OREGON HEALTH & SCIENCE UNIVERSITY

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

OREGON HEALTH & SCIENCE UNIVERSITY

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KPMG LLP
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Portland, OR 97201

Independent Auditors' Report

The Board of Directors
Oregon Health & Science University:

We have audited the accompanying balance sheets of Oregon Health & Science University (OHSU), an Oregon public corporation and a component unit of the State of Oregon, as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of OHSU's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oregon Health & Science University as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 17 and the postemployment healthcare benefit plan schedule of funding progress on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

KPMG LLP

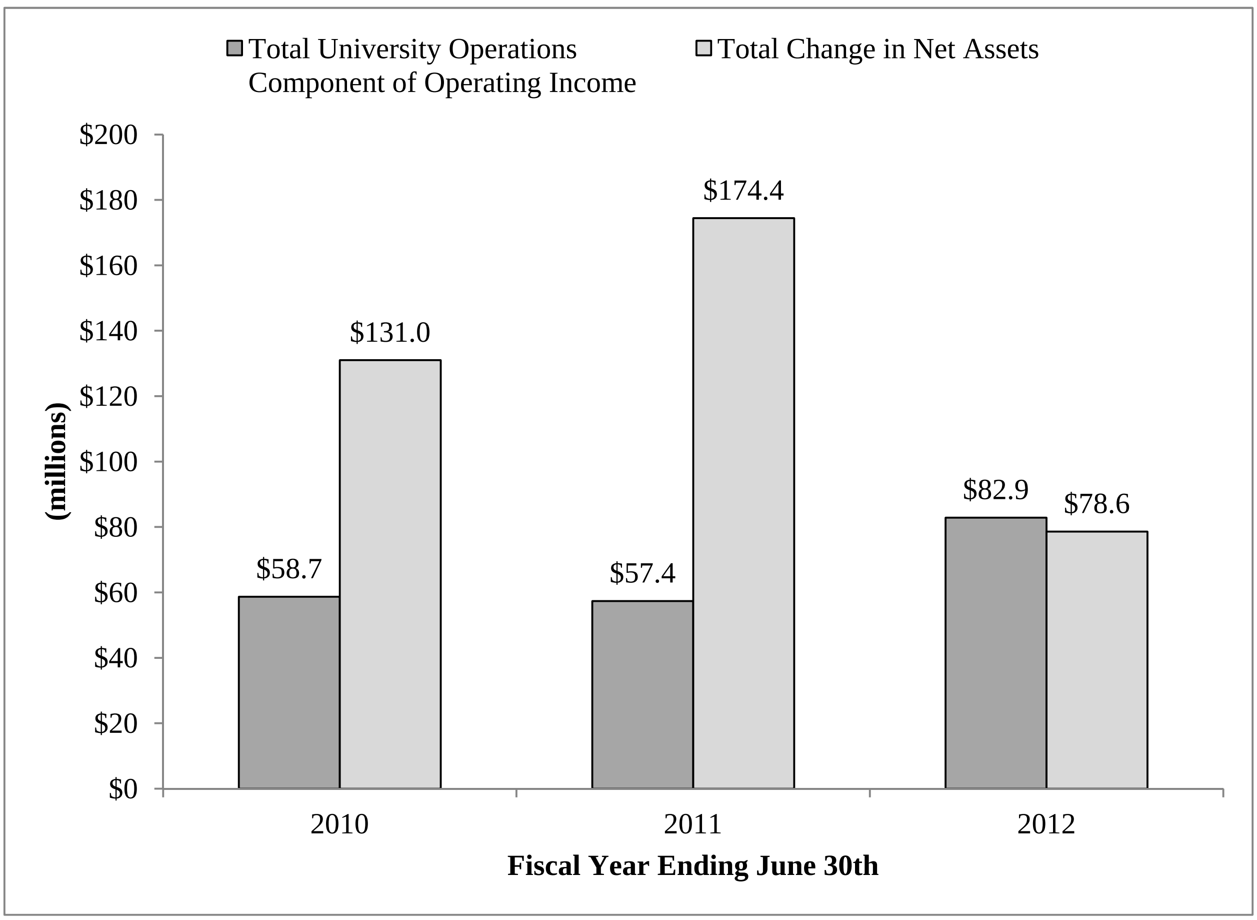
October 23, 2012

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 assets, 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 2012 showed continued strong operating results and a further strengthening of the University's financial position, capping three years during which consolidated net assets increased by $384 million. Total university operations contributed $199 million, and investments returned almost all of the remainder of the gain.



The following table reconciles these components to consolidated OHSU net assets for fiscal years 2012, 2011 and 2010. 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 Assets

(Dollars in thousands)

		2012	2011	2010
Components of operating income:				
Hospital operations	$	80,949	62,532	62,434
Other university operations		1,909	(5,168)	(3,764)
Total university operations		82,858	57,364	58,670
Foundations operations		(35,829)	(40,751)	(21,242)
Eliminations for capital contributions and other		(3,958)	40,000	10,744
Reclassification of state appropriations		(35,389)	(39,159)	(37,853)
Consolidated operating income		7,682	17,454	10,319
State appropriations		35,389	39,159	37,853
Investment and other nonoperating income		19,888	95,433	69,164
Consolidated net income		62,959	152,046	117,336
Capital/nonexpendable contributions and other		15,650	22,368	13,663
Total change in net assets		78,609	174,414	130,999
Beginning net assets		1,870,088	1,695,674	1,564,675
Ending net assets	$	1,948,697	1,870,088	1,695,674

In 2011, OHSU expended $10 million on enterprise-wide strategy, productivity and process redesign efforts – an investment made possible by solid earnings in 2010, and designed to position the University to meet coming challenges from health care reform, downward pressure on government funding, and increased pension costs. While the cost of this engagement contributed to a small decline in earnings from total university operations, from $59 million in 2010 to $57 million in 2011, it began to yield substantial returns in 2012, when this component of operating income grew to nearly $83 million.

The nearly $26 million improvement in 2012 included $19 million from nonrecurring items: the $10 million invested in process redesign in 2011 but not 2012, plus $9 million in one-time operating revenues in 2012 from a FICA tax settlement for OHSU residents trained in prior years. 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 been brought to its target of balanced revenues and expenses in 2012.

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).

In addition, 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. 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 $34 million Schnitzer campus land donation in fiscal year 2004, the $40 million anonymous gift for education in 2007, the $100 million Knight cancer institute gift in 2009, and the $25 million Moore Nutrition Institute gift in 2012, which also included a testamentary component not yet recorded on the financial statements under government financial accounting standards for revenue recognition. In September 2012, OHSU announced an additional $125 million gift from the Knight family for cardiovascular disease, the largest donation in the University's 125 year history.

To capture all of these effects, OHSU uses a second key financial indicator: total change in net assets. 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 OHSU's financial strength. Net assets increased nearly $79 million or 4.2% in 2012, compared to $174 million or 10.3% in 2011 and $131 million or 8.4% in 2010. The largest single contributor to changes in this indicator during these three years has been the change in investment and other nonoperating income, which was a relatively low $20 million in 2012, compared to $95 million in 2011 and $69 million in 2010. 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 been a 24.5% increase in consolidated OHSU net assets over three years, from $1,564 million on June 30, 2009 to $1,949 million on June 30, 2012.

OHSU's consolidated statement of revenues, expenses and changes in net assets includes a third indicator of financial performance: net income. Net income largely tracks the change in total net assets, but excludes donations for capital and nonexpendable purposes, such as endowment. In 2012, consolidated net income was $63 million, compared to $152 million in 2011 and $117 million in 2010. The changes in net income over these

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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 learn at the CLSB. The approximately 500,000 square foot facility, plus parking, will include lecture halls, classrooms, laboratories, specialty research centers, office space, and a complete replacement of the OHSU School of Dentistry.

The construction of the project commenced in October 2011 and as of the end of fiscal year 2012, was on schedule for a phased-in occupancy beginning in fiscal year 2014 with full occupancy in fiscal year 2015. Total OHSU project expenditures, as of fiscal year-end 2012, were $34.4 million with the remaining portion of the project expense expected to occur largely during fiscal years 2013 and 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, 2012 statement of financial position.

The second part is an OHSU project of $135 million, funded by $43 million in OHSU philanthropy, $85 million from new OHSU debt issued in May 2012, and $7 million cash reserves. 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, Oregon Dental Service (ODS) 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

Prior to March 31, 2010, the Internal Revenue Service (IRS) maintained that under applicable regulations medical residents are employees and thus not eligible for a student exemption from Federal Insurance contribution Act (FICA) taxation. Academic health centers across the country, including OHSU, disagreed with the IRS, but paid the FICA taxes and filed protective claims with the IRS to preserve their ability to contest the IRS position. A number of institutions pursued litigation in federal courts across the country to challenge the IRS position and recover FICA taxes paid relative to residents.

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. On July 26, 2012 the IRS notified OHSU that with very 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 this notification, the University accrued $9 million in fiscal year 2012 as other operating revenue and $11 million of interest earnings as nonoperating revenue. An additional amount of $19 million has been recorded as a receivable that must be refunded to medical residents. In summary, OHSU has recorded a receivable of $39 million and a liability of $19 million related to FICA tax refunds.

On January 11, 2011, the United States Supreme Court ruled that for periods following the IRS' adoption of the April 2005 regulation, medical residents are subject to FICA taxes. Because ongoing litigation brought by another academic health center challenging the payment of FICA taxes for residents after April 2005 raises theories not considered by the Supreme Court case, OHSU continues to file protective claims for FICA taxes paid relative to residents for periods following April 2005.

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Balance Sheet

The balance sheet includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector organizations. As noted above, net assets – the difference between assets and liabilities – are among the broadest measures of the financial health of an institution. The following summarizes OHSU's statements of financial position for the past three years by major category of assets, liabilities, and net assets. Over the past two years, assets have increased by 14%, liabilities by 12%, and net assets 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 Financial Position

(Dollars in thousands)

		2012	2011	2010
Assets:				
Current assets	$	837,569	675,193	444,087
Capital assets		1,282,647	1,237,155	1,215,021
Other noncurrent assets		1,018,114	1,043,889	1,099,707
Total assets	$	3,138,330	2,956,237	2,758,815
Liabilities:				
Current liabilities	$	327,566	295,006	279,336
Noncurrent liabilities		862,067	791,143	783,805
Total liabilities		1,189,633	1,086,149	1,063,141
Net assets:				
Invested in capital assets, net of related debt		629,095	585,242	572,384
Restricted, expendable		309,035	346,172	344,729
Restricted, nonexpendable		175,023	165,488	142,686
Unrestricted		835,544	773,186	635,875
Total net assets		1,948,697	1,870,088	1,695,674
Total liabilities and net assets	$	3,138,330	2,956,237	2,758,815

Assets

The largest components of OHSU's assets are cash and investments and capital assets, or physical plant. OHSU's cash and short-term investments increased significantly from 2011 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 cash and short-term investments was approximately $69 million over 2011. Total cash and investments, including long-term investments, increased from $1,165 million to $1,230 million, showing a steady uprise of 5.5% and 10.7% in fiscal years 2012 and 2011, 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		
	2012	**2011**	**2010**
Unrestricted Cash and Investments			
Cash and Equivalents	$ 152,422	$ 174,232	$ 87,301
Fixed Income Investments	447,662	418,195	442,854
Equity Investments	73,867	78,889	61,953
Mutual Funds	67,525	14,438	11,626
Other	72,369	71,111	66,761
Subtotal	$ 813,845	$ 756,865	$ 670,495
Restricted Cash and Investments			
Cash and Equivalents	$ 44,687	$ 47,782	$ 43,565
Fixed Income Investments	136,288	108,526	132,805
Equity Investments	83,820	98,868	69,523
Mutual Funds	-	-	-
Other	151,008	153,095	136,435
Subtotal	$ 415,803	$ 408,271	$ 382,328
Totals	$ 1,229,648	$ 1,165,136	$ 1,052,823

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

Day's cash increased from 174 days in 2010 to 186 days in 2011, then decreased slightly to 183 days in 2012, due to improved financial results and positive cash flow, offset in part by higher daily expenditures. Total long term investments decreased by over $20 million during 2012, which reflects OHSU's strategy during the continued uncertain economy, of keeping the portfolio diversified in high quality, liquid short term investments.

Day's Unrestricted Cash and Investments
(Dollars in Thousands)

	Fiscal Years Ended June 30		
	2012	**2011**	**2010**
OHSU			
Unrestricted Cash and Investments	$ 545,901	$ 483,171	$ 417,002
Less Non Operating Cash and Investments	(23,365)	(11,968)	(8,981)
Operating Cash and Investments	522,536	471,203	408,021
Unrestricted Operating Expenses			
Total Operating Expenses	$ 1,651,539	$ 1,532,670	$ 1,464,463
Less Depreciation and Amortization	(97,898)	(92,641)	(87,943)
Net Unrestricted Operating Expenses	1,553,641	1,440,029	1,376,520
Daily Expense	$ 4,245	$ 3,945	$ 3,771
Day's Cash	123	119	108
OHSU plus OHSU and Doernbecher Foundations			
Unrestricted Cash and Investments	$ 813,845	$ 756,865	$ 670,495
Less Non Operating Cash and Investments	(23,365)	(11,968)	(8,981)
Operating Cash and Investments	790,480	744,897	661,514
Unrestricted Operating Expenses			
Total Operating Expenses	$ 1,675,242	$ 1,558,223	$ 1,477,367
Less Depreciation and Amortization	(98,055)	(92,792)	(88,165)
Net Operating Expenses	1,577,187	1,465,431	1,389,202
Daily Expense	$ 4,309	$ 4,015	$ 3,806
Day's Cash	183	186	174

Capital assets, net of accumulated depreciation, increased by $45 million for fiscal year 2012, after increasing by $22 million in fiscal year 2011. After a reduction in capital spending in 2011 to rebuild liquidity after the economic crisis, there was a renewed institutional focus on capital improvements in 2012. Large capital expenditures for the years ended June 30, 2012 and 2011 are listed below. The remainder reflects smaller routine capital purchases within the Hospital and other University areas, offset by depreciation expense.

Capital Project (costs in millions)	Total Cost as of 6/30/12	2012	2011	2010 & prior
New Collaborative Life Sciences Building on the Waterfront:				
CLSB Building	$14.8	$13.6	$1.2	-
Dr. Gray Low Vibration Research Lab	6.2	6.2	-	-
Skourtes Tower-School of Dentistry Buildout	10.9	10.7	0.2	-
CLSB/Skourtes Tower Parking Structure	3.9	3.9	-	-
Total Collaborative Life Sciences Building/Skourtes Tower	35.8	34.4	1.4	-
Land purchase - blocks 23 and 27 - South Waterfront	13.7	-	-	-
Information Technology Electrical Group Infrastructure Upgrade	7.0	7.0	3.0	-
Kohler Pavilion 9th floor Inpatient and Observation Unit	6.2	1.7	4.5	-
OHSU Hospital Electrical Infrastructure Improvement	5.8	2.9	2.9	-
OHSU Hospital 9th Floor Renovations	4.5	4.1	0.4	-
OHSU Hospital 10A renovations to patient rooms, public corridor, a	3.4	3.4	-	-
OHSU Hospital Seismic Upgrades	3.3	2.6	0.7	-
Unified Communication: Campus-wide telephone replacement projec	4.9	4.5	0.4	-
Oregon National Primate Research Center Perimeter Fencing	3.6	0.4	1.8	1.4
Enterprise Management Decision Support (Cognos)	3.4	1.1	2.0	0.3
Richard Jones Hall HVAC Infrastructure Upgrade	4.4	-	4.0	-
Remodel of Richard Jones Hall 5 for Flow & Genomics Cores	3.4	2.8	0.5	0.1
University roof replacements	4.8	2.4	2.4	-

Liabilities

Total liabilities increased by $103 million or 9.5% in 2012 and $23 million or 2% in 2011, driven in both years by new debt associated with the planned Collaborative Life Sciences Building and increased accounts payable and accrued expense. In 2011, this was offset by a decrease in the self-funded insurance program liability resulting from better self-insurance claims experience.

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 $32.6 million in fiscal year 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. In addition, there were 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 $16 million in fiscal year 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 increased $71 million in fiscal year 2012, driven by an increase in long-term debt associated with the debt financing of the CLSB project, offset by repayment of existing debt. Total noncurrent liabilities increased $7 million in 2011 again due to debt associated with the CLSB, but offset by a decrease in the self-funded insurance program liability resulting from better self-insurance claims experience.

Debt Management

At the close of fiscal year 2012, OHSU had a total of approximately $778 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 auction rate securities or variable-rate demand bonds (VRDBs). 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 (now Moody's A1, Standard & Poor's A+, and Fitch A+, all with stable outlooks), 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.

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.

One measure of the degree of leverage on the University's balance sheet is the ratio of long-term debt to net assets, shown below. This metric has been essentially flat, as the addition of new debt for the CLSB is offset by operating and investment earnings, as well as regular repayments of principal on existing debt.

	2012	2011	2010
Long term debt to net assets	0.41	0.39	0.42

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 exceeded this minimum requirement, achieving a ratio of 4.55 in fiscal year 2012 and 3.81 in 2011.

Calculation of Maximum Annual Debt Service Coverage Ratio - Unrestricted

(Dollars in Thousands)

	2012	2011	2010
Total Excess of Revenues over Expneses	$ 62,959	$ 152,046	$ 117,336
Add/subtract Restricted Net Loss/Gain	36,764	(42,341)	(12,454)
Unrestricted Excess of Revenues over Expenses	$ 99,723	$ 109,705	$ 104,882
Adjustments (subtract)			
Net Unrealized Change in Fair Value of Investments	$ 11,793	(20,822)	(22,656)
(Gain)Loss on Disposal of Assets	(1,592)	(2,181)	(3,081)
Interest Expense	33,482	35,623	36,684
Annual Refund on Trust Reserves held in Parity	1,824	1,248	3,213
Depreciation and Amortization	98,054	92,792	88,165
	$ 143,561	$ 106,660	$ 102,325
Income Available for Debt Service	$ 243,284	$ 216,365	$ 207,207
Maximum Annual Debt Service	$ 53,512	$ 56,833	$ 54,582
Maximum Annual Debt Service Coverage	4.55	3.81	3.80

Net Assets

As noted in the introduction, total net assets increased $79 million during fiscal year 2012, as compared to an increase of $174 million during fiscal year 2011. Most of the increase in both fiscal years occurs within unrestricted net assets (up $62 million in 2012 and $137 million in 2011), reflecting unrestricted net income for the current fiscal year. In 2012, the increase in unrestricted net assets is offset by a decrease in restricted, expendable net assets of $37 million driven primarily by the use of restricted gifts for their intended program or purpose.

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

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results net income and change in net assets 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 2012 and 2011, State appropriations totaled $35 million and $39 million, respectively.

Consolidated net income for OHSU including the Foundations totaled $63 million in fiscal year 2012, compared to $152 million in 2011 and $117 million in 2010. As noted above, the major driver of the year-to-year changes in net income was an increase in investment return between 2010 and 2011, followed by a reduction into 2012, recorded within nonoperating revenues.

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

(Dollars in thousands)

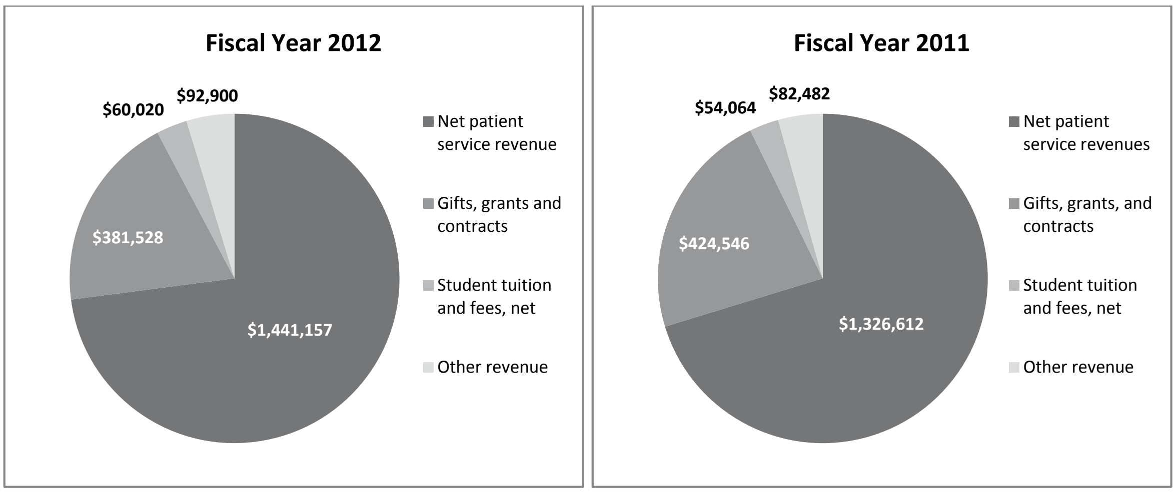
		2012	2011	2010
Total operating revenues	$	1,975,605	1,887,704	1,805,569
Total operating expenses		1,967,923	1,870,250	1,795,250
Operating gain (loss)		7,682	17,454	10,319
Nonoperating revenues, incl. state appropriations		55,277	134,592	107,017
Contributions for capital and other		4,059	4,281	2,431
Nonexpendable donations		11,591	18,087	11,232
Change in net assets		78,609	174,414	130,999
Net assets – beginning of year		1,870,088	1,695,674	1,564,675
Net assets – end of year	$	1,948,697	1,870,088	1,695,674

Total Operating Revenues

Total operating revenues on a consolidated basis (including the Foundations and reclassification of State appropriations to nonoperating revenues), totaled $1,976 million in fiscal year 2012, an increase of $88 million or 4.7% from 2011. The largest component of this growth was an increase of $115 million or 8.6% in net patient service revenues, primarily due to increased volume and complexity of cases coupled with improvements in the revenue cycle. Higher patient revenues were partially offset by a reduction of $43 million or 10.1% 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. In fiscal year 2011, total operating revenues were $1,888 million, an increase of $82 million or 4.5% from 2010, also driven by an increase in net patient services revenues of $79 million or 6.3%.

Operating Revenue by Source

Fiscal Year 2012 and 2011 (Total $2.0 billion and $1.9 billion, respectively)
(Dollars in thousands)



Total Operating Expenses

OHSU's total operating expenses on a consolidated basis increased by $98 million or 5.2% in fiscal year 2012, and $75 million or 4.2% in fiscal year 2011.

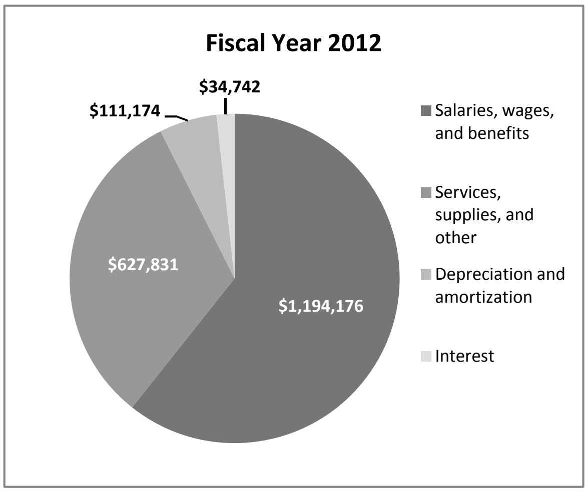
Salaries, wages & benefits, which comprise over 60% of total expenses, increased by $77 million in both 2012 and 2011. In addition to increased staffing to support program growth, and regular increases in salaries to maintain market competitive compensation, in 2012 there was a $21 million increase in 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. The increase in compensation for 2011 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.

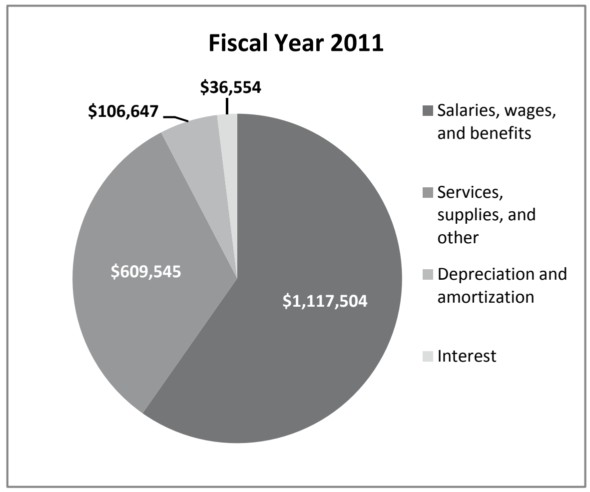
Services, supplies & other expenses increased a modest $18 million or 3% in fiscal year 2012, and decreased nearly $6 million or 0.9% in 2011, reflecting ongoing focus on the University's supply chain, especially in the clinical enterprise, as well as improved experience in self-insurance programs.

Operating Expenses

Fiscal Year 2012 and 2011 (Total $2.0 billion and $1.9 billion, respectively)

(Dollars in thousands)





Operating Expenses
(By Functional Classification)

Years ended June 30, 2012, 2011, and 2010

(Dollars in thousands)

		2012	2011	2010
Instruction, research, and public service	$	381,684	376,102	361,537
Clinical activity		1,256,940	1,169,095	1,073,144
Auxiliary activities		10,872	9,738	9,866
Internal service centers		5,690	6,717	6,999
Student services		12,799	15,478	62,132
Academic support		43,531	33,259	39,571
Institutional support		48,424	48,622	44,611
Operations, maintenance, and other		73,263	79,192	74,025
Direct foundation expenditures		23,546	25,401	21,564
Depreciation and amortization		111,174	106,646	101,801
Total operating expenses	$	1,967,923	1,870,250	1,795,250

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 during the four quarters ending June 30, 2012, averaged less than 2.2%, with only 1.3% growth in the most recent quarter, well below the historical average since 1947 of 3.3%. The Oregon unemployment rate has fallen slowly, from 10.5% in August 2010, to 9.5% in August 2011 and 8.9% in August 2012, compared to 8.1% nationally. Interest rates remain at historical lows, with the 10 year Treasury rate averaging less than 2.1% during fiscal year 2012, while the stock market continues to be volatile, with the S&P 500 falling 18% between July 1, 2011 and October 3, 2011, before increasing 24% by June 30, 2012. Monetary policy to support economic recovery may keep interest rates low for a protracted period of time, providing opportunities to refinance debt at lower rates, but also reducing earnings on cash & investment balances and increasing funding requirements for defined benefit pension plans.

There is uncertainty in the national policy landscape, with a "fiscal cliff" looming in January 2013, due to the expiration of tax cuts and the possibility of sequestration reducing spending across most federal programs. Health care 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 over three years, 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, including the organization of Medicaid into coordinated care organizations (CCOs).

CCOs are charged with integrating physical and behavioral 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 Medicaid care comes from outside the tri-county area, so the University will partner with CCOs across Oregon. A parallel reduction in the rate of growth of health care expenditures will likely be necessary in other health care programs, such as Medicare and government employee health plans, to help bring federal and state budgets into balance over the long run. 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 2012, 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 2013 budget continue on this trajectory, with leadership in health care 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

Balance Sheets

June 30, 2012 and 2011

(Dollars in thousands)

Assets	2012	2011
Current assets:		
Cash and cash equivalents	$ 209,004	190,537
Short-term investments	128,982	78,491
Current portion of funds held by trustee	132,415	72,692
Patients accounts receivable, net of bad debt allowances of $9,838 in 2012 and $7,927 in 2011	207,307	201,264
Student receivables	31,395	34,382
Grant and contract receivables	20,749	32,548
Interest receivable	2,330	2,509
Current portion of pledges and estates receivable	21,262	23,175
Other receivables, net	50,805	10,445
Inventories, at cost	18,060	15,635
Prepaid expenses	15,260	13,515
Total current assets	837,569	675,193
Noncurrent assets:		
Capital assets, net of accumulated depreciation	1,282,647	1,237,155
Funds held by trustee – less current portion	39,121	57,025
Long-term investments:		
Long-term investments, restricted	380,089	379,828
Long-term investments, unrestricted	511,573	516,280
Total long-term investments	891,662	896,108
Deferred financing costs, net	27,646	15,284
Pledges and estates receivable – less current portion	56,119	71,406
Other noncurrent assets	3,566	4,066
Total noncurrent assets	2,300,761	2,281,044
Total assets	$ 3,138,330	2,956,237

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY

Balance Sheets

June 30, 2012 and 2011

(Dollars in thousands)

Liabilities and Net Assets		**2012**	**2011**
Current liabilities:			
Current portion of long-term debt	$	18,467	17,666
Current portion of long-term capital leases		4,034	1,141
Current portion of self-funded insurance programs liability		18,678	20,253
Accounts payable and accrued expenses		122,941	104,791
Drafts payable		17,360	14,907
Accrued salaries, wages, and benefits		65,554	56,123
Compensated absences payable		52,933	52,313
Deferred revenue		26,837	26,920
Other current liabilities		762	892
Total current liabilities		327,566	295,006
Noncurrent liabilities:			
Long-term debt – less current portion		777,810	718,560
Long-term capital leases – less current portion		629	4,664
Liability for self-funded insurance programs – less current portion		42,550	35,838
Liability for life income agreements		16,235	17,134
Other noncurrent liabilities		24,843	14,947
Total noncurrent liabilities		862,067	791,143
Total liabilities		1,189,633	1,086,149
Net assets:			
Invested in capital assets, net of related debt		629,095	585,242
Restricted, expendable		309,035	346,172
Restricted, nonexpendable		175,023	165,488
Unrestricted		835,544	773,186
Total net assets		1,948,697	1,870,088
Total liabilities and net assets	$	3,138,330	2,956,237

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

(Dollars in thousands)

	2012	2011
Operating revenues:		
Patient service revenue, net of bad debt adjustments of $47,883 in 2012 and $44,567 in 2011	$ 1,441,157	1,326,612
Student tuition and fees, net	60,020	54,064
Gifts, grants, and contracts	381,528	424,546
Other revenue	92,900	82,482
Total operating revenues	1,975,605	1,887,704
Operating expenses:		
Salaries, wages, and benefits	1,194,176	1,117,504
Services, supplies, and other	627,831	609,545
Depreciation and amortization	111,174	106,647
Interest	34,742	36,554
Total operating expenses	1,967,923	1,870,250
Operating income	7,682	17,454
Nonoperating revenues, net:		
Investment income and gain in fair value of investments	16,509	88,728
State appropriations	35,389	39,159
Other	3,379	6,705
Total nonoperating revenues, net	55,277	134,592
Net income before contributions for capital and other	62,959	152,046
Other changes in net assets:		
Contributions for capital and other	4,059	4,281
Nonexpendable donations	11,591	18,087
Total other changes in net assets	15,650	22,368
Total increase in net assets	78,609	174,414
Net assets – beginning of year	1,870,088	1,695,674
Net assets – end of year	$ 1,948,697	1,870,088

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Cash flows from operating activities:			
Receipts for patient services	$	1,435,114	1,311,104
Receipts from students		63,007	57,469
Receipts of gifts, grants, and contracts		407,247	422,073
Other receipts		53,047	78,339
Payments to employees for services		(1,184,125)	(1,105,782)
Payments to suppliers		(606,392)	(607,075)
Net cash provided by operating activities		167,898	156,128
Cash flows from noncapital financing activities:			
Federal direct loan proceeds		63,134	52,497
Federal direct loan disbursements		(56,784)	(54,652)
Nonexpendable donations and life income agreements		11,710	20,322
State appropriations		35,389	39,159
Net cash provided by noncapital financing activities		53,449	57,326
Cash flows from capital and related financing activities:			
Scheduled principal payments on long-term debt		(17,666)	(17,245)
Interest payments on long-term debt		(18,858)	(33,036)
Proceeds from issuance of long-term debt		343,473	28,859
Repayment on debt		(284,025)	—
Acquisition of capital assets		(157,650)	(129,078)
Proceeds from sale of capital assets		105	1,440
Payments on capital leases		(1,141)	(1,258)
Contributions for capital and other		4,058	4,281
Net cash used in capital and related financing activities		(131,704)	(146,037)
Cash flows from investing activities:			
Purchases of investments		(1,255,911)	(1,005,162)
Proceeds from sales and maturities of investments		1,142,880	988,910
Interest on investments and cash balances		41,855	39,743
Net cash (used in) provided by investing activities		(71,176)	23,491
Net increase in cash and cash equivalents		18,467	90,908
Cash and cash equivalents, beginning of year		190,537	99,629
Cash and cash equivalents, end of year	$	209,004	190,537

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

		2012	2011
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	7,682	17,454
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		111,174	106,647
Provision for bad debts		47,883	44,567
Interest expense reported as operating expense		34,742	36,554
Net changes in assets and liabilities:			
Patient accounts receivable		(53,926)	(60,075)
Student receivables		2,987	3,405
Grant and contracts receivable		5,449	(10,611)
Pledges and estates receivable		17,200	9,062
Other receivables and other assets		(39,853)	(4,143)
Inventories		(2,425)	(2,263)
Prepaid expenses		(1,745)	(354)
Accounts payable and accrued expenses		18,150	18,824
Drafts payable		2,453	1,842
Accrued salaries, wages, and benefits		9,431	8,008
Compensated absences payable		620	3,714
Other current liabilities		(130)	(927)
Annuity payment liability		(899)	228
Deferred revenue		2,255	(4,106)
Liability for self-funded insurance programs		5,137	(14,652)
Other noncurrent liabilities		1,713	2,954
Net cash provided by operating activities	$	167,898	156,128
Supplemental schedule of noncash capital and related financing and investing activities:			
Unrealized change in fair value of investments	$	(25,167)	49,908
Gain on sale of capital assets		1,458	2,181
Change in value of derivative liabilities		1,802	2,289

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

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

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

(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

(Continued)

financial statements and note disclosures are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements and interpretations. OHSU uses proprietary fund accounting. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, OHSU has elected to apply all applicable GASB pronouncements as well as the Financial Accounting Standards Board (FASB) statements, which do not conflict and were issued on or before November 30, 1989. OHSU does not apply FASB statements and interpretations issued after that date.

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

OHSU has also adopted GASB Statement No. 35, *Basic Financial Statements – and Management'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) Financial Reporting Entity

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

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

(d) Basis of Accounting

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

(e) Use of Estimates

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

(f) Cash and Cash Equivalents

OHSU considers money market funds and all highly liquid investments with an original or remaining maturity of three months or less as cash equivalents. Cash and cash equivalents include $163,894 and $141,897 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, 2012 and 2011, respectively.

(g) Investments

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

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

(h) Inventories

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

(i) Capital Assets

Capital asset acquisitions are stated at cost. Donated items are recorded on the basis of fair market value at the date of donation. OHSU capitalizes equipment additions greater than three thousand dollars and capital projects greater than ten thousand dollars. Maintenance, repairs, and minor replacements are expensed as incurred. When properties are retired or otherwise disposed of, the

(Continued)

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 2012 and 2011, OHSU capitalized interest expense of approximately $2,505 and $1,965, respectively. This was net of approximately $164 and $76 of interest income, respectively, on unspent project funds.

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

(j) Net Asset Classifications

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

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

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

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

(Continued)

(Amounts in thousands)

A summary of restricted assets by restriction category for fiscal years ended June 30, 2012 and 2011 is as follows:

		2012	2011
Restricted expendable:			
Research	$	129,736	155,221
Academic support		35,235	45,135
Instruction		21,208	22,230
Capital projects and planning		26,495	21,578
Student aid		48,781	52,734
Clinical support		25,651	25,808
Institutional support		5,283	6,403
Other		16,646	17,063
	$	309,035	346,172
Restricted nonexpendable:			
Research	$	21,206	18,946
Instruction		37,972	37,429
Clinical support		2,534	2,535
Public service		1,069	1,104
Academic support		62,466	55,710
Student aid		36,738	36,745
Other		13,038	13,019
	$	175,023	165,488

(k) Endowments

The endowment corpus is accounted for in the restricted, nonexpendable net asset 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, 2012 and 2011.

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 asset 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 assets until such time as the restriction has been met. At June 30, 2012 and 2011, the fair value of investments in the endowment fund was $349,800 and $359,600, respectively.

Spending distributions were not made for certain endowment accounts during 2012 or 2011 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, 2012, the fair value of endowment accounts below corpus was $63,500 and the original corpus on these same accounts was $65,700. At June 30, 2011, the fair value of endowment accounts below corpus was $17,500 and the original corpus on these same accounts was $17,800.

(l) Federal Income Taxes

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

(m) State Appropriations

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

(n) Research Activity

Restricted grants receivable represent receivables for grant activities on which OHSU has met all applicable eligibility requirements and on which the funds are available from the granting agency. The balance in deferred revenue as of year-end represents amounts advanced for which OHSU has not met all applicable eligibility requirements. As of June 30, 2012 and 2011, the grants receivable balance was $18,508 and $23,024, respectively, and was included in grant and contract receivables in the accompanying statements of financial position.

(o) Operating Revenues

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

(p) Net Patient Service Revenue

Net patient service revenue related to the Hospital, the Child Development and Rehabilitation Center, and the 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 outpatient services are based on prospectively determined rates. Payments for Medicaid outpatient services are based on a percentage of cost. Reimbursement from commercial insurance carriers and PPOs and HMOs is based on prospectively negotiated rates or a percentage of charges.

Included as a decrease in net patient service revenue in fiscal year 2012 is $229 for prior year Medicare and Medicaid cost report and appeal settlements. Included as an increase in net patient service revenue in fiscal year 2011 is $3,677 for prior year Medicare and Medicaid cost report and appeal settlements.

A summary of patient service revenues during the years ended June 30, 2012 and 2011 is as follows:

		2012	2011
Gross patient charges	$	2,511,744	2,370,701
Contractual discounts		(1,022,704)	(999,522)
Bad debt adjustments		(47,883)	(44,567)
Net patient service revenues	$	1,441,157	1,326,612

(q) Student Tuition and Fees Revenues

A summary of student tuition and fees revenues during the years ended June 30, 2012 and 2011 is as follows:

		2012	2011
Gross student tuition	$	68,052	63,693
Exemptions		(8,032)	(9,629)
Student tuition and fees revenues, net	$	60,020	54,064

(r) 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.

(Continued)

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 $72,661 and $75,950 in 2012 and 2011, respectively.

(s) 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 0.31% to 5.33%.

(t) 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.

(u) Reclassifications of Previously Issued Financial Statements

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

(2) Cash and Investments

OHSU holds substantially all of its cash, cash equivalents, and investment balances at financial institutions. All of OHSU’s cash and cash equivalents, are 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.

(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, 2012 and 2011 is as follows:

		2012	2011
Short-term investments:			
Cash and cash equivalents	$	1,688	1,069
U.S. government securities		27,330	34,999
U.S. agency securities		15,510	7,351
Corporate obligations		38,382	20,628
Fixed income		46,072	14,444
	$	128,982	78,491
Funds held by trustee, current portion:			
Cash and cash equivalents	$	132,313	72,445
Other		102	247
	$	132,415	72,692
Funds held by trustee – less current portion:			
Cash and cash equivalents	$	15,469	17,357
U.S. government securities		4,273	18,413
U.S. agency securities		19,379	21,255
	$	39,121	57,025
Long-term investments – less current portion:			
Cash and cash equivalents	$	39,647	30,409
U.S. government securities		146,705	215,204
U.S. agency securities		35,068	34,934
Corporate obligations		142,977	138,511
Fixed income		131,906	60,651
Equities		171,982	192,195
Alternative investments		119,302	133,744
Joint ventures and partnerships		58,759	50,940
Real estate investments and other		45,316	39,520
	$	891,662	896,108
Total investments, all categories	$	1,192,180	1,104,316

(Amounts in thousands)

(3) Investments and Related Policies

(a) Interest Rate Risk

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	Maturity: 1 – 5 years	Maturity: 6 – 10 years	Maturity: 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

(Amounts in thousands)

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
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		—	—	—	14,295	14,295
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	407,708	1,192,180

As of June 30, 2011, 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	$	121,280	—	—	—	121,280
U.S. government securities	n/a		48,482	180,889	32,428	6,817	268,616
U.S. agency securities	AAA		29,205	34,335	—	—	63,540
Domestic equity securities	n/a		—	—	—	65,047	65,047
International equity securities	n/a		—	—	—	127,148	127,148
International debt securities	AAA		—	2,426	770	2,353	5,549
	AA		—	542	354	1,914	2,810
	A	$	400	872	1,880	678	3,830
	BBB		—	373	780	—	1,153
	BB		—	—	77	467	544
Commercial paper	A+		3,500	—	—	—	3,500
	A		3,996	—	—	—	3,996
	A-1		3,000	—	—	—	3,000
Corporate debt securities	AAA		9,275	5,369	—	—	14,644
	AA+		2,352	—	1,755	—	4,107
	AA		3,787	11,642	—	—	15,429
	AA-		—	1,568	—	—	1,568
	A+		1,336	—	796	—	2,132
	A		7,108	27,570	4,099	—	38,777
	A-		—	2,736	—	—	2,736
	BBB+		358	599	3,574	—	4,531
	BBB		1,341	19,659	2,408	—	23,408
	BBB-		796	1,468	1,898	—	4,162
	B-		—	248	—	—	248
Non-U.S. corporate debt securities	AAA		—	6,848	—	—	6,848
	AA		—	16,834	—	—	16,834
	AA-		5,024	2,337	—	—	7,361
	A+		—	1,858	—	—	1,858
	A		1,526	930	—	—	2,456
	A-		381	592	2,723	—	3,696
	BBB+		—	393	783	—	1,176
	BBB		—	5,495	142	—	5,637
	BBB-		—	1,117	415	—	1,532

(Continued)

(Amounts in thousands)

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
Interest receivable	various	$	247	—	—	—	247
Asset-backed securities	AAA		3,949	24,308	2,790	516	31,563
	BBB+		—	900	—	—	900
Joint ventures and partnerships	n/a		—	—	—	50,940	50,940
Mutual funds – fixed income only	AAA		70	1,263	440	123	1,896
	AA		—	2,231	586	10	2,827
	A		146	437	391	17	991
	BBB		8	547	271	13	839
	BB		15	26	37	2	80
	B		17	10	37	1	65
	Below B		3	5	17	1	26
	Not Rated		47	6	29	4	86
Municipal Bonds	AAA		—	3,270	—	—	3,270
	AA		—	3,978	—	—	3,978
	A		—	4,191	—	—	4,191
Mutual funds – other	n/a		—	—	—	14,438	14,438
Alternative investments	n/a		—	—	—	133,744	133,744
Real estate investments and other	n/a		—	—	—	25,082	25,082
		$	247,649	367,872	59,480	429,315	1,104,316

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

OHSU held $69,985 and $32,463 of asset-backed securities collateralized primarily by auto loans and credit card receivables and collateralized mortgage obligations as of June 30, 2012 and 2011, 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, 2012 and 2011, OHSU had certain joint ventures and partnerships, alternative investments, real estate investments, and other investments. These investments may contain elements of both credit and market risk. Such risks may include limited liquidity, absence of regulatory oversight, dependence upon key individuals, and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated fair value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

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

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

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

(b) Credit Risk

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

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

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

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

(c) Concentration of Credit Risk

OHSU's operating and trustee held portfolios limit investments in any one issue to a maximum of 10%, depending upon the investment type, except for issues of the U.S. government or agencies of the U.S. government, which may be held without limitation. The endowment and charitable gift annuity portfolios limit investments in any one issue to a maximum of 5%, except for issues of the U.S. government or agencies of the U.S. government, which may also be held without limitation. The charitable trusts place no limit on the amount that may be invested in any one issuer. As of June 30, 2012 and 2011, OHSU had no investments in excess of the thresholds discussed above.

(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.

(Amounts in thousands)

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

Foreign currency		Value (U.S. dollar) 2012	2011
Australian dollar	$	70	34
Brazilian real		487	8
British sterling pound		6,172	6,617
Canadian dollar		—	571
Chilean Peso		558	—
Chinese renminbi		—	580
Euro		3,307	4,239
Hungarian forint		609	373
Indonesian rupiah		—	544
South Korean won		672	670
Malaysian ringgit		666	702
Mexican peso		1,503	678
New Zealand dollar		66	32
Norwegian krone		—	811
Polish zloty		875	945
South African rand		589	435
Singapore dollar		—	293
Swiss Franc		1,548	2,125
Turkish lira		651	589
Total	$	17,773	20,246

(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, 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 various contractual agency related settlement activity. As of June 30, 2011, $21,641 was the net amount due from Medicaid, $8,971 was the net amount due to Medicare, and $4,560 was due to contractual agencies related to other settlement activity. At June 30, 2012 and 2011, the net receivable is included in patient accounts receivable in the statements of financial position.

(Amounts in thousands)

(5) Capital Assets

Capital assets for fiscal years ended June 30, 2012 and 2011 are listed by category below:

		2012	2011
Land and land improvements	$	72,443	58,770
Buildings and other improvements		1,511,882	1,447,556
Equipment		681,102	651,218
Construction in progress		83,860	59,406
Accumulated depreciation		(1,066,640)	(979,795)
Total capital assets, net	$	1,282,647	1,237,155

The following is a summary of capital assets for the fiscal years ended June 30, 2012 and 2011:

		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

(Continued)

(Amounts in thousands)

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

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 2012 and 2011, OHSU recognized approximately $2,338 and $2,338, respectively, of this gain, which is included in other nonoperating revenues in the accompanying statements of revenues, expenses, and changes in net assets.

(6) Compensated Absences Payable

Vacation pay for classified employees is earned at 8 to 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 up to 250 hours.

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

(7) Retirement Plans

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

OHSU's total payroll, excluding fringe benefits, for the years ended June 30, 2012 and 2011 was $914,971 and $864,588, respectively. Payroll applicable for employees covered by PERS for the years ended June 30, 2012 and 2011 was $392,494 and $388,383, 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 2012 and 2011, 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.

		2012	2011	2010
PERS:				
Employer contribution	$	33,458	12,487	11,638
Employee contribution (1)		23,549	23,925	21,775
	$	57,007	36,412	33,413
UPP:				
Employer contribution	$	24,220	21,598	18,364
Employee contribution (1)		24,220	21,598	18,364
	$	48,440	43,196	36,728

(1) Of the employees' share, the employer paid $47,769, $45,523, and $40,139 including both PERS and UPP, in 2012, 2011 and 2010, respectively.

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

The Foundations have defined contribution plans available for substantially all employees. The plans are funded through the purchase of a group annuity contract with an insurance company at a discretionary amount equal to 12% of eligible compensation. Contributions are fully vested after five years. The Foundations contributed $614 and $607 for the purchase of retirement annuities during the fiscal years ended June 30, 2012 and 2011, 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, 2012, the amount actually contributed to the plan, and changes in OHSU's net OPEB obligation to the plan:

		2012	2011	2010
Annual required contribution	$	2,207	1,719	2,262
Interest on net OPEB obligation		173	145	102
Annual OPEB cost		2,380	1,864	2,364
Contributions made		1,020	1,008	1,064
Increase in OPEB obligation		1,360	856	1,300
Net OPEB obligation – beginning of fiscal year		5,071	4,215	2,915
Net OPEB obligation – end of fiscal year	$	6,431	5,071	4,215
Percentage of annual OPEB cost contributed		43%	54%	45%

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 9% in 2012, 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.

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

(a) Debt Service Payment Agreement (DSPA)

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

(Amounts in thousands)

(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

Long-term debt, including related unamortized issuance costs, and capital leases at June 30, 2012 and 2011 are as follows:

		2012	2011
Debt service payment agreement (DSPA)	$	14,701	18,443
Bonds payable, revenue bonds, Series 2009 A and B		151,308	230,243
Bonds payable, revenue bonds, Series 2002 A and B		154,578	239,774
Bonds payable, revenue bonds, Series 1998 A and B		3,212	86,800
Bonds payable, revenue bonds, Series 1995 A and B		56,938	95,832
Bonds payable, revenue bonds, Series 2012 A, B, C and D		351,158	—
Tenancy in Common Agreement (TIC) – CLSB – OUS Bonds		30,130	30,205
Local improvement district agreements		30,167	27,139
B of A capital equipment loans		3,971	6,122
Lower Columbia Eye Clinic		—	142
Hood River/The Dalles Eye Clinic		114	226
Bates Property Note		—	1,300
Other capital leases		4,663	5,805
Less current portion of debt and capital leases		(22,501)	(18,807)
	$	778,439	723,224

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 1999, OHSU issued Insured Revenue Bonds Series A and B (1998 Revenue Bonds), a series of auction rate securities, for the purpose of construction and rehabilitation of facilities, the acquisition of equipment, to fund a debt service reserve account, and to pay certain costs of the issuance of the bonds. Both the A and B series of the 1998 Bonds were refinanced in May 2012 and as such, were not outstanding as of June 30, 2012. The interest rate was 0.25% at June 30, 2011.

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 at that time and are no longer outstanding as of June 30, 2012. The remaining 2002 Series A Revenue Bonds mature beginning July 1, 2023 through July 1, 2032 and require semiannual interest payments at 5.00%. The variable interest rate on the Series B Revenue Bonds was adjusted every 35 days and was 0.35% at June 30, 2011. The Series A Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2002 Revenue Bonds are not general obligations of OHSU and are payable solely from revenue pledged.

The 2009 Series A Revenue Bonds mature beginning July 1, 2033 through July 1, 2039 and the Series B-1 and B-2 Revenue Bonds mature beginning July 1, 2010 through July 1, 2027. Both the B-1 and B-2 Series Revenue Bonds, which were covered by a three-year irrevocable Standby Letter of Credit with US Bank, NA expiring on June 17, 2012, were currently refunded in May 2012, and as such, were not outstanding as of June 30, 2012. 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 interest rate on the Series B-1 and Series B-2 bonds was 0.053% at June 30, 2011. 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

(Amounts in thousands)

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 bonds, also variable rate, 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.

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. OHSU received a $10 million gift for the completion of the Dental School in 2011.

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

2012 BCD Variable Rate Debt as of June 30, 2012

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	19,125	11/15/2015	A+ / Aa2 / AA-	daily
2012 D	US Bank, NA – Direct Placement	88,805	11/1/2016	A+ / Aa2 / AA-	monthly
		$ 193,500			

*US Bank was subsequently upgraded by S&P to AA – on 8/20/2012

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 2012 B Bonds at June 30, 2012 is .167%, the rate on the 2012Cs is .164% and the 2012Ds, which are a direct placement with US Bank, NA is .646%. 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.

(Amounts in thousands)

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, 2012 and 2011 were $30.2 million and $27.1 million, respectively, and have been included in long-term debt in the statements of financial position.

(e) Interest Rate Swap Agreement

As of June 30, 2012 and 2011, OHSU held a total of two and four interest rate swap agreements, respectively (collectively, the swaps).The 2004 Swaps matured in January 2012. The balances of all currently held swaps as of June 30, 2012 and 2011 follows:

	Notional amount, June 30, 2012	Notional amount, June 30, 2011	Fair value, June 30, 2012	Fair value, June 30, 2011
Swap:				
2005 Swap #1	$ 42,725	44,475	(8,509)	(4,206)
2005 Swap #2	42,700	44,450	(8,510)	(4,209)
2004 Swap #1	—	52,350	—	(955)
2004 Swap #2	—	52,350	—	(955)
	$ 85,425	193,625	(17,019)	(10,325)

The notional amounts of the outstanding swaps and the principal amounts of the associated debt decline over time and terminate on July 1, 2028 for the 2005 Swaps. The 2004 Swaps originated on January 1, 2007, and the 2005 Swaps originated on October 18, 2005. The 2005 Swaps are callable in 2014. For the 2005 Swaps, OHSU is currently making fixed rate interest payments of 3.358% to the counterparty and receives variable rate payment computed as 62.67% of the London Interbank Offered Rate (LIBOR) plus 0.18%. The fair value represents the estimated amount that OHSU would pay or receive if the swap agreements were terminated at year-end, taking into account current interest rates and the creditworthiness of the underlying counterparty. Total cash payments made to swap counterparties were $4,740 and $6,017 during the years ended June 30, 2012 and 2011, respectively.

(Amounts in thousands)

Each of the above swaps was established as part of a hedging arrangement during fiscal year 2009, as a hedge of total cash flows associated with the interest payments on the Series 1998A, Series 1998B, Series 2002B, and Series 2009B Bonds. As part of the 2012 refinancing, the hedging effectiveness was reevaluated, the swaps reassigned as hedges of the interest payments on the 2012B-1, 2012B-2 and 2012B-3 Series Bonds. Management has evaluated the effectiveness of the current hedges assuming hybrid instruments; each swap consists of a companion debt instrument, representing the value of the swap at the inception of the current hedge, and a hedging instrument, representing the hypothetical value of the swap had it held 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	1998B/2002B	6/30/2011	$ 2,817	6/30/2012	$ 2,620	(197)
2005A	2012B-1/2012B-2	5/15/2012	5,001	6/30/2012	4,948	(53)
2005B	1998B/2002B	6/30/2011	2,819	6/30/2012	2,621	(198)
2005B	2012B-1/2012B-2	5/15/2012	5,001	6/30/2012	4,947	(54)
2004AB	1998B/2009B	6/30/2011	565	6/30/2012	—	(565)
2004AB	1998A/2009B	6/30/2011	564	6/30/2012	—	(564)

The companion debt instrument for the 2005 swaps, as amended during the 2012 refinancing, is reported in other liabilities, with an offsetting balance in other assets, as it was part of a previous hedging relationship. The liability is being amortized over the remaining term of the swap agreements as an offset to interest expense. The asset is being amortized according to the same schedule as other debt issuance costs associated with the Series 2005A and Series 2005B bonds, as an offset to amortization expense. The liability value is $15,136 and $5,808 and the asset value is $15,136 and $5,159, as of June 30, 2012 and 2011, respectively.

The companion debt instrument for the 2004 swaps is reported in other liabilities, with no offsetting asset balance, as it was not part of a previous hedging relationship. As this swap matured in January 2012, the liability was fully amortized during fiscal year 2012 as an offset to interest expense. The liability value was $1,153 as of June 30, 2011.

The current hedging instruments for the 2005 and 2004 swaps are recorded in other liabilities, with an offsetting balance recorded in other assets. Any subsequent changes to the value of the hedging instruments are recorded by increasing or decreasing these balance sheet accounts. The total value of both the asset and liability are $821 and $815 as of June 30, 2012 and 2011, respectively.

OHSU is exposed to swap credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2012, the counterparties' credit ratings were A+ from Standard & Poor's, A2 from Moody's, and A+ from Fitch. Additionally, the swaps expose OHSU to basis risk, which is the risk that arises when the relationship between the rates on the variable rate bonds and the swap formulas noted above vary from historical norms. If this occurs, swap payments received by OHSU may not fully offset its bond interest payments. As these rates change, the effective synthetic rate on the bonds will change.

(Amounts in thousands)

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 and $15,000, compared to a total relevant swap liability value of $17,019 and $9,371 as of June 30, 2012 and 2011, respectively, resulting in a requirement that OHSU post zero collateral as of June 30, 2012 and 2011.

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

(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:		
2013	$	4,182
2014		419
2015		148
2016		124
		4,873
Less amount representing interest		(210)
		4,663
Less current portion		(4,034)
	$	629

(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 $14,401 and $3,136 as of June 30, 2012 and 2011, respectively, and net of unamortized loss on refunding of $3,672 and $4,006 as of June 30, 2012 and 2011, respectively. Amounts due under the DSPA and the 1995 Revenue Bonds include accreted interest of $40,657 and $40,260 as of June 30, 2012 and 2011, 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:			
2013	$ 18,467	29,355	47,822
2014	17,850	28,530	46,380
2015	17,384	33,485	50,869
2016	18,131	34,012	52,143
2017	15,974	37,538	53,512
2018 – 2022	73,267	182,858	256,125
2023 – 2027	134,223	118,941	253,164
2028 – 2032	153,491	90,388	243,879
2033 – 2037	126,948	52,934	179,882
2038 – 2042	139,765	18,180	157,945
2043	29,391	72	29,463
	$ 744,891	626,293	1,371,184

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, 2012 and 2011 are summarized below:

	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

(Amounts in thousands)

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Liability for self-funded insurance programs	$ 70,743	14,371	(29,023)	56,091
Liability for life income agreements	16,906	4,742	(4,514)	17,134
Long-term debt	720,535	32,079	(16,388)	736,226
Long-term capital leases	7,063	581	(1,839)	5,805
Other noncurrent liabilities	16,965	3,963	(5,981)	14,947
	$ 832,212	55,736	(57,745)	830,203

(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 assets are as follows for the fiscal years ended June 30, 2012 and 2011:

	2012			2011		
	Agreements	Asset	Liability	Agreements	Asset	Liability
Charitable remainder unitrusts	5	$ 145	20	6	$ 992	303
Charitable gift annuities	9	1,089	795	11	296	173
Total	14	$ 1,234	815	17	$ 1,288	476

The assets and corresponding liabilities related to life income agreements are included in long-term investments, restricted, and the liability for life income agreements in the accompanying statements of financial position. Total life income agreements held at June 30, 2012 and 2011 are as follows:

	2012			2011		
	Agreements	Asset	Liability	Agreements	Asset	Liability
Charitable remainder unitrusts	78	$ 18,119	8,427	78	$ 20,385	9,422
Charitable remainder trust annuities	10	1,391	864	10	1,718	938
Charitable gift annuities	200	9,123	6,331	201	8,829	6,040
Life estate agreements	6	1,738	613	7	1,744	734
Total	294	$ 30,371	16,235	296	$ 32,676	17,134

(Amounts in thousands)

Nineteen 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 $7,048 and $7,535 on June 30, 2012 and 2011, respectively.

The Foundations are the named beneficiaries of twenty-one trusts held by outside trustees. The reported fair market value of trust assets held by others was $32,500 and $17,700 as of June 30, 2012 and 2011, respectively. The Foundations record contributions as trust distributions occur. Trust distributions of $1,400 and $900 were recorded as contributions during the fiscal years ended June 30, 2012 and 2011, respectively.

(12) Pledges and Estates Receivables

The Foundations had the following pledges and estates receivable as of June 30, 2012 and 2011:

		2012	2011
Pledges maturing within 1 year	$	20,863	22,387
Pledges maturing within 2 – 10 years		60,685	77,873
		81,548	100,260
Less allowance for uncollectible pledges		(1,781)	(2,189)
		79,767	98,071
Less discount for net present value		(3,286)	(4,869)
Total net pledges receivable		76,481	93,202
Estates receivable		947	1,452
Less allowance for uncollectible estates		(47)	(73)
Total net estates receivable		900	1,379
Total pledges and estates receivable	$	77,381	94,581

(13) Commitments and Contingencies

(a) Liability for Self-Funded Insurance Programs

Coverage for professional liability, general liability, automobile liability, directors & officers liability, cyber liability and employment practices liability is provided through OHSU's solely owned captive insurance company, OHSU Insurance Company. Current coverage limits, for claims made on or after July 1, 2011 are $3.4 million for each and every claim for professional liability, $3.0 million for general liability, and $1.0 million for each and every claim on all other liability coverage. There is an annual aggregate of $17.5 million for professional liability and general liability.

(Amounts in thousands)

Coverage limits for claims made after July 1, 2009 and prior to July 1, 2011 are $3.0 million for each and every claim for professional liability and general liability, and $1.0 million for each and every claim on all other liability coverage. There is an annual aggregate of $17.5 million for professional liability and general liability.

Coverage limits, for claims made after July 1, 2002 and prior to July 1, 2009, are $5.0 million for each and every claim for professional liability and general liability, and $1.0 million for each and every claim on all other liability coverage with no annual aggregate. Coverage for claims made prior to July 1, 2002 are $1.0 million for each claim with an annual aggregate of $4.0 million.

Excess coverage is provided by a variety of insurers for claims that may exceed these limits up to an annual aggregate of $105.0 million. 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 liability has been discounted at 3% and 5% in 2012 and 2011 and, in management's opinion, provides an adequate reserve for loss contingencies.

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

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

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

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

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.

(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 statements of financial position.

(c) Employee Health Programs

Beginning January 1, 2006, OHSU is self-insured for its risk of loss related to costs to insure its employees for medical, dental, and vision coverage. OHSU has utilized a third-party actuary to assist in the estimation of its liability for the employee health programs related to claims payable and those claims incurred but not yet paid or reported of approximately $13,809 and $12,733 as of June 30, 2012 and 2011, respectively. These amounts are included in current portion of self-funded insurance program liabilities in the accompanying statements of financial position.

(d) Labor Organizations

Approximately 15% of OHSU's employees are nurses represented by the Oregon Nurses Association (ONA). Approximately 39% of OHSU's employees are represented by the American Federation of State, County, and Municipal Employees (AFSCME), for a total of 54% of OHSU's employees being represented by labor organizations. OHSU's contract with ONA expires on September 30, 2013, and the current contract with AFSCME expires on June 30, 2015.

(e) Construction Contracts

OHSU had outstanding commitments on unexpended construction contracts totaling approximately $4,801 and $5,539 at June 30, 2012 and 2011, respectively. These commitments will be primarily funded from gifts, grants, funds held by trustee, and other investment accounts.

(f) Legal Proceedings

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

(Amounts in thousands)

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

(g) Operating Leases

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

Rental expenses under operating leases were approximately $19,294 and $22,915 in 2012 and 2011, respectively. The following is a schedule of future minimum rental commitments under operating leases as of June 30, 2012 that have initial or remaining lease terms in excess of one year:

Year ending June 30:		
2013	$	21,334
2014		17,861
2015		15,942
2016		15,549
2017		15,433
2018 – 2022		56,269
2023 – 2026		1,163
	$	143,551

(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 health system transformation.

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)	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 9% in 2012, declining gradually to 4% in 2032 and remaining at 4% thereafter.

See accompanying independent auditors' report.

OREGON HEALTH & SCIENCE UNIVERSITY

Consolidating Balance Sheets

June 30, 2012 and 2011

(Dollars in thousands)

Assets	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2012	2011
Current assets:							
Cash and cash equivalents	$ 292,016	(84,771)	207,245	1,759	—	209,004	190,537
Short-term investments	113,235	14,059	127,294	1,688	—	128,982	78,491
Current portion of funds held by trustee	2,023	130,392	132,415	—	—	132,415	72,692
Patients accounts receivable, net of bad debt allowances of $9,838 in 2012 and $7,927 in 2011	161,956	45,351	207,307	—	—	207,307	201,264
Student receivables	—	31,395	31,395	—	—	31,395	34,382
Grant and contract receivable		20,749	20,749	—	—	20,749	32,548
Interest receivable	683	582	1,265	1,065	—	2,330	2,509
Current portion of pledges and estates receivable	—	—	—	21,262	—	21,262	23,175
Other receivables, net	43,517	28,271	71,788	7,606	(28,589)	50,805	10,445
Inventories, at cost	15,367	2,693	18,060	—	—	18,060	15,635
Prepaid expenses	10,457	4,730	15,187	73	—	15,260	13,515
Total current assets	639,254	193,451	832,705	33,453	(28,589)	837,569	675,193
Noncurrent assets:							
Capital assets, net of accumulated depreciation	529,156	752,928	1,282,084	563	—	1,282,647	1,237,155
Funds held by trustee – less current portion	26,036	13,085	39,121	—	—	39,121	57,025
Long-term investments:							
Long-term investments, restricted	—	25,516	25,516	354,573	—	380,089	379,828
Long-term investments, unrestricted	93,627	151,761	245,388	266,185	—	511,573	516,280
Total long-term investments	93,627	177,277	270,904	620,758	—	891,662	896,108
Deferred financing costs, net	15,398	12,248	27,646	—	—	27,646	15,284
Pledges and estates receivable – less current portion	—	—	—	56,119	—	56,119	71,406
Other noncurrent assets	458	363	821	2,745	—	3,566	4,066
Interest in the Foundations	—	664,710	664,710	—	(664,710)	—	—
Total noncurrent assets	664,675	1,620,611	2,285,286	680,185	(664,710)	2,300,761	2,281,044
Total assets	$ 1,303,929	1,814,062	3,117,991	713,638	(693,299)	3,138,330	2,956,237
Liabilities and Net Assets							
Current liabilities:							
Current portion of long-term debt	$ 8,290	10,177	18,467	—	—	18,467	17,666
Current portion of long-term capital leases	433	3,601	4,034	—	—	4,034	1,141
Current portion of self-funded insurance programs liability	—	18,678	18,678	—	—	18,678	20,253
Accounts payable and accrued expenses	62,386	58,277	120,663	2,278	—	122,941	104,791
Drafts payable	9,563	7,797	17,360	—	—	17,360	14,907
Accrued salaries, wages, and benefits	23,118	42,436	65,554	—	—	65,554	56,123
Compensated absences payable	24,506	28,427	52,933	—	—	52,933	52,313
Deferred revenue	—	26,837	26,837	—	—	26,837	26,920
Other current liabilities	135	527	662	28,689	(28,589)	762	892
Total current liabilities	128,431	196,757	325,188	30,967	(28,589)	327,566	295,006
Noncurrent liabilities:							
Long-term debt – less current portion	360,844	416,966	777,810	—	—	777,810	718,560
Long-term capital leases – less current portion	265	364	629	—	—	629	4,664
Liability for self-funded insurance programs – less current portion	—	42,550	42,550	—	—	42,550	35,838
Liability for life income agreements	—	—	—	16,235	—	16,235	17,134
Other noncurrent liabilities	8,905	14,212	23,117	1,726	—	24,843	14,947
Total noncurrent liabilities	370,014	474,092	844,106	17,961	—	862,067	791,143
Total liabilities	498,445	670,849	1,169,294	48,928	(28,589)	1,189,633	1,086,149
Net assets:							
Invested in capital assets, net of related debt	187,383	441,149	628,532	563	—	629,095	585,242
Restricted, expendable	—	309,035	309,035	241,795	(241,795)	309,035	346,172
Restricted, nonexpendable	—	175,023	175,023	175,023	(175,023)	175,023	165,488
Unrestricted	618,101	218,006	836,107	247,329	(247,892)	835,544	773,186
Total net assets	805,484	1,143,213	1,948,697	664,710	(664,710)	1,948,697	1,870,088
Total liabilities and net assets	$ 1,303,929	1,814,062	3,117,991	713,638	(693,299)	3,138,330	2,956,237

See accompanying independent auditors' report.

OREGON HEALTH & SCIENCE UNIVERSITY

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

Years ended June 30, 2012 and 2011

(Dollars in thousands)

	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2012	2011
Operating revenues:							
Patient service revenue, net of bad debt adjustments of $47,883 in 2012 and $44,567 in 2011	$ 1,121,235	319,922	1,441,157	—	—	1,441,157	1,326,612
Student tuition and fees, net	—	60,020	60,020	—	—	60,020	54,064
State appropriations	1,251	34,138	35,389	—	(35,389)	—	—
Gifts, grants, and contracts	1,060	403,178	404,238	46,006	(68,716)	381,528	424,546
Other revenue	54,035	40,937	94,972	2,805	(4,877)	92,900	82,482
Total operating revenues	1,177,581	858,195	2,035,776	48,811	(108,982)	1,975,605	1,887,704
Operating expenses:							
Salaries, wages, and benefits	524,220	659,503	1,183,723	10,453	—	1,194,176	1,117,504
Services, supplies, and other	495,438	127,998	623,436	74,030	(69,635)	627,831	609,545
Depreciation and amortization	57,748	53,269	111,017	157	—	111,174	106,647
Interest	19,226	15,516	34,742	—	—	34,742	36,554
Total operating expenses	1,096,632	856,286	1,952,918	84,640	(69,635)	1,967,923	1,870,250
Operating income	80,949	1,909	82,858	(35,829)	(39,347)	7,682	17,454
Nonoperating revenues (expenses):							
Investment income and gain (loss) in fair value of investments	21,950	(3,105)	18,845	(2,336)	—	16,509	88,728
State appropriations	—	—	—	—	35,389	35,389	39,159
Other	79	3,181	3,260	119	—	3,379	6,705
Total nonoperating revenues (expenses), net	22,029	76	22,105	(2,217)	35,389	55,277	134,592
Net income (loss) before contributions for capital and other	102,978	1,985	104,963	(38,046)	(3,958)	62,959	152,046
Other changes in net assets:							
Contributions for capital and other	—	101	101	—	3,958	4,059	4,281
Change in interest in the Foundations	—	(26,455)	(26,455)	—	26,455	—	—
Nonexpendable donations	—	—	—	11,591	—	11,591	18,087
Total other changes in net assets	—	(26,354)	(26,354)	11,591	30,413	15,650	22,368
Total increase (decrease) in net assets	102,978	(24,369)	78,609	(26,455)	26,455	78,609	174,414
Net assets – beginning of year	702,506	1,167,582	1,870,088	691,165	(691,165)	1,870,088	1,695,674
Net assets – end of year	$ 805,484	1,143,213	1,948,697	664,710	(664,710)	1,948,697	1,870,088

See accompanying independent auditors' report.