**OREGON HEALTH & SCIENCE UNIVERSITY**
(a component unit of the State of Oregon)

Financial Statements
and Supplementary Information

June 30, 2015

(With Independent Auditors' Report Thereon)

**KPMG LLP**
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

# Independent Auditors' Report

The Board of Directors
Oregon Health & Science University

## Report on the Financial Statements

We have audited the accompanying financial statements of Oregon Health & Science University (the Company), which comprise the statement of net position as of June 30, 2015, and the related statement of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oregon Health & Science University as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

***Emphasis of Matter***

As discussed in note 1(c) of the financial statements, as of July 1, 2014, OHSU adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion was not modified with respect to these matters.

***Other Matters***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 22, the schedule of funding progress for the postemployment healthcare benefit plan on page 75, the proportionate share of the net pension (asset)/liability and related ratios on page 75, and the schedule of defined benefit pension plan contributions on page 76, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, 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 audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted accounting principles. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Portland, Oregon
October 29, 2015

## 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

The broadest measure of OHSU’s financial strength is net position, or total assets and deferred outflows, minus total liabilities and deferred inflows. To manage its operations and monitor its financial position, OHSU focuses on two key indicators: the total university operations component of operating income (before consolidation of the Foundations and reclassification of state appropriations to nonoperating revenues) and the total change in consolidated net position, which includes the Foundations, investment income and other nonoperating items.

As the following table shows, between June 30, 2013 and June 30, 2015, OHSU’s reported net position increased 16%, from $2,161 million to $2,516 million, the result of total university operating income plus gifts, investment income and other nonoperating items, net of the impact of adopting new accounting rules for defined benefit pensions (dollars in millions):

| | |
|---|---|
| Consolidated net position reported for June 30, 2013 | $2,161 |
| 2014 total university operating income | 95 |
| 2015 total university operating income (prior to new pension accounting) | 110 |
| 2014 foundation, investment and other items, net | 120 |
| 2015 foundation, investment and other items, net | 83 |
| Impact of new pension accounting on June 30, 2014 net position | (180) |
| Impact of new pension accounting on 2015 operating income | 127 |
| Consolidated net position reported for June 30, 2015 | $2,516 |

The total university component of operating income increased by 16%, from $95 million in fiscal year 2014 to $110 million in fiscal year 2015, on 8% higher operating revenues, performance that reflects the first full year of the Affordable Care Act (most provisions of which went into effect in January 2014) and continuation of Oregon’s Medicaid transformation, offset in part by depreciation, interest, and operations costs for the Collaborative Life Sciences Building that opened in July 2014. The hospital operations segment exceeded its targeted operating margin percentage in each of the past two years, while the other university operations segment (which includes the clinical faculty practice, education, research, and outreach missions) met or exceeded its target of balanced revenues and expenses as well.

Net gains from the Foundations, investments and other items, were $120 million in fiscal year 2014, largely the result of investment returns in a year when the S&P 500 rose 22%, and $83 million in fiscal year 2015, when the

OHSU Foundation recorded Gert Boyle's gift to the Knight Cancer Challenge, while the S&P 500 rose by a more modest 5%.

In fiscal year 2015, OHSU adopted a new required pension accounting rule, GASB 68, for those employees within the state's PERS defined benefit plan. As described further below, this essentially moved the defined benefit portion of pension expense from a cash basis to an accrual basis, using results reported by PERS on a one-year lag. Certain activity, such as changes in plan terms, are recorded all in one year, while other items, like differences between assumed and actual investment results, are amortized over several years. Upon adoption of these rules, OHSU's June 30, 2014 net position was reduced by $180 million, reflecting the University's share of the PERS unfunded liability on a one-year-lagged basis (that is, on June 30, 2013), net of cash contributions during subsequent year.

During fiscal year 2014, the Oregon legislature reduced cost-of-living adjustments and made other changes to plan terms that substantially reduced PERS pension liabilities, the full impact of which flows through accrued expense in fiscal year 2015, under the new accounting rules. In addition, 2014 PERS investment results were well above the assumed rate, a gain amortized as a credit to expense over five years. Taken together, these factors moved OHSU's 2015 PERS pension expense from $38 million under the prior, cash-contribution basis of accounting to a credit of $89 million under the new, accrual basis, for a positive impact of $127 million. Thus, the total university component of operating income for 2015 is $237 million, equal to the $110 million noted above plus the $127 million current-year impact of new pension accounting.

In 2015, the Oregon Supreme Court overturned those changes to plan terms that applied retroactively, reversing most of the reduction to PERS pension liabilities, while investment returns were below the assumed rate. With the one-year lag, these factors will result in a significant negative impact to pension expense and operating income in fiscal year 2016.

The following table reconciles these components to consolidated OHSU net position for fiscal years 2015 and 2014. This summary follows the methodology of the more detailed consolidating table included at the end of these financial statements.

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

| | | 2015 | 2014 |
|---|---|---|---|
| Components of operating income: | | | |
| Hospital operations | $ | 94,848 | 93,838 |
| Other university operations | | 141,959 | 908 |
| Total university operations | | 236,807 | 94,746 |
| Foundations operations | | 71,955 | (7,484) |
| Elimination of Foundations' restricted capital activity | | 1,265 | 22,030 |
| Reclassification of state appropriations | | (33,448) | (35,415) |
| Consolidated operating income | | 276,579 | 73,877 |
| State appropriations | | 33,448 | 35,415 |
| Investment and other nonoperating income (expense) | | (8,474) | 93,714 |
| Consolidated net income | | 301,553 | 203,006 |
| Capital/nonexpendable contributions and other | | 19,050 | 12,509 |
| Total change in net position | | 320,603 | 215,515 |
| Net position – beginning of year (adjusted) * | | 2,195,866 | 2,160,581 |
| Net position – end of year | $ | 2,516,469 | 2,376,096 |

* 2015 beginning net position has been reduced by $180,230 for the impact of GASB 68, see note 1(c) for further information.

Within the total university operations component of operating income, gifts and endowment payouts 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.

The receipt of very large gifts is episodic, resulting in a gain in one year when the gift is made or recorded, offset by losses in subsequent years when the gift is transferred to the University in support of the intended program or purpose. This was illustrated in 2015 when the Foundations had net operating income of $72 million, primarily due to the recording of a $103 million gift from Gert Boyle toward this Knight Cancer Challenge. Conversely, in

2014, the Foundations' operating results were a loss of $7.5 million as a result of spending of gifts previously received to complete the Collaborative Life Science Building without corresponding revenue being received in the same year. 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.

These recording and timing effects have become increasingly significant with larger gifts to OHSU, and with volatility in the financial markets that affects investment income. In September 2013, Phil and Penny Knight challenged OHSU to raise $500 million in two years, which they would match for a total of $1 billion. On June 25, 2015, OHSU and Mr. Knight announced that the $500 million match had been secured, including $200 million from the State of Oregon and, the $103 million from Mrs. Boyle, plus gifts from all 50 states and more than 10,000 donors. The funds from the Knight Cancer Challenge will be used to help in the fight to eradicate cancer, particularly through advanced early detection. The timing of when these contributions appear on the financial statements varies with the nature of the gift or grant.

When OHSU analyzes its consolidated statement of revenues, expenses and changes in net position, it also relies upon a third indicator of financial performance: net income. Net income largely tracks the change in total net position, but excludes donations for capital and nonexpendable purposes, such as endowments. In 2015, consolidated net income was $302 million, compared to $203 million in 2014. This change in net income largely reflects the continued increase in patient revenues, the gift timing impacts noted above as well as the adoption of GASB 68.

**OHSU Strategic Plan**

In 2007, OHSU developed a strategic plan, Vision 2020, that calls for partnerships to make Oregon a leader in innovation, to improve the health and well-being of Oregonians. Vision 2020 provides a planning framework to drive OHSU's commitment to continuous improvement across healthcare, research, education and outreach missions. One of the six goals of Vision 2020 is to "join others in developing policy and care delivery solutions that improve access to high-quality healthcare for all, especially Oregonians." This goal includes improving health through strategic partnerships.

Partnerships recently undertaken or currently being pursued by OHSU include the following:

*Salem Health*. OHSU has negotiated a joint management agreement (the Joint Management Agreement) with Salem Health, a leading healthcare provider serving Salem, Oregon and the Willamette Value region, to become effective after final approval by the governing boards of each party. The Joint Management Agreement confirms the affiliation of OHSU and Salem Health. Under the affiliation, OHSU will offer advanced clinical services, and be a source of training for healthcare professionals. Salem Health, which has 454 licensed acute-care beds, will accept a number of patients from OHSU, which has 572 licensed beds, who do not need some of the more specialized care offered at its Portland hospital.

Key intentions set forth in the Joint Management Agreement include, but are not limited to, the following:

– OHSU and Salem Health will remain separate legal entities but will form a new management company to manage and oversee an integrated health system. The management company will manage the integrated health system, including long-range capital budgets, from one consolidated bottom line. OHSU will maintain its responsibilities to manage and oversee activities related to its education and research mission.

– The total consolidated net operating results of the integrated health system will be apportioned to OHSU and Salem Health consistent with an allocation method based on the parties' respective historical proportional share of total results.

– OHSU and Salem Health will not join each other's master trust indenture obligated group or otherwise guarantee each other's outstanding debt.

*Mid-Columbia Medical Center*. In August 2014, Mid-Columbia Medical Center (MCMC) and OHSU signed a 10-year mutual cooperation agreement. MCMC is a 49 bed general medical and surgical hospital in The Dalles, Oregon, approximately 85 miles east of Portland. OHSU and MCMC have collaborated for a number of years on projects in cardiology and other specialties. The new collaboration envisions the recruitment of medical professionals for MCMC, who would become employees of OHSU and their services leased to MCMC. As part of the collaboration, MCMC added an eighth position to its board of directors, selected by OHSU. In addition, MCMC is in the process of converting to the EPIC system of electronic medical records, as used by OHSU.

*Unity Center for Behavioral Health*. In February 2015, OHSU, Adventist Health, Kaiser Permanente, and Legacy Health executed a letter of intent to open the Portland metropolitan area's first comprehensive behavioral health care center in late 2016. Called the Unity Center for Behavioral Health, the facility will be designed to include psychiatric emergency services for people with acute psychiatric crises, as well as an inpatient facility with services for both adults and adolescents. The inpatient facility is expected to include 79 adult and 22 adolescent patient beds. Under the terms of the letter of intent, Adventist Health, Legacy Health and OHSU would move their behavioral health inpatient services to Unity Center for Behavioral Health. The center will be located on Legacy Health's Holladay Park campus in Portland following renovations. The cost of the construction is estimated at $50 million. The letter of intent provides that Legacy Health will donate $10 million in real estate and seek the additional funds from a combination of corporations, foundations, government entities and individual donors. The parties are developing a joint operating agreement detailing the management and operations of the facility. There is no assurance that a definitive agreement will be executed.

*Columbia Memorial Hospital*. OHSU and Columbia Memorial Hospital (CMH) in Astoria, Oregon, previously collaborated in programs including cardiology and cancer, offering chemotherapy, imaging, pharmacy and other services for individuals on the North Oregon Coast who have been diagnosed with cancer. In May 2015, OHSU and CMH announced plans to develop a new, jointly funded 18,000-square-foot comprehensive cancer treatment center and specialty clinic, which will include radiation therapy. The medical director of the clinic is an OHSU oncologist, who will be joined in the practice by a radiation oncologist to be hired by OHSU. Construction is scheduled to begin in 2016.

*Moda Health*. OHSU is partnering with Moda Health (Moda), one of the four largest health plans in Oregon, to advance population health management. In addition to the work of OHSU and Moda through the Alliance, initial joint efforts include health plan offerings to the Public Employees' Benefit Board, Oregon Educators Benefit Board, and OHSU employees. In December 2014, OHSU invested $50 million in Moda through a 10-year surplus note to help capitalize Moda's Oregon healthcare efforts. Moda had previously donated $5.0 million (its largest single donation) for OHSU's new School of Dentistry.

*Health Share of Oregon*. Health Share of Oregon was established as a nonprofit, public benefit corporation under Oregon law in 2012 and is a coordinated care organization that includes OHSU, Adventist Health, CareOregon, Central City Concern, Kaiser Permanente, Legacy Health, Providence Health & Services, Tuality Healthcare and Clackamas, Washington and Multnomah counties. Together, the members are working to develop integrated healthcare delivery for the members of the Oregon Health Plan (Medicaid) in the tri-county Portland metropolitan area. The goal of the organization is to foster a community of sharing and learning across systems though identification and promotion of the best practices, process enhancements and technical expertise.

*Propel Health*. OHSU is a founding member of Propel Health, formerly called the Population Health Alliance of Oregon, an organization established by seven Oregon health systems and Moda Health, the fourth largest health plan in Oregon, and is dedicated to population health management. Propel is designed to aggregate health information from a variety of sources to identify risk factors, deploy evidence-based best practices, and coordinate care with patients, families and caregivers.

*Intel Corporation*. OHSU and Intel Corporation have entered into a multi-year partnership focused on building high-performance computing hardware and software solutions for analyzing molecular data from cancer and other complex diseases. The partners have established a research data center equipped with an Intel supercomputing cluster. There, researchers use OHSU's imaging and genomic analysis technologies to look for disease progression patterns in patients' tumors and to study treatment response, among other projects. The partners intend to create highly detailed circuit diagrams of genomes that can be used to compare cancer patients' genomes with healthy ones to isolate and study genetic abnormalities and determine which ones are linked to cancer. They also intend to develop systems that can analyze a patient's cancer profile in a matter of hours at a cost that is feasible for clinical applications.

*Portland State University*. OHSU has a growing partnership with PSU. The partnership provides OHSU with access to the academic and student resources of a general arts and sciences university without diluting OHSU's focus on health sciences. In addition to the Collaborative Life Sciences Building described below, OHSU and PSU have a joint MBA program and are partnering to create a new joint School of Public Health, with a clinical focus on improving the health and well-being of Oregonians, and on urban populations. Initial efforts include publication of a comprehensive baseline survey of health status in each Oregon county, and appointment of an interim dean. OHSU has also contributed $7.5 million in the last two fiscal years to the Viking Pavilion to be located on the PSU campus with ready access from OHSU. This will be the largest event space on the west side of Portland.

*Collaborative Life Sciences Building and Skourtes Tower*. In fiscal year 2012, OHSU began construction of the CLSB and Skourtes Tower, with completion occurring in summer 2014. This new facility places programs of OHSU, PSU, and OSU under one roof at the Schnitzer campus on the South Waterfront. In doing so, the facility strengthens partnerships between OHSU and the other institutions, expanding their teaching facilities, student enrollment and research activities, while creating new employment opportunities. The approximately 650,000 square foot facility (including parking) houses lecture halls, classrooms, laboratories, specialty research center, office space, and a complete replacement of the OHSU School of Dentistry.

*Global OHSU*. In October 2014, OHSU entered into a memorandum of understanding with Bangkok Dusit Medical Services Public Company Limited (BDMS), the operator of the Bangkok Hospital and a network of healthcare subsidiaries in Thailand and elsewhere in Southeast Asia. OHSU also entered a separate agreement


(Continued)

with Mahidol University and its medical school, Siriraj Hospital. The agreements are intended to lead to the development of comprehensive education, research and health promotion plans that will improve the quality of healthcare in Southeast Asia. The collaboration is expected to focus first on occupational health issues in Thailand, as well as eye care in Myanmar and nutrition in Laos. Additionally, the collaboration includes cross-cultural scientific exchange and collaboration in vaccine research and clinical trials for HIV and Dengue Fever.

### OHSU and Doernbecher Foundations

OHSU has two designated independent nonprofit foundations – the Oregon Health and Science University Foundation (the OHSU Foundation) and the Doernbecher Children's Hospital Foundation (the Doernbecher Foundation), collectively the Foundations. The Foundations exist to secure private philanthropic support to advance OHSU's vital missions and to invest and manage gifts responsibly to honor donors' wishes.

OHSU Foundation is an Oregon nonprofit corporation promoting the charitable, scientific, and education purposes of OHSU. Doernbecher Foundation is an Oregon nonprofit corporation promoting an interest in and support for Doernbecher Children's Hospital. Both Foundations are component units of OHSU, as a university, for financial reporting purposes but are not part of the OHSU Obligated Group (the Obligated Group) established pursuant to the Master Indenture, which currently consists solely of OHSU. Both Foundations have self-perpetuating boards of directors, on which the OHSU president sits as an ex officio voting member.

As OHSU's designated foundations, all development activities conducted by the Foundations must be coordinated with OHSU. In accepting gifts, the Foundations must obtain OHSU approval for any restrictive terms and conditions. In addition, if either Foundation were dissolved or if the OHSU President were to revoke recognition of either Foundation as an OHSU-designated foundation, the assets of such Foundation would, within the limits of legal and fiduciary rights, be distributed to OHSU. These interrelated functions and requirements have been further confirmed and implemented in the articles and bylaws of the Foundations. The table below identifies major gifts, which are reported as required under the CASE Reporting Standards & Management Guidelines, which may differ from recognition rules under governmental accounting standards.

**OHSU MAJOR GIFTS**

| Amount | Description | Fiscal year |
|---|---|---|
| $500 million | Knight Cancer Institute gift from Phil and Penny Knight | 2014–15 |
| $103 million | Knight Cancer Institute gift from Gert Boyle | 2014–15 |
| $38.8 million | Gates Foundation grant for Vaccine & Gene Therapy Institute, Oregon National Primate Research Center, and Behavioral Neuroscience | 2014–15 |
| $28.9 million | Anonymous gift for the Knight Cancer Institute and the OHSU Parkinson Center | 2013–14 |
| $20 million | Gift from Norman & Linda Brenden for the Center for Pancreatic Health | 2013–14 |
| $10 million | Knight Cancer Institute gift from Tim and Mary Boyle | 2013–14 |
| $125 million | Knight gift to create a Cardiovascular Institute at OHSU | 2012–13 |
| $25 million | Gift for the Bob and Charlee Moore Institute for Nutrition | 2011–12 |
| $10 million | Skourtes gift for new School of Dentistry | 2010–11 |
| $100 million | Knight Cancer Institute gift | 2008–09 |
| $40 million | Anonymous gift for education (Collaborative Life Sciences Building) | 2006–07 |
| $34 million | Schnitzer Campus on South Waterfront (land value) | 2003–04 |



(Continued)

**Statements of Net Position**

The Statements of Net Position includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector organizations. As noted above, net position – the difference between assets, liabilities, and deferred inflows and outflows, is among the broadest measures of the financial health of an institution. In 2014, OHSU adopted GASB Statement No. 65 (GASB 65) which establishes standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes as outflows of resources (expense) or inflows of resources (revenue), certain items that were previously reported as assets and liabilities. As new accounting pronouncements are adopted that require amortization of deferred inflows and outflows, such as GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the deferred sections of the financial statements will reflect additional financial activity as well as debt transactions.

In fiscal year 2015, OHSU adopted GASB Statement No. 68 (GASB 68), which establishes standards for measuring and reporting unfunded pension liabilities, with particular focus on cost-sharing, multiple-employer defined benefit pension plans, such as the Oregon Public Employee Retirement System (PERS). As a result of the adoption of GASB 68, the accounting moves from reporting the current year's cash contributions as the year's pension expense to reporting as expense OHSU's proportionate share of the actuarially calculated pension costs and outstanding liability at the pension measurement date.

Given the timing of the completion of the actuarial valuations, GASB 68 allows, and the State of Oregon has elected, reporting the valuation one year in arrears. Therefore, the valuations contained in OHSU's fiscal year 2015 audited financial statements use a measurement date of June 30, 2014. Because of this timing difference, the current year's cash contributions, which are reported as expense throughout the year on our internal statements, are removed from the income statement and replaced by OHSU's proportionate share of the actuarially calculated pension expense for the given year.

Two substantial events occurred in fiscal year 2014, the year used for recording the fiscal year 2015 PERS pension expense, as well as the newly reported corresponding pension liability, deferred inflows and outflows, and combined effect on the ending balance of OHSU's Net Position. The State of Oregon passed legislation establishing significant COLA (cost of living allowance) and other benefit reductions, and PERS experienced very strong investment results. The effect of those two events caused plan assets to exceed plan liabilities, resulting in OHSU recording a pension expense credit of $89 million.



(Continued)

Due to the adoption, impacts to OHSU's pension expenses are noted below (dollars in thousands):

| | | |
|---|---|---|
| Service cost | $ | 43,505 |
| Interest on total pension plan liability | | 205,503 |
| Effect of benefit plan changes | | (103,344) |
| Administrative expense net of member contributions | | 322 |
| Measurement period expenses | | 145,986 |
| Actual investment gain | | (421,567) |
| Deferred investment | | 186,500 |
| Net investment returns recognized | | (235,067) |
| Net pension benefit, OHSU year ended June 30, 2015 | $ | (89,081) |

The benefit plan changes noted above represent reductions to cost of living adjustments enacted by the state legislature.

GASB 68 requires changes in expected versus actual investment returns to be amortized over five years, and changes in the terms of the plan to flow through the current year. The following chart outlines the effects of the GASB 68 entries on OHSU's FY15 audited financial statements (in millions).

**Impact of the implementation of GASB 68**

| | | |
|---|---|---|
| OSHU operating income pre-GASB 68 | $ | 110 |
| Reverse FY15 PERS cash contributions | | 38 |
| Record OHSU's portion of FY14 PERS (expense)/income | | 89 |
| Operating income – GASB 68, year ended June 30, 2015 | $ | 237 |
| OHSU total assets and deferred outflows pre-GASB 68 | $ | 3,856 |
| Book OHSU's proportionate share of PERS net pension asset within other noncurrent assets | | 97 |
| Reclassify FY15 cash contributions from expense to pension obligation deferred outflow | | 38 |
| Total assets and deferred outflows – GASB 68, June 30, 2015 | $ | 3,991 |
| OHSU total liabilities, deferred inflows, and net position pre-GASB 68 | $ | 3,856 |
| Book excess investment returns and unamortized contributions as a pension obligation deferred inflow | | 188 |
| Book OHSU's resulting GASB 68 net position change to unrestricted net position | | (53) |
| Total liabilities, deferred inflows, net position – GASB 68, June 30, 2015 | $ | 3,991 |

During fiscal year 2015, the Oregon Supreme Court reversed most of the legislative actions related to the COLA and other benefit reductions. Additionally, fiscal year 2015 was not a strong investment year. The results of those two events reversed the situation, causing plan liabilities to exceed plan assets. Following the before mentioned one-year lag time in reporting, those results will be reported in OHSU's fiscal year 2016 audited financial statements.

### Condensed Statements of Net Position

(Dollars in thousands)

| | | 2015 | 2014 |
|---|---|---|---|
| Assets: | | | |
| Current assets | $ | 900,867 | 766,947 |
| Capital assets | | 1,528,256 | 1,517,146 |
| Other noncurrent assets | | 1,508,877 | 1,268,097 |
| Total assets | | 3,938,000 | 3,552,190 |
| Deferred outflows | | 53,006 | 16,634 |
| Total assets and deferred outflows | $ | 3,991,006 | 3,568,824 |
| Liabilities: | | | |
| Current liabilities | $ | 408,337 | 351,822 |
| Noncurrent liabilities | | 874,997 | 837,021 |
| Total liabilities | | 1,283,334 | 1,188,843 |
| Deferred inflows | | 191,203 | 3,885 |
| Net position: | | | |
| Net investment in capital assets | | 820,360 | 803,428 |
| Restricted, expendable | | 574,712 | 401,940 |
| Restricted, nonexpendable | | 204,601 | 189,210 |
| Unrestricted | | 916,796 | 981,518 |
| Total net position | | 2,516,469 | 2,376,096 |
| Total liabilities, deferred outflows and net position – end of year | $ | 3,991,006 | 3,568,824 |

### Assets

The largest components of OHSU's assets are cash and investments and capital assets, or physical plant. During 2015, OHSU's unrestricted and restricted cash and investments increased from $1,474 million to $1,561 million attributable to strong operating performance and Foundations activity. This represents an increase of $87.1 million, or 5.91% from 2014.

**Consolidated Asset Allocation of**

**Unrestricted and Restricted Cash and Investments**
(Dollars in thousands)

| | | 2015 | 2014 |
|---|---|---|---|
| Unrestricted cash and investments: | | | |
| Cash and equivalents | $ | 175,887 | 124,513 |
| Fixed income investments | | 568,776 | 568,866 |
| Equity investments | | 60,684 | 91,849 |
| Mutual funds | | 62,847 | 111,628 |
| Other | | 126,098 | 96,587 |
| Subtotal | | 994,292 | 993,443 |
| Restricted cash and investments: | | | |
| Cash and equivalents | | 23,848 | 36,809 |
| Fixed income investments | | 181,245 | 128,754 |
| Equity investments | | 122,474 | 155,634 |
| Mutual funds | | 14,597 | 14,881 |
| Other | | 224,212 | 144,050 |
| Subtotal | | 566,376 | 480,128 |
| Totals | $ | 1,560,668 | 1,473,571 |

The unrestricted portion of cash and investments is represented in the calculation of days cash on hand for OHSU. Days cash on hand declined from 200 days in 2014 to 192 days in 2015, the combined effect of a 3.6% increase in daily expenses and a $30 million delay in Medicaid pass through payments pending completion of a Federal Upper Payment Limit audit, which has since been successfully resolved. Total long-term investments increased by $34.0 million during 2015 compared to 2014, reflecting a shift in OHSU's investment strategy from short-term to long-term, as well as continued improvement in financial performance.

**Days Unrestricted Cash and Investments on Hand**

(Dollars in thousands)

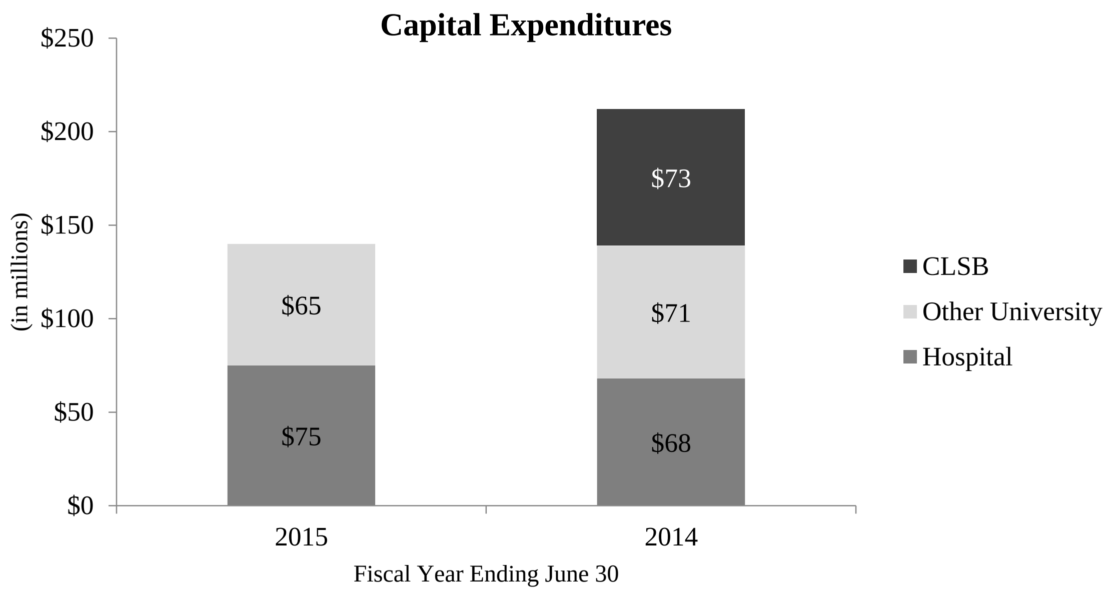
| | | 2015 | 2014 |
|---|---|---|---|
| OHSU: | | | |
| Unrestricted cash and investments | $ | 631,885 | 639,064 |
| Less nonoperating cash and investments | | (19,002) | (13,633) |
| Operating cash and investments | $ | 612,883 | 625,431 |
| Unrestricted operating expenses: | | | |
| Total operating expenses | $ | 1,957,135 | 1,879,313 |
| Less depreciation and amortization | | (129,297) | (115,240) |
| Net unrestricted operating expenses | $ | 1,827,838 | 1,764,073 |
| Daily expense | $ | 5,008 | 4,833 |
| Days cash on hand | | 122 | 129 |
| OHSU Plus OHSU and Doernbecher Foundations: | | | |
| Unrestricted cash and investments | $ | 994,292 | 993,443 |
| Less nonoperating cash and investments | | (19,002) | (13,633) |
| Operating cash and investments | $ | 975,290 | 979,810 |
| Unrestricted operating expenses: | | | |
| Total operating expenses | $ | 1,984,766 | 1,903,322 |
| Less depreciation and amortization | | (129,479) | (115,428) |
| Net operating expenses | $ | 1,855,287 | 1,787,894 |
| Daily expense | $ | 5,083 | 4,898 |
| Days cash on hand | | 192 | 200 |

Capital assets, net of accumulated depreciation, increased by $11.1 million during fiscal year 2015, primarily due to the completion of construction and initiation of depreciation on the Collaborative Life Sciences Building (CLSB), which opened at the beginning of fiscal year 2015.



(Continued)

Capital expenditures for the years ended June 30, 2015 and 2014 are listed below:




**Liabilities**

Total liabilities increased by $94.5 million, or 7.9%, in 2015 after increasing slightly $1.7 million, or 0.15%, in 2014. In 2015, increases in accruals for accounts payable and salaries, wages and benefits, and a $66 million increase in noncurrent liabilities accounted for the overall increase. In 2014, increases in accruals for salaries, wages and benefits, were offset by decreases in accruals for accounts payable.

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 unearned revenue. Current liabilities showed an increase of $56.5 million in fiscal year 2015 over 2014. This was primarily due to a large Medicaid settlement liability in conjunction with a corresponding receivable related to the Upper Payment Limit audit noted earlier. There were also increases in salaries, wages and benefits related to timing of the last two-week payroll period of the year, increases in deferred revenue related to timing on grant revenue recognition, and increases in the current portion of self-funded insurance. In 2014 current liabilities showed a small increase of $2.9 million due to increases in salaries, wages, and benefits related to the timing of the last two-week payroll period of the year and a one-time adjustment to faculty compensation included in the compensated absences payable calculation, which were offset by a significant drop in accounts payable and accrued expenses reflecting the near completion of the CLSB.

Total noncurrent liabilities increased $38.0 million in fiscal year 2015, due to a $65 million pending deposit from an anonymous donor, offset by repayment of debt. Total noncurrent liabilities decreased $1.2 million in fiscal year 2014, due to repayment of existing debt offset by increases in liabilities for life income agreements.

*Debt Management*. At the close of fiscal year 2015, OHSU had a total of approximately $720 million in long-term debt and capital leases outstanding, net of current portion. Approximately 25% of the total long term debt was variable-rate debt issued in the form of variable-rate demand bonds (VRDBs). In May 2015, OHSU refinanced a portion of the VRDBs as part of a comprehensive bond portfolio restructuring.

Due to OHSU's continued improvement in operations and net position in 2015, Standard & Poor's and Fitch both issued ratings of AA- (Stable), and Moody's issued a rating of A1 (Positive).

One measure of the degree of leverage on the University's statement of net position is the ratio of long-term debt to net position, shown below. From fiscal 2014 to 2015, this metric improved due to increased operating income, investment return and gifts, and regular repayments of principal (dollars in millions).

| | | 2015 | 2014 |
|---|---|---|---|
| Long term debt and capital leases | $ | 739 | 757 |
| Net position | | 2,516 | 2,376 |
| Long term debt and capital leases to net position | $ | 0.29 | 0.32 |

*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. Per bond covenants OHSU (excluding the Foundations) must maintain a coverage ratio of 1.10 times or greater. The University continues to significantly exceed this minimum requirement, achieving an increasingly strong ratio of 7.57 in fiscal year 2015 and 5.59 in 2014.

**Calculation of Maximum Annual Debt Service Coverage Ratio – Unrestricted**

(Dollars in thousands)

| | | 2015 | 2014 |
|---|---|---|---|
| Total excess of revenues over expenses | $ | 301,553 | 203,006 |
| Add/subtract restricted net loss/gain | | (92,432) | (27,665) |
| Unrestricted excess of revenues over expenses | $ | 209,121 | 175,341 |
| Adjustments: | | | |
| Net unrealized (gain) loss in fair value of investments | $ | 20,570 | (33,072) |
| Loss on disposal of assets | | 994 | 3,876 |
| Interest expense | | 26,749 | 22,620 |
| Annual refund/payments on Trust Reserves held in parity | | (906) | (517) |
| Depreciation and amortization | | 129,479 | 115,428 |
| | $ | 176,886 | 108,335 |
| Income available for debt service | $ | 386,007 | 283,676 |
| Maximum annual debt service | | 51,012 | 50,766 |
| Maximum annual debt service coverage | | 7.57 | 5.59 |


(Continued)

**Deferred inflows and outflows**

With OHSU's adoption of GASB 65 and GASB 68 in 2015 mentioned above, certain deferred outflows are presented below assets and certain deferred inflows are presented below liabilities.

Losses and gains on refunding of debt are amortized over the shorter of the life of the new debt or the remaining life of the old debt. Absent any refunding activity, these numbers will slowly decline. OHSU has both deferred gains and losses. The deferred loss on refunding of debt of $2.8 million in 2015 and $3.0 million in 2014 was reported in the deferred outflows section below assets. The deferred gain on refunding of debt of $3.4 million in 2015 and $3.9 million in 2014 was reported in the deferred inflows section below liabilities.

GASB 65 also established requirements for the reporting of the deferred amortization of derivative instruments within the deferred outflows section of the statement of net position. OHSU holds two interest-rate swap agreements (collectively, the swaps). The swaps were novated during fiscal year 2013 and reassigned to a new counterparty under substantially equivalent terms. The 2015 and 2014 deferred amortization of derivative instruments were $12.5 million and $13.6 million, respectively.

Formerly, all of these balances were reported as components of current and long-term portions of debt or non-current assets.

**Net position**

As noted earlier, total net position increased $320.6 million during fiscal year 2015, as compared to an increase of $215.5 million during fiscal year 2014. Increases in both fiscal years occurred within net investment in capital assets, up $16.9 million in 2015 and $81.8 million in 2014. Unrestricted net position was down $64.7 million in 2015, which offset a portion of the $120.3 million increase recorded in 2014. Restricted net position, which is 31% of OHSU's total net position increased in 2015 primarily due to Foundation gifts, resulting in a $188.2 million increase in 2015.

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

**Statement of Revenues, Expenses, and Changes in Net Position**

The statement of revenues, expenses, and changes in net position presents the operating results, net income and change in net position of OHSU on a consolidated basis with the Foundations. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

In accordance with generally accepted accounting principles for a governmental entity, annual state appropriations are considered nonoperating revenue, but in practice are budgeted for operations because they support operating costs for specific education and service programs. In fiscal year 2015 and 2014, State appropriations totaled $33 million and $35 million, respectively.

Consolidated net income for OHSU including the Foundations totaled $302 million in fiscal year 2015, compared to $203 million in 2014. As noted above, major drivers of the current fiscal year over year changes in net income are attributable to the receipt of a large gift, the spending of which will occur in subsequent years, and the recording of an initial defined pension obligation.

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

(Dollars in thousands)

| | | 2015 | 2014 |
|---|---|---|---|
| Total operating revenues | $ | 2,530,597 | 2,280,514 |
| Total operating expenses | | 2,254,018 | 2,206,637 |
| Operating gain | | 276,579 | 73,877 |
| Nonoperating revenues (expenses), incl. state appropriations | | 24,974 | 129,129 |
| Net income before other changes in net position for capital and other | | 301,553 | 203,006 |
| Contributions for capital and other | | 4,791 | 5,135 |
| Nonexpendable donations | | 14,259 | 7,374 |
| Change in net position | | 320,603 | 215,515 |
| Net position – beginning of year (as adjusted) * | | 2,195,866 | 2,160,581 |
| Net position – end of year | $ | 2,516,469 | 2,376,096 |

* 2015 beginning net position has been reduced by $180,230 for the impact of GASB 68, see note 1 (c) for further information.

## Total Operating Revenues

Total operating revenues on a consolidated basis (including the Foundations and reclassification of State appropriations to nonoperating revenues) totaled $2,531 million and $2,281 million in 2015 and 2014, respectively.

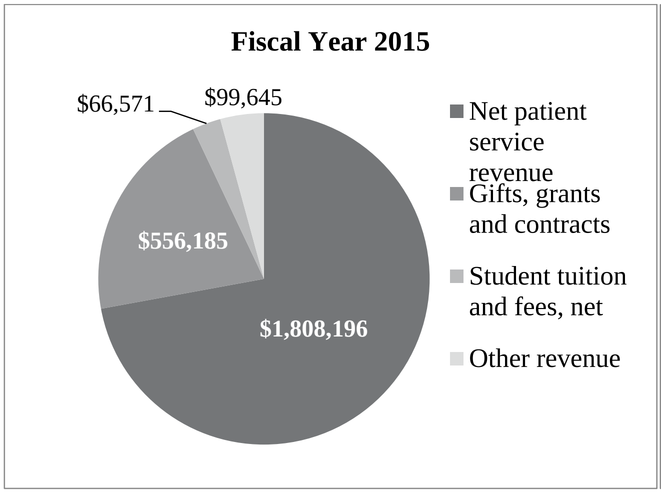
In 2015, the largest component of this growth was an increase of $164 million or 10% in net patient service revenue, driven by strong payment rates, combined with a payer mix showing a marked decrease in uninsured activity due to the shift to Medicaid with coverage expansion under the Affordable Care Act.

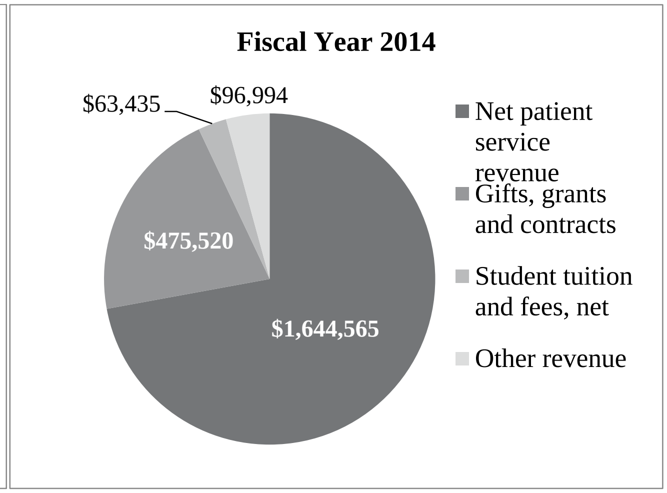
The second largest growth component was gifts, grants, and contracts, which increased $81 million or 17% in fiscal year 2015 due primarily to the $103 million Gert Boyle gift mentioned earlier.

**OREGON HEALTH & SCIENCE UNIVERSITY**
(a component unit of the State of Oregon)
Management's Discussion and Analysis (Unaudited)
June 30, 2015 and 2014

**Operating Revenue by Source**
**Fiscal Year 2015 and 2014 (Total $2.5 billion and $2.3 billion, respectively)**

(Dollars in thousands)




## Total Operating Expenses

OHSU's total operating expenses on a consolidated basis increased by $47.4 million or 2.15% in fiscal year 2015, and $162.1 million or 8% in fiscal year 2014. Much of these increases in expenses were in support of the program growth driving the increases in revenue mentioned earlier.

Salaries, wages and benefits, which comprise over 62% of total expenses, increased by $39 million, or 2.9% in 2015 (excluding the impact of GASB 68) and $97 million, or 7.7% in 2014. The increase in compensation in 2015 and 2014 also reflected adjustments to market compensation levels for highly productive clinical staff, as well as recruitment for clinical programs that supported the continued growth in patient revenues.

OHSU announced changes to its benefits plans under which employees participating in PERS have started to contribute to its higher cost, phased in beginning in fiscal year 2015. In addition, Oregon entered legislation to reduce PERS costs, largely through lower cost of living allowances. The result of this legislation and favorable PERS investment income accounts for the defined pension benefit credit of $89 million recorded as a pension benefit in 2015. However, this legislation was overturned by the Oregon Supreme Court in the *Moro v State of Oregon* case, therefore, increased expense is anticipated in fiscal year 2016.

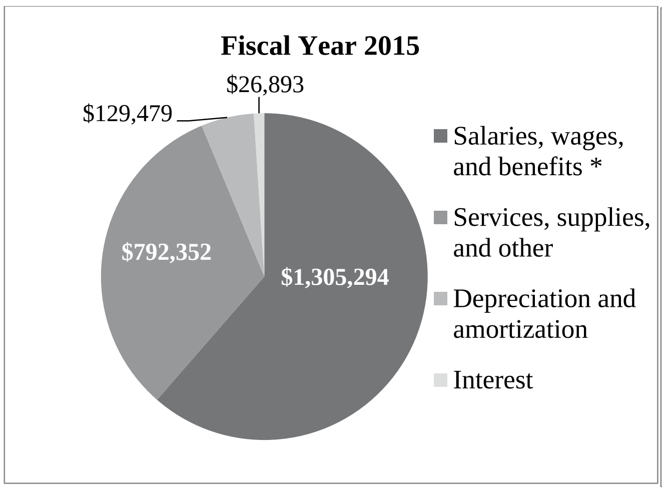
Services, supplies and other expenses showed an increase of $79 million, or 11% in 2015, and $68 million or 10% in 2014 representing the nonlabor costs associated with the targeted program growth mentioned above and increased direct Foundation support.

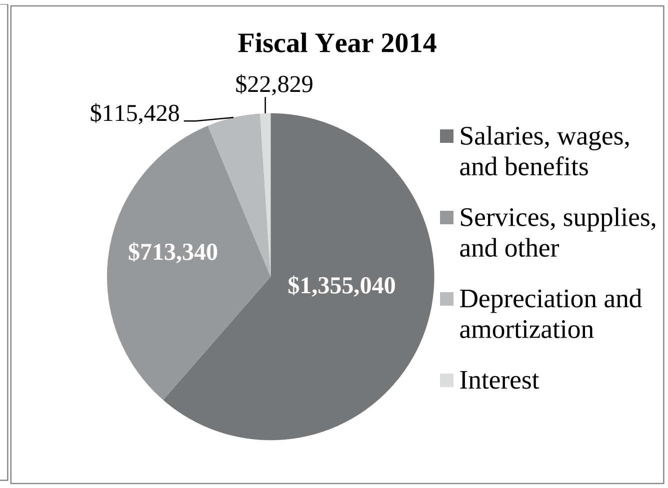
Depreciation and amortization, which represents the reduction in value of capital assets with the passage of time, showed a 12% increase in 2015, primarily due to the completion of the Collaborative Life Sciences Building, which was placed in service on July 1, 2014. Depreciation and amortization showed a slower growth of 2.6% in fiscal year 2014.

Interest expense increased in fiscal year 2015 following the debt restructuring of a substantial portion of OHSU's debt in March 2015. Interest expense increased $4 million or 18% in 2015 after a $6 million or 20% decrease in 2014.

**Operating Expenses**
**Fiscal Year 2015 and 2014 (Total $2.3 billion and $2.2 billion, respectively)**

(Dollars in thousands)




*FY15 Salary figures include a positive impact related to GASB 68 of $89,081.

**Operating Expenses**
**By Functional Classification**

(Dollars in thousands)

| | 2015 | 2014 |
|---|---|---|
| Instruction, research, and public service | $ 405,417 | $ 395,540 |
| Clinical activity | 1,583,199 | 1,442,363 |
| Auxiliary activities | 9,710 | 11,794 |
| Internal service centers | 8,079 | 8,148 |
| Student services | 15,775 | 17,331 |
| Academic support | 23,153 | 41,208 |
| Institutional support | 77,779 | 64,985 |
| Operations, maintenance, and other | 94,124 | 81,061 |
| Direct foundation expenditures | 34,135 | 28,779 |
| Depreciation and amortization | 129,479 | 115,428 |
| GASB 68 PERS Pension Liability * | (126,832) | — |
| Total operating expenses | $ 2,254,018 | $ 2,206,637 |

* The net impact of implementing GASB 68 is noted separately due to the significant decrease in the current year total operating expense, see note 1(c) for further information.

**Economic Outlook**

The general economy in both Oregon and the nation continues to recover, at a slow but steady pace. Real growth in the U.S. GDP from the quarter ending June 30, 2014 to the quarter ending June 30, 2015 was 2.2%, slower than the 3.1% in the prior year and below the historical average of 3.2% since 1947. The Oregon unemployment rate has fallen gradually, from 7.7% in August 2013 to 7.2% in August 2014 and 6.1% in August 2015, compared to 5.1% nationally. Interest rates across the yield curve has seen volatility but remain at low levels by historical standards, with the 10 year Treasury rate decreasing from 2.4% at the end of August 2014 to 2.2% at the end of August 2015, while the stock market, as measured by the S&P 500, increased by 5% during fiscal year 2015 after rising 22% is fiscal year 2014. US monetary policymakers continue to take an accommodative stance in the support of the economy, deferring an increase in short term rates at its Federal Open Market Committee meeting in September 2015. Though healthcare spending has slowed significantly over recent years, calendar year 2014 saw growth of 5.8%, though this increase is still low by historical standards.

Healthcare reform is proceeding both nationally with the Affordable Care Act (ACA), and in Oregon with Medicaid transformation. The State of Oregon agreed with the federal government to lower the rate of growth in Medicaid spending per member from 5.4% per year to 3.4%, while maintaining quality and access. In return, the federal government has provided $1.9 billion over 5 years to support transformation. Oregon healthcare transformation includes the organization of Medicaid into 16 regional coordinated care organizations (CCOs), charged with integrating physical, behavioral, and oral health. Oregon's Medicaid enrollment has already increased from approximately 625,000 to 1.1 million members through June 2015 (preliminary figures), largely through coverage expansion under the ACA, according to Medicaid. The State of Oregon has seen a significantly greater increase in Medicaid and CHIP enrollment than the national average. From summer 2013 levels through June 2015 (preliminary figures), Oregon has seen an enrollment increase of 68%, relative to the national average of 23% over the same period. 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 inpatients come from outside the tri-county area, so the University is working with CCOs across the state. Combining health plans for state employees and teachers this brought one-third of Oregonians into either a coordinated care, population health, or global budget model. OHSU's state-wide role and integrated clinical, research, and teaching missions position it to support and advance Oregon's health transformation.

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 has refined 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 2014 and 2015, show that OHSU's financial position is both very solid and getting stronger, with increased earnings from total university operations, significant philanthropic support, investment gains consistent with market trends, and a carefully managed statement of net position. The University's long range financial plans and its fiscal year 2016 budget continue on this trajectory, with leadership in healthcare transformation and strategic investments and partnerships 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**

Statement of Net Position

June 30, 2015

(Dollars in thousands)

**Assets**

| | | |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ | 195,290 |
| Short-term investments | | 179,728 |
| Current portion of funds held by trustee | | 4,017 |
| Patients accounts receivable, net of bad debt allowances of $4,502 | | 348,541 |
| Student receivables | | 22,675 |
| Grant and contract receivables | | 44,328 |
| Interest receivable | | 1,116 |
| Current portion of pledges and estates receivable | | 45,568 |
| Other receivables, net | | 15,060 |
| Inventories, at cost | | 19,963 |
| Prepaid expenses | | 24,581 |
| Total current assets | | 900,867 |
| Noncurrent assets: | | |
| Capital assets, net of accumulated depreciation | | 1,528,256 |
| Funds held by trustee – less current portion | | 27,464 |
| Other long term receivables, net of reserves | | 33,500 |
| Long-term investments: | | |
| Long-term investments, restricted | | 533,341 |
| Long-term investments, unrestricted | | 652,309 |
| Total long-term investments | | 1,185,650 |
| Prepaid financing costs, net | | 3,188 |
| Pledges and estates receivable – less current portion | | 159,367 |
| Restricted pension asset | | 96,652 |
| Other noncurrent assets | | 3,056 |
| Total noncurrent assets | | 3,037,133 |
| Total assets | | 3,938,000 |
| Deferred outflows: | | |
| Deferred amortization of derivative instruments | | 12,498 |
| Loss on refunding of debt | | 2,758 |
| Pension obligation | | 37,750 |
| Total deferred outflows | | 53,006 |
| Total assets and deferred outflows | $ | 3,991,006 |



(Continued)

**OREGON HEALTH & SCIENCE UNIVERSITY**

Statement of Net Position

June 30, 2015

(Dollars in thousands)

**Liabilities**

| | | |
|---|---|---|
| Current liabilities: | | |
| Current portion of long-term debt | $ | 18,125 |
| Current portion of long-term capital leases | | 1,038 |
| Current portion of self-funded insurance programs liability | | 28,775 |
| Accounts payable and accrued expenses | | 153,500 |
| Accrued salaries, wages, and benefits | | 90,268 |
| Compensated absences payable | | 68,559 |
| Unearned revenue | | 45,120 |
| Other current liabilities | | 2,952 |
| Total current liabilities | | 408,337 |
| Noncurrent liabilities: | | |
| Long-term debt – less current portion | | 714,509 |
| Long-term capital leases – less current portion | | 5,092 |
| Liability for self-funded insurance programs – less current portion | | 30,730 |
| Liability for life income agreements | | 30,307 |
| Other noncurrent liabilities | | 94,359 |
| Total noncurrent liabilities | | 874,997 |
| Total liabilities | | 1,283,334 |
| Deferred inflows: | | |
| Gain on refunding of debt | | 3,402 |
| Pension obligation | | 187,801 |
| Total deferred inflows | | 191,203 |
| Net position: | | |
| Net investment in capital assets | | 820,360 |
| Restricted, expendable | | 574,712 |
| Restricted, nonexpendable | | 204,601 |
| Unrestricted | | 916,796 |
| Total net position | | 2,516,469 |
| Total liabilities, deferred inflows and net position | $ | 3,991,006 |

See accompanying notes to financial statements.

**OREGON HEALTH & SCIENCE UNIVERSITY**

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2015

(Dollars in thousands)

| | | |
|---|---|---|
| Operating revenues: | | |
| Patient service revenue, net of bad debt adjustments of $25,945 | $ | 1,808,196 |
| Student tuition and fees, net | | 66,571 |
| Gifts, grants, and contracts | | 556,185 |
| Other revenue | | 99,645 |
| Total operating revenues | | 2,530,597 |
| Operating expenses: | | |
| Salaries, wages, and benefits | | 1,394,375 |
| Defined benefit pension | | (89,081) |
| Services, supplies, and other | | 792,352 |
| Depreciation and amortization | | 129,479 |
| Interest | | 26,893 |
| Total operating expenses | | 2,254,018 |
| Operating income | | 276,579 |
| Nonoperating revenues (expenses), net: | | |
| Investment income and gain in fair value of investments | | 3,402 |
| State appropriations | | 33,448 |
| Other | | (11,876) |
| Total nonoperating revenues, net | | 24,974 |
| Net income before contributions for capital and other | | 301,553 |
| Other changes in net position: | | |
| Contributions for capital and other | | 4,791 |
| Nonexpendable donations | | 14,259 |
| Total other changes in net position | | 19,050 |
| Total increase in net position | | 320,603 |
| Net position – beginning of year* | | 2,195,866 |
| Net position – end of year | $ | 2,516,469 |

* Beginning net position has been reduced by $180,230 for the impact of GASB 68. See note 1(c) for further information.

See accompanying notes to financial statements.

**OREGON HEALTH & SCIENCE UNIVERSITY**

Statement of Cash Flows

Year ended June 30, 2015

(Dollars in thousands)

| | |
|---|---|
| Cash flows from operating activities: | |
| Receipts for patient services | $ 1,745,378 |
| Receipts from students | 63,708 |
| Receipts of gifts, grants, and contracts | 543,710 |
| Other receipts | 93,858 |
| Payments to employees for services | (1,416,723) |
| Payments to suppliers | (782,106) |
| Net cash provided by operating activities | 247,825 |
| Cash flows from noncapital financing activities: | |
| Federal direct loan proceeds | 57,587 |
| Federal direct loan disbursements | (57,592) |
| Nonexpendable donations and life income agreements | 19,877 |
| State appropriations | 33,448 |
| Net cash provided by noncapital financing activities | 53,320 |
| Cash flows from capital and related financing activities: | |
| Scheduled principal payments on long-term debt | (16,538) |
| Interest payments on long-term debt | (27,137) |
| Proceeds from issuance of long-term debt | 141,500 |
| Repayment on debt | (141,500) |
| Acquisition of capital assets | (141,583) |
| Payments on capital leases | (963) |
| Contributions for capital and other | 4,791 |
| Net cash used in capital and related financing activities | (181,430) |
| Cash flows from investing activities: | |
| Purchases of investments | (1,350,682) |
| Proceeds from sales and maturities of investments | 1,311,430 |
| Investment in long-term receivable | (50,000) |
| Interest on investments and cash balances | 48,938 |
| Net cash provided by investing activities | (40,314) |
| Net increase in cash and cash equivalents | 79,401 |
| Cash and cash equivalents, beginning of year | 115,889 |
| Cash and cash equivalents, end of year | $ 195,290 |



(Continued)

**OREGON HEALTH & SCIENCE UNIVERSITY**

Statement of Cash Flows

Year ended June 30, 2015

(Dollars in thousands)

| | | |
|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | $ | 276,579 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | | 129,479 |
| Provision for bad debts | | 25,945 |
| Interest expense reported as operating expense | | 26,893 |
| Defined benefit pension | | (126,831) |
| Net changes in assets and liabilities: | | |
| Patient accounts receivable | | (88,763) |
| Student receivables | | (2,863) |
| Grant and contracts receivable | | 879 |
| Pledges and estates receivable | | (89,321) |
| Other receivables and other assets | | (5,787) |
| Inventories | | (1,890) |
| Prepaid expenses | | (9,582) |
| Accounts payable and accrued expenses | | 25,077 |
| Drafts payable | | — |
| Accrued salaries, wages, and benefits | | 12,116 |
| Compensated absences payable | | 3,286 |
| Other current liabilities | | (2,569) |
| Annuity payment liability | | (73) |
| Deferred revenue | | 9,415 |
| Liability for self-funded insurance programs | | (790) |
| Other noncurrent liabilities | | 66,625 |
| Net cash provided by operating activities | $ | 247,825 |
| Supplemental schedule of noncash capital and related financing and investing activities: | | |
| Unrealized change in fair value of investments | $ | (45,603) |
| Loss on sale or disposal of capital assets | | (994) |
| Change in value of derivative liabilities | | 1,378 |

See accompanying notes to financial statements.

## (1) Organization and Summary of Significant Accounting Policies

### *(a) Organization*

As the only health sciences university and major academic health center in the State of Oregon (the State), Oregon Health & Science University (OHSU) is dedicated to the education and training of healthcare professionals, research, patient care, outreach, and public service. In addition to the School of Medicine, School of Nursing, School of Dentistry, the joint College of Pharmacy with Oregon State University, and a new joint School of Public Health with Portland State University, OHSU comprises several other academic and research units, including the Vollum Institute for Advanced Biomedical Research, the Vaccine and Gene Therapy Institute, Oregon National Primate Research Center, OHSU Brain Institute, the Center for Research on Occupational and Environment Toxicology, Oregon Clinical and Translational Research Institute, and the Biomedical Information Communication Center. OHSU also comprises several clinical units, including OHSU Hospital (the Hospital), the Faculty Practice Plan (FPP), and the Institute on Development and Disability (IDD). Doernbecher Children's Hospital is a unit of the Hospital serving pediatric patients. The Knight Cancer Institute is the only National Cancer Institute (NCI) designated cancer center in the State, and the Knight Cardiovascular Institute provides the State's most comprehensive clinical and research heart program. In addition, OHSU operates a captive insurance company domiciled in Arizona for self-insurance purposes, OHSU Insurance Company (INSCO), which is blended in the accompanying financial statements.

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

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

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

Hospital. Consequently, the financial position and the changes in financial position of the Foundations are blended in the accompanying financial statements.

Additionally, the University Medical Group (UMG) is included as a blended component unit of OHSU. UMG is an Oregon public benefit corporation, organized and operated to provide billing and reporting services for the FPP within the School of Medicine at OHSU. The FPP Management Committee acts as the Board of Directors for UMG and is responsible for the day-to-day oversight of the clinical practice. As the Board of UMG is under the supervision and control of the FPP, and therefore, OHSU, UMG is a blended component unit of OHSU.

***(b) Accounting Standards***

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting. OHSU's financial statements and note disclosures are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements and interpretations. OHSU uses proprietary fund accounting.

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

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

***(c) New Accounting Pronouncements***

In June 2012, GASB issued Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*, effective for OHSU's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans. Under GASB 68, the statement of net position will now include OHSU's proportionate share of the Oregon Public Employee Retirement System's (PERS) net pension asset or liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the measurement date. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits.

(Dollars in thousands)

GASB 68 allows for the pension measurement date to be one year in arrears of the employer's reporting date. Therefore, OHSU is reporting in their fiscal year 2015 audited financial statements PERS related pension amounts measured as of and for the year ended June 30, 2014.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (GASB 71), effective for OHSU's fiscal year beginning July 1, 2014. This statement addresses an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to the implementation of that statement by employers and nonemployer contributing entities.

As a result of adoption of GASB 68 and GASB 71, the following adjustments were made to the opening net position as of June 30, 2014:

| | | Originally reported, June 30, 2014 | Adjustments | As adjusted, June 30, 2014 |
|---|---|---|---|---|
| Deferred outflows | $ | — | 37,369 | 37,369 |
| Net pension liability | | — | (217,599) | (217,599) |
| Net position | | 2,376,096 | (180,230) | 2,195,866 |

The adjustment to deferred outflows represents reversal of pension expense recognized in the year ended June 30, 2014 due to contributions during that year.

Please refer to Subsequent Event note (14) for the expected effects of valuation changes in PERS fiscal year 2015, to be reported by OHSU in fiscal year 2016, resulting from the Moro decision issued by The Oregon Supreme Court on April 30, 2015.

### *(d) Accounting Standards Impacting the Future*

On February 27, 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement prescribes how state and local governments should define and measure fair value, which assets and liabilities should be measured at fair value and expands disclosures related to fair value measurements. Currently, state and local governments are required to disclose how the value of an asset or liability is determined or measured. Statement No. 72, however, now requires governments to categorize fair values based on the criteria of Fair Value Hierarchy. This hierarchy is based on three reliability levels. GASB 72 requires the use of consistent valuation technique based on either the market approach, the cost approach, or the income approach. Statement No. 72 will trigger significant changes in how some financial instruments are reported and will require disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The goal is to enhance comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities. The requirements are effective for financial statements for periods beginning after June 15, 2015.

### *(e) Financial Reporting Entity*

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

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

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

### *(f) 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.

### *(g) 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


(Continued)

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, the fair value of interest rate swap agreements and valuation of pension liabilities.

### *(h) Cash and Cash Equivalents*

OHSU held no cash equivalents within Cash and cash equivalents at June 30, 2015.

### *(i) Investments*

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

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

### *(j) Inventories*

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

### *(k) Capital Assets*

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

Interest on borrowed amounts during major construction is capitalized and amortized over the depreciable life of the related asset. During fiscal year 2015, OHSU capitalized interest expense of approximately $1,413. This was net of approximately $0 of interest income on unspent project funds.


(Continued)

(Dollars in thousands)

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.

### *(l) Net Position Classifications*

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

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

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

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

A summary of restricted funds by restriction category for fiscal year ended June 30, 2015 is as follows:

| | | |
|---|---|---|
| Restricted expendable: | | |
| Research | $ | 305,738 |
| Academic support | | 39,000 |
| Instruction | | 29,019 |
| Capital projects and planning | | 5,392 |
| Student aid | | 51,162 |
| Clinical support | | 15,573 |
| Institutional support | | 5,201 |
| Defined benefit pension asset | | 96,652 |
| Other | | 26,975 |
| | $ | 574,712 |

(Dollars in thousands)

| | | |
|---|---|---|
| Restricted nonexpendable: | | |
| Research | $ | 23,045 |
| Instruction | | 48,237 |
| Clinical support | | 2,625 |
| Public service | | 1,401 |
| Academic support | | 70,498 |
| Student aid | | 39,432 |
| Other | | 19,363 |
| | $ | 204,601 |

### *(m) Endowments*

The endowment corpus is accounted for in the restricted, nonexpendable net position category, and reported on the statements of net position 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 the year ended June 30, 2015.

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

The endowment fund investment pool (endowment fund) is the repository for funds from restricted, nonexpendable contributions where the principal amount cannot be used but a spending distribution, described below, can be used for the designated purpose. The endowment fund also holds quasi-endowment funds, which have been designated as endowment by the Foundations' Boards of Trustees. All interest, dividends, and changes in fair value on the endowment fund are allocated to the appropriate unrestricted or restricted net position classification as specified by the donor at the time of receipt. Endowment accounts receive spending distributions subject to the Foundations' Boards of Trustees approved spending policy, which provides a predetermined amount of total return that can be spent for purposes designated by the donor. All expendable income restricted by the donor is carried as restricted, expendable net position until such time as the restriction has been met. At June 30, 2015, the fair value of investments in the endowment fund was $485.3 million. The fair value of the unspent portion of endowments in excess of corpus at June 30, 2015 was $43.3 million.

Spending distributions were not made for certain endowment accounts during 2015 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, 2015 accumulated loss of $300 related to endowment accounts with market value below corpus was reflected in nonexpendable restricted net position.


(Continued)

(Dollars in thousands)

***(n) 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.

***(o) 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.

***(p) Research Activity***

Restricted grants receivable represent receivables for grant activities on which OHSU has met all applicable eligibility requirements and on which the funds are available from the granting agency. As of June 30, 2015, the grants receivable balance was $20,264 and was included in grant and contract receivables in the accompanying statements of net position. The balance in unearned revenue as of year-end represents amounts advanced for which OHSU has not met all applicable eligibility requirements. As of June 30, 2015, the grants unearned revenue balance was $26,167, and was included in unearned revenue in the accompanying statements of net position.

***(q) 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.

***(r) Net Patient Service Revenue***

A summary of patient service revenues during the year ended June 30, 2015 is as follows:

| | | |
|---|---|---|
| Gross patient charges | $ | 3,711,127 |
| Contractual discounts | | (1,876,986) |
| Bad debt adjustments | | (25,945) |
| Net patient service revenues | $ | 1,808,196 |

OHSU has agreements with third party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, outpatient case rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts due and determined to be collectible from patients, third party payors, and others for services rendered and includes estimates for potential retroactive revenue adjustments under reimbursement agreements with third party payors. Such estimates are adjusted in future periods as final settlements are determined.



(Continued)

(Dollars in thousands)

A significant portion of OHSU's services are provided to Medicare, Medicaid, and Oregon Health Plan (OHP) patients under contractual arrangements. Inpatient acute care services rendered by OHSU to Medicare, Medicaid, and OHP program beneficiaries are generally reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors (i.e., Medicare severity diagnosis related groups or MS DRGs). Such payments include a capital cost component and may be greater or less than the actual charges for services. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. Home health services related to Medicare beneficiaries are reimbursed under a prospective payment system methodology. OHSU is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audits of OHSU's annual cost reports by the Medicare fiscal intermediary and Medicaid.

The laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that estimated third party payor settlements payable, net, will change by a material amount in the near term. Net patient service revenue was increased by approximately $4,219 for the year ended June 30, 2015 as a result of final settlements of prior years' cost reports and revisions of estimates for prior years cost report settlements.

OHSU has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations to provide medical services to subscribing participants. The basis for payment to OHSU under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined fee schedules, and certain capitated per member per month payment arrangements.

Significant concentrations of gross patient accounts receivable as of June 30, 2015 were approximately as follows:

| | |
|---|---|
| Medicare and Medicare managed care contracts | 25% |
| Medicaid and Oregon Health Plan (OHP) | 21 |
| Commercial and managed care insurance | 51 |
| Nonsponsored | 3 |
| | 100% |

*(s)* ***Student Tuition and Fees Revenues***

A summary of student tuition and fees revenues during the year ended June 30, 2015 is as follows:

| | | |
|---|---|---|
| Gross student tuition | $ | 78,606 |
| Exemptions | | (12,035) |
| Student tuition and fees revenues, net | $ | 66,571 |

### *(t) Charity Care*

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

OHSU maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. Charity care provided, measured as charges forgone, and based on established rates was $46,077 in 2015.

### *(u) Pledges and Estates Receivable*

Pledges and estates receivable are recorded as receivables and revenues in the appropriate net asset category based upon donor-imposed restrictions and are reported at fair value at the date the promise is received. The majority of pledges are received within five years of the date the commitment was received. The majority of estates are received within one year. Pledges and estates receivable, less reserves for estimated uncollectible amounts, are discounted to their present value using rates that range from 0.30% to 4.88%.

### *(v) 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 net position.

### *(w) Moda Note Receivable*

OHSU is partnering with Moda Health (Moda), one of the four largest health plans in Oregon, to advance population health management. In addition to the work of OHSU and Moda through the Alliance, initial joint efforts include health plan offerings to the Public Employees’ Benefit Board, Oregon Educators Benefit Board, and OHSU employees. In December 2014, OHSU invested $50 million in Moda through a 10-year surplus note to help capitalize Moda’s Oregon healthcare efforts. The principal balance of this note shall become due and payable in full on December 15, 2024. Moda will pay interest on the unpaid principal balance of this note until the principal balance is paid in full, at a rate equal to 4% per annum. Accrued interest is payable quarterly every 15th of March, June, September, and December commencing March 15, 2015. Payment of interest and principal is subject to approval by the Oregon insurance commissioner. Moda has the largest share in Oregon’s individual insurance market under the new provisions of the ACA, and has significant receivables due from the federal government under the risk corridor program that was designed to encourage plans to offer individual coverage. The Department of Health and Human Services has stated that it recognizes that the ACA requires the Secretary to make full payments, and is recording amounts unpaid, following an initial yet to be made payment of 12.6%, as fiscal year 2015 obligations of the United States Government. However it is uncertain when the federal government will pay these remaining amounts. In light of this uncertainty, OHSU has recorded a valuation reserve of $16.5 million against the surplus note receivable. Further valuation reserves may be required if the federal government does not pay amounts Moda believes it is due under this program.

## (2) Cash and Investments

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

(Dollars 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, 2015 is as follows:

| | | |
|---|---|---|
| Short-term investments: | | |
| Cash and cash equivalents | $ | 965 |
| Mutual funds | | 61,852 |
| U.S. government securities | | 355 |
| U.S. agency securities | | 3,647 |
| Corporate obligations | | 30,989 |
| Fixed income | | 81,920 |
| | | 179,728 |
| Funds held by trustee, current portion: | | |
| Cash and cash equivalents | | 4,017 |
| | | 4,017 |
| Funds held by trustee – less current portion: | | |
| Cash and cash equivalents | | 253 |
| U.S. agency securities | | 10,957 |
| Fixed income | | 16,254 |
| | | 27,464 |
| Long-term investments – less current portion: | | |
| Cash and cash equivalents | | 4,882 |
| U.S. government securities | | 169,668 |
| U.S. agency securities | | 23,669 |
| Corporate obligations | | 253,112 |
| Fixed income | | 181,629 |
| Equities | | 307,453 |
| Alternative investments | | 110,736 |
| Joint ventures and partnerships | | 48,760 |
| Real estate investments and other | | 85,741 |
| | | 1,185,650 |
| Total investments, all categories | $ | 1,396,859 |

(Dollars in thousands)

## (3) Investments and Related Policies

### *(a) Interest Rate Risk*

As of June 30, 2015, OHSU had the following investments and maturities at fair value:

| | Maturity: Less than 1 year | 1–5 years | 6–10 years | More than 10 years or none | Total |
|---|---|---|---|---|---|
| Cash and money market funds | $ 51,551 | 2,101 | — | — | 53,652 |
| U.S. government securities | 355 | 155,769 | 13,899 | — | 170,023 |
| U.S. agency securities | 3,647 | 10,372 | 4,193 | 9,104 | 27,316 |
| Domestic equity securities | — | — | — | 132,835 | 132,835 |
| International equity securities | — | — | — | 210,416 | 210,416 |
| International debt securities | — | — | 18,608 | — | 18,608 |
| Commercial paper | 18,620 | — | — | — | 18,620 |
| U.S. corporate securities | 27,355 | 195,311 | 11,979 | — | 234,645 |
| Non-U.S. corporate securities | 12,616 | 33,414 | 3,211 | 215 | 49,456 |
| Asset-backed securities | 43,566 | 36,465 | 1,989 | 22,662 | 104,682 |
| Joint ventures and partnerships | — | — | — | 48,760 | 48,760 |
| Mutual funds – fixed income only | 28,588 | 34,529 | 39,357 | 1 | 102,475 |
| Municipal bonds | 332 | 775 | 565 | 584 | 2,256 |
| Mutual funds, other | — | — | — | 61,852 | 61,852 |
| Alternative investments | — | — | — | 94,747 | 94,747 |
| Real estate investments and other | — | — | — | 66,516 | 66,516 |
| | $ 186,630 | 468,736 | 93,801 | 647,692 | 1,396,859 |

OHSU held $104,682 of asset-backed securities collateralized primarily by auto loans, credit card receivables and collateralized mortgage obligations as of June 30, 2015. 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, 2015, 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 in the accompanying statements of net position, seeks to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. Foundation investment policies are established based on the investment objectives of the portfolio. Each portfolio has its own Board-authorized asset allocation guideline. The objective for the current fund is to earn a total return, net of fees and expenses, which exceeds the Barclay's 1–5 Year Government/Credit Bond index while also providing a reliable source of liquidity to meet short-term working capital needs. The current fund may invest in cash, cash equivalents, and fixed-income securities. The duration of the portfolio shall be within a range of 75% to 125% of the Barclay's 1–5 Year Government/Credit Bond Index. The objective for the endowment fund is to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. 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 also 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 for charitable trusts include cash and cash equivalents, U.S. and non-U.S. equities, fixed income, real estate, and commodities.



(Continued)

***(b) Credit Risk***

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

| | **Minimum Moody's rating** | **Minimum Standard & Poor's rating** |
|---|---|---|
| Bankers acceptances | P-1 | A-1 |
| Commercial paper | P-2 | A-2 |
| Certificates of deposit | Baa3/P-2 | BBB-/A-2 |
| Deposit notes | Baa3/P-2 | BBB-/A-2 |
| Eurodollar CDs or eurodollar time deposits | Baa3/P-2 | BBB-/A-2 |
| Yankee CDs | Baa3/P-2 | BBB-/A-2 |
| Corporate debt | Baa3 | BBB- |
| Foreign government and supranational debt | Baa3 | BBB- |
| Insurance company annuity contracts and guaranteed investment contracts | A3 | A- |
| Mortgage pass-through securities | Aaa | AAA |
| Structured securities including asset-backed securities | Aaa | AAA |
| Pooled investments | Aa | AA |
| Municipal bonds (taxable or tax-exempt) | A2/P-1 | A/A-1 |

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 trust investments generally have a minimum credit quality rating in investment-grade Baa/BBB bond investments and a minimum rating of A-1/P-1 for investments in commercial paper. However, an individual trust may hold up to 9% of the portfolio in below-investment-grade investments.

(Dollars in thousands)

As of June 30, 2015, OHSU had the following investments with credit rating at fair value:

| Investment type | or equivalent | | Total |
|---|---|---|---|
| Cash and money market funds | AAA | $ | 3,936 |
| | A+ | | 1,002 |
| | BBB+ | | 701 |
| | A-1+ | | 2,001 |
| | A-1 | | 8,925 |
| | A-2 | | 1,005 |
| | Not rated | | 437 |
| | NA | | 35,646 |
| U.S. government securities | AAA | | 82,536 |
| | AA+ | | 86,834 |
| | BBB | | 355 |
| | BBB- | | 299 |
| U.S. agency securities | AAA | | 15,134 |
| | AA+ | | 12,182 |
| Commercial paper | A-1+ | | 5,547 |
| | A-1 | | 12,328 |
| | A-2 | | 745 |
| U.S. corporate securities | AAA | | 501 |
| | AA+ | | 6,008 |
| | AA | | 3,679 |
| | AA- | | 15,188 |
| | A+ | | 26,195 |
| | A | | 39,588 |
| | A- | | 58,500 |
| | BBB+ | | 36,666 |
| | BBB | | 24,017 |
| | BBB- | | 23,154 |
| | BB | | 485 |
| | n/a | | 663 |
| International debt securities | AAA | | 1,437 |
| | AA+ | | 3,671 |
| | AA | | 769 |
| | AA- | | 1,265 |
| | A+ | | 809 |
| | A | | 3,869 |
| | A- | | 889 |
| | BBB+ | | 2,763 |



(Continued)

(Dollars in thousands)

| Investment type | Credit rating Standard & Poor's or equivalent | | Total |
|---|---|---|---|
| | BBB | $ | 158 |
| | BBB- | | 1,148 |
| | BB+ | | 1,303 |
| | B+ | | 35 |
| | B | | 2 |
| | Below B | | 419 |
| | Not rated | | 71 |
| Non-U.S. corporate securities | AAA | | 301 |
| | AA | | 200 |
| | AA- | | 9,800 |
| | A+ | | 12,362 |
| | A | | 9,283 |
| | A- | | 6,449 |
| | BBB+ | | 4,444 |
| | BBB | | 2,652 |
| | BBB- | | 1,507 |
| | NA | | 2,458 |
| Asset backed securities | AAA | | 75,578 |
| | AA+ | | 10,157 |
| | A-1+ | | 800 |
| | Not rated | | 5,802 |
| | NA | | 12,345 |
| Mutual funds – fixed income only | AAA | | 76,982 |
| | AA | | 3,158 |
| | A | | 12,676 |
| | BBB | | 6,605 |
| | BB | | 804 |
| | B | | 720 |
| | Below B | | 627 |
| | Not rated | | 904 |
| Municipal Bonds | AAA | | 328 |
| | AA+ | | 504 |
| | AA | | 744 |
| | AA- | | 488 |
| | A+ | | 191 |

(Dollars in thousands)

| Investment type | Credit rating Standard & Poor's or equivalent | | Total |
|---|---|---|---|
| Joint ventures and partnerships | NA | $ | 48,760 |
| Mutual funds-other | NA | | 61,852 |
| Alternative investments | NA | | 94,746 |
| Real estate investments and other | NA | | 66,516 |
| Domestic equity securities | NA | | 132,835 |
| International equity securities | NA | | 210,416 |
| | | $ | 1,396,859 |

### *(c) Concentration of Credit Risk*

OHSU's operating and trustee held portfolios limit investments in any one issue to a maximum of 5%, (10% prior to investment policy amendment adopted by the Board in October 2013), depending upon the investment type, except for issues of the U.S., which may be held without limitation, or U.S. government agencies limited to 15% (without limit prior to policy amendment). 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 or diversified mutual funds, which may also be held without limitation. The foundation's investment policy for charitable trusts limits investments in any one issue to a maximum of 10%, except for issues of the U.S. government and its agencies or diversified mutual funds. The current fund investment policy places no limit on the amount that may be invested in any one issuer, except that a maximum of 3% may be invested in the securities of any nongovernmental issuer. As of June 30, 2015, OHSU had no investments in excess of the thresholds discussed above.

(Dollars in thousands)

***(d) Foreign Currency Risk***

OHSU's investment policies permit investments in international equities and other asset classes, which can include foreign currency exposure. The operating and trustee held portfolios allow investments in Eurodollar CDs. The endowment portfolio allows up to 35% of the portfolio to be invested in international equities and up to 40% 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 30% of the portfolio to be invested in international equities. The charitable trust investment policy allows up to 32% of the portfolio to be invested in international equities, based on the individual circumstances of each trust account. The following table details the fair value of foreign denominated securities by currency type:

| **Foreign currency** | | **Value (U.S. dollar) 2015** |
|---|---|---|
| Australian dollar | $ | 558 |
| British sterling pound | | 2,347 |
| Canadian dollar | | 2,544 |
| Euro | | 1,759 |
| Swiss Franc | | 1,450 |
| Total | $ | 8,658 |

**(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, 2015, $83,517 was the net amount due from Medicaid, $920 was the net amount due to Medicare, and $307 was due to various contractual agency related settlement activity. A corresponding amount included in current liabilities of $36,952 due to the State Medicaid Program is offsetting much of the $83,517 in receivables recorded as of June 30, 2015. This amount represents state and federal matching funds that will be returned to the State following offsetting payments to OHSU, which results in a net neutral position. At June 30, 2015, the net receivable is included in patient accounts receivable in the statements of net position.

(Dollars in thousands)

## (5) Capital Assets

Capital assets for fiscal year ended June 30, 2015 are listed by category below:

| | | |
|---|---|---|
| Land and land improvements | $ | 72,436 |
| Buildings and other improvements | | 1,902,322 |
| Equipment | | 841,182 |
| Construction in progress | | 54,307 |
| Accumulated depreciation | | (1,341,991) |
| Total capital assets, net | $ | 1,528,256 |

The following is a summary of capital assets for the fiscal year ended June 30, 2015:

| | Balance June 30, 2014 | Increases | Decreases | Balance June 30, 2015 |
|---|---|---|---|---|
| Capital assets not depreciated: | | | | |
| Land and land improvements | $ 72,436 | — | — | 72,436 |
| Construction in progress | 291,852 | 53,423 | (290,968) | 54,307 |
| Total capital assets not depreciated | 364,288 | 53,423 | (290,968) | 126,743 |
| Other capital assets: | | | | |
| Buildings and other improvements | 1,620,931 | 286,974 | (5,583) | 1,902,322 |
| Equipment | 766,355 | 92,154 | (17,327) | 841,182 |
| Total other capital assets | 2,387,286 | 379,128 | (22,910) | 2,743,504 |
| Less accumulated depreciation: | | | | |
| Buildings and other improvements | (656,819) | (67,693) | 4,859 | (719,653) |
| Equipment | (577,609) | (61,786) | 17,057 | (622,338) |
| Total accumulated depreciation | (1,234,428) | (129,479) | 21,916 | (1,341,991) |
| Other capital assets, net | 1,152,858 | 249,649 | (994) | 1,401,513 |
| Total capital assets, net | $ 1,517,146 | 303,072 | (291,962) | 1,528,256 |

## (6) Compensated Absences Payable

Vacation pay for classified employees is earned at 8 to 24 hours per month, depending on the length of service, with a maximum accrual of up to 364 hours per employee and a maximum payment upon separation of up to 364 hours. Vacation pay for unclassified employees is earned at 14.67 hours per month, with a maximum accrual of 256 hours and a maximum payment upon separation of 176 hours.

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

## (7) Retirement Plans

Various pension plans are available for all qualified employees. Many employees participate in the State of Oregon Public Employees Retirement System (PERS), which includes a cost-sharing defined benefit plan (PERS Tier 1 and Tier 2/Oregon Public Service Retirement System (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. This report also includes information about the determination of the plan's fiduciary net position.

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. Copies of the Oregon Public Employees Retirements System's Comprehensive Annual Financial Report and Actuarial Valuations may be obtained from their website at http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

Information regarding normal retirement age, early retirement age, and vesting can be found on the Oregon PERS web site at:
http://www.oregon.gov/pers/docs/general_information/benefit_component_comparisons_chart.pdf.

### *Description of Defined-Benefit Pension Plan*

PERS is a cost-sharing, multiple-employer defined benefit pension plan for units of state government, political subdivisions, community colleges, and school districts, containing multiple actuarial pools. Plan assets may be used to pay the benefits of the employees of any employer that provides pensions through the plan. As of June 30, 2014, there were 912 participating employers. PERS is administered in accordance with Oregon Revised Statutes (ORS) Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a). The Oregon Legislature has delegated authority to the Retirement Board to administer and manage the system. All members of the Board are appointed by the governor and confirmed by the state Senate. The governor designates the chairperson. One member must be a public employer manager or a local elected official, one member must be a union-represented public employee or retiree, and three members must have experience in business management, pension management, or investing.

***Description of Plan Benefits***

**(a)** **Tier One/Tier Two Retirement Benefit**. The Tier One/Tier Two Retirement Benefit plan is closed to new members hired on or after August 29, 2003.

*Key benefit provisions include:*

1. Pension Benefits: The Tier One/Tier Two retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0% for police and fire employees, 1.67% for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results. A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60.

2. Death Benefits: Upon the death of a nonretired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

   - The member was employed by a PERS employer at the time of death,
   - The member died within 120 days after termination of PERS-covered employment,
   - The member died as a result of injury sustained while employed in a PERS-covered job, or
   - The member was on an official leave of absence from a PERS-covered job at the time of death.

3. Disability Benefits: A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a nonduty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a nonduty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

4. Benefits Changes After Retirement: Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments. Under ORS 238.360, monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25% on the first $60,000 of annual benefit and 0.15% on annual benefits above $60,000. This represents a change in benefit structure applied to the beginning of the year valuation.

**(b) OPSRP Pension Program provides benefits to members hired on or after August 29, 2003.**

*Key benefit provisions include:*

1. Pension Benefits: This portion of PERS provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

   - Police and fire: 1.8% is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

   - General service: 1.5% is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

   Benefits are reduced if the normal retirement age is not attained. A member of the OPSRP Pension Program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

2. Death Benefits: Upon the death of a nonretired member, the spouse, or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50% of the pension that would otherwise have been paid to the deceased member.

3. Disability Benefits: A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45% of the member's salary determined as of the last full month of employment before the disability occurred.

4. Benefit Changes After Retirement: Under ORS 238A.210, monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25% on the first $60,000 of annual benefit and

0.15% on annual benefits above $60,000. This represents a change in benefit structure from the structure applied to the beginning of the year valuation.

***Contributions***

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

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 9.33% from July 1, 2013 to June 30, 2015. The employer contribution rate for the OPSRP was 7.65% (OPSRP Police and Fire 10.38%) from July 1, 2014 to June 30, 2015. Additionally, OHSU made a $7.5 million lump sum payment to PERS in accordance with Oregon Administrative Rule (OAR) 459-009-0084, 459-009-0085, or 459-009-0090, which establishes the procedures and requirements for when a participating employer makes an unfunded actuarial liability lump-sum payment.

Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013. The state of Oregon and certain schools, community colleges, and political subdivisions have made lump-sum payments to establish side accounts, and their rates have been reduced. OHSU amounts contributed during the year ended June 30, 2014 and recognized as a reduction to the net pension liability reported at June 30, 2015 totaled $37,368. Amounts contributed post measurement date are recorded as deferred outflows in the amount of $37,750.

***Net Pension (Asset)/Liability***

OHSU’s proportionate share of the net pension (asset)/liability for PERS as of June 30, 2015 and June 30, 2014 is $(96.7) million and $217.6 million, respectively, utilizing a June 30, 2014 and June 30, 2013 measurement date, respectively. The net pension asset for the June 30, 2015 fiscal year-end, as included in other noncurrent assets in the statement of net position, was determined based on the results of the December 31, 2012 actuarial valuation, adjusted to the measurement date of June 30, 2014 using standard actuarial procedures. OHSU’s proportion of the net pension (asset)/liability was based on an actuarial projection of the OHSU long-term share of contributions to PERS relative to the projected contributions of all participating members. At June 30, 2014, OHSU’s proportionate share was 4.26399394%. There was no change in OHSU’s proportionate share from the prior measurement date.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of PERS and additions to/deductions from PERS’ fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(Dollars in thousands)

***Pension Benefit***

OHSU's pension benefit for the year ended June 30, 2015 was $89,081. In accordance with GASB 68 this benefit considered concurrent period interest cost, service cost, amortization of deferred outflows and inflows, and changes in benefit terms. During the fiscal year 2014 (the measurement period), cost of living adjustments were enacted by the state legislature, resulting in a reduction of pension liabilities of PERS.

***Actuarial Methods and Assumptions***

The following methods and assumptions were used in developing Total Pension Liability as of June 30, 2015, utilizing a June 30, 2014 measurement date:

| | |
|---|---|
| Measurement date | June 30, 2014 |
| Actuarial valuation date | December 31, 2012 |
| Actuarial cost method | Entry age normal |
| Inflation rate | 2.75% |
| Investment rate of return | 7.75% |
| Projected salary increases | 3.75% overall payroll growth; salaries for individuals are assumed to grow at 3.75% plus assumed rates of merit/longevity increases based on service |
| Mortality | Healthy retirees and beneficiaries:<br>RP-2000 sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.<br><br>Active members:<br>Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.<br>Disabled retirees:<br>Mortality rates are a percentage (65% for males and 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table. |

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2012 Experience Study which reviewed experience for the four-year period ended on December 31, 2012.

(Dollars in thousands)

***Discount Rate***

The discount rate used to measure the total pension liability was 7.75% for PERS. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for PERS was applied to all periods of projected benefit payments to determine the total pension liability. The impact of a 1% decrease and increase in the discount rate on the liability is as follows:

| | | 1% Decrease (6.75%) | Discount rate (7.75%) | 1% Increase (8.75%) |
|---|---|---|---|---|
| OHSU's proportionate share of the net pension (asset)/liability at June 30, 2014 | $ | 204,675 | (96,653) | (351,505) |

***Assumed Asset Allocation***

The following table illustrates the assumed asset allocation:

| Asset class/strategy | Low range | High range | OIC target |
|---|---|---|---|
| Cash | —% | 3.0% | —% |
| Debt securities | 15.0 | 25.0 | 20.0 |
| Public equity | 32.5 | 42.5 | 37.5 |
| Private equity | 16.0 | 24.0 | 20.0 |
| Real estate | 9.5 | 15.5 | 12.5 |
| Alternative equity | — | 10.0 | 10.0 |
| Opportunity portfolio | — | 3.0 | — |
| Total | | | 100.0% |

***Long-Term Expected Rate of Return***

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013, the PERS Board reviewed long-term assumptions developed by both Milliman's (actuarial firm conducting the review) capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

(Dollars in thousands)

| Asset class | Target allocation | Compound annual return (geometric) |
|---|---|---|
| Core Fixed Income | 7.20% | 4.50% |
| Short-Term Bonds | 8.00 | 3.70 |
| Intermediate-Term Bonds | 3.00 | 4.10 |
| High Yield Bonds | 1.80 | 6.66 |
| Large Cap U.S. Equities | 11.65 | 7.20 |
| Mid Cap U.S. Equities | 3.88 | 7.30 |
| Small Cap U.S. Equities | 2.27 | 7.45 |
| Developed Foreign Equities | 14.21 | 6.90 |
| Emerging Foreign Equities | 5.49 | 7.40 |
| Private Equity | 20.00 | 8.26 |
| Opportunity Funds/Absolute Return | 5.00 | 6.01 |
| Real Estate | 16.25 | 13.27 |
| Commodities | 1.25 | 6.07 |
| Total | 100% | |

***Deferred Outflows of Resources and Deferred Inflows of Resources***

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2014:

| | | Deferred outflow of resources | Deferred inflow of resources |
|---|---|---|---|
| Net difference between projected and actual earnings on pension plan investments | $ | — | 186,160 |
| Changes in proportion and differences between OHSU's contributions and proportionate share of contributions | | — | 1,641 |
| Contributions subsequent to the measurement date | | 37,750 | — |
| Net deferred outflow (inflow of resources) | $ | 37,750 | 187,801 |

(Dollars in thousands)

The contributions made subsequent to the measurement date of $37,750 will be recognized as a reduction in the net pension liability for the year ended June 30, 2016. Remaining amounts reported as deferred outflows or inflows of resources related to pension will be recognized in pension expense (benefit) as follows:

| Fiscal year | | Deferred inflow of resources |
|---|---|---|
| 2016 | $ | (46,951) |
| 2017 | | (46,950) |
| 2018 | | (46,950) |
| 2019 | | (46,950) |
| Total | $ | (187,801) |

See also discussion of changes to PERS subsequent to the measurement date at note 14.

***Other Retirement Plans***

In addition to the PERS defined benefit retirement plan, OHSU has three defined contribution plans – PERS Individual Account Program (IAP), The University Pension Plan (UPP), and the Clinical Retirement Plan (CRP).

Effective January 1, 2004, employees participating in PERS (Tier 1, Tier 2, OPSPR) have had their 6% member contributions placed in the IAP. The IAP is a defined contribution plan and is managed separately from the defined benefit portion of the PERS pension plan.

Effective July 1, 1996, OHSU established the University Pension Plan (UPP). The UPP is a defined contribution plan, which is available to all employees that are not a member of the Faculty Practice Plan 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 year 2015, 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.

(Dollars in thousands)

For employees that are members of the Faculty Practice Plan who work in a qualifying position, OHSU offers participation in the Clinical Retirement Plan (CRP). The CRP is an employer paid defined contribution plan, and contributions to this plan are fully vested at the time of the contribution. A variable contribution rate is used for employees enrolled prior to January 1, 2009. After January 1, 2009, a 12% contribution rate is used.

| | | |
|---|---|---|
| PERS IAP: | | |
| Employee contribution | $ | 20,722 |
| UPP: | | |
| Employer contribution | $ | 26,153 |
| Employee contribution (1) | | 26,153 |
| | $ | 52,306 |
| CRP: | | |
| Employer contribution | $ | 18,730 |
| | $ | 18,730 |

(1) Of the employees' share, the employer paid $26,153 related to UPP contributions in 2015.

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 $900 for the purchase of retirement annuities during the fiscal year ended June 30, 2015.



(Continued)

(Dollars in thousands)

## (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.

The following table shows the components of OHSU's annual other postretirement employee benefit (OPEB) cost for the fiscal year ended June 30, 2015, the amount actually contributed to the plan, and changes in OHSU's net OPEB obligation to the plan:

| | | |
|---|---|---|
| Annual required contribution (ARC) | $ | 1,177 |
| Interest on net OPEB obligation | | 271 |
| Adjustment to ARC | | (422) |
| Annual OPEB cost | | 1,026 |
| Contributions made | | (573) |
| Increase in OPEB obligation | | 453 |
| Net OPEB obligation – beginning of fiscal year | | 7,769 |
| Net OPEB obligation – end of fiscal year | $ | 8,222 |
| Percentage of annual OPEB cost contributed | | 56% |

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) |
|---|---|---|---|---|---|---|---|---|
| October 1, 2013 | $ | — | 9,722 | 9,722 | —% | $ | 874,421 | 1.1% |

The actuarially determined amounts above use an assumed discount rate of 3.5% in the October 1, 2013 valuation. The assumed healthcare cost trend rate was 7.2% in 2015, declining gradually to 4.8% in 2084 and remaining at 4.8% 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;

(Dollars in thousands)

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. OHSU receives an updated actuarial report every two years.

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

Long-term debt, including related unamortized original issue discounts and premiums and capital leases at June 30, 2015 are as follows:

| | | |
|---|---|---|
| Debt Service Payment Agreement (DSPA) | $ | 10,884 |
| Tenancy in Common Agreement (TIC) | | 28,349 |
| Bonds payable, revenue bonds, Series 1995A | | 58,861 |
| Bonds payable, revenue bonds, Series 2009A | | 155,501 |
| Bonds payable, revenue bonds, Series 2012A,B,C, and E | | 313,234 |
| Bonds payable, revenue bonds, Series 2015A and B | | 141,500 |
| Local improvement district agreements | | 24,305 |
| Capital leases | | 6,130 |
| Less current portion of debt and capital leases | | (19,163) |
| | $ | 719,601 |

### *(a) Debt Service Payment Agreement (DSPA)*

OHSU became an independent public corporation pursuant to an act of the Oregon Legislative Assembly in 1995 (the Act). Pursuant to the Act, OHSU assumed liability for outstanding indebtedness of the State previously incurred for the benefit of OHSU. To evidence this obligation, OHSU and the Oregon State Board of Higher Education (on behalf of the State of Oregon) entered into a Debt Service Payment Agreement, dated as of July 1, 1995, as subsequently amended (the State DSPA), pursuant to which OHSU makes payments to the State in amounts sufficient to pay when due all principal, interest, and any other charges with respect to such previously issued debt. Payment under the terms of the DSPA by OHSU represents full satisfaction of any legal obligation related to such outstanding indebtedness.

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

During fiscal year 2011, OHSU entered into a joint construction project with the Oregon State Board of Higher Education (previously referred to as Oregon University System (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 collaboratively with Portland State University and Oregon State University. 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 the State one half of each assigned scheduled fixed rate Series 2011F&G State Bonds debt service issued to fund the construction of the project. Payments under the terms of the Tenancy in Common

Agreement by OHSU represents full satisfaction of any legal obligation related to such outstanding indebtedness.

***(c) Bonds Payable***

During fiscal year 1996, OHSU issued its first Insured Revenue Bonds Series A and B (1995 Revenue Bonds), which were partially refunded in fiscal years 2005 and 2012. The remaining outstanding 1995 Revenue Bond maturities are due July 1, 2015 through July 1, 2021 requiring semiannual interest payments with outstanding rates ranging from 5.65% 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.

In fiscal year 2009, Series 2009A Revenue Bonds were issued as fixed rate bonds with maturities due beginning July 1, 2033 through July 1, 2039 requiring semiannual interest payments with rates ranging from 5.750% to 5.875%. The 2009A Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2009 Revenue Bonds are not general obligations of OHSU and are payable solely from revenue pledged.

In fiscal year 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 existing outstanding debt portfolio. The Series 2012A was issued as fixed rate bonds with remaining outstanding maturities due July 1, 2015 through July 1, 2028 requiring semiannual interest payments with outstanding rates ranging from 3.0% to 5.0%. The Series 2012C was issued as variable rate bond with remaining outstanding maturities due July 1, 2015 through July 1, 2027. The Series 2012D was issued as direct placement variable rate bond and subsequently refunded with a new Series 2015B in fiscal year 2015. In fiscal year 2013, Series 2012E was issued as fixed rate bonds with maturities due beginning July 1, 2023 to July 1, 2032 requiring semiannual interest payments with rates ranging from 4.0% to 5.0%. The 2012 Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2012 Revenue Bonds are not general obligations of OHSU and are payable solely from revenue pledged.

Additionally in fiscal year 2012 during the restructuring process, OHSU simultaneously issued $85.57 million of new tax-exempt variable rate revenue bonds, the Series 2012B-1, 2012B-2, and 2012B-3, to pay for certain costs of construction and other costs of issuance for the expanded CLSB Skourtes Tower project, which contains the new OHSU School of Dentistry. The Series 2012B-1 and 2012B-2 were refunded with a new Series 2015A in fiscal year 2015. The remaining Series 2012B-3 bonds have maturities due beginning July 1, 2040 through July 1, 2042. The 2012 Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2012 Revenue Bonds are not general obligations of OHSU and are payable solely from revenue pledged.

(Dollars in thousands)

In fiscal year 2015, OHSU restructured its Series 2012B-1, 2012B-2 and 2012D variable rate bonds with the Series 2015A and 2015B refunding Revenue Bonds to extend and stagger renewal dates of letters of credit (LOCs) and direct placement expiration dates. Series 2015A was issued as direct placement variable rate bond, refunding the 2012B-1 and 2012B-2 bonds, with maturities due beginning July 1, 2040 to July 1, 2042. Series 2015B was issued as direct placement variable rate bond, refunding the 2012D bond, with maturities due beginning July 1, 2015 to July 1, 2032. No economic gain or loss was incurred as a result of this restructuring. The 2015 Revenue Bond are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2015A and 2015B Revenue Bonds are not general obligations of OHSU and are payable solely from revenue pledged.

OHSU has multiple credit enhancement facilities, including irrevocable Standby Letters of Credit with U.S. Bank NA and Direct Placements with Wells Fargo Municipal Capital Strategies LLC and JPMorgan Chase Bank, NA as bondholder representative for DNT Asset Trust as noted in the table below:

**2012BC and 2015AB Variable rate debt as of June 30, 2015**

| Series | Facility counterparty | Bond Par (000,s) | Facility matures | LT Ratings S&P/Moody's /Fitch | Reset |
|---|---|---|---|---|---|
| 2012B-3 | US Bank, NA | $ 28,520,000 | 5/21/2020 | AA-/Aa2/AA- | daily |
| 2012C | US Bank, NA | 16,175,000 | 5/21/2020 | AA-/Aa2/AA- | daily |
| 2015A | WellsFargo Municipal |  | 5/2/2022 | AA-/Aa2/AA | monthly |
|  | Capital Strategies LLC | 57,050,000 |  |  |  |
| 2015B | JPMorgan Chase Bank |  | 5/3/2027 | A+/Aa3/AA- | monthly |
|  | NA/DNTAsset Trust | 84,450,000 |  |  |  |
|  |  | $ 186,195,000 |  |  |  |

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.

Under the terms of the outstanding 1995 and 2009 Revenue Bonds, OHSU is required to maintain funds held by a trustee for debt service 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

(Dollars in thousands)

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 10 and 20 years at interest rates ranging between 4.19% and 6.00%. The total outstanding balances due as of June 30, 2015 are $24.3 million and have been included in long-term debt in the statements of net position.

### *(e) Interest Rate Swap Agreement*

As of June 30, 2015, OHSU held two interest rate swap agreements (collectively, the swaps). The balances of OHSU's swaps as of June 30, 2015 are as follows:

| | | Notional amount | Fair Value |
|---|---|---|---|
| 2005A US Bank Modified Swap | $ | 37,100 | (5,966) |
| 2005B US Bank Modified Swap | | 37,100 | (5,966) |
| | $ | 74,200 | (11,932) |

The notional amounts of the outstanding swaps and the principal amounts of the associated debt decline over time and terminate on July 1, 2028. The Swaps have the option of early termination with a cash settlement. Under each agreement, OHSU makes fixed rate interest payments of 3.45935% to the counterparty and receives a variable rate payment computed as 62.67% of the London Interbank Offered Rate (LIBOR) plus 0.177%. The fair value represents the estimated amount that OHSU would pay or receive if the swap agreements were terminated at year-end, taking into account current interest rates and the creditworthiness of the underlying counterparty. Total cash payments made to the swap counterparty were $2,355 during the year ended June 30, 2015. Each of the swaps were novated during fiscal year 2013 and reassigned to a new counterparty under substantially equivalent terms.

Each of the swaps above was originally established as part of a hedging arrangement during fiscal year 2005, and subsequently amended, as a hedge of total cash flows associated with the interest payments on the Series 1998B and Series 2002B bonds. As part of the 2012 refinancing, the hedging effectiveness was reevaluated and the swaps were reassigned as hedges of the interest payments on the Series 2012B-1, 2012B-2, and 2012B-3 bonds. In 2013, OHSU novated its swap agreements, replacing UBS with U.S. Bank, effectively creating a new off-market interest rate swap agreement. These new swap agreements with U.S. Bank were assigned as hedges of the Series 2012B-1, 2012B-2, and 2012B-3 bonds. Subsequently the Series 2012B-1 and 2012B-2 bonds were refunded with the Series 2015A bonds and the new assigned hedges effective in fiscal year 2015 are the Series 2012B-3 and Series 2015A bonds.

Management has evaluated the effectiveness of the current hedges assuming hybrid instruments; each swap consists of a companion debt instrument, amortized using the straight-line method, representing the value of the swap at the inception of the current hedge, and a hedging instrument, amortized using the effective interest method, representing the hypothetical value of the swap had it held a $0 value at the inception of the hedge.

The companion debt instrument for the U.S. Bank swaps was determined at the date of novation in fiscal year 2013 and subsequently in fiscal year 2015 due to the refunding of the Series 2012B-1 and 2012B-2 with a new Series 2015A, and is reported in other liabilities. The liability is being amortized over the remaining term of the swap agreements on a straight-line basis as an offset to unrealized gain/loss. The value of the companion debt instrument as of June 30, 2015 is $13,594. The value of the debt instrument is offset by deferred amortization of debt instruments, a deferred outflow, which is amortized on an effective interest method and has a balance of $12,142 as of June 30, 2015.

The on-market value of the hedging derivative instrument portion of the liability for the U.S. Bank swaps is recorded in other liabilities, with an offsetting balance recorded in deferred outflows. Any subsequent changes to the value of the hedging instruments are recorded by increasing or decreasing the statement of net position accounts. The total value of the liability is $356 as of June 30, 2015.

OHSU is exposed to swap credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2015, the counterparties' long-term credit ratings were AA- from Standard & Poor's, A1 from Moody's, and AA- from Fitch. Additionally, the swaps expose OHSU to basis risk, which is the risk that arises when the relationship between the rates on the variable rate bonds and the swap formulas noted above vary from historical norms. If this occurs, swap payments received by OHSU may not fully offset its bond interest payments. As these rates change, the effective synthetic rate on the bonds will change.

OHSU is additionally responsible for posting collateral if the total swap liability exceeds a predetermined value on their reporting date. The collateral posting limit is $30,000, compared to a total relevant swap liability value of $11,932, as of June 30, 2015 resulting in a requirement that OHSU post zero collateral as of June 30, 2015.

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

 (Continued)

(Dollars in thousands)

### *(f) Capital Leases*

OHSU has entered into agreements for the lease of certain equipment and vehicles. 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 position. Future minimum lease payments under these agreements are as follows:

| | | |
|---|---|---|
| Year(s) ending June 30: | | |
| 2016 | $ | 1,252 |
| 2017 | | 1,036 |
| 2018 | | 953 |
| 2019 | | 932 |
| 2020 | | 924 |
| 2021–2025 | | 1,832 |
| | | 6,929 |
| Less amount representing interest | | (799) |
| | | 6,130 |
| Less current portion | | (1,038) |
| | $ | 5,092 |

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

Long-term debt listed on the accompanying statements of net position is comprised of outstanding State DSPA and TIC agreements, revenue bonds and City of Portland Local Improvement District agreements totaling $732,634 as of June 30, 2015. Included in long-term debt are unamortized net original issue discounts and premiums of $22,257 and accreted interest for the DSPA and 1995 Revenue Bonds of $44,957 as of June 30, 2015. 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.

The insurance cost of obtaining debt is deferred and amortized over the term of the related debt using the effective-interest method and is listed as prepaid finance costs on the accompanying statements of net position.

(Dollars 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(s) ending June 30: | | | | |
| 2016 | $ | 18,125 | 28,033 | 46,158 |
| 2017 | | 16,032 | 31,687 | 47,719 |
| 2018 | | 14,371 | 31,526 | 45,897 |
| 2019 | | 14,492 | 31,301 | 45,793 |
| 2020 | | 14,839 | 31,107 | 45,946 |
| 2021–2025 | | 103,864 | 120,941 | 224,805 |
| 2026–2030 | | 125,386 | 83,621 | 209,007 |
| 2031–2035 | | 142,678 | 56,414 | 199,092 |
| 2036–2040 | | 126,628 | 22,745 | 149,373 |
| 2041–2045 | | 89,005 | 844 | 89,849 |
| | $ | 665,420 | 438,219 | 1,103,639 |

### *(h) Changes in Long-Term Liabilities*

Changes in OHSU's total long-term liabilities during the fiscal year ended June 30, 2015 are summarized below:

| | | Balance June 30, 2014 | Increases | Decreases | Balance June 30, 2015 |
|---|---|---|---|---|---|
| Liability for self-funded insurance programs | $ | 60,295 | 27,313 | (28,103) | 59,505 |
| Liability for life income agreements | | 30,380 | 8,482 | (8,555) | 30,307 |
| Long-term debt | | 750,267 | 140,405 | (158,038) | 732,634 |
| Long-term capital leases | | 7,093 | 84 | (1,047) | 6,130 |
| Other noncurrent liabilities | | 27,734 | 68,323 | (1,698) | 94,359 |
| | $ | 875,769 | 244,607 | (197,441) | 922,935 |

## (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.

(Dollars in thousands)

Life income contributions, included in gifts, grants, and contracts in the accompanying statements of revenues, expenses, and changes in net position are as follows for the fiscal year ended June 30, 2015:

| | Agreements | Asset | Liability |
|---|---|---|---|
| Charitable remainder unitrusts | 4 | $ 715 | 409 |
| Charitable lead unitrusts | 1 | 180 | — |
| Charitable gift annuities | 15 | 1,399 | 848 |
| Total | 20 | $ 2,294 | 1,257 |

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 net position.

Total life income agreements held at June 30, 2015 are as follows:

| | Agreements | Asset | Liability |
|---|---|---|---|
| Charitable remainder unitrusts | 75 | $ 24,328 | 10,272 |
| Charitable lead unitrusts | 2 | 24,145 | 11,405 |
| Charitable remainder trust annuities | 4 | 620 | 318 |
| Charitable gift annuities | 213 | 12,441 | 7,749 |
| Life estate agreements | 4 | 1,564 | 563 |
| Total | 298 | $ 63,098 | 30,307 |

Twenty-three 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 $5,363 on June 30, 2015.

The Foundations are the named beneficiaries of 35 trusts held by outside trustees. The reported fair market value of trust assets held by others was $46,000 June 30, 2015. The Foundations record contributions as trust distributions occur. Trust distributions of $1,900 were recorded as contributions during the fiscal year ended June 30, 2015.



(Continued)

(Dollars in thousands)

## (12) Pledges and Estates Receivables

The Foundations had the following pledges and estates receivable as of June 30, 2015:

| | | |
|---|---|---|
| Pledges maturing within 1 year | $ | 43,654 |
| Pledges maturing within 2–10 years | | 168,179 |
| | | 211,833 |
| Less allowance for uncollectible pledges | | (3,644) |
| | | 208,189 |
| Less discount for net present value | | (6,341) |
| Total net pledges receivable | | 201,848 |
| Estates receivable | | 3,250 |
| Less allowance for uncollectible estates | | (163) |
| Total net estates receivable | | 3,087 |
| Total pledges and estates receivable | $ | 204,935 |

## (13) Commitments and Contingencies

### *(a) Liability for Self-Funded Insurance Programs*

Coverage for professional liability, patient general liability and automobile liability are provided through OHSU's solely owned captive insurance company, OHSU Insurance Company. Current coverage limits are designed to align with tort cap limits and, for claims made on or after July 1, 2013 are $3.8 million and on or after July 1, 2012 are $3.6 million for each and every claim for professional liability and $3.0 million for general liability. There is an annual aggregate of $17.5 million for professional liability.

Coverage for the Directors and Officers liability and employment practices liability deductible is also provided through OHSU Insurance Company. Current coverage limits, for claims made on or after July 1, 2013 are $1.0 million for each and every claim.

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

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

OHSU has contracted with independent actuaries to estimate the ultimate costs of settlement related to the coverage provided by OHSU Insurance Company. The liabilities are discounted at 3% in 2015, and, in management's opinion, provide an adequate reserve for loss contingencies.



(Continued)

(Dollars in thousands)

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.

In September, 2013, a judgment was awarded against OHSU in a professional liability case that was in excess of the Oregon Tort Claims Act (OTCA) which limits OHSU's and other Oregon public body's liability for the acts of its employees and agents. OHSU disbursed the sum of $3,000,000, the amount of the tort cap in place at the date of the event. The case is currently before the Oregon Supreme Court testing the constitutionality of the OTCA. All case reserves included in the unpaid claims liability are limited to the thresholds established by the current OTCA.

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 net position.

### *(c) Employee Health Programs*

OHSU is self-insured for its risk of loss related to costs to insure its employees for medical, dental, and vision coverage. OHSU has utilized a third-party actuary to assist in the estimation of its liability for the employee health programs related to claims payable and those claims incurred but not yet paid or reported of approximately $12,457 as of June 30, 2015. These amounts are included in current portion of self-funded insurance program liabilities in the accompanying statements of net position.

### *(d) Labor Organizations*

Approximately 16% of OHSU's employees are nurses represented by the Oregon Nurses Association (ONA). Approximately 38% 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. The current contract with ONA expires on March 31, 2017. The current contract with AFSCME expires on June 30, 2019.

### *(e) Construction Contracts*

OHSU had outstanding commitments on unexpended construction contracts totaling approximately $10,998 at June 30, 2015. 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.

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, changes in financial position, or liquidity.

(Dollars in thousands)

### *(g) Operating Leases*

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

Rental expenses under operating leases were approximately $18,142 in 2015. The following is a schedule of future minimum rental commitments under operating leases as of June 30, 2015 that have initial or remaining lease terms in excess of one year:

| | | |
|---|---|---|
| Year(s) ending June 30: | | |
| 2016 | $ | 15,852 |
| 2017 | | 13,921 |
| 2018 | | 9,369 |
| 2019 | | 8,936 |
| 2020 | | 8,682 |
| 2021–2025 | | 19,321 |
| 2026–2030 | | 327 |
| 2031–2035 | | 14 |
| | $ | 76,422 |

## (14) Subsequent Events

### *(a) Oregon Public Employees Retirement System*

The following changes in PERS plan provisions were implemented subsequent to the June 30, 2014 measurement date for the June 30, 2015 financial statements:

The Oregon Supreme Court on April 30, 2015, ruled in the Moro decision, that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement cost-of-living adjustment (COLA) on benefits accrued prior to the signing of the law were unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. PERS will make restoration payments to those benefit recipients. PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

As published in the audited Oregon Public Employees Retirement System's Schedules of Employer Allocations and Pension Amounts by Employer http://www.oregon.gov/pers/EMP/docs/gasb_68_report.pdf, this is a change in benefit terms subsequent to the measurement date of June 30, 2014, which will be reflected in the June 30, 2015 measurement date, as reported on OHSU's June 30, 2016 statement of net position.

The impact of the Moro decision on the total pension liability and employer's net pension (asset)/ liabilityhas not been fully determined. However, PERS' third-party actuaries, using one possible methodology, have estimated the impact of the Moro decision. Summarized below (dollars in millions) is OHSU's proportionate share.

| | | June 30, 2014 Measurement date (in millions) | |
|---|---|---|---|
| **Net pension (asset)/liability** | | **Prior to Moro** | **After Moro (estimate)** |
| Total pension liability | $ | 2,692.1 | 2,901.6 |
| Fiduciary net position | | 2,788.8 | 2,788.7 |
| Net pension (asset)/liability | $ | (96.7) | 112.9 |

### *(b) OHSU 2015 Revenue Bond*

In July 2015, Series 2015C Federally Taxable Revenue Bonds were issued in the amount of $100 million as fixed rate bonds with a single maturity due date of July 1, 2045 requiring semiannual interest at an average coupon rate of 5.0%. The 2015C Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2015C Revenue Bonds are not general obligations of OHSU and are payable solely from revenue pledged.

### *(c) Salem Health Joint Management Agreement*

OHSU has negotiated a joint management agreement (the Joint Management Agreement) with Salem Health, a leading healthcare provider serving Salem, Oregon and the Willamette Valley region, to become effective after approval by the governing boards of each party. Under the Joint Management Agreement, OHSU and Salem Health will remain separate legal entities but will form a new management company to manage and oversee an integrated health system, with one consolidated net operating statement, the results of which will be apportioned consistent with the parties' respective historical proportionate share of total results. OHSU will maintain its responsibilities to manage and oversee activities related to its education and research mission, and OHSU and Salem Health will not guarantee each other's outstanding debt.

***(d) Tuality Health Affiliation***

In August 2015, Tuality Healthcare and Oregon Health & Science University (OHSU) have signed a letter of intent (LOI) to pursue an affiliation that would will integrate Tuality's clinical enterprise with OHSU's healthcare enterprise. If a final agreement is reached, Tuality's clinical operations will be managed by OHSU, under the strategic direction of a recently announced management company called OHSU Partners.

(Dollars in thousands)

## (15) Blended Component Units

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

| | University | INSCO | UMG | OHSUF Foundation | DCH Foundation | Eliminations/ reclassifications | Total combined |
|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | |
| Current assets | $ 859,979 | 9,116 | 7,434 | 71,721 | 3,849 | (51,232) | 900,867 |
| Noncurrent assets: | | | | | | | |
| Capital assets, net of accumulated depreciation | 1,527,589 | — | 421 | 245 | 1 | — | 1,528,256 |
| Other noncurrent assets | 444,135 | 64,278 | — | 940,864 | 59,600 | | 1,508,877 |
| Total noncurrent assets | 1,971,724 | 64,278 | 421 | 941,109 | 59,601 | — | 3,037,133 |
| Total assets | 2,831,703 | 73,394 | 7,855 | 1,012,830 | 63,450 | (51,232) | 3,938,000 |
| Deferred outflows | 53,006 | — | — | — | — | — | 53,006 |
| Total assets and deferred outflows | $ 2,884,709 | 73,394 | 7,855 | 1,012,830 | 63,450 | (51,232) | 3,991,006 |
| Liabilities: | | | | | | | |
| Current liabilities | $ 402,841 | 164 | 1,926 | 53,848 | 790 | (51,232) | 408,337 |
| Noncurrent liabilities | 745,837 | 29,621 | 182 | 97,184 | 2,173 | — | 874,997 |
| Total liabilities | 1,148,678 | 29,785 | 2,108 | 151,032 | 2,963 | (51,232) | 1,283,334 |
| Deferred inflows | 191,203 | — | — | — | — | — | 191,203 |
| Net position: | | | | | | | |
| Net investment in capital assets | 820,114 | — | — | 245 | 1 | — | 820,360 |
| Restricted, expendable | 173,813 | — | — | 378,872 | 22,027 | — | 574,712 |
| Restricted, nonexpendable | — | — | — | 185,381 | 19,220 | — | 204,601 |
| Unrestricted | 550,901 | 43,609 | 5,747 | 297,300 | 19,239 | — | 916,796 |
| Total net position | 1,544,828 | 43,609 | 5,747 | 861,798 | 60,487 | — | 2,516,469 |
| Total liabilities, deferred inflows and net position | $ 2,884,709 | 73,394 | 7,855 | 1,012,830 | 63,450 | (51,232) | 3,991,006 |



(Continued)

(Dollars in thousands)

Condensed combining information related to revenues, expenses, and changes in net position for the year ended June 30, 2015 is as follows:

| | University | INSCO | UMG | OHSUF Foundations | DCH Foundations | Eliminations/ reclassifications | Total combined |
|---|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | | |
| Patient service revenue | $ 1,808,196 | — | — | — | — | — | 1,808,196 |
| Student tuition and fees, net | 66,571 | — | — | — | — | — | 66,571 |
| Gifts, grants, and contracts | 457,201 | — | — | 173,161 | 16,211 | (90,388) | 556,185 |
| Other revenue | 97,501 | 13,284 | 15,536 | 3,044 | 368 | (30,088) | 99,645 |
| Total operating revenues | 2,429,469 | 13,284 | 15,536 | 176,205 | 16,579 | (120,476) | 2,530,597 |
| Operating expenses: | | | | | | | |
| Salaries, wages, and benefits | 1,371,235 | 831 | 10,172 | 12,137 | — | — | 1,394,375 |
| Defined benefit pension | (89,081) | — | — | — | — | — | (89,081) |
| Services, supplies, and other | 788,855 | 12,085 | 4,643 | 95,670 | 12,840 | (121,741) | 792,352 |
| Depreciation and amortization | 129,141 | — | 156 | 179 | 3 | — | 129,479 |
| Interest | 26,893 | — | — | — | — | — | 26,893 |
| Total operating expenses | 2,227,043 | 12,916 | 14,971 | 107,986 | 12,843 | (121,741) | 2,254,018 |
| Operating income | 202,426 | 368 | 565 | 68,219 | 3,736 | 1,265 | 276,579 |
| Nonoperating revenues (expenses): | | | | | | | |
| Investment income and gain (loss) in fair value of investments | 1,773 | 1,393 | 3 | 617 | (384) | — | 3,402 |
| State appropriations | 33,448 | — | — | — | — | — | 33,448 |
| Other | (17,493) | — | — | 7,420 | (303) | (1,500) | (11,876) |
| Total nonoperating revenues (expenses), net | 17,728 | 1,393 | 3 | 8,037 | (687) | (1,500) | 24,974 |
| Net income (loss) before other changes in net position | 220,154 | 1,761 | 568 | 76,256 | 3,049 | (235) | 301,553 |
| Other changes in net position: | | | | | | | |
| Contributions for capital and other | 19,502 | (14,946) | — | — | — | 235 | 4,791 |
| Nonexpendable donations | — | — | — | 11,439 | 2,820 | — | 14,259 |
| Total other changes in net position | 19,502 | (14,946) | — | 11,439 | 2,820 | 235 | 19,050 |
| Total increase (decrease) in net position | 239,656 | (13,185) | 568 | 87,695 | 5,869 | — | 320,603 |
| Net position – beginning of year* | 1,305,172 | 56,794 | 5,179 | 774,103 | 54,618 | — | 2,195,866 |
| Net position – end of year | $ 1,544,828 | 43,609 | 5,747 | 861,798 | 60,487 | — | 2,516,469 |

*Beginning net position has been reduced (for University) by $180,230 for the impact of GASB 68. See note 1(c) for further information.

Condensed combining information related to cash flows for the year ended June 30, 2015 is as follows:

| | University | INSCO | UMG | OHSUF Foundations | DCH Foundations | Eliminations/ reclassifications | Total combined |
|---|---|---|---|---|---|---|---|
| Net cash provided by operating activities | $ 221,541 | (15,435) | 804 | 41,615 | (700) | — | 247,825 |
| Net cash provided by noncapital financing activities | 30,917 | — | — | 20,046 | 2,357 | — | 53,320 |
| Net cash used in capital and related financing activities | (181,316) | — | (58) | (56) | — | — | (181,430) |
| Net cash (used in) provided by investing activities | (7,904) | 15,173 | — | (47,045) | (538) | — | (40,314) |
| Net increase in cash and cash equivalents | 63,238 | (262) | 746 | 14,560 | 1,119 | — | 79,401 |
| Cash and cash equivalents, beginning of year | 104,524 | 377 | 5,028 | 5,474 | 486 | — | 115,889 |
| Cash and cash equivalents, end of year | $ 167,762 | 115 | 5,774 | 20,034 | 1,605 | — | 195,290 |

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

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

| Actuarial valuation date | | Actuarial value of assets (a) | Actuarial accrued liability (AAL) (b) | Unfunded actuarial accrued liability (UAAL) (b-a) | Funded ratio (a/b) | Covered payroll (c) | UAAL as a percentage of covered payroll ((b-a)/c) |
|---|---|---|---|---|---|---|---|
| January 1, 2010 | $ | — | 19,185 | 19,185 | — | 669,000 | 2.9% |
| January 1, 2012 | | — | 19,894 | 19,894 | — | 791,382 | 2.5 |
| October 1, 2013 | | — | 9,772 | 9,772 | — | 874,421 | 1.1 |

The actuarially determined amounts above use an assumed discount rate of 3.5% in the October 1, 2013 valuation. The assumed healthcare cost trend rate was 7.2% in 2015, declining gradually to 4.8% in 2084 and remaining at 4.8% thereafter.

See accompanying independent auditors’ report.

## Required Supplementary Information – Unaudited
## OHSU’s Proportionate Share of the
## Net Pension (Asset)/Liability and Related Ratios
## (Dollar amounts in thousands)

| Defined benefit pension plan[1] | | 2015 | 2014 |
|---|---|---|---|
| OHSU’s proportion of the net pension (asset)/liability (rounded) | | 4.26% | 4.26% |
| OHSU’s proportionate share of the net pension (asset)/liability | $ | (96,653) | 217,598 |
| Covered employee payroll | | 365,618 | 378,893 |
| OHSU’s proportionate share of the net pension (asset)/liability as a percentage of covered employee payroll | | (26.44)% | 57.43% |
| Plan fiduciary net position as a percentage of the total pension liability | | 103.6% | 92.0% |

[1] 10-year trend information will be presented prospectively.

**Required Supplementary Information – Unaudited**
**Schedule of Defined Benefit Pension Plan Contributions**
**(Dollar amounts in thousands)**

| Year ended June 30[1] | | 2015 | 2014 |
|---|---|---|---|
| Contractually required contributions | $ | 30,250 | 29,868 |
| Contributions in relation to the contractually required contributions | | 37,750 | 37,368 |
| Contribution deficiency (excess) | $ | (7,500) | (7,500) |
| OHSU's covered-employee payroll | $ | 345,363 | 365,618 |
| Contributions as a percentage of covered-employee payroll | | 10.93% | 10.22% |

[1] 10-year trend information will be presented prospectively.

Schedule 1

**OREGON HEALTH & SCIENCE UNIVERSITY**

Combining Statements of Net Position

June 30, 2015

(Dollars in thousands)

| | Hospital | Other University | Total University | Foundations | Eliminations/ reclassifications | 2015 |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | $ 292,500 | (118,849) | 173,651 | 21,639 | — | 195,290 |
| Short-term investments | 157,807 | 20,956 | 178,763 | 965 | — | 179,728 |
| Current portion of funds held by trustee | 3,021 | 996 | 4,017 | — | — | 4,017 |
| Patients accounts receivable, net of bad debt allowances of $4,502 in 2015 | 343,013 | 5,528 | 348,541 | — | — | 348,541 |
| Student receivables | — | 22,675 | 22,675 | — | — | 22,675 |
| Grant and contract receivable | — | 44,328 | 44,328 | — | — | 44,328 |
| Interest receivable | — | — | — | 1,116 | — | 1,116 |
| Current portion of pledges and estates receivable | — | — | — | 45,568 | — | 45,568 |
| Other receivables, net | 7,340 | 52,880 | 60,220 | 6,072 | (51,232) | 15,060 |
| Inventories, at cost | 18,053 | 1,910 | 19,963 | — | — | 19,963 |
| Prepaid expenses | 11,504 | 12,866 | 24,370 | 211 | — | 24,581 |
| Total current assets | 833,238 | 43,290 | 876,528 | 75,571 | (51,232) | 900,867 |
| Noncurrent assets: | | | | | | |
| Capital assets, net of accumulated depreciation | 701,316 | 826,694 | 1,528,010 | 246 | — | 1,528,256 |
| Funds held by trustee – less current portion | 23,892 | 3,572 | 27,464 | — | — | 27,464 |
| Other long term receivable, net of reserves | — | 33,500 | 33,500 | — | — | 33,500 |
| Long-term investments: | | | | — | — | |
| Long-term investments, restricted | — | 36,068 | 36,068 | 497,273 | — | 533,341 |
| Long-term investments, unrestricted | 181,957 | 129,584 | 311,541 | 340,768 | — | 652,309 |
| Total long-term investments | 181,957 | 165,652 | 347,609 | 838,041 | — | 1,185,650 |
| Prepaid financing costs, net | 2,128 | 1,060 | 3,188 | — | — | 3,188 |
| Pledges and estates receivable – less current portion | — | — | — | 159,367 | — | 159,367 |
| Restricted pension asset | — | 96,652 | 96,652 | — | — | 96,652 |
| Other noncurrent assets | — | — | — | 3,056 | — | 3,056 |
| Interest in the Foundations | — | 922,285 | 922,285 | — | (922,285) | — |
| Total noncurrent assets | 909,293 | 2,049,415 | 2,958,708 | 1,000,710 | (922,285) | 3,037,133 |
| Total assets | 1,742,531 | 2,092,705 | 3,835,236 | 1,076,281 | (973,517) | 3,938,000 |
| Deferred outflows: | | | | | | |
| Deferred amortization of derivative instruments | 6,975 | 5,523 | 12,498 | — | — | 12,498 |
| Loss on refunding of debt | 2,292 | 466 | 2,758 | — | — | 2,758 |
| Pension obligation | — | 37,750 | 37,750 | — | — | 37,750 |
| Total deferred outflows | 9,267 | 43,739 | 53,006 | — | — | 53,006 |
| Total assets and deferred outflows | $ 1,751,798 | 2,136,444 | 3,888,242 | 1,076,281 | (973,517) | 3,991,006 |



(Continued)

**OREGON HEALTH & SCIENCE UNIVERSITY**

Combining Statements of Net Position (cont.)

June 30, 2015

(Dollars in thousands)

| | Hospital | Other University | Total University | Foundations | Eliminations/ reclassifications | 2015 |
|---|---|---|---|---|---|---|
| Liabilities: | | | | | | |
| Current liabilities: | | | | | | |
| Current portion of long-term debt | $ 8,473 | 9,652 | 18,125 | — | — | 18,125 |
| Current portion of long-term capital leases | 726 | 312 | 1,038 | — | — | 1,038 |
| Current portion of self-funded insurance programs liability | — | 28,775 | 28,775 | — | — | 28,775 |
| Accounts payable and accrued expenses | 102,743 | 47,323 | 150,066 | 3,434 | — | 153,500 |
| Accrued salaries, wages, and benefits | 29,038 | 61,230 | 90,268 | — | — | 90,268 |
| Compensated absences payable | 29,646 | 38,913 | 68,559 | — | — | 68,559 |
| Unearned revenue | 4,438 | 40,682 | 45,120 | — | — | 45,120 |
| Other current liabilities | 894 | 2,086 | 2,980 | 51,204 | (51,232) | 2,952 |
| Total current liabilities | 175,958 | 228,973 | 404,931 | 54,638 | (51,232) | 408,337 |
| Noncurrent liabilities: | | | | | | |
| Long-term debt – less current portion | 417,795 | 296,714 | 714,509 | — | — | 714,509 |
| Long-term capital leases – less current portion | 4,932 | 160 | 5,092 | — | — | 5,092 |
| Liability for self-funded insurance programs – less current portion | — | 30,730 | 30,730 | — | — | 30,730 |
| Liability for life income agreements | — | — | — | 30,307 | — | 30,307 |
| Other noncurrent liabilities | 7,785 | 17,523 | 25,308 | 69,051 | — | 94,359 |
| Total noncurrent liabilities | 430,512 | 345,127 | 775,639 | 99,358 | — | 874,997 |
| Total liabilities | 606,470 | 574,100 | 1,180,570 | 153,996 | (51,232) | 1,283,334 |
| Deferred inflows: | | | | | | |
| Gain on refunding of debt | 1,623 | 1,779 | 3,402 | — | — | 3,402 |
| Pension obligation | — | 187,801 | 187,801 | — | — | 187,801 |
| Total deferred inflows | 1,623 | 189,580 | 191,203 | — | — | 191,203 |
| Net position: | | | | | | |
| Net investment in capital assets | 296,303 | 523,811 | 820,114 | 246 | — | 820,360 |
| Restricted, expendable | — | 574,712 | 574,712 | 400,899 | (400,899) | 574,712 |
| Restricted, nonexpendable | — | 204,601 | 204,601 | 204,601 | (204,601) | 204,601 |
| Unrestricted | 847,402 | 69,640 | 917,042 | 316,539 | (316,785) | 916,796 |
| Total net position | 1,143,705 | 1,372,764 | 2,516,469 | 922,285 | (922,285) | 2,516,469 |
| Total liabilities, deferred inflows and net position | $ 1,751,798 | 2,136,444 | 3,888,242 | 1,076,281 | (973,517) | 3,991,006 |

See accompanying independent auditors’ report.

Schedule 2

**OREGON HEALTH & SCIENCE UNIVERSITY**

Combining Statements of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2015

(Dollars in thousands)

| | Hospital | Other University | Total University | Foundations | Eliminations/ reclassifications | 2015 |
|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | |
| Patient service revenue, net of bad debt adjustments of $25,945 in 2015 | $ 1,435,788 | 372,408 | 1,808,196 | — | — | 1,808,196 |
| Student tuition and fees, net | — | 66,571 | 66,571 | — | — | 66,571 |
| State appropriations | 1,234 | 32,214 | 33,448 | — | (33,448) | — |
| Gifts, grants, and contracts | 1,818 | 455,383 | 457,201 | 189,372 | (90,388) | 556,185 |
| Other revenue | 62,243 | 35,535 | 97,778 | 3,412 | (1,545) | 99,645 |
| Total operating revenues | 1,501,083 | 962,111 | 2,463,194 | 192,784 | (125,381) | 2,530,597 |
| Operating expenses: | | | | | | |
| Salaries, wages, and benefits | 634,934 | 747,304 | 1,382,238 | 12,137 | — | 1,394,375 |
| Defined pension benefit | — | (89,081) | (89,081) | — | — | (89,081) |
| Services, supplies, and other | 630,220 | 146,820 | 777,040 | 108,510 | (93,198) | 792,352 |
| Depreciation and amortization | 61,964 | 67,333 | 129,297 | 182 | — | 129,479 |
| Interest | 16,978 | 9,915 | 26,893 | — | — | 26,893 |
| Research and mission support | 62,139 | (62,139) | — | — | — | — |
| Total operating expenses | 1,406,235 | 820,152 | 2,226,387 | 120,829 | (93,198) | 2,254,018 |
| Operating income | 94,848 | 141,959 | 236,807 | 71,955 | (32,183) | 276,579 |
| Nonoperating revenues (expenses): | | | | | | |
| Investment income and gain (loss) in fair value of investments | 5,995 | (2,825) | 3,170 | 232 | — | 3,402 |
| State appropriations | — | — | — | — | 33,448 | 33,448 |
| Other | (230) | (17,264) | (17,494) | 7,118 | (1,500) | (11,876) |
| Total nonoperating revenues (expenses), net | 5,765 | (20,089) | (14,324) | 7,350 | 31,948 | 24,974 |
| Net income (loss) before contributions for capital and other | 100,613 | 121,870 | 222,483 | 79,305 | (235) | 301,553 |
| Other changes in net position: | | | | | | |
| Contributions for capital and other | 36,642 | (32,085) | 4,557 | — | 234 | 4,791 |
| Change in interest in the Foundations | — | 93,563 | 93,563 | — | (93,563) | — |
| Nonexpendable donations | — | — | — | 14,259 | — | 14,259 |
| Total other changes in net position | 36,642 | 61,478 | 98,120 | 14,259 | (93,329) | 19,050 |
| Total increase (decrease) in net position | 137,255 | 183,348 | 320,603 | 93,564 | (93,564) | 320,603 |
| Net position – beginning of year* | 1,006,450 | 1,189,416 | 2,195,866 | 828,721 | (828,721) | 2,195,866 |
| Net position – end of year | $ 1,143,705 | 1,372,764 | 2,516,469 | 922,285 | (922,285) | 2,516,469 |

* Beginning net position has been reduced (for Other University) by $180,230 for the impact of GASB 68. See note 1(c) for further information.

See accompanying independent auditors' report.