHSU's missions of teaching, healing, discovery and outreach.

This Resolution is adopted this 24th day of October, 2013.

Yeas ______

Nays ______

Signed by the Secretary of the Board on October 24, 2013.

____
Connie Seeley
Board Secretary

RESOLUTION 2013-10-10
OREGON HEALTH & SCIENCE UNIVERSITY
BOARD OF DIRECTORS

WHEREAS, Charles Wilhoite has served as a member of the Board of Directors of Oregon Health & Science University since February 1, 2004 and has led the institution as Chair of the OHSU Board of Directors since April 8, 2010.

WHEREAS, in addition to and as a part of his membership and leadership on the OHSU Board, Mr. Wilhoite served as a member of the Finance and Audit Committee of the Board of Directors, as a member of the Governance Committee of the Board of Directors, as a member of the Human Resources Committee of the Board of Directors, as a member and Chair of the Integrity Program Advisory Committee, and as one of the Board representatives on the University Health System Board.

WHEREAS, throughout his Board service and in each of these many venues, Mr. Wilhoite has brought his strong intellect, his inclusive and thoughtful approach to decision making, his sound critical thinking, his good humor and his strong leadership skills.

WHEREAS, with his knowledge base of the health care and finance industries, Mr. Wilhoite has greatly advanced the strategic interests of the University and furthered the pursuit of best practices in financial management, health care quality, regulatory compliance, business ethics and internal controls.

WHEREAS, the Board wishes to recognize the major contributions of Mr. Wilhoite, his service on the OHSU Board, his leadership as Chair of the OHSU Board, and as a member on each of the Committees of the OHSU Board of Directors and the University Health System Board.

NOW THEREFORE, BE IT RESOLVED, that Oregon Health & Science University expresses its deep and heartfelt appreciation for the significant contributions of Charles Wilhoite throughout his service on the OHSU Board of Directors, for the energy, the vision and the critical and creative thinking that he has brought to the strategic discussions of the University, and for his strong leadership in advancing OHSU's missions of teaching, healing, discovery and outreach.

This Resolution is adopted this 24th day of October, 2013.

Yeas ______

Nays ______

Signed by the Secretary of the Board on October 24, 2013.

____
Connie Seeley
Board Secretary

RESOLUTION 2013-10-08
OREGON HEALTH & SCIENCE UNIVERSITY
BOARD OF DIRECTORS

WHEREAS, with the departure from the OHSU Board of Directors of its Chair Charles Wilhoite, the Board wishes to appoint Jay Waldron to serve as Chair of the Board, and

WHEREAS the Board further wishes to appoint a Vice Chair of the Board;

NOW THEREFORE BE IT RESOLVED:

Jay Waldron is hereby appointed to serve as Chair of the OHSU Board of Directors, to serve at the pleasure of the Board; and

Maria Pope is hereby appointed to serve as the Vice Chair of the OHSU Board of Directors, to serve at the pleasure of the Board.

This Resolution is adopted this 24th day of October, 2013

Yeas ______

Nays ______

Signed by the Secretary of the Board on October 24, 2013.

Connie Seeley
Board Secretary