OREGON HEALTH & SCIENCE UNIVERSITY

(a component unit of the State of Oregon)

Financial Statements
and Supplementary Information

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

OREGON HEALTH & SCIENCE UNIVERSITY

Table of Contents

KPMG LLP
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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 (OHSU), and its discretely presented component unit, which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise OHSU's basic financial statements. We have also audited the supplemental financial information of OHSU Hospital, as of and for the year ended June 30, 2016, included in schedule 3.

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 opinions on these financial statements based on our audits. We did not audit the financial statements of the aggregate discretely presented component unit as of September 30, 2015 and for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component unit, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 audits opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Oregon Health & Science University, the aggregate discretely presented component unit and the supplemental financial information of OHSU Hospital in Schedule 3 as of June 30, 2016 and 2015, and the respective changes in financial position and where applicable cash flows thereof, for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 24, the schedule of funding progress for the postemployment healthcare benefit plan on page 91, the proportionate share of the net pension (asset)/liability and related ratios on page 91, and the schedule of defined benefit pension plan contributions on page 92, 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the 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 28, 2016

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. During fiscal year 2016, net position increased by $402 million or 16%, from $2.52 billion to $2.92 billion. This gain compares to an increase of $321 million or 15% during fiscal year 2015.

In both years, the largest driver of improved net position was operating income, including the hospital, other university activities, and the Foundations, net of eliminating entries and the reclassification of State appropriations to non-operating revenues. Operating income increased by 11%, from $277 million in fiscal year 2015 to $308 million in fiscal year 2016, a net result that includes two large, offsetting year-to-year changes.

Gift, grant and contract revenue increased by $344 million primarily due to the recording of the discounted present value of a gift pledge to the Knight Cancer Challenge. In 2013, Phil and Penny Knight announced they would give OHSU $500 million if the University could raise a matching amount of money within two years. OHSU met the goal eight months ahead of the deadline on June 25, 2015. The Knight's $500 million matching pledge was recorded in fiscal year 2016. The second largest gift of $100 million, given by Gert Boyle, was recorded in fiscal year 2015. Additional funding included a grant of $200 million from the State of Oregon (the State), and gifts from 10,000 donors in all 50 states. The funds from the Knight Cancer Challenge will be used to help in the fight to eradicate cancer, particularly through advanced early detection.

Offsetting most of the higher gift revenue was a $311 million increase in defined benefit pension expense due to the Oregon Supreme Court's *Moro* decision, which reversed most of the pension benefit reductions passed by the Oregon legislature as cost-saving measures in two earlier fiscal years. The defined benefit pension expense/(benefit) for 2016 and 2015 was $222 million and $(89) million, respectively.

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

(Dollars in thousands)

	2016	2015	Change
Patient service revenue, net	$ 1,989,644	1,808,196	181,448
Gifts, grants and contracts	899,805	556,185	343,620
All other operating revenues	183,645	166,216	17,429
Total operating revenues	3,073,094	2,530,597	542,497
Salaries, wages and benefits	1,512,950	1,394,375	118,575
Defined benefit pension	222,124	(89,081)	311,205
All other operating expenses	1,029,761	948,724	81,037
Total operating expenses	2,764,835	2,254,018	510,817
Operating income	308,259	276,579	31,680
State appropriations	35,567	33,448	2,119
Other nonoperating revenues (expenses)	9,486	(8,474)	17,960
Other changes in net position	48,495	19,050	29,445
Total increase in net position	$ 401,807	320,603	81,204

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For management purposes, OHSU divides operating income into several components:

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

	2016	2015	Change
Components of operating income:			
Hospital operations	$ 120,393	94,848	25,545
Other university operations	36,197	15,128	21,069
Total university operations before GASB 68	156,590	109,976	46,614
Defined benefit pension	(222,124)	89,081	(311,205)
Less defined benefit pension contributions/adjustments	31,670	37,750	(6,080)
Total university operations after GASB 68	(33,864)	236,807	(270,671)
Foundations operations	409,223	71,955	337,268
Reclass of Foundations’ restricted capital activity	(31,533)	1,265	(32,798)
Reclassification of state appropriations	(35,567)	(33,448)	(2,119)
Operating income	308,259	276,579	31,680
State appropriations	35,567	33,448	2,119
Investment and other nonoperating income (expense)	9,486	(8,474)	17,960
Net income	353,312	301,553	51,759
Capital/nonexpendable contributions and other	48,495	19,050	29,445
Total change in net position	401,807	320,603	81,204
Net position – beginning of year	2,516,469	2,195,866	320,603
Net position – end of year	$ 2,918,276	2,516,469	401,807

Hospital and other university operations are measured prior to applying Government Accounting Standards Board (GASB) Statement No. 68 (GASB 68) adopted in fiscal year 2015, meaning that defined benefit pension costs are included at the required cash contribution set by the State of Oregon Public Employees Retirement Board (Retirement Board), $32 million in fiscal year 2016 and $38 million in fiscal year 2015.

The hospital operations reflect the first year of the combined clinical enterprises of OHSU and Salem Health operating as a single economic entity and unified health system under the management of OHSU Partners, LLC, a joint management company. Also included in the hospital operations, as of February 1, 2016, are the integrated clinical operations support of Tuality Healthcare.

In addition, State appropriations are included within operating revenues for management purposes since they support educational and other program costs, and gifts are booked to the University when the cash is drawn from the Foundations to support university programs, rather than when the gifts are pledged. Making these adjustments smooths out large, generally non-cash, fluctuations in revenue and expense, allowing the University to better monitor and manage year-to-year trends in operations.

Using the noted management adjustments, total university operating income increased by $47 million or 43%, from $110 million in fiscal year 2015 to $157 million in fiscal year 2016. A 10% growth in patient revenues to nearly $2 billion, combined with recording the first $16 million of the State's $200 million grant to the Knight Cancer Challenge for research and related facilities, account for most of this improvement. Additionally in fiscal year 2016, OHSU issued the first $120 million of new debt to finance the Center for Health & Healing ambulatory care facility (CHH-2) and as part of the matching State Grant for the Knight Cancer Research Building. Finally, with low market interest rates and a tight credit spread that reflected strong interest in OHSU's unique role in Oregon and Aa3/AA-/AA- credit ratings, OHSU refinanced existing debt for approximately $25 million in present value savings.

With the adoption of GASB 68, the accounting 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), 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. As a result of the $222 million defined benefit pension expense in 2016, total university operating income after GASB 68 falls from positive $237 million in fiscal year 2015 to negative $(34) million in fiscal year 2016, principally due to the Oregon Supreme Court's *Moro* decision related to the cost of living adjustments.

The Foundations' operating income rose from $72 million in fiscal year 2015 to $409 million in fiscal year 2016, reflecting Mr. Knight's matching pledge for the Knight Cancer Challenge. Finally, in accordance with generally accepted accounting principles for public universities, State appropriations are reclassified to nonoperating revenues, and contributions for capital and certain other foundation-related items are reclassified to non-operating or other changes in net position. On net, operating income rose from $277 million in fiscal year 2015 to $308 million in fiscal year 2016.

OHSU Strategic Plan

In 2007, OHSU developed a strategic plan, Vision 2020, which was updated in 2009 and 2013, that calls for OHSU to pursue partnerships to make Oregon a leader in innovation and to improve the health and well-being of Oregonians. Vision 2020 provides a planning framework to drive OHSU's commitment to continuous improvement across education, research, healthcare 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 Affiliation. On November 19, 2015, OHSU affiliated with Salem Health through the execution of a Joint Management Agreement (the Management Agreement) among the two organizations and OHSU Partners, LLC, a newly formed limited liability company (OHSU Partners). OHSU and Salem Health are the sole members of OHSU Partners. Under the terms of the Management Agreement, which is described in the subsequent footnotes, OHSU and Salem Health remain separate legal entities and own their own assets. OHSU Partners, however, will manage the combined clinical enterprises of OHSU and Salem Health as a single economic entity and unified health system. The total operating results of the integrated health system will be apportioned to OHSU and Salem Health consistent with an allocation method based on each party's historical operating income. The Management Agreement provides that 81% of operating results will be apportioned to OHSU and 19% will be apportioned to Salem Health.

Tuality Healthcare. On February 1, 2016, OHSU affiliated with Tuality Healthcare (Tuality) through the execution of a Management Agreement (the Tuality Agreement) between the organizations. Tuality owns and operates Tuality Community Hospital, a 167 licensed bed acute care hospital located in Hillsboro, Oregon, and Tuality Forest Grove Hospital, a 48 licensed bed acute care hospital located in Forest Grove, Oregon. Under the Tuality Agreement, OHSU agrees to oversee the unified and integrated clinical enterprises of OHSU and Tuality as a single, integrated economic unit. OHSU and Tuality remain as separate entities, own their own assets and continue to be the licensed operators of their own facilities. The Tuality clinical enterprise is considered part of the OHSU clinical enterprise for purposes of the Salem Health Management Agreement, described above. Under the Tuality Agreement, OHSU agrees to be responsible for Tuality's operating income and loss, including making cash payments to Tuality in an amount equal to any Tuality operating loss, in the manner specified in the Tuality Agreement. The initial term of the Tuality Agreement is 20 years.

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 collaboration supports the recruitment and leasing of medical professionals from OHSU to MCMC. As part of the collaboration, MCMC added an eighth position to its board of directors, selected by OHSU. In addition, MCMC converted to the EPIC electronic medical records system, as used by OHSU.

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Columbia Memorial Hospital. OHSU and Columbia Memorial Hospital (CMH) in Astoria, Oregon, previously collaborated on 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. Groundbreaking ceremonies were held on August 4, 2016 and the opening is planned for October 2017.

Unity Center for Behavioral Health. In August 2015, OHSU, Adventist Health, Kaiser Permanente, and Legacy Health executed a joint operating agreement to open the Portland metropolitan area's first comprehensive behavioral health care center in early 2017. 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 (LOI), 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 joint operating agreement 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, and details the management and operations of the facility.

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 through 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, and is dedicated to population health management. Propel Health 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.

Portland State University. OHSU has a growing partnership with Portland State University (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 (CLSB) described on page no. 9, 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 people in 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 fiscal years 2014 and 2015 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, which was completed and opened in the summer of 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 CLSB provides students across undergraduate, graduate and professional education a new learning environment and inter-professional programs. The approximately 650,000 square foot facility (including parking) houses lecture halls, classrooms, laboratories, a 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, 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 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.

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. In August 2015, Intel and OHSU announced the Collaborative Cancer Cloud at the Intel Developer Forum. In March 2016, the Dana Farber Cancer Institute and the Ontario Cancer Institute for Cancer Research joined. The Collaborative Cancer Cloud is a precision medicine analytic platform that allows institutions to securely share patient genomic, imaging and clinical data for potentially lifesaving discoveries.

OHSU FEI Living Lab. The OHSU FEI Living Lab is a collaborative research program in the OHSU Center for Spatial Systems Biomedicine (OCSSB) that provides access to a state-of-the-art microscopy suite and develops workflow solutions for integrated light and electron microscopy (EM) applications. The OHSU FEI Living Lab, a collaboration between OHSU and Hillsboro-based FEI, Inc., allows scientists to visualize cell structure and assemblies of biological macromolecules at a level of detail that wasn't possible before, enabling them to explore, among other things, how cancer cells function differently as they spread from the site of origin to other parts of the body, and how genetic mutations work together to drive cancer and other diseases. Scientists have access to early versions of next-generation microscopy systems so that they can contribute to the product, reagent, and workflow development process. The collaboration will deepen understanding of EM workflow as applied to cellular biology and, ultimately guide the development of next-generation tools.

GE Healthcare. In 2015, OHSU and GE Healthcare signed a memorandum of understanding to develop collaborative research programs in cardiovascular medicine, imaging and big data research. The research programs are aimed at bringing together OHSU's clinical and research expertise with GE Healthcare's technology expertise to answer fundamental questions in biology and medicine.

Moda Health Plan, Inc. OHSU has contracts with and receives patient revenues from the major health plans in Oregon. OHSU's guiding principle in developing payer-provider partnerships is to ensure that Oregonians continue to have access to Oregon's public health sciences university and academic health center and its affiliates, and that OHSU has access to major populations of Oregon across its missions of patient care, education, research and outreach. Since 2013, OHSU has partnered with Moda Heath Plan, Inc. (Moda), one of the four largest health plans in Oregon (measured by non-Medicaid enrollment in 2014 and 2015), to advance population health management.

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, and the note bears interest on its unpaid principal balance at a rate equal to 4% per annum. Payment of interest and principal is subject to approval by the Oregon insurance commissioner, part of the Department of Consumer and Business Services (DCBS).

Moda has had a large share of Oregon's new individual insurance market under the Affordable Care Act (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 as obligations of the U.S. Government. However it is uncertain when the federal government will pay these amounts.

In light of this uncertainty, higher risk from losses at Moda, and the likelihood that interest payments will be deferred, OHSU recorded a valuation reserve of $16.5 million against the surplus note receivable as of June 30, 2015. Moda has continued to incur losses, especially in the individual market. In February 2016, DCBS issued a consent order requiring Moda to sell a variety of assets and take steps to improve its financial position. In June 2016, as a result of Moda's completing several transactions to generate the capital needed to meet regulatory standards, together with Moda reducing its risk by withdrawing from some markets, DCBS lifted the consent order. Although Moda remains under increased financial solvency monitoring and the State maintains its ability to take further action, the Oregon insurance commissioner has not allowed payment of interest under the surplus note during 2016. OHSU reviewed the valuation of the note as of June 30, 2016, and has retained the current net valuation of $33.5 million, which represents 1.15% of the University's total net assets as of June 30, 2016.

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 all endowments and any gifts that result in new programs. 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 and Management Guidelines, which may differ from recognition rules under governmental accounting standards.

OHSU MAJOR GIFTS

Amount	Description	Fiscal year
$15 million	Oregon State Elks Association gift for the Casey Eye Institute	2015-16
$12 million	Gift for the Gary and Christine Rood Family Pavilion	2015-16
$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

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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 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.

As new accounting pronouncements are adopted that require amortization of deferred inflows and outflows, the deferred sections of the financial statements will reflect additional financial activity.

The following summarizes OHSU's statements of net position for the past two years by major category of assets, liabilities, deferred inflows and outflows, and net position.

Condensed Statements of Net Position

(Dollars in thousands)

		2016	2015	2014
Assets:				
Current assets	$	1,262,697	900,867	766,947
Capital assets		1,606,554	1,528,256	1,517,146
Other noncurrent assets		1,820,172	1,508,877	1,268,097
Total assets		4,689,423	3,938,000	3,552,190
Deferred outflows		84,713	53,006	16,634
Total assets and deferred outflows	$	4,774,136	3,991,006	3,568,824
Liabilities:				
Current liabilities	$	495,305	408,337	351,822
Noncurrent liabilities		1,298,424	874,997	837,021
Total liabilities		1,793,729	1,283,334	1,188,843
Deferred inflows		62,131	191,203	3,885
Net position:				
Net investment in capital assets		876,150	820,360	803,428
Restricted, expendable		872,294	574,712	401,940
Restricted, nonexpendable		215,005	204,601	189,210
Unrestricted		954,827	916,796	981,518
Total net position		2,918,276	2,516,469	2,376,096
Total liabilities, deferred outflows and net position	$	4,774,136	3,991,006	3,568,824

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Assets

The largest components of OHSU's assets are cash and investments and capital assets, or physical plant. During fiscal year 2016, OHSU's unrestricted and restricted cash and investments increased from $1.56 billion to $1.77 billion attributable to strong operating performance and Foundations activity. This represents an increase of $210 million, or 13.5% from fiscal year 2015.

Consolidated Asset Allocation of

Unrestricted and Restricted Cash and Investments
(Dollars in thousands)

		2016	2015	2014
Unrestricted cash and investments:				
Cash and equivalents	$	331,560	175,887	124,513
Fixed income investments		581,105	568,776	568,866
Equity investments		87,834	60,684	91,849
Mutual funds		110,952	62,847	111,628
Other		104,076	126,098	96,587
Subtotal		1,215,527	994,292	993,443
Restricted cash and investments:				
Cash and equivalents		88,619	23,848	36,809
Fixed income investments		151,501	181,245	128,754
Equity investments		197,852	122,474	155,634
Mutual funds		3,634	14,597	14,881
Other		113,834	224,212	144,050
Subtotal		555,440	566,376	480,128
Totals	$	1,770,967	1,560,668	1,473,571

(Continued)

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 192 days in 2015 to 184 days in 2016, the effect of a 26.6% increase in daily expenses including $222 million in expense due to OHSU's proportionate share of the Oregon PERS's net pension liability/(asset). In 2015, the decline from 2014 was driven by 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 was successfully resolved in fiscal year 2016.

Days Unrestricted Cash and Investments on Hand

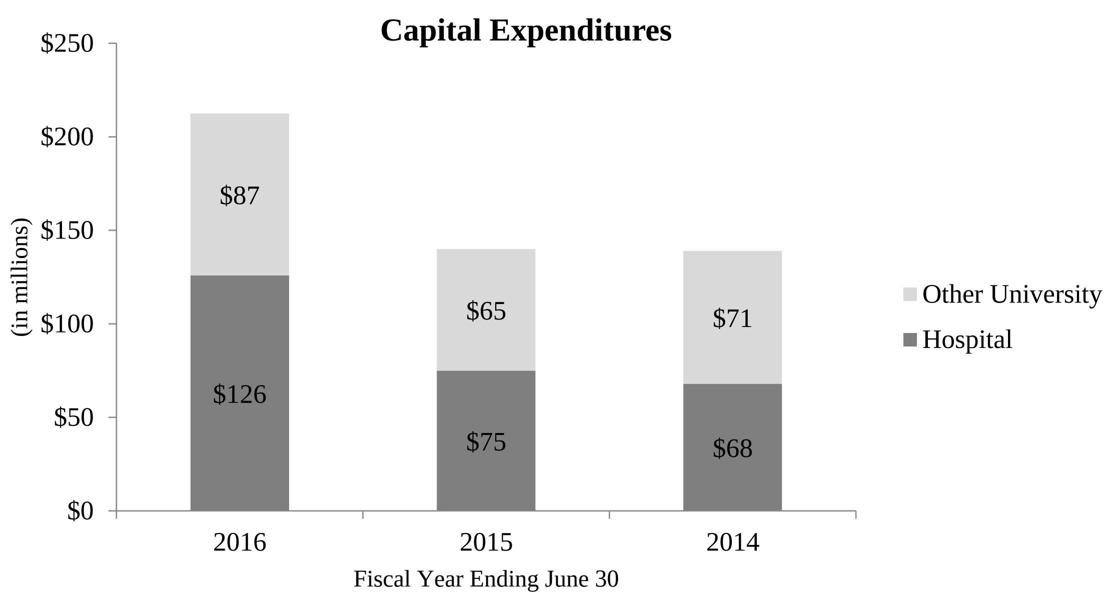
(Dollars in thousands)

		2016	2015	2014
OHSU:				
Unrestricted cash and investments	$	840,612	631,885	639,064
Less nonoperating cash and investments		(31,426)	(19,002)	(13,633)
Operating cash and investments	$	809,186	612,883	625,431
Unrestricted operating expenses:				
Total operating expenses	$	2,464,602	1,957,135	1,879,313
Less depreciation and amortization		(137,385)	(129,297)	(115,240)
Net unrestricted operating expenses	$	2,327,217	1,827,838	1,764,073
Daily expense	$	6,376	5,008	4,833
Days cash on hand(1)		127	122	129
OHSU Plus OHSU and Doernbecher Foundations:				
Unrestricted cash and investments	$	1,215,527	994,292	993,443
Less nonoperating cash and investments		(31,426)	(19,002)	(13,633)
Operating cash and investments	$	1,184,101	975,290	979,810
Unrestricted operating expenses:				
Total operating expenses	$	2,486,990	1,984,766	1,903,322
Less depreciation and amortization		(137,521)	(129,479)	(115,428)
Net operating expenses	$	2,349,469	1,855,287	1,787,894
Daily expense	$	6,437	5,083	4,898
Days cash on hand(1)		184	192	200

(1) The Days cash on hand reflects OHSU's proportionate share of the Oregon PERS's net pension liability/(asset), net of contributions and adjustments, of ($190,453) and $126,832 for fiscal years 2016 and 2015, respectively. Removing the pension adjustment from operating expenses results in Days cash on hand of 200 and 180 for fiscal years 2016 and 2015, respectively.

(Continued)

Capital assets, net of accumulated depreciation, increased by $78.3 million and $11.1 million, respectively, during fiscal years 2016 and 2015. In 2016, capital expenditures included the design and construction of the Knight Cancer Research Facilities, Center for Health & Healing ambulatory care facility (CHH-2) and the Gary and Christine Rood Family Pavilion. The capital expenditures for the years ended June 30, 2016 and 2015 are listed below:



Liabilities

Total liabilities increased by $510 million, or 39.8%, in 2016 after increasing slightly by $94.5 million, or 7.9%, in 2015. In 2016, the significant increase is primarily due to three activities, including the recording of OHSU's proportionate share of the Oregon PERS's net pension liability, additional long-term debt and deferred revenue associated with the State grant supporting the Knight Cancer Challenge research facility. In 2015, the modest increases were due mostly to an increase in accruals for accounts payable and salaries, wages and benefits.

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 $87 million and $56.5 million in fiscal years 2016 and 2015, respectively. In 2016, the increase was due, primarily, to $84 million of unearned revenue associated with the first installment of the $100 million State grant to fund the Knight Cancer Challenge research facility, while in 2015, the increase was primarily due to a large Medicaid settlement liability in conjunction with a corresponding receivable related to the Upper Payment Limit audit. There were also increases in salaries, wages and benefits payable 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.

Total noncurrent liabilities increased $423 million in fiscal year 2016, due in part to the issuance of a series of long-term bonds totaling $374 million including premiums, offset by the advanced refunding of $159 million of debt, $22 million of principal payments and the recording of OHSU's proportionate share of the Oregon PERS's net pension liability at $228 million. 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.

Debt Management. At the close of fiscal year 2016 and 2015, OHSU had a total of approximately $914 million and $720 million in long-term debt and capital leases outstanding, respectively, net of current portion. Approximately 20% of the total long term debt was variable-rate debt issued in the form of variable-rate demand bonds (VRDBs). In fiscal year 2016 OHSU issued both taxable and tax-exempt bonds and refinanced a portion of one fixed rate bond.

Due to OHSU's continued improvement in operations and net position in 2016 and 2015, Standard & Poor's and Fitch both issued ratings of AA- (Stable), and Moody's issued a rating of Aa3 (Stable).

One measure of the degree of leverage on the University's statements of net position is the ratio of long-term debt to net position, shown below. From fiscal year 2015 to 2016, this metric increased due to OHSU's proportionate share of the Oregon PERS's net pension liability and issuing long term debt for both the construction of a new ambulatory care tower and as a prerequisite to the receipt of the State matching grant funds for the construction of the new Knight Cancer Research Building. From fiscal year 2014 to 2015, this metric improved due to increased operating income, investment return and gifts, and regular repayments of principal.

(Dollars in millions)		2016	2015	2014
Long term debt and capital leases	$	931	739	757
Net position[(1)]		2,918	2,516	2,376
Long term debt and capital leases to net position		0.32	0.29	0.32

[(1)] The impact to net position, due to OHSU's proportionate share of the Oregon PERS's net pension liability/(asset), net of contributions and adjustments, is ($190,453) and $126,832 for fiscal years 2016 and 2015, respectively. Removing the pension adjustment from net position results in ratios of 0.30 and 0.31 for fiscal years 2016 and 2015, respectively.

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's credit group must maintain a debt coverage ratio of 1.10 times or greater. The University continues to exceed this minimum requirement with ratios of 2.87 in fiscal year 2016, 7.57 in 2015, and 5.59 in 2014. The decrease in fiscal year 2016 reflects OHSU's proportionate share of the Oregon PERS net pension liability. The increase in fiscal year 2015 reflected a 10% increase in net patient service revenue as well as an $89 million credit reflecting OHSU's proportionate share of the Oregon PERS net pension liability.

Calculation of Maximum Annual Debt Service Coverage Ratio – Unrestricted

(Dollars in thousands)

		2016	2015	2014
Total excess of revenues over expenses	$	353,312	301,553	203,006
Add/subtract restricted net loss/gain		(374,504)	(92,432)	(27,665)
Unrestricted excess of revenues over expenses	$	(21,192)	209,121	175,341
Adjustments:				
Net unrealized (gain) loss in fair value of investments	$	3,615	20,570	(33,072)
Loss on disposal of assets		886	994	3,876
Interest expense(1)		33,962	26,749	22,620
Annual Refund/Payments on Trust Reserves held in Parity		—	—	(517)
Depreciation and amortization		137,521	129,479	115,428
Other-2016 Swap novation/payment on trust reserves		3,177	(906)	—
	$	179,161	176,886	108,335
Income available for debt service	$	157,969	386,007	283,676
Maximum annual debt service		55,080	51,012	50,766
Maximum annual debt service coverage(2)		2.87	7.57	5.59

(1) Interest expense is decreased by investment income on trust accounts.

(2) The maximum annual debt service coverage ratio reflects OHSU's proportionate share of Oregon PERS's net pension liability/(asset), net of contributions and adjustments, of ($190,453) and $126,832 for fiscal years 2016 and 2015, respectively. Removing the pension adjustment results in a Maximum annual debt service coverage ratio of 6.33 and 5.08 for fiscal years 2016 and 2015, respectively.

Deferred inflows and outflows

Under GASB No. 65, *Items Previously Reported as Assets and Liabilities*, certain deferred outflows are presented below assets and certain deferred inflows are presented below liabilities. Deferred outflows increased $32 million in fiscal year 2016 while deferred inflows decreased $129 million due to several items of significance including deferred amortization of derivative instruments, gains and losses on refunding debt and obligations related to defined benefit pension activities. In fiscal year 2015, deferred outflows increased $36 million and deferred inflows increased $187 million, primarily driven by obligations related to defined benefit pension activities.

Within the deferred outflows section of the statements of net position are the deferred amortization of derivative instruments. OHSU currently holds one interest-rate swap agreement. Previously, OHSU held two interest-rate swap agreements which were novated during 2016 and reassigned to a new counterparty under different terms. The 2016 and 2015 deferred amortization of derivative instruments were $14.3 million and $12.5 million, respectively.

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 $26.7 million in 2016 and $2.8 million in 2015 is reported in the deferred outflows section below assets. The advance refunding of the Series 2009A Revenue Bonds has led to an increase in the deferred loss on refunding of debt for 2016. The Series 2009A advance refunding resulted in a deferred loss with a balance of $24.2 million as of June 30, 2016. The deferred gain on refunding of debt of $2.9 million in 2016 and $3.4 million in 2015 is reported in the deferred inflows section below liabilities.

With the adoption of GASB 68 in fiscal year 2015, defined pension obligation activities are now included in deferred inflows and outflows. Fiscal years 2016 and 2015 deferred outflows related to the Oregon PERS pension obligation were $44 million and $38 million, respectively, representing deferred contributions and adjustments made post measurement date as of June 30, 2015 and June 30, 2014, respectively. In addition, deferred inflows for fiscal years 2016 and 2015 were $60 million and $188 million, respectively; the decline was mostly attributed to lower than expected investment gains of approximately 2% compared to the assumed 7.50% and changes due to assumed retiree life expectancy.

Net position

As noted earlier, total net position increased $401.8 million during fiscal year 2016, as compared to an increase of $320.6 million during fiscal year 2015. Increases in both fiscal years occurred within net investment in capital assets, up $ 55.7 million in 2016 and $16.9 million in 2015. Unrestricted net position increased $38 million in 2016 rebounding from a decrease of $64.7 million in 2015. Restricted net position, which is 37% and 31% of OHSU's total net position, increased in both 2016 and 2015, respectively, primarily due to Foundation gifts, offset by the reduction of the PERS's net pension asset of $96 million in 2016, resulting in a $308 million and $188.2 million increase in 2016 and 2015, respectively.

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.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position presents the operating results, net income and change in net position of OHSU on a combined basis including 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 years 2016 and 2015, state appropriations totaled $35.6 million and $33.4 million, respectively.

Consolidated net income for OHSU including the Foundations totaled $353 million in fiscal year 2016, compared to $302 million in 2015. As noted above, major drivers of the current fiscal year over year changes in net income are attributable to the continued growth of patient revenue and one-time activities including gifts, the spending of which will occur in subsequent years, and the recording of expenses associated with OHSU's proportionate share of the Oregon PERS's net pension liability/(asset).

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

(Dollars in thousands)

		2016	2015	2014
Total operating revenues	$	3,073,094	2,530,597	2,280,514
Total operating expenses		2,764,835	2,254,018	2,206,637
Operating gain		308,259	276,579	73,877
Nonoperating revenues, incl. state appropriations		45,053	24,974	129,129
Net income before other changes in net position for capital and other		353,312	301,553	203,006
Contributions for capital and other		34,732	4,791	5,135
Nonexpendable donations		13,763	14,259	7,374
Change in net position		401,807	320,603	215,515
Net position – beginning of year		2,516,469	2,195,866	2,160,581
Net position – end of year	$	2,918,276	2,516,469	2,376,096

(Continued)

Total Operating Revenues

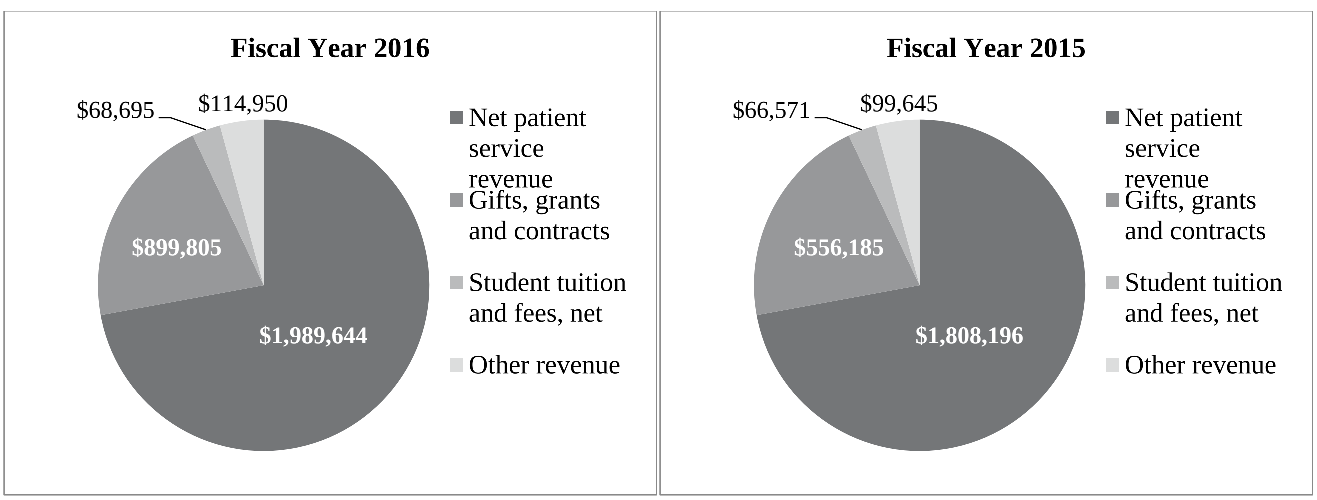
Total operating revenues on a combined basis (including the Foundations and reclassification of State appropriations to nonoperating revenues) totaled $3.07 billion and $2.53 billion in 2016 and 2015, respectively.

The largest contributor to revenue growth in 2016 was gifts, grants, and contracts, which increased $344 million and $81 million or 62% and 17% in fiscal years 2016 and 2015, respectively. In fiscal year 2016, a significant gift of $500 million from Phil and Penny Knight was recognized for the Knight Cancer Institute. Additionally, $16 million of the first year's application of the $200 million State grant to the Knight Cancer Challenge research facility was recognized. In fiscal year 2015, the growth was due primarily to the $100 million Gert Boyle gift.

Additionally, net patient service revenue contributed to revenue growth, with an increase of $181 million and $164 million or 10% and 10% in fiscal years 2016 and 2015, respectively. Drivers of the increase include strength in inpatient and outpatient activity, case mix, payment rates and higher pharmacy utilization, combined with a payer mix showing continued decrease in uninsured activity due to the shift to Medicaid with coverage expansion under the Affordable Care Act.

Operating Revenue by Source
Fiscal Year 2016 and 2015 (Total $3.0 billion and $2.5 billion, respectively)

(Dollars in thousands)



Total Operating Expenses

OHSU's total operating expenses on a combined basis increased by $510.8 million or 22.7% in fiscal year 2016, and $47.4 million or 2.2% in fiscal year 2015. A significant portion of the increase, reflected in salaries, wages and benefits, was due to OHSU's proportionate share of the Oregon PERS's net pension liability. The remaining increases were mainly in support of the program growth driving the increases in revenue mentioned earlier.

Salaries, wages and benefits (excluding the impact of the defined benefit pension expense) comprise over 55% of total expenses, increased by $119 million, or 8.5% in 2016 and $39 million, or 2.9% in 2015, respectively. The increase in compensation in 2016 and 2015 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.

In fiscal years 2013 and 2014, the Oregon legislature limited cost of living adjustments for PERS pensions, reducing system-wide liabilities by approximately $5 billion, of which OHSU's proportionate share is approximately $200 million. In April 2015, this legislation was overturned by the Oregon Supreme Court in the *Moro v State of Oregon* case. In fiscal year 2016, the result of the overturning is reflected as an increase in the defined pension benefit of $222 million, offsetting the fiscal year 2015 defined pension benefit gain of $89 million.

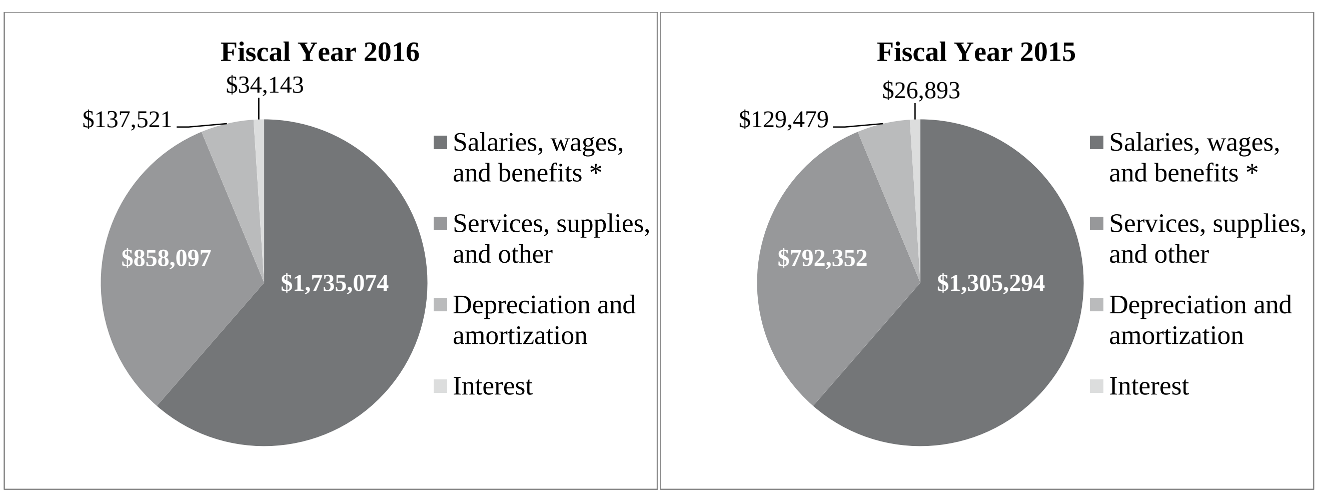
Services, supplies and other expenses showed an increase of $66 million, or 8.3% in 2016, and $79 million, or 11% in 2015 representing the nonlabor costs associated with the targeted program growth mentioned above and increased direct Foundation support.

Depreciation and amortization, which represents the reduction in value of capital assets with the passage of time, showed a 6% and 12% increase for the fiscal years ending 2016 and 2015, respectively. Depreciation and amortization showed a slower growth in fiscal year 2016 compared to fiscal year 2015 primarily due to the completion of the Collaborative Life Sciences Building, which was placed in service on July 1, 2014.

Interest expense increased in fiscal year 2016 and 2015 following the debt restructuring of a substantial portion of OHSU's debt in February 2016 and May 2015, respectively. Interest expense increased $7 million or 27% in 2016 after a $4 million or 18% increase in 2015.

Operating Expenses
Fiscal Year 2016 and 2015 (Total $2.8 billion and $2.3 billion, respectively)

(Dollars in thousands)



*Salaries, wages and benefits figures include OHSU's proportionate share of the Oregon PERS's net pension liability/(asset) of $222,124 and ($89,081) in fiscal year 2016 and 2015, respectively.

Operating Expenses
By Functional Classification
(Dollars in thousands)

		2016	2015	2014
Instruction, research, and public service	$	420,535	405,417	395,540
Clinical activity		1,612,788	1,583,199	1,442,363
Auxiliary activities		9,450	9,710	11,794
Internal service centers		10,898	8,079	8,148
Student services		15,057	15,775	17,331
Academic support		62,655	23,153	41,208
Institutional support		149,363	77,779	64,985
Operations, maintenance, and other		124,187	94,124	81,061
Direct foundation expenditures		31,927	34,135	28,779
Depreciation and amortization		137,522	129,479	115,428
Defined pension benefit, net of contribution		190,453	(126,832)	—
Total operating expenses	$	2,764,835	2,254,018	2,206,637

Economic Outlook

Over the past several years, the economy in Oregon has shown strength as is evidenced by a strong labor market, as well as other peripheral economic indicators. The Oregon unemployment rate decreased from 5.8% in August 2015 to 5.4% in August 2016 (preliminary), continuing its steady decline from its post financial crisis peak of 11.9% seen in May 2009. According to the Oregon Office of Economic Analysis, tax withholding from paychecks increased 8% during fiscal year 2016, and over the past several years the state has averaged job growth of 5,000 jobs per month, above the estimated 2,000 jobs per month needed to keep up with population growth. At the national level, economic growth has been slower with U.S. real GDP growing only 1.2% from March 2015 to March 2016, below the 3.0% exhibited during the prior year over the same period. Interest rates in the US and much of the developed world remain low by historical standards, with the 10 year US treasury rate decreasing from 2.3% in June 2015 to 1.5% in June 2016. The treasury yield curve also flattened over the fiscal year with the benchmark 2-10 year US treasury spread narrowing from 171 bps to 91 bps. The equity market appreciated modestly with the S&P 500 increasing 4.0%. US monetary policymakers continued to take an accommodative stance in the support of the economy by maintaining its federal funds rate in a target range between 0.25 and 0.50%.

(Continued)

Healthcare reform continues to proceed both nationally and within the State of Oregon. From September 2015 to February 2016, the Affordable Care Act ("ACA") saw gains in health insurance coverage adding 2.4 million participants, according to the Assistant Secretary for Planning and Evaluation (ASPE). This brings the estimated total of adults covered by provisions in the ACA to 20.0 million. 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 five 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. Over the past few years, Oregon's Medicaid enrollment increased from approximately 600,000 to over 1,000,000 members, including coverage expansion under the ACA. OHSU is a founding member of Health Share of Oregon, a collaboration of public and private entities that have formed the principal CCO for the tri-county region surrounding Portland. In addition, half of OHSU's inpatient care comes from outside the tri-county area, so OHSU will partner with CCOs across Oregon. A reduction in the rate of growth of health care expenditures will likely be necessary in other health care programs, such as Medicare and government employee health plans, to help bring federal and state budgets into balance over the long run. Government budget deficits are also putting pressure on funding for research and education.

The economic trends described above are major inputs to OHSU's financial and strategic planning. 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. OHSU's strategic plan calls for partnering to make Oregon a leader in health and science innovation and to improve the health and well-being of Oregonians. In this regard, OHSU has made significant progress, with the establishment of new partnerships with Salem Health and Tuality Healthcare, as well as signing a nonbinding Letter of Intent (LOI) with Adventist Health to explore a potential affiliation. Results over the past several fiscal years show that OHSU's financial position remains strong with overall increases in net income and net position, and investment gains consistent with market trends. OHSU's strong financial position is further recognized by its credit ratings. S&P and Fitch maintained its "AA-", while Moody's raised its rating from "A1" to "Aa3" during the fiscal year. The University's long range financial plans and its fiscal year 2017 budget continue on this trajectory. In addition, OHSU has continued on its path of unwavering public and philanthropic support with its completion of the $1 billion Knight Cancer Challenge with $311 million from over 10,000 donors, $200 million from the State, and $500 million from Phil and Penny Knight.

OREGON HEALTH & SCIENCE UNIVERSITY
(Primary Government)

Statements of Net Position

June 30, 2016 and 2015

(Dollars in thousands)

Assets and Deferred Outflows		**2016**	**2015**
Current assets:			
Cash and cash equivalents	$	313,804	195,290
Short-term investments		237,062	179,728
Current portion of funds held by trustee		173,013	4,017
Patients accounts receivable, net of bad debt allowances of $2,823 in 2016 and $4,502 in 2015		329,310	348,541
Student receivables		24,561	22,675
Grant and contract receivables		43,285	44,328
Interest receivable		1,207	1,116
Current portion of pledges and estates receivable		67,721	45,568
Other receivables, net		24,467	15,060
Inventories, at cost		21,829	19,963
Prepaid expenses		26,438	24,581
Total current assets		1,262,697	900,867
Noncurrent assets:			
Capital assets, net of accumulated depreciation		1,606,554	1,528,256
Funds held by trustee – less current portion		12,617	27,464
Other long term receivables, net or reserves		33,500	33,500
Long-term investments:			
Long-term investments, restricted		526,449	533,341
Long-term investments, unrestricted		693,652	652,309
Total long-term investments		1,220,101	1,185,650
Prepaid financing costs, net		2,915	3,188
Pledges and estates receivable – less current portion		548,921	159,367
Restricted pension asset		—	96,652
Other noncurrent assets		2,118	3,056
Total noncurrent assets		3,426,726	3,037,133
Total assets		4,689,423	3,938,000
Deferred outflows:			
Deferred amortization of derivative instruments		14,327	12,498
Loss on refunding of debt		26,720	2,758
Pension related		43,666	37,750
Total deferred outflows		84,713	53,006
Total assets and deferred outflows	$	4,774,136	3,991,006

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY
(Primary Government)

Statements of Net Position

June 30, 2016 and 2015

(Dollars in thousands)

Liabilities, Deferred Inflows, and Net Position		**2016**	**2015**
Current liabilities:			
Current portion of long-term debt	$	16,032	18,125
Current portion of long-term capital leases		881	1,038
Current portion of self-funded insurance programs liability		30,576	28,775
Accounts payable and accrued expenses		127,855	153,500
Accrued salaries, wages, and benefits		104,053	90,268
Compensated absences payable		78,454	68,559
Unearned revenue		131,558	45,120
Other current liabilities		5,896	2,952
Total current liabilities		495,305	408,337
Noncurrent liabilities:			
Long-term debt – less current portion		909,993	714,509
Long-term capital leases – less current portion		4,284	5,092
Liability for self-funded insurance programs – less current portion		31,890	30,730
Liability for life income agreements		24,830	30,307
Pension liability		228,337	—
Other noncurrent liabilities		99,090	94,359
Total noncurrent liabilities		1,298,424	874,997
Total liabilities		1,793,729	1,283,334
Deferred inflows:			
Gain on refunding of debt		2,951	3,402
Pension related		59,180	187,801
Total deferred inflows		62,131	191,203
Net position:			
Net investment in capital assets		876,150	820,360
Restricted, expendable		872,294	574,712
Restricted, nonexpendable		215,005	204,601
Unrestricted		954,827	916,796
Total net position		2,918,276	2,516,469
Total liabilities, deferred inflows and net position	$	4,774,136	3,991,006

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY
(Primary Government)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

(Dollars in thousands)

		2016	2015
Operating revenues:			
Patient service revenue, net of bad debt adjustments of $21,191 and $25,945 in 2016 and 2015 respectively	$	1,989,644	1,808,196
Student tuition and fees, net		68,695	66,571
Gifts, grants, and contracts		899,805	556,185
Other revenue		114,950	99,645
Total operating revenues		3,073,094	2,530,597
Operating expenses:			
Salaries, wages, and benefits		1,512,950	1,394,375
Defined benefit pension		222,124	(89,081)
Services, supplies, and other		858,097	792,352
Depreciation and amortization		137,521	129,479
Interest		34,143	26,893
Total operating expenses		2,764,835	2,254,018
Operating income		308,259	276,579
Nonoperating revenues, net:			
Investment income and gain in fair value of investments		8,610	3,402
State appropriations		35,567	33,448
Other		876	(11,876)
Total nonoperating revenues, net		45,053	24,974
Net income before contributions for capital and other		353,312	301,553
Other changes in net position:			
Contributions for capital and other		34,732	4,791
Nonexpendable donations		13,763	14,259
Total other changes in net position		48,495	19,050
Total increase in net position		401,807	320,603
Net position – beginning of year		2,516,469	2,195,866
Net position – end of year	$	2,918,276	2,516,469

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY
(Primary Government)

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(Dollars in thousands)

		2016	2015
Cash flows from operating activities:			
Receipts for patient services	$	2,008,875	1,745,378
Receipts from students		66,809	63,708
Receipts of gifts, grants, and contracts		574,068	543,710
Other receipts		106,482	93,858
Payments to employees for services		(1,520,941)	(1,416,723)
Payments to suppliers		(881,561)	(782,106)
Net cash provided by operating activities		353,732	247,825
Cash flows from noncapital financing activities:			
Federal direct loan proceeds		56,383	57,587
Federal direct loan disbursements		(56,069)	(57,592)
Nonexpendable donations and life income agreements		15,524	3,377
State appropriations		35,567	33,448
Net cash provided by noncapital financing activities		51,405	36,820
Cash flows from capital and related financing activities:			
Scheduled principal payments on long-term debt		(18,125)	(16,538)
Interest payments on long-term debt		(39,925)	(27,137)
Proceeds from issuance of long-term debt		374,246	141,500
Repayment on debt		(182,466)	(141,500)
Acquisition of capital assets		(216,705)	(141,583)
Payments on capital leases		(965)	(963)
Contributions for capital and other		34,732	4,791
Net cash used in capital and related financing activities		(49,208)	(181,430)
Cash flows from investing activities:			
Purchases of investments		(1,284,194)	(1,350,682)
Proceeds from sales and maturities of investments		1,030,805	1,311,430
Investment in long-term receivable		—	(33,500)
Interest on investments and cash balances		15,974	48,938
Net cash used in investing activities		(237,415)	(23,814)
Net increase in cash and cash equivalents		118,514	79,401
Cash and cash equivalents, beginning of year		195,290	115,889
Cash and cash equivalents, end of year	$	313,804	195,290

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY
(Primary Government)

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(Dollars in thousands)

		2016	2015
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	308,259	276,579
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		137,521	129,479
Provision for bad debts		21,191	25,945
Interest expense reported as operating expense		34,143	26,893
Defined benefit pension		190,452	(126,831)
Net changes in assets and liabilities:			
Patient accounts receivable		(1,960)	(88,763)
Student receivables		(1,886)	(2,863)
Grant and contracts receivable		729	879
Pledges and estates receivable		(411,707)	(89,321)
Other receivables and other assets		(8,468)	(5,787)
Inventories		(1,866)	(1,890)
Prepaid expenses		(1,857)	(9,582)
Accounts payable and accrued expenses		(25,645)	25,077
Accrued salaries, wages, and benefits		13,785	12,116
Compensated absences payable		9,895	3,286
Other current liabilities		2,944	(2,569)
Annuity payment liability		(5,477)	(73)
Deferred revenue		86,438	9,415
Liability for self-funded insurance programs		2,961	(790)
Other noncurrent liabilities		4,280	66,625
Net cash provided by operating activities	$	353,732	247,825
Supplemental schedule of noncash capital and related financing and investing activities:			
Unrealized change in fair value of investments	$	(19,845)	(45,603)
Loss on disposal capital assets		(886)	(994)

See accompanying notes to financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

(Nongovernmental Discretely Presented Component Unit)

Consolidated Balance Sheets

June 30, 2016 and September 30, 2015

Assets		2016	2015
Current assets:			
Cash and cash equivalents	$	11,845,900	10,096,400
Short-term investments		2,126,500	27,643,900
Patient accounts receivable, net of allowance for uncollectible accounts of $3,760,800 and $5,446,000		23,590,000	23,282,200
Other receivables		6,740,800	4,705,100
Inventory of supplies		3,402,800	3,309,700
Prepaid expenses and other		2,782,000	2,426,000
Current portion of assets whose use is limited		915,700	—
Total current assets		51,403,700	71,463,300
Assets whose use is limited:			
Board-designated funds		36,400,200	15,209,600
Under bond indenture agreement – held by Trustee		3,589,500	3,588,400
Donor-restricted – specific purpose		2,846,900	2,771,600
Donor-restricted – endowment		2,777,300	2,536,500
Required for current liabilities		(915,700)	—
Total assets whose use is limited		44,698,200	24,106,100
Property and equipment:			
Property and equipment net of accumulated depreciation and amortization		42,102,400	40,969,900
Other assets:			
Other receivables – noncurrent		1,003,400	1,511,900
Investments in unconsolidated affiliates		2,650,500	2,853,700
Deferred compensation plan		1,773,300	1,515,900
Cash value of life insurance		446,800	446,800
Deferred costs and other		535,500	558,000
Intangible assets		1,907,300	1,981,200
Goodwill		318,500	318,500
Total other assets		8,635,300	9,186,000
Total assets	$	146,839,600	145,725,300

(Continued)

TUALITY HEALTHCARE AND SUBSIDIARIES
(Nongovernmental Discretely Presented Component Unit)

Consolidated Balance Sheets

June 30, 2016 and September 30, 2015

Liabilities and Net Assets		**2016**	**2015**
Current liabilities:			
Accounts payable	$	10,942,300	11,342,000
Accrued payroll and employee benefits		13,334,300	10,296,400
Estimated liabilities for Medicare and Medicaid settlements		623,000	525,100
Long-term debt due within one year		1,116,100	403,000
Accrued bond interest payable		115,700	—
Total current liabilities		26,131,400	22,566,500
Long-term liabilities:			
Long-term debt, net of amount due within one year		15,766,300	16,836,800
Liability for pension benefits		54,706,200	44,561,800
Other long-term liabilities		3,574,600	3,709,800
Total long-term liabilities		74,047,100	65,108,400
Total liabilities		100,178,500	87,674,900
Net assets:			
Unrestricted		41,017,900	52,714,200
Temporarily restricted by donors		2,865,900	2,799,700
Permanently restricted by donors		2,777,300	2,536,500
Total net assets		46,661,100	58,050,400
Total liabilities and net assets	$	146,839,600	145,725,300

TUALITY HEALTHCARE AND SUBSIDIARIES
(Nongovernmental Discretely Presented Component Unit)

Consolidated Statements of Operations

Nine-month period ended June 30, 2016 and year ended September 30, 2015

	2016	2015
Net patient service revenue:		
Patient service revenue (net of contractual allowances and discounts)	$ 130,735,900	164,954,600
Provision for bad debts	(7,708,200)	(7,792,300)
Total net patient service revenue	123,027,700	157,162,300
Other revenue	12,672,900	13,888,700
Total revenue	135,700,600	171,051,000
Operating expenses:		
Salaries and wages	67,189,800	85,070,400
Employee benefits	16,378,900	21,104,800
Supplies and other expenses	45,566,200	56,622,900
Professional fees	3,148,400	3,574,600
Depreciation and amortization	5,819,100	7,415,200
Interest	488,500	1,081,600
Total operating expenses	138,590,900	174,869,500
Loss from operations	(2,890,300)	(3,818,500)
Other income:		
Realized income on investments whose use is limited by board designation	643,300	56,500
Gain on investments in affiliated companies	991,600	1,231,400
(Loss) gain on disposal of property and equipment	(357,500)	3,400
Loss on extinguishment of debt	—	(432,700)
Other nonoperating expenses	(165,900)	(92,300)
Total other income	1,111,500	766,300
Deficit of revenue in excess of expenses	(1,778,800)	(3,052,200)
Contributions for property and equipment acquisition	387,000	180,300
Change in net unrealized gain (loss) on other-than-trading securities	639,400	(870,300)
Pension-related changes	(10,943,900)	(12,571,700)
Decrease in unrestricted net assets	$ (11,696,300)	(16,313,900)

TUALITY HEALTHCARE AND SUBSIDIARIES
(Nongovernmental Discretely Presented Component Unit)

Consolidated Statements of Changes in Net Assets

Nine-month period ended June 30, 2016 and year ended September 30, 2015

		2016	2015
Unrestricted net assets:			
Deficit of revenue in excess of expenses	$	(1,778,800)	(3,052,200)
Contributions for property and equipment acquisition		387,000	180,300
Change in net unrealized gain (loss) on other-than-trading securities		639,400	(870,300)
Pension-related changes		(10,943,900)	(12,571,700)
Decrease in unrestricted net assets		(11,696,300)	(16,313,900)
Temporarily restricted net assets:			
Gifts, grants and bequests		788,500	965,800
Investment income (loss)		380,600	(243,500)
Net assets released from restrictions		(1,102,900)	(1,126,400)
Increase (decrease) in temporarily restricted net assets		66,200	(404,100)
Permanently restricted net assets:			
Contributions for endowment funds		240,800	(1,100)
Increase (decrease) in permanently restricted net assets		240,800	(1,100)
Decrease in net assets		(11,389,300)	(16,719,100)
Net assets, beginning of year		58,050,400	74,769,500
Net assets, end of year	$	46,661,100	58,050,400

(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), or the University, 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.

On February 1, 2016, OHSU affiliated with Tuality Healthcare (Tuality) through the execution of a Management Agreement (the Tuality Agreement) between the organizations. Tuality owns and operates Tuality Community Hospital, a 167 licensed bed acute care hospital located in Hillsboro, Oregon, and Tuality Forest Grove Hospital, a 48 licensed bed acute care hospital located in Forest Grove, Oregon. Under the Tuality Agreement, OHSU agrees to oversee the unified and integrated clinical enterprises of OHSU and Tuality as a single, integrated economic unit. OHSU and Tuality remain as separate legal entities, own their own assets and continue to be the licensed operators of their respective facilities. Tuality is a component unit of OHSU as OHSU approves Tuality's operating budget. Since Tuality has a separate board of directors and they do not provide services exclusively to OHSU, they are presented as a discrete 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 statements.

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

On February 27, 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which became effective for the fiscal year ending June 30, 2016. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments, and disclosures related to all fair value measurements. This Statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value, and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The application of this Statement triggers significant changes in investment footnote disclosures. Please see note 3 for further details.

(d) Accounting Standards Impacting the Future

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for the fiscal year ending June 30, 2018. This Statement establishes standards of accounting and financial reporting for defined benefit Other Post Employment Benefits (OPEB) and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. The University is currently analyzing the impact of this Statement.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split – Interest Agreements*, which is effective for the fiscal year ending June 30, 2017. This statement provides accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The purpose is to more clearly identify the resources that are available for the government to carry out its mission. The University is currently analyzing the impact of this statement.

(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. Tuality Healthcare is presented discretely, since they have separate boards of directors and they do not provide services exclusively to OHSU. They are considered a nonmajor component unit as there are no significant transactions with OHSU, and there is not a significant financial benefit/burden relationship with OHSU.

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, and those of Tuality Healthcare, 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 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, 2016 and 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 (NAVs). 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 years 2016 and 2015, OHSU capitalized interest expense of approximately $2,630 and $1,413, respectively. This was net of approximately $46 and $0, respectively, of interest income on unspent project funds.

(Continued)

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.

(Dollars in thousands)

A summary of restricted funds by restriction category for fiscal years ended June 30, 2016 and 2015 is as follows:

		2016	2015
Restricted expendable:			
Research	$	685,938	305,738
Academic support		33,208	39,000
Instruction		24,412	29,019
Capital projects and planning		40,297	5,392
Student aid		47,436	51,162
Clinical support		14,683	15,573
Institutional support		5,032	5,201
Defined benefit pension asset		—	96,652
Other		21,288	26,975
	$	872,294	574,712
Restricted nonexpendable:			
Research	$	26,015	23,045
Instruction		55,535	48,237
Clinical support		2,641	2,625
Public service		1,731	1,401
Academic support		72,083	70,498
Student aid		40,186	39,432
Other		16,814	19,363
	$	215,005	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 years ended June 30, 2016 and 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, 2016 and 2015, the fair value of investments in the endowment fund was $491,900 and $485,300, respectively. The fair value of the unspent portion of endowments in excess of corpus at June 30, 2016 and 2015 was $23,600 and $43,300, respectively.

Spending distributions were not made for certain endowment accounts during 2016 and 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, 2016 and 2015, the accumulated loss of $3,800 and $300, respectively, related to endowment accounts with market value below corpus was reflected in nonexpendable restricted net position.

(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, 2016 and 2015, the grants receivable balance was $27,142 and $20,264, respectively, 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, 2016 and 2015, the grants unearned revenue balance was $29,181 and $26,167, respectively; additionally, unearned revenue of $84,340 for the Knight Cancer Challenge State Grant was included in unearned revenue in the accompanying statements of net position as of June 30, 2016.

(Dollars in thousands)

(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 years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Gross patient charges	$ 4,135,212	3,711,127
Contractual discounts	(2,124,377)	(1,876,986)
Bad debt adjustments	(21,191)	(25,945)
Net patient service revenues	$ 1,989,644	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.

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 $513 and $4,219 for the years ended June 30, 2016 and 2015, respectively, as a result of final settlements of prior years' cost reports and revisions of estimates for prior years cost report settlements.

(Dollars in thousands)

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, 2016 and 2015 were approximately as follows:

	2016	2015
Medicare and Medicare managed care contracts	23%	25%
Medicaid and Oregon Health Plan (OHP)	22	21
Commercial and managed care insurance	53	51
Nonsponsored	2	3
	100%	100%

(s) Student Tuition and Fees Revenues

A summary of student tuition and fees revenues during the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Gross student tuition	$ 80,965	78,606
Exemptions	(12,270)	(12,035)
Student tuition and fees revenues, net	$ 68,695	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 $40,761 and $46,077 in 2016 and 2015, respectively.

(Continued)

(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. Pledges are generally received within five to ten years of the date of original commitment. 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 Plan, Inc. (Moda), one of the four largest health plans in Oregon, to advance population health management. In December 2014, OHSU invested $50,000 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, and the note bears interest on its unpaid principal balance at a rate equal to 4% per annum. Payment of interest and principal is subject to approval by the Oregon insurance commissioner, part of the Department of Consumer and Business Services (DCBS).

Moda has had a large share of Oregon's new individual insurance market under 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 as obligations of the United States Government. However, it is uncertain when the federal government will pay these amounts.

In light of this uncertainty, OHSU recorded a valuation reserve of $16,500 against the surplus note receivable as of June 30, 2015. Moda has continued to incur losses, especially in the individual market. In February 2016, DCBS issued a consent order requiring Moda to sell a variety of assets and take steps to improve its financial position. In June 2016, as a result of Moda's completing several transactions to generate the capital needed to meet regulatory standards, together with Moda reducing its risk by withdrawing from some markets, DCBS lifted the consent order, although Moda remains under increased financial solvency monitoring and the State maintains its ability to take further action. The Oregon insurance commissioner has not allowed payment of interest under the surplus note during 2016. OHSU reviewed the valuation of the note as of June 30, 2016, and has retained the current net valuation of $33,500, which represents 1.15% of OHSU's total net assets as of June 30, 2016.

(2) Cash and Investments

OHSU holds substantially all of its cash, cash equivalents, and investment balances at financial institutions. OHSU's cash is insured by the Federal Deposit Insurance Corporation subject to standard limits. Additionally, a portion of cash and cash equivalents are collateralized deposits as required under the Oregon Revised Statutes (ORS).

(Continued)

(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, 2016 and 2015 is as follows:

		2016	2015
Short-term investments:			
Cash and cash equivalents	$	1,081	965
Mutual funds		115,729	61,852
U.S. government securities		—	355
U.S. agency securities		1,913	3,647
Corporate obligations		31,004	30,989
Fixed income		87,335	81,920
		237,062	179,728
Funds held by trustee, current portion:			
Cash and cash equivalents		—	4,017
Fixed income		173,013	—
		173,013	4,017
Funds held by trustee – less current portion:			
Cash and cash equivalents		—	253
U.S. agency securities		—	10,957
Fixed income		12,617	16,254
		12,617	27,464
Long-term investments – less current portion:			
Cash and cash equivalents		122,730	4,882
U.S. government securities		212,076	169,668
U.S. agency securities		42,336	23,669
Corporate obligations		272,619	253,112
Fixed income		61,486	181,629
Equities		300,456	307,453
Alternative investments		111,950	110,736
Joint ventures and partnerships		52,397	48,760
Real estate investments and other		44,051	85,741
		1,220,101	1,185,650
Total investments, all categories	$	1,642,793	1,396,859

(Continued)

(Dollars in thousands)

(3) GASB 72 – Fair Value Measurement

The methods used to determine the fair value of financial instruments reflect market participant objectives and are based on the application of a valuation hierarchy. These methods are prescribed by GASB No. 72, *Fair Value Measurement and Application*. The hierarchy is based on the reliability of inputs as follows:

- Level 1 – Valuation is based on quoted prices for identical financial statements in active markets.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and independent pricing models or other model-based valuation techniques using observable inputs.
- Level 3 – Certain types of financial instruments are classified as Level 3 within the valuation hierarchy because these financial instruments trade infrequently and, therefore, have little or no price transparency.

The following table presents a categorization, based on the foregoing valuation hierarchy, of OHSU's financial instruments measured at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Fair value
Cash and money market funds	$ —	222,868	—	222,868
U.S. government securities	—	212,076	—	212,076
U.S. agency securities	—	44,249	—	44,249
Domestic equity securities	202,907	80	134	203,121
International equity securities	38,955	11,636	—	50,591
Commercial paper	—	14,758	—	14,758
U.S. Corporate securities	—	251,453	—	251,453
Non-U.S. corporate securities	—	52,170	—	52,170
Asset backed securities	—	69,821	—	69,821
Mutual funds – fixed income only	148,425	—	—	148,425
Municipal Bonds	—	2,388	—	2,388
Mutual funds-other	115,730	—	—	115,730
Real estate investments and other	7,345	28,919	5,893	42,157
	$ 513,362	910,418	6,027	1,429,807
Investments measured using Net Asset Value (NAV) per share or its equivalent				181,671
Equity method investments				31,315
Total assets				$ 1,642,793

(Dollars in thousands)

The following table presents a categorization, based on the foregoing valuation hierarchy, of OHSU's financial instruments measured at fair value as of June 30, 2015.

	Level 1	Level 2	Level 3	Fair value
Cash and money market funds	$ —	54,401	—	54,401
U.S. government securities	—	170,024	—	170,024
U.S. agency securities	—	45,924	—	45,924
Domestic equity securities	194,154	48	137	194,339
International equity securities	46,669	13,313	—	59,982
Commercial paper	—	18,620	—	18,620
U.S. Corporate securities	—	234,645	—	234,645
Non-U.S. corporate securities	—	49,456	—	49,456
Asset backed securities	—	104,681	—	104,681
Mutual funds – fixed income only	101,725	—	—	101,725
Municipal Bonds	—	2,256	—	2,256
Mutual funds-other	61,852	—	—	61,852
Real estate investments and other	43,062	24,378	7,340	74,780
	$ 447,462	717,746	7,477	1,172,685
Investments measured using NAV per share or its equivalent				205,316
Equity method investments				18,858
Total assets				$ 1,396,859

There were no transfers of financial instruments between Level 1 and Level 2 classifications either in 2016 or 2015. Changes in Level 3 financial instruments are as follows:

	2016	2015
Balance at beginning of year	$ 7,477	7,028
Net realized loss	563	19
Net unrealized gains	(264)	61
Purchases	13	13
Sales	(1,762)	(24)
Contributions	—	380
Balance at end of year	$ 6,027	7,477

Net realized and unrealized gains and losses on financial instruments classified as Level 3 are reported as nonoperating revenues as investment income when earned.

(Dollars in thousands)

The practical expedient used by OHSU for certain financial instruments is the NAV per share equivalent. For these financial instruments, the valuation of the transaction price is initially used as the best estimate of fair value.

The following table presents information for investments where either the NAV per share or its equivalent was used to value the investments as of June 30, 2016 and 2015:

	Redemption Frequency	Redemption Notice Period	2016	2015
Domestic equities	Monthly	30 days	$ —	861
Non-U.S. equities	Monthly	10–30 days	30,084	31,812
Global equities	Monthly	10 business days	16,767	15,909
Venture capital/private equity	Event-driven	N/A	52,397	48,760
Marketable alternative investments	Quarterly to every two years on quarter-end	30–95 days	80,529	94,747
Real estate investments and contracts	Event-driven	N/A	1,894	2,557
Natural resource funds	Monthly	0-9 days	—	10,670
			$ 181,671	205,316

Domestic Equities, Non-U.S. Equities, and Global Equities represent investments in equities, both U.S. and international, including investments in developed and emerging markets.

(Dollars in thousands)

(4) Investments and Related Policies

(a) Interest Rate Risk

As of June 30, 2016 and 2015, OHSU had the following investments and maturities at fair value:

	2016				
	Maturity				
	Less than 1 year	**1–5 years**	**6–10 years**	**More than 10 years or none**	**Total**
Cash and money market funds	$ 220,047	2,822	—	—	222,869
U.S. government securities	13	199,177	12,886	—	212,076
U.S. agency securities	1,913	17,611	7,839	16,886	44,249
Domestic equity securities	—	—	—	111,392	111,392
International equity securities	—	—	—	220,484	220,484
Commercial paper	14,758	—	—	—	14,758
U.S. corporate securities	34,633	208,468	8,353	—	251,454
Non-U.S. corporate securities	14,065	35,306	2,362	436	52,169
Asset-backed securities	38,789	21,105	2,722	7,205	69,821
Joint ventures and partnerships	—	—	—	52,397	52,397
Mutual funds – fixed income only	129,834	5,713	12,846	32	148,425
Municipal bonds	287	799	749	552	2,387
Mutual funds, other	—	—	—	115,730	115,730
Alternative investments	—	—	—	80,531	80,531
Real estate investments and		—	—	—	
other	—	—	—	44,051	44,051
	$ 454,339	491,001	47,757	649,696	1,642,793

(Dollars in thousands)

	2015				
	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 $69,821 and $104,682 of asset-backed securities collateralized primarily by auto loans, credit card receivables and collateralized mortgage obligations as of June 30, 2016 and 2015, respectively. These securities are valued at their estimated fair values. The valuation of these securities is sensitive to principal prepayments, which may result from a decline in interest rates, and they are sensitive to an increase in average maturity, which may result from interest rate increases that lead to decreasing prepayments. These factors may increase the interest rate volatility of this component of OHSU's investment portfolio.

At June 30, 2016 and 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 selected in these portfolios are driven by prevailing market conditions, 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.

(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 current fund investment policy requires the weighted average quality of the portfolio to be AA or higher as rated by one or more of the nationally recognized credit-rating services. Investments shall generally emphasize U.S. Treasuries, agencies, municipal bonds, and high-quality corporate securities. The below listed securities require initial minimum ratings or better from Moody's or Standard & Poor's as follows:

At the time of purchase, all credits must be rated at least Baa3 by Moody's or BBB-by S&P. In the event of a split rating, the higher rating will prevail. Credits in the BBB or BAA rating category will have a maximum position of 1% of market value. Total exposure to issues rated BBB+ and/or Baa1 or less will not exceed 20%. A 5% target allocation to high yield bonds is allowed.

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.

(Dollars in thousands)

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. As of June 30, 2016, OHSU had the following investments with credit rating at fair value:

As of June 30, 2016 and 2015, OHSU had the following investments with credit rating at fair value:

Investment type	**Credit rating Standard & Poor's or equivalent**	**Total 2016**	**Total 2015**
Cash and money market funds	AAA	$ 8,107	3,936
	AA-	2,005	—
	A+	—	1,002
	BBB+	—	701
	A-1+	4,517	2,001
	A-1	5,874	8,925
	A-2	—	1,005
	Not rated	124,470	437
	NA	201,494	35,646
U.S. government securities	AAA	—	82,536
	AA+	212,046	86,834
	BBB	—	355
	BBB-	—	299
	Not rated	31	—
U.S. agency securities	AAA	—	15,134
	AA+	44,249	12,182
Commercial paper	A-1+	6,801	5,547
	A-1	6,465	12,328
	A-2	1,492	745
U.S. corporate securities	AAA	884	501
	AA+	6,583	6,008
	AA	3,783	3,679
	AA-	22,197	15,188
	A+	24,336	26,195
	A	45,887	39,588
	A-	31,072	58,500
	BBB+	73,677	36,666
	BBB	25,266	24,017
	BBB-	16,937	23,154
	BB	—	485
	n/a	832	663

(Continued)

(Dollars in thousands)

Investment type	Credit rating Standard & Poor's or equivalent	Total 2016	Total 2015
International debt securities	AAA	$ —	1,437
	AA+	—	3,671
	AA	—	769
	AA-	—	1,265
	A+	—	809
	A	—	3,869
	A-	—	889
	BBB+	—	2,763
	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	301
	AA	339	200
	AA-	11,183	9,800
	A+	11,127	12,362
	A	13,268	9,283
	A-	6,909	6,449
	BBB+	2,016	4,444
	BBB	3,553	2,652
	BBB-	2,783	1,507
	NA	692	2,458
Asset backed securities	AAA	44,223	75,578
	AA+	1,685	10,157
	A-1+	4,322	800
	Not rated	4,057	5,802
	NA	15,536	12,345
Mutual funds – fixed income only	AAA	12,245	76,982
	AA	1,461	3,158
	A	5,010	12,676
	BBB	3,791	6,605
	BB	995	804
	B	729	720
	Below B	592	627
	Not rated	—	904
Municipal bonds	AAA	86	328
	AA+	418	504

(Dollars in thousands)

Investment type	Credit rating Standard & Poor's or equivalent		Total 2016	Total 2015
	AA	$	835	744
	AA-		398	488
	A+		197	191
	A		62	—
	Not Rated		392	—
Joint ventures and partnerships	NA		52,397	48,760
Mutual funds-other	NA		115,730	61,852
Alternative investments	NA		80,529	94,746
Real estate investments and other	NA		44,051	66,516
Domestic equity securities	NA		111,392	132,835
International equity securities	NA		220,484	210,416
		$	1,642,793	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, 2016 and 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:

		Value (U.S. dollar)	
Foreign currency		**2016**	**2015**
Australian dollar	$	—	558
British sterling pound		1,436	2,347
Canadian dollar		—	2,544
Euro		2,239	1,759
Swiss Franc		1,629	1,450
Total	$	5,304	8,658

(5) 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, 2016 and 2015, $33,290 and $91,610 was the net amount due from Medicaid, respectively, $3,920 and $920 was the net amount due to Medicare, respectively, and $1,630 was due from and $307 was due to various contractual agency related settlement activity, respectively. A corresponding amount included in current liabilities in the statements of net position of $5,596 and $36,952 due to the State Medicaid Program is offsetting much of the $33,290 and $91,610 in receivables recorded as of June 30, 2016 and 2015, respectively. 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, 2016 and 2015, the net receivable is included in patient accounts receivable in the statements of net position.

(Dollars in thousands)

(6) Capital Assets

Capital assets for fiscal years ended June 30, 2016 and 2015 are listed by category below:

		2016	2015
Land and land improvements	$	72,435	72,436
Buildings and other improvements		1,982,183	1,902,322
Equipment		886,972	841,182
Construction in progress		107,225	54,307
Accumulated depreciation		(1,442,261)	(1,341,991)
Total capital assets, net	$	1,606,554	1,528,256

The following is a summary of capital assets for the fiscal years ended June 30, 2016 and 2015:

		2015	Increases	Decreases	2016
Capital assets not depreciated:					
Land and land improvements	$	72,436	—	(1)	72,435
Construction in progress		54,307	124,382	(71,464)	107,225
Total capital assets not depreciated		126,743	124,382	(71,465)	179,660
Other capital assets:					
Buildings and other improvements		1,902,322	80,630	(769)	1,982,183
Equipment		841,182	83,157	(37,367)	886,972
Total other capital assets		2,743,504	163,787	(38,136)	2,869,155
Less accumulated depreciation:					
Buildings and other improvements		(719,653)	(72,542)	626	(791,569)
Equipment		(622,338)	(64,979)	36,625	(650,692)
Total accumulated depreciation		(1,341,991)	(137,521)	37,251	(1,442,261)
Other capital assets, net		1,401,513	26,266	(885)	1,426,894
Total capital assets, net	$	1,528,256	150,648	(72,350)	1,606,554

(Continued)

(Dollars in thousands)

	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

(7) Compensated Absences Payable

Vacation pay for classified employees is earned at 8 to 24 hours per month, depending on the length of service and classification, with a maximum accrual of up to 364 hours per employee and a maximum payment upon separation of up to 364 hours. A maximum of 192 to 288 hours of vacation can be earned per year, depending on the length of service and classification. 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. A maximum of 176 hours of vacation can be earned per year.

Sick leave is recorded as an expense when paid. Sick leave for employees is earned at the rate of 8 hours per month and a maximum of 96 hours per year, with no restrictions on maximum hours accrued. No liability exists for terminated employees.

(8) Retirement Plans

The University, excluding blended component units, offers various pension plans to all qualified employees: the State of Oregon Public Employees Retirement System (PERS), which includes a cost-sharing defined benefit plan and a defined contribution plan (Individual Account Plan-IAP), the University Pension Plan (UPP), and the Clinical Retirement Plan (CRP).

(a) Defined-Benefit Pension Plan Descriptions

PERS comprises three separate defined benefit groups: PERS Tier 1, PERS Tier 2, and Oregon Public Service Retirement Plan (OPSRP). Plan assets may be used to pay the benefits of the employees of any employer that provides pensions through the plan.

PERS is a cost-sharing, multi-employer retirement system administered by the Public Employees Retirement Board (Retirement Board) under the guidelines of Oregon Revised Statutes. It is available to units of state government, political subdivisions, community colleges, and school districts, containing multiple actuarial pools.

As of December 31, 2015, there were 925 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.

The State of Oregon PERS issues a publicly available financial report that includes financial statements and required supplementary information, including a10-year historical trend information showing the accumulation of sufficient assets to pay benefits when due. Copies of the Oregon Public Employees Retirement System's Comprehensive Annual Financial Report and Actuarial Valuations may be obtained from the PERS 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 PERS website at:

http://www.oregon.gov/pers/docs/general_information/benefit_component_comparisons_chart.pdf

(b) 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.

(Continued)

The employer contribution rate for active employees 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 rate for PERS Tier 1 and Tier 2 was 9.33% from July 1, 2013 to June 30, 2015, and 12.54% from July 1, 2015 to June 30, 2017. The employer contribution rate for OPSRP was 7.65% (OPSRP Police and Fire 10.38%) from July 1, 2013 to June 30, 2015, and 6.61% (OPSRP Police and Fire 10.72%) from July 1, 2015 to June 30, 2017.

Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation. The rates were based on a percentage of payroll and first became effective July 1, 2015. Additionally, 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. Additionally, OHSU made a $7.5 million lump sum payment to PERS during fiscal year 2015. Amounts contributed post measurement date are recorded as deferred outflows in the amount of $31,353 and $37,750, for the year ended June 30, 2016 and 2015, respectively..

The Defined Benefit Pension Plan Contributions can be found in the Required Supplementary Information (RSI).

(c) Net Pension (Asset)/Liability

OHSU's proportionate share of the net pension (asset)/liability for PERS as of June 30, 2016 and 2015 is $228,337 and $(96,652), respectively, utilizing a June 30, 2015 and 2014 measurement date, respectively. The net pension (asset)/liability for the June 30, 2016 and 2015 fiscal year-end was determined based on the results of the December 31, 2013 and December 31, 2012 actuarial valuation rolled forward to the respective measurement dates, 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. OHSU's proportionate share was 3.98% as of June 30, 2015 and 4.26% as of June 30, 2014.

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.

(d) Proportionate Share of Pension Expense and Deferrals Related to Pensions

OHSU's pension expense/(benefit) for the years ended June 30, 2016 and 2015 was $222,124 and $(89,081), respectively. The pension expense/(benefit), considered concurrent period interest cost, service cost, amortization of deferred outflows and inflows, and changes in benefit terms, has increased since the June 30, 2014 measurement date, primarily due to the Moro decision. In the previous measurement period, the Oregon Legislature enacted Cost of Living Adjustments (COLA) reducing the benefits projected to be paid by employers, resulting in a reduction of the total pension liability, measured at June 30, 2014. Subsequently, the Oregon Supreme Court decision issued on April 30, 2015, reversed a significant portion of the reductions made to future system Cost of Living Adjustments (COLA), resulting in an increase in the total pension liability measured at June 30, 2015.

(Dollars in thousands)

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of the fiscal year end June 30, 2016 and 2015:

		Deferred outflow of resources		Deferred inflow of resources	
		2016	**2015**	**2016**	**2015**
Differences between expected and actual experience	$	12,313	—	—	—
Net difference between projected and actual earnings on pension plan investments		—	—	47,865	186,160
Changes in proportionate share		—	—	4,927	—
Differences between contributions and OHSU's proportionate share of system contributions		—	—	6,388	1,641
Total (prior to post-MD contributions)		12,313	—	59,180	187,801
Contributions subsequent to the measurement date		31,353	37,750	—	—
Gross deferred outflow/(inflow) of resources		43,666	37,750	59,180	187,801

The contributions made subsequent to the measurement date of $31,353 will be recognized as a reduction in the net pension liability during the year ending June 30, 2017.

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
2017	$	(22,676)
2018		(22,676)
2019		(22,676)
2020		20,954
2021		208
Total	$	(46,866)

(Dollars in thousands)

(e) Actuarial Methods and Assumptions

The following methods and assumptions were used in developing Total Pension Liability as of June 30, 2016.

Valuation date	December 31, 2013
Measurement date	June 30, 2015
Experience Study Report	2014, published September 2015
Actuarial cost method	Entry age normal
Actuarial Assumptions: Inflation rate Long-term expected rate of return Discount rate Projected salary increases Cost of living adjustments (COLA)	 2.75% 7.75% 7.75% 3.75% Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with *Moro* decision; blend based on service.
Mortality	*Healthy retirees and beneficiaries:* RP-2000 sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. *Active members:* Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. *Disabled retirees:* Mortality rates are a percentage (65% for males and 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

(Dollars in thousands)

The following methods and assumptions were used in developing Total Pension Liability as of June 30, 2015.

Valuation date	December 31, 2012
Measurement date	June 30, 2014
Experience Study Report	2012, published September 18, 2013
Actuarial cost method	Entry age normal
Actuarial Assumptions:	
Inflation rate	2.75%
Investment rate of return	7.75%
Projected salary increases	3.75%; 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:* RP-2000 sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. *Active members:* Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. *Disabled retirees:* 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.

(Continued)

(Dollars in thousands)

(f) Discount Rate

The discount rate used to measure the total pension liability was 7.75% for PERS for the years ended June 30, 2016 and June 30, 2015. 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, 2015	$	551,083	228,337	(43,653)

(g) Assumed Asset Allocation

The following table illustrates the assumed asset allocation: Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of the measurement date June 30, 2015 and 2014:

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[1]	—	3.0	—
Total			100.0%

[1] Opportunity portfolio is an investment strategy and it may be invested up to 3% of total plan net assets.

(h) 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 (Property)	13.75	6.51
Real Estate (REITS)	2.50	6.76
Commodities	1.25	6.07
Total	100%	

* Based on the OIC Statement of Investment Objectives and Policy Framework for the Oregon Public Employees Retirement Fund, revised as of December 18, 2012, and the revised allocation adopted at the June 26, 2013 OIC meeting.

(i) Other Retirement Plans

In addition to the PERS defined benefit retirement plan, OHSU has three defined contribution plans – the 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, and OPSRP) 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 years 2016 and 2015, all employer contributions to the plan were 6% of salary. In fiscal year 2015 employee contributions were an additional 6% of salary, which OHSU funded. Beginning in fiscal year 2016, employee contributions are defined by collective bargaining agreements.

(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.

		2016	2015
UPP:			
Employer contribution	$	30,007	26,153
Employee contribution (1)		25,378	26,153
	$	55,385	52,306
CRP:			
Employer contribution	$	20,349	18,730
	$	20,349	18,730

(1) Of the employees' share, the employer paid $25,378 and $26,153 related to UPP contributions in 2016 and 2015, respectively.

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

The Foundations have defined contribution plans available for substantially all employees. The plans are funded through the purchase of a group annuity contract with an insurance company at a discretionary amount equal to 12% of eligible compensation. Contributions are fully vested after five years. The Foundations contributed $900 and $900 for the purchase of retirement annuities during the fiscal years ended June 30, 2016 and 2015, respectively.

(9) 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.

(Dollars in thousands)

The following table shows the components of OHSU's annual other postretirement employee benefit (OPEB) cost for the fiscal years ended June 30, 2016 and 2015, the amount actually contributed to the plan, and changes in OHSU's net OPEB obligation to the plan:

		2016	2015
Annual required contribution (ARC)	$	1,161	1,177
Interest on net OPEB obligation		288	271
Adjustment to ARC		(447)	(422)
Annual OPEB cost		1,002	1,026
Contributions made		(572)	(573)
Increase in OPEB obligation		430	453
Net OPEB obligation – beginning of fiscal year		8,222	7,769
Net OPEB obligation – end of fiscal year	$	8,652	8,222
Percentage of annual OPEB cost contributed		57%	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, 2015	$	—	9,405	9,405	—%	$	1,038,424	0.9%

The actuarially determined amounts above use an assumed discount rate of 3.5% in the October 1, 2015 valuation. The assumed healthcare cost trend rate was 6.1% and 7.2% in 2016 and 2015, respectively, declining gradually to 4.5% in 2077 and remaining at 4.5% thereafter.

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

(Continued)

(Dollars in thousands)

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

Long-term debt, including related unamortized original issue discounts and premiums and capital leases at June 30, 2016 and 2015 are as follows:

	2016	2015
Debt Service Payment Agreement (DSPA)	$ 9,370	10,884
Tenancy in Common Agreement (TIC)	26,550	28,349
Bonds payable, revenue bonds, Series 1995A	57,263	58,861
Bonds payable, revenue bonds, Series 2009A	—	155,501
Bonds payable, revenue bonds, Series 2012A,B,C, and E	298,927	313,234
Bonds payable, revenue bonds, Series 2015A and B	140,550	141,500
Bonds payable, revenue bonds, Series 2015C	100,000	—
Bonds payable, revenue bonds, Series 2016A and B	271,026	—
Local improvement district agreements	22,339	24,305
Capital leases	5,165	6,130
Less current portion of debt and capital leases	(16,913)	(19,163)
	$ 914,277	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, 2016 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 obligation bonds 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%. Subsequently, the Series 2009A were advance refunded in full in fiscal year 2016 using a portion of the proceeds from the Series 2016B Revenue Bonds.

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, 2016 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, 2016 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 obligation bonds and are payable solely from revenue pledged.

Additionally in fiscal year 2012 during the restructuring process, OHSU simultaneously issued $85,570 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 obligation bonds and are payable solely from revenue pledged.

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 remaining outstanding maturities due July 1, 2016 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 obligation bonds and are payable solely from revenue pledged.

On July 15, 2015, OHSU issued the federally taxable Series 2015C Revenue Bonds in the amount of $100,000. The Series 2015C were issued as fixed rate bonds with a maturity date of July 1, 2045 requiring semiannual interest payments at a rate of 5.0%. The proceeds from the Series 2015C will be used for general public corporation or other public purposes, including, but not limited to, financing capital expenses, noncapital expenses, and costs related to the issuance of the bonds. 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 obligation bonds and are payable solely from revenue pledged.

On February 10, 2016, OHSU issued the Series 2016A Revenue Bonds in the amount of $50,000. The Series 2016A are issued as direct placement bonds with maturities due beginning July 1, 2043 through July 1, 2046 requiring monthly interest payments currently calculated at a rate of 1.89%. The Series 2016A was issued for capital improvements related to the construction of a new ambulatory care tower and as a prerequisite to the receipt of State matching grant funds for the construction of a new Knight Cancer Research Building. The 2016A Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2016A Revenue Bonds are not general obligation bonds and are payable solely from revenue pledged.

On February 25, 2016, OHSU issued the Series 2016B Revenue Bonds in the amount of $199,835. The Series 2016B are issued as fixed rate bonds with maturities due beginning July 1, 2028 through July 1, 2046 requiring semiannual interest payments with outstanding interest rates ranging from 2.5% to 5.0%. The Series 2016B was issued to advance refund the Series 2009A and for capital improvements related to the construction of a new ambulatory care tower and as a prerequisite to the receipt of State matching grant funds for the construction of a new Knight Cancer Research Building. The Series 2016B was issued to advance refund the Series 2009A, and for capital improvements related to the construction of a new ambulatory care tower and as a prerequisite to the receipt of State matching grant funds for the construction of a new Knight Cancer Research Building. The 2016B Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2016B Revenue Bonds are not general obligation bonds and are payable solely from revenue pledged.

Of the total proceeds received from the Series 2016B, $153,815 was allocated to the advance refunding of the Series 2009A Revenue Bonds. In addition to the $153,815 in proceeds, OHSU contributed $16,203 from operating cash and liquidated the Series 2009A debt service reserve for $15,891 for a combined total of $185,909. The combined moneys were used to pay for underwriter's fees $806, other costs of issuance $572, with the remainder of $184,525 used to purchase U.S. government securities which were deposited into an irrevocable escrow account to provide for all future payments of principal and interest for the Series 2009A up to the redemption date, on which the redemption price will be paid. As a result, the Series 2009A Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from long-term debt.

The advance refunding of the Series 2009A Bonds has resulted in a deferred accounting loss of $24,649 which is being amortized using the effective interest method over the original life of the Series 2009A. The balance of the deferred accounting loss as of June 30, 2016 is $24,236 and is reflected as a deferred outflow in the financial statements. Although the advance refunding has generated an accounting loss, OHSU has in turn reduced its debt service payments over the next 23 years resulting in an economic gain of $25,118.

Economic gain		(In thousands)
Cash flows attributable to debt service of previously outstanding Series 2009A	$	330,791
Cash flows attributable to debt service of new debt Series 2016B (portion allocable to advance refunding)		258,299
Cash flow savings	$	72,492
PV of cash flow savings	$	41,315
Less: OHSU operating funds used for refunding		(16,203)
Plus: Refunding funds remaining		6
Net PV savings	$	25,118

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, 2016

Series	**Facility counterparty**		**Principal outstanding**	**Facility matures**	**LT Ratings S&P/Moody's /Fitch**	**Reset**
2012B-3	US Bank, NA	$	28,520	5/21/2020	AA-/Aa2/AA	daily
2012C	US Bank, NA		15,025	5/21/2020	AA-/Aa2/AA	daily
2015A	WellsFargo Municipal Capital Strategies LLC		57,050	5/2/2022	AA-/Aa2/AA	monthly
2015B	JPMorgan Chase Bank NA/DNTAsset Trust		83,500	5/3/2027	A+/Aa3/AA-	monthly
		$	184,095			

(Continued)

(Dollars in thousands)

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

(d) Local Improvement District Assessments

OHSU initially entered into various Local Improvement District agreements (LIDs) with the City of Portland, Oregon during fiscal years 2007 and 2008 for real improvements to Portland's South Waterfront District, of which $30,000 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 $4,807. 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, 2016 and 2015 are $22,339 and $24,305, respectively, and have been included in long-term debt in the statements of net position.

(e) Interest Rate Swap Agreement

As of June 30, 2016, OHSU held one interest rate swap agreement with Wells Fargo Bank, NA. Previously, OHSU held two interest rate swap agreements with U.S. Bank, NA. During fiscal year 2016, OHSU entered into an ISDA swap novation effective May 1, 2016 which established Wells Fargo Bank, NA as the new interest rate swap credit counterparty and a new interest rate swap with a notional amount of $70,200. The balances of OHSU's swaps as of June 30, 2016 and 2015 are as follows:

	Notional		Fair Value	
	2016	**2015**	**2016**	**2015**
2005A US Bank Modified Swap	$ —	37,100	—	(5,966)
2005B US Bank Modified Swap	—	37,100	—	(5,966)
Wells Fargo Swap	70,200	—	(20,022)	—
	$ 70,200	74,200	(20,022)	(11,932)

The notional amount of the outstanding swap with Wells Fargo Bank, NA and the principal amounts of the associated debt decline over time and terminate on July 1, 2042. The swap has the option of early termination with a cash settlement. Under the new swap agreement with Wells Fargo, OHSU makes fixed rate interest payments of 2.506% and receives a variable rate payment computed as 70% of the London Interbank Offered Rate (LIBOR). Under the previous swap agreement with U.S. Bank, NA, and OHSU made fixed rate interest payments of 3.45935% and received 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 agreement was terminated at year-end, taking into account current interest rates and the creditworthiness of the underlying counterparty. Total cash payments made to the swap counterparties were $2,061 ($1,805 to US Bank, NA prior to novation, and $256 to Wells Fargo Bank, NA after novation) and $2,355 during the years ended June 30, 2016 and 2015, respectively.

The swaps above were 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 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. In fiscal 2016, OHSU novated its swap agreements as described above which lead to one swap agreement with Wells Fargo. The Series 2012B-3 and Series 2015A bonds remained as the assigned hedges under the new swap agreement with Wells Fargo.

Management has evaluated the effectiveness of the current hedges assuming hybrid instruments; each swap consists of a companion debt instrument, amortized using the effective interest 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 no value at the inception of the hedge.

The companion debt instrument for the Wells Fargo swap was determined at the date of novation in fiscal year 2016 and is reported in other liabilities. The liability is being amortized over the remaining term of the swap agreement on an effective interest basis as an offset to interest expense. The value of the companion debt instrument as of June 30, 2016 and 2015 is $15,759 and $13,594, respectively. 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 $10,934 and $12,142 as of June 30, 2016 and 2015, respectively.

The on-market value of the hedging derivative instrument portion of the liability for the Wells Fargo swap 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 statements of net position accounts. The total value of the liability is $3,394 and $356 as of June 30, 2016 and 2015, respectively.

OHSU is exposed to swap credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2016 and 2015, the counterparties' long-term credit ratings were AA-from Standard & Poor's, Aa2 from Moody's, and AA from Fitch. Additionally, the swap exposes OHSU to basis risk, which is the risk that arises when the relationship between the rates on the variable rate bonds and the swap formulas noted above vary from historical norms. If this occurs, swap payments received by OHSU may not fully offset its bond interest payments. As these rates change, the effective synthetic rate on the bonds will change.

(Dollars in thousands)

OHSU may be additionally responsible for posting collateral based on its credit ratings, and if the total swap liability exceeds a predetermined value on its reporting date. Based on current credit ratings for OHSU, OHSU is not required to post any collateral at this time.

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

(f) Capital Leases

OHSU has entered into agreements for the lease of certain equipment 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:	
2017	$ 1,058
2018	975
2019	954
2020	935
2021	916
2022–2026	916
	5,754
Less amount representing interest	(589)
	5,165
Less current portion	(881)
	$ 4,284

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

Long-term debt listed on the accompanying statements of net position comprises outstanding State DSPA and TIC agreements, revenue bonds and City of Portland Local Improvement District agreements totaling $926,025 and $732,634 as of June 30, 2016 and 2015, respectively. Included in long-term debt are unamortized net original issue discounts and premiums of $43,022 and $22,257 and accreted interest for the DSPA and 1995 Revenue Bonds of $44,377 and $44,957 as of June 30, 2016 and 2015, respectively. Interest is accreted on the DSPA and the 1995 Revenue Bonds from the date the obligations were issued until maturity using the effective interest method.

(Continued)

(Dollars in thousands)

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.

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:				
2017	$	16,032	36,353	52,385
2018		14,371	37,548	51,919
2019		14,492	37,321	51,813
2020		14,839	37,127	51,966
2021		14,835	36,883	51,718
2022–2026		114,526	138,342	252,868
2027–2031		142,159	108,087	250,246
2032–2036		128,665	78,316	206,981
2037–2041		123,365	51,346	174,711
2042–2046		219,360	32,885	252,245
2047–2051		35,980	344	36,324
	$	838,624	594,552	1,433,176

(h) Changes in Long-Term Liabilities

Changes in OHSU’s total long-term liabilities during the fiscal years ended June 30, 2016 and 2015 are summarized below:

		Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Liability for self-funded insurance programs	$	59,505	29,963	(27,002)	62,466
Liability for life income agreements		30,307	1,588	(7,065)	24,830
Long-term debt		732,634	377,851	(184,460)	926,025
Long-term capital leases		6,130	82	(1,047)	5,165
Other noncurrent liabilities		94,359	23,729	(18,998)	99,090
Pension liability		(96,652)	356,662	(31,673)	228,337
	$	826,283	789,875	(270,245)	1,345,913

(Dollars in thousands)

	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

(11) Life Income Fund – Annuities

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

Life income contributions, included in gifts, grants, and contracts in the accompanying statements of revenues, expenses, and changes in net position are as follows for the fiscal years ended June 30, 2016 and 2015:

	2016		
	Agreements	Asset	Liability
Charitable remainder unitrusts	3	$ 317	147
Charitable lead unitrusts	—	—	—
Charitable gift annuities	12	245	144
Total	15	$ 562	291

	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

(Continued)

(Dollars in thousands)

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 instruments held at June 30, 2016 and 2015 are as follows:

	2016			
	Agreements		**Asset**	**Liability**
Charitable remainder unitrusts	71	$	21,258	8,733
Charitable lead unitrusts	2		19,153	8,683
Charitable remainder trust annuities	3		374	162
Charitable gift annuities	207		11,019	6,742
Life estate agreements	3		856	510
Total	286	$	52,660	24,830

	2015			
	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

Eighteen 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.

(12) 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 $4,880 and $5,363 on June 30, 2016 and 2015, respectively.

The Foundations are the named beneficiaries of 37 and 35 trusts held by outside trustees as of June 30, 2016 and 2015, respectively. The reported fair market value of trust assets held by others was $46,000 each of the years ended June 30, 2016 and 2015. The Foundations record contributions as trust distributions occur. Trust distributions of $1,700 and $1,900 were recorded as contributions during the fiscal years ended June 30, 2016 and 2015, respectively.

(Dollars in thousands)

(13) Pledges and Estates Receivables

The Foundations had the following pledges and estates receivable as of June 30, 2016 and 2015:

	2016	2015
Pledges maturing within 1 year	$ 64,302	43,654
Pledges maturing within 2–10 years	592,668	168,179
	656,970	211,833
Less allowance for uncollectible pledges	(3,672)	(3,644)
	653,298	208,189
Less discount for net present value	(41,074)	(6,341)
Total net pledges receivable	612,224	201,848
Estates receivable	4,651	3,250
Less allowance for uncollectible estates	(233)	(163)
Total net estates receivable	4,418	3,087
Total pledges and estates receivable	$ 616,642	204,935

(14) 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 $4,200 ($4,000 in fiscal year 2015) for Professional Liability and $3,000 for General Liabilities up to a total of $115,000 for each claim and in aggregate for both the Professional Liabilities policy and the General Liabilities policy for the year ended June 30, 2016 and 2015.

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, 2014 are $1,000 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 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 2016 and 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
07/01/2015–06/30/2016		2,100	4,200
07/01/2016–06/30/2017		2,200	4,400

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, the amount of the tort cap in place at the date of the event. In May 2016, the Oregon Supreme Court affirmed the OTCA in this case.

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, 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 $14,910 and $12,457 as of June 30, 2016 and 2015, respectively. 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 39% of OHSU's employees are represented by the American Federation of State, County, and Municipal Employees (AFSCME), less than 1% of OHSU's employees are represented by the newly formed OHSU Police Association, for a total of 55% 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. The current contract with the OHSU Police Association expires on June 30, 2018.

(e) Construction Contracts

OHSU had outstanding commitments on unexpended construction contracts totaling approximately $54,837 and $10,998 at June 30, 2016 and 2015, respectively. These commitments will be primarily funded from gifts, grants, funds held by trustee, and other investment accounts.

(f) Legal Proceedings

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

OHSU's compliance with the referenced laws and regulations may be subject to current or future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

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 $18,606 and $18,142 in 2016 and 2015, respectively. The following is a schedule of future minimum rental commitments under operating leases as of June 30, 2016 and 2015 that have initial or remaining lease terms in excess of one year:

Year(s) ending June 30:		
2017	$	14,488
2018		10,631
2019		8,461
2020		7,468
2021		6,772
2022–2026		9,023
2027–2031		18
2032–2036		14
	$	56,875

(h) Salem Health Affiliation

On November 19, 2015, OHSU affiliated with Salem Health through the execution of a Joint Management Agreement (the Management Agreement) among the two organizations and OHSU Partners, LLC, a newly formed limited liability company (OHSU Partners). OHSU and Salem Health are the sole members of OHSU Partners. Under the terms of the Management Agreement, which is described in the subsequent footnotes, each of OHSU and Salem Health remain separate legal entities and own their own assets. OHSU Partners, however, will manage the combined clinical enterprises of OHSU and Salem Health as a single economic entity and unified health system. The total operating results of the integrated health system will be apportioned to OHSU and Salem Health consistent with an allocation method based on each party's historical operating income.

Neither OHSU Partners nor Salem Health is a Member of OHSU's Obligated Group or is responsible for the payment of the principal of or interest on indebtedness issued or incurred by or for the benefit of OHSU. OHSU is not a member of the Obligated Group securing indebtedness issued for the benefit of Salem Health and has no responsibility for the payment of the principal of or interest on indebtedness issued or incurred by or for the benefit of Salem Health.

The following is a brief description of the Management Agreement and the method of apportioning operating results between OHSU and Salem Health.

Summary of the Management Agreement. Key elements of the affiliation and provisions of the Management Agreement include, but are not limited to, the following:

- OHSU and Salem Health delegate to OHSU Partners the responsibility and authority to oversee and manage each party's clinical enterprises as a part of a unified, integrated health system while each party retains its separate legal identity and Board of Directors.
- OHSU maintains its responsibilities to manage and oversee activities related to its education and research missions.
- Each party (1) is and will continue to be the licensed operator of its facilities, and (2) will continue to perform all functions legally required to be performed directly by such licensed entity.
- Each party retains the authority, consistent with OHSU Partners' right to oversee and manage the integrated health system, to (1) enter into contracts, (2) employ agents and employees, (3) acquire, construct and operate property, and (4) incur debt.
- Each party retains the authority, among other things, to: (1) approve the integrated health system's operating and capital budgets, and (2) approve certain of the other party's material third party transactions.
- The initial term of the Management Agreement is 40 years and it may be renewed or extended by written agreement of the parties. The Management Agreement is subject to termination in the event of material breaches of the Management Agreement or for certain other reasons specified in the Management Agreement.

Calculation of Apportionment of Operating Results. The Management Agreement provides for the combined net operating results of the integrated health system to be apportioned to the parties consistent with the allocation method established in the Management Agreement. Each of the parties is assigned an "Allocation Percentage," which is a fixed percentage established in the Management Agreement based on each party's aggregate historical operating income during a six year period prior to the commencement of the Management Agreement. OHSU's Allocation Percentage is 81% and Salem Health Allocation Percentage is 19%. If a party's Allocation Amount is less that that party's clinical enterprise operating results for any period, such party has a "due to" amount payable to the other party. If a party's Allocation Amount is more than such party's clinical enterprise operating results for any period, that party has a "due from" receivable from the other party. The Management Agreement provides that the due to/due from amounts shall be settled by cash transfers no later than 45 days following the end of each fiscal quarter; provided that no such action shall be taken if it would result in a material default under any current or future debt-related agreement.

The Management Agreement became effective November 19, 2015, however, the integrated financial statements were effective for the full twelve months of fiscal year ended June 30, 2016.

(Dollars in thousands)

The following table outlines the allocation of operating results for the fiscal year ended June 30, 2016.

OHSU Hospital Operating Income for fiscal year ended June 30, 2016:		
Before Research and Mission Support [1]	$	195,453
Salem Health Operating Income for the twelve months ended June 30, 2016 [2]		56,045
Combined Clinical Enterprise Operating Income		251,498
OHSU Allocation Amount		203,713
OHSU "Due From" Receivable		8,260
Salem Health Allocation Amount		47,785
Salem Health "Due To" Payable		(8,260)

(1) Includes Tuality Operating Loss for five months Ended June 30, 2016 ($2,622); excludes Salem and OHSUP, LLC activities of $8,260 and ($2,026), respectively

(2) See Combining Statements included as supplemental information on page 96 of OHSU Financial Statements and Supplementary Information for fiscal year ended June 30, 2016. Calculated by adding "operating income", "research and mission support", and OHSUP LLC activities of $2,026.

(i) Tuality Health Affiliation

On February 1, 2016, OHSU affiliated with Tuality Healthcare (Tuality) through the execution of a Management Agreement (the Tuality Agreement) between the organizations. Under the Tuality Agreement, OHSU agrees to oversee the unified and integrated clinical enterprises of OHSU and Tuality as a single, integrated economic unit. OHSU and Tuality remain as separate entities, own their own assets and continue to be the licensed operators of their own facilities. Per the Agreement, OHSU has guaranteed operating income and operating cash flow support. The initial term of the Management Agreement is 20 years and it may be renewed or extended by written agreement of the parties. The Management Agreement is subject to termination in the event of material breaches of the Management Agreement or for certain other reasons specified in the Management Agreement.

Financial Considerations

After February 1, 2016, OHSU guarantees operating income support in the following manner: If Tuality incurs an operating loss for any fiscal year, OHSU will provide operating support in the form of a cash payment to Tuality in an amount equal to the operating loss, which will result in Tuality's operating income being equal to zero.

If in any fiscal year, Tuality's operating cash flow is negative, OHSU will provide Tuality a capital advance in the form of a cash payment to bring Tuality's operating cash flow to a balance of zero. The capital advance will be recorded on Tuality's financial statements as a payable to OHSU, and on OHSU's financial statements as a receivable from Tuality. Such capital advances will not bear interest and will be repayable by Tuality to OHSU from positive operating cash flow generated in future fiscal years under general guidelines specified in the Management Agreement.

(Continued)

For fiscal year 2016, operating income support amounted to $2,622 and operating cash flow support, which will be paid as a note receivable after fiscal year end, amounted to $2,866.

(15) Subsequent Events

Non-Binding Agreement with Adventist Health

On August 8, 2016, OHSU and OHSU Partners, LLC (OHSU Partners) executed a nonbinding agreement (the Non-Binding Agreement) with Adventist Health System/West, doing business as "Adventist Health," a leading healthcare provider serving among other places, the Portland metropolitan area and Tillamook, Oregon (Adventist Health). The Non-Binding Agreement memorializes the intention of OHSU, OHSU Partners and Adventist Health to enter into definitive agreements that will result in an affiliation among the entities. Key intentions set forth in the Non-Binding Agreement include, but are not limited to, the following:

- OHSU and Adventist Health will remain separate legal entities. OHSU Partners, a management company, will manage and oversee an integrated health system, including long-range capital budgets, from one consolidated bottom line. Currently OHSU Partners manages and oversees the clinical enterprises of OHSU and Salem Health, which will be expanded to include clinical enterprise services of Adventist Health. OHSU's clinical enterprise includes the clinical enterprise of Tuality Healthcare. OHSU will maintain its responsibilities to manage and oversee activities related to its education and research mission.
- The total, combined and consolidated net operating results of the integrated health system will be apportioned to OHSU, Salem Health and Adventist Health consistent with an allocation method based on the parties' respective historical proportional share of total results, with adjustments.
- OHSU and Adventist Health will not join each other's master trust indenture obligated group or otherwise guarantee each other's outstanding debt.
- If definitive agreements with respect to the affiliation are not executed on or prior to December 31, 2016, the Non-Binding Agreement will terminate, unless extended by mutual consent, without liability to any party.

There can be no guarantee that definitive agreements with respect to the affiliation will be entered into by OHSU and Adventist Health. If definitive agreements are entered into, terms of such agreements may vary materially from the terms of the Non-Binding Agreement, including the terms summarized above.

(Dollars in thousands)

(16) Blended Component Units

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

	2016						
	University	INSCO	UMG	OHSUF Foundation	DCH Foundation	Eliminations/ reclassifications	Total combined
Assets:							
Current assets	$ 1,185,926	5,728	7,909	113,305	4,828	(54,999)	1,262,697
Noncurrent assets:							
Capital assets, net of accumulated depreciation	1,606,131	—	301	122	—	—	1,606,554
Other noncurrent assets	388,582	57,165	—	1,313,936	60,489	—	1,820,172
Total noncurrent assets	1,994,713	57,165	301	1,314,058	60,489	—	3,426,726
Total assets	3,180,639	62,893	8,210	1,427,363	65,317	(54,999)	4,689,423
Deferred outflows	84,713	—	—	—	—	—	84,713
Total assets and deferred outflows	$ 3,265,352	62,893	8,210	1,427,363	65,317	(54,999)	4,774,136
Liabilities:							
Current liabilities	$ 493,230	400	1,758	54,436	480	(54,999)	495,305
Noncurrent liabilities	1,176,467	30,130	170	89,620	2,037	—	1,298,424
Total liabilities	1,669,697	30,530	1,928	144,056	2,517	(54,999)	1,793,729
Deferred inflows	62,131	—	—	—	—	—	62,131
Net position:							
Net investment in capital assets	876,028	—	—	122	—	—	876,150
Restricted, expendable	68,674	—	—	783,697	19,923	—	872,294
Restricted, nonexpendable	—	—	—	191,397	23,608	—	215,005
Unrestricted	588,822	32,363	6,282	308,091	19,269	—	954,827
Total net position	1,533,524	32,363	6,282	1,283,307	62,800	—	2,918,276
Total liabilities, deferred inflows and net	$ 3,265,352	62,893	8,210	1,427,363	65,317	(54,999)	4,774,136

(Continued)

(Dollars in thousands)

	2015						
	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	$ 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 years ended June 30, 2016 and 2015 is as follows:

	2016						
	University	**INSCO**	**UMG**	**OHSUF Foundations**	**DCH Foundations**	**Eliminations/ reclassifications**	**Total combined**
Operating revenues:							
Patient service revenue	$ 1,989,644	—	—	—	—	—	1,989,644
Student tuition and fees, net	68,695	—	—	—	—	—	68,695
Gifts, grants, and contracts	500,797	—	—	536,209	11,823	(149,024)	899,805
Other revenue	113,498	14,709	15,851	3,353	364	(32,825)	114,950
Total operating revenues	2,672,634	14,709	15,851	539,562	12,187	(181,849)	3,073,094
Operating expenses:							
Salaries, wages, and benefits	1,489,340	—	10,605	13,005	—	—	1,512,950
Defined benefit pension	222,124	—	—	—	—	—	222,124
Services, supplies, and other	860,622	13,829	4,578	116,196	13,188	(150,316)	858,097
Depreciation and amortization	137,250	—	135	135	1	—	137,521
Interest	34,143	—	—	—	—	—	34,143
Total operating expenses	2,743,479	13,829	15,318	129,336	13,189	(150,316)	2,764,835
Operating income (loss)	(70,845)	880	533	410,226	(1,002)	(31,533)	308,259
Nonoperating revenues (expenses):							
Investment income and gain (loss) in fair value of investments	9,439	2,583	2	(2,526)	(888)	—	8,610
State appropriations	35,567	—	—			—	35,567
Other	(873)	—	—	4,880	(631)	(2,500)	876
Total nonoperating reveunes (expenses), net	44,133	2,583	2	2,354	(1,519)	(2,500)	45,053
Net income (loss) before other changes in net position	(26,712)	3,463	535	412,580	(2,521)	(34,033)	353,312
Other changes in net position:							
Contributions for capital and other	15,408	(14,709)	—	—	—	34,033	34,732
Nonexpendable donations	—	—	—	8,928	4,835	—	13,763
Total other changes in net position	15,408	(14,709)	—	8,928	4,835	34,033	48,495
Total increase (decrease) in net position	(11,304)	(11,246)	535	421,508	2,314	—	401,807
Net position – beginning of year	1,544,828	43,609	5,747	861,798	60,487	—	2,516,469
Net position – end of year	$ 1,533,524	32,363	6,282	1,283,306	62,801	—	2,918,276

(Dollars in thousands)

	2015						
	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

(Dollars in thousands)

Condensed combining information related to cash flows for the years ended June 30, 2016 and 2015 is as follows:

	2016						
	University	INSCO	UMG	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total combined
Net cash provided by operating activities	$ 375,265	(11,787)	412	(8,702)	(1,456)	—	353,732
Net cash provided by noncapital financing activities	63,498	—	—	(15,898)	3,805	—	51,405
Net cash used in capital and related financing activities	(49,166)	—	(30)	(12)	—	—	(49,208)
Net cash (used in) provided by investing activities	(294,101)	13,231	—	44,990	(1,535)	—	(237,415)
Net increase in cash and cash equivalents	95,496	1,444	382	20,378	814	—	118,514
Cash and cash equivalents, beginning of year	167,762	115	5,774	20,034	1,605	—	195,290
Cash and cash equivalents, end of year	$ 263,258	1,559	6,156	40,412	2,419	—	313,804

	2015						
	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 (decrease) 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)
October 1, 2013	$	—	9,722	9,722	—	927,276	1.0
October 1, 2015		—	9,405	9,405	—	1,038,424	0.9

The actuarially determined amounts above use an assumed discount rate of 3.5% in the October 1, 2015 valuation. The assumed healthcare cost trend rate was 6.1% and 7.2% in 2016 and 2015, respectively, declining gradually to 4.5% in 2077 and remaining at 4.5% thereafter.

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]		2016	2015	2014
OHSU's proportion of the net pension (asset)/liability (rounded)		3.98%	4.26%	4.26%
OHSU's proportionate share of the net pension (asset)/liability	$	228,337	(96,652)	217,598
Covered employee payroll		345,363	365,618	378,893
OHSU's proportionate share of the net pension (asset)/liability as a percentage of covered employee payroll		66.12%	(26.44)%	57.43%
Plan fiduciary net position as a percentage of the total pension liability		91.9%	103.6%	92.0%

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

(Continued)

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

Required Supplementary Information (Unaudited)

June 30, 2016 and 2015

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

Year ended June 30[1]		2016	2015	2014
Contractually required contributions	$	31,353	30,250	29,868
Contributions in relation to the contractually required contributions		31,353	37,750	37,368
Contribution deficiency (excess)	$	—	(7,500)	(7,500)
OHSU's covered-employee payroll	$	326,959	345,363	365,618
Contributions as a percentage of covered-employee payroll		9.59%	10.93%	10.22%

1 10-year trend information will be presented prospectively.

See accompanying independent auditors' report.

Schedule 1

OREGON HEALTH & SCIENCE UNIVERSITY

Combining Schedules of Net Position

June 30, 2016 with comparative totals for
June 30, 2015

(Dollars in thousands)

	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2016	2015
Assets							
Current assets:							
Cash and cash equivalents	$ 271,971	(998)	270,973	42,831	—	313,804	195,290
Short-term investments	217,439	18,542	235,981	1,081	—	237,062	179,728
Current portion of funds held by trustee	86,818	86,195	173,013	—	—	173,013	4,017
Patients accounts receivable, net of bad debt allowances of $2,823 in 2016 and $4,502 in 2015	325,952	3,358	329,310	—	—	329,310	348,541
Student receivables	—	24,561	24,561	—	—	24,561	22,675
Grant and contract receivable	—	43,285	43,285	—	—	43,285	44,328
Interest receivable	—	—	—	1,207	—	1,207	1,116
Current portion of pledges and estates receivable	—	—	—	67,721	—	67,721	45,568
Other receivables, net	11,766	60,650	72,416	5,042	(52,991)	24,467	15,060
Inventories, at cost	19,049	2,780	21,829	—	—	21,829	19,963
Prepaid expenses	13,043	13,145	26,188	250	—	26,438	24,581
Total current assets	946,038	251,518	1,197,556	118,132	(52,991)	1,262,697	900,867
Noncurrent assets:							
Capital assets, net of accumulated depreciation	762,902	843,530	1,606,432	122	—	1,606,554	1,528,256
Funds held by trustee – less current portion	10,479	2,138	12,617	—	—	12,617	27,464
Other long term receivables, net or reserves	—	33,500	33,500	—	—	33,500	33,500
Long-term investments:					—		
Long-term investments, restricted	—	35,146	35,146	491,303	—	526,449	533,341
Long-term investments, unrestricted	248,082	113,487	361,569	332,083	—	693,652	652,309
Total long-term investments	248,082	148,633	396,715	823,386	—	1,220,101	1,185,650
Prepaid financing costs, net	1,943	972	2,915	—	—	2,915	3,188
Pledges and estates receivable – less current portion	—	—	—	548,921	—	548,921	159,367
Restricted pension asset		—	—	—		—	96,652
Other noncurrent assets	—	—	—	2,118	—	2,118	3,056
Interest in the Foundations	—	1,346,107	1,346,107	—	(1,346,107)	—	—
Total noncurrent assets	1,023,406	2,374,880	3,398,286	1,374,547	(1,346,107)	3,426,726	3,037,133
Total assets	$ 1,969,444	2,626,398	4,595,842	1,492,679	(1,399,098)	4,689,423	3,938,000
Deferred outflows							
Deferred amortization of derivative instruments	$ 7,996	6,331	14,327	—	—	14,327	12,498
Loss on refunding of debt	24,177	2,543	26,720	—	—	26,720	2,758
Pension obligation	—	43,666	43,666	—	—	43,666	37,750
Total deferred outflows	$ 32,173	52,540	84,713	—	—	84,713	53,006
Total assets and deferred outflows	$ 2,001,617	2,678,938	4,680,555	1,492,679	(1,399,098)	4,774,136	3,991,006

Schedule 1

OREGON HEALTH & SCIENCE UNIVERSITY

Combining Schedules of Net Position

June 30, 2016 with comparative totals for
June 30, 2015

(Dollars in thousands)

	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2016	2015
Liabilities							
Current liabilities							
Current portion of long-term debt	$ 7,119	8,913	16,032	—	—	16,032	18,125
Current portion of long-term capital leases	754	127	881	—	—	881	1,038
Current portion of self-funded insurance programs liability	—	30,576	30,576	—	—	30,576	28,775
Accounts payable and accrued expenses	76,554	49,508	126,062	1,793	—	127,855	153,500
Accrued salaries, wages, and benefits	34,726	69,327	104,053	—	—	104,053	90,268
Compensated absences payable	33,046	45,408	78,454	—	—	78,454	68,559
Unearned revenue	3,139	128,419	131,558	—	—	131,558	45,120
Other current liabilities	2,070	3,694	5,764	53,123	(52,991)	5,896	2,952
Total current liabilities	157,408	335,972	493,380	54,916	(52,991)	495,305	408,337
Noncurrent liabilities:							
Long-term debt – less current portion	539,984	370,009	909,993	—	—	909,993	714,509
Long-term capital leases – less current portion	4,179	105	4,284	—	—	4,284	5,092
Liability for self-funded insurance programs – less current portion	—	31,890	31,890	—	—	31,890	30,730
Liability for life income agreements	—	—	—	24,830	—	24,830	30,307
Pension Liability	—	228,337	228,337	—	—	228,337	—
Other noncurrent liabilities	10,689	21,575	32,264	66,826	—	99,090	94,359
Total noncurrent liabilities	554,852	651,916	1,206,768	91,656	—	1,298,424	874,997
Total liabilities	$ 712,260	987,888	1,700,148	146,572	(52,991)	1,793,729	1,283,334
Deferred inflows							
Gain on refunding of debt	$ 1,432	1,519	2,951	—	—	2,951	3,402
Pension obligation	—	59,180	59,180	—	—	59,180	187,801
Total deferred inflows	$ 1,432	60,699	62,131	—	—	62,131	191,203
Net position							
Net investment in capital assets	$ 323,130	552,898	876,028	122	—	876,150	820,360
Restricted, expendable	—	872,294	872,294	803,621	(803,621)	872,294	574,712
Restricted, nonexpendable	—	215,005	215,005	215,005	(215,005)	215,005	204,601
Unrestricted	964,795	(9,846)	954,949	327,359	(327,481)	954,827	916,796
Total net position	$ 1,287,925	1,630,351	2,918,276	1,346,107	(1,346,107)	2,918,276	2,516,469
Total liabilities, deferred inflows and net position	$ 2,001,617	2,678,938	4,680,555	1,492,679	(1,399,098)	4,774,136	3,991,006

See accompanying independent auditors' report.

(Continued)

Schedule 2

OREGON HEALTH & SCIENCE UNIVERSITY

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

Year ended June 30, 2016 with comparative totals for June 30, 2015

(Dollars in thousands)

	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2016	2015
Operating revenues:							
Patient service revenue, net of bad debt adjustments of $21,191 and $25,945 in 2016 and 2015 respectively	$ 1,579,879	409,765	1,989,644	—	—	1,989,644	1,808,196
Student tuition and fees, net	—	68,695	68,695	—	—	68,695	66,571
State appropriations	1,274	34,293	35,567	—	(35,567)	—	—
Gifts, grants, and contracts	663	500,134	500,797	548,032	(149,024)	899,805	556,185
Other revenue	65,826	48,054	113,880	3,717	(2,647)	114,950	99,645
Total operating revenues	1,647,642	1,060,941	2,708,583	551,749	(187,238)	3,073,094	2,530,597
Operating expenses:							
Salaries, wages, and benefits	681,071	818,874	1,499,945	13,005	—	1,512,950	1,394,375
Defined benefit pension	—	222,124	222,124	—	—	222,124	(89,081)
Services, supplies, and other	678,451	170,399	848,850	129,385	(120,138)	858,097	792,352
Depreciation and amortization	67,276	70,109	137,385	136	—	137,521	129,479
Interest	19,157	14,986	34,143	—	—	34,143	26,893
Research & Mission Support	81,294	(81,294)	—	—	—	—	—
Total operating expenses	1,527,249	1,215,198	2,742,447	142,526	(120,138)	2,764,835	2,254,018
Operating income	120,393	(154,257)	(33,864)	409,223	(67,100)	308,259	276,579
Nonoperating revenues (expenses):							
Investment income and gain (loss) in fair value of investments	24,069	(12,045)	12,024	(3,414)	—	8,610	3,402
State appropriations	—	—	—	—	35,567	35,567	33,448
Other	(228)	(646)	(874)	4,250	(2,500)	876	(11,876)
Total nonoperating revenues (expenses), net	23,841	(12,691)	11,150	836	33,067	45,053	24,974
Net income (loss) before contributions for capital and other	144,234	(166,948)	(22,714)	410,059	(34,033)	353,312	301,553
Other changes in net position:							
Contributions for capital and other	(14)	713	699	—	34,033	34,732	4,791
Change in interest in the Foundations	—	423,822	423,822	—	(423,822)	—	—
Nonexpendable donations	—	—	—	13,763	—	13,763	14,259
Total other changes in net position	(14)	424,535	424,521	13,763	(389,789)	48,495	19,050
Total increase (decrease) in net position	144,220	257,587	401,807	423,822	(423,822)	401,807	320,603
Net position – beginning of year	1,143,705	1,372,764	2,516,469	922,285	(922,285)	2,516,469	2,195,866
Net position – end of year	$ 1,287,925	1,630,351	2,918,276	1,346,107	(1,346,107)	2,918,276	2,516,469

See accompanying independent auditors' report.

Schedule 3

OREGON HEALTH & SCIENCE UNIVERSITY

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

Years ended June 30, 2016 and 2015

(Dollars in thousands)

	2016	2015
Operating revenues:		
Patient service revenue, net of bad debt adjustments of $21,630 and $25,945 in 2016 and 2015 respectively	$ 1,579,879	1,435,788
State appropriations	1,274	1,234
Gifts, grants, and contracts	663	1,818
Other revenue	65,826	62,243
Total operating revenues	1,647,642	1,501,083
Operating expenses:		
Salaries, wages, and benefits	681,071	634,934
Services, supplies, and other	678,451	630,220
Depreciation and amortization	67,276	61,964
Interest	19,157	16,978
Research and Mission Support	81,294	62,139
Total operating expenses	1,527,249	1,406,235
Operating income	120,393	94,848
Nonoperating revenues (expenses):		
Investment income and gain in fair value of investments	24,069	5,995
Other	(228)	(230)
Total nonoperating revenues (expenses), net	23,841	5,765
Net income before contributions for capital and other	144,234	100,613
Other changes in net position:		
Contributions for capital and other	(14)	36,642
Total other changes in net position	(14)	36,642
Total increase in net position	144,220	137,255
Net position – beginning of year	1,143,705	1,006,450
Net position – end of year	$ 1,287,925	1,143,705

See accompanying independent auditor’s report.