OREGON HEALTH & SCIENCE UNIVERSITY

(A component unit of the State of Oregon)

Financial Statements
and Supplementary Information

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

OREGON HEALTH & SCIENCE UNIVERSITY

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KPMG LLP
Suite 3800
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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 the business-type activities and discretely presented component unit of Oregon Health & Science University (OHSU), which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenue, expenses, and changes in net position and cash flows for the years 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 years ended June 30, 2017 and 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 audited the financial statements of the aggregate discretely presented component unit for the year ended June 30, 2017 and for the nine-months ended June 30, 2016. 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.

KPMG

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Oregon Health & Science University, the discretely presented component unit as of June 30, 2017 and the nine months ended June 30, 2016 and the supplemental financial information of Oregon Health & Science University Hospital in schedule 3 as of June 30, 2017 and 2016, and the respective changes in its financial position and, where applicable its cash flows thereof, for the periods 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 95, the proportionate share of the net pension liability, and related ratios on page 95, and the schedule of defined-benefit pension plan contributions on page 96, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our 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 27, 2017

Introduction and Financial Highlights

Oregon Health & Science University (OHSU or the University) is Oregon's only public health sciences university and major academic health center. It is a national leader in education of health professionals and scientists, advanced biomedical and healthcare research, leading-edge patient care and outreach. OHSU's strategy is to partner to make Oregon a leader in health and science innovation to improve the health and well-being of Oregonians.

The following discussion and analysis provides an overview of the financial activities of OHSU 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 assets and deferred outflows, minus liabilities and deferred inflows. OHSU's financial position continued to strengthen in fiscal year 2017, when net position increased by $222 million, or 7.6%, from $2.92 billion to $3.14 billion, driven by operating income and investment returns. This is on top of a gain of $402 million, or 16%, in the prior year, largely reflecting philanthropy offset in part by pension expense.

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

(Dollars in thousands)

	2017	2016	2015
Patient service revenue, net	$ 2,097,255	1,989,644	1,808,196
Gifts, grants, and contracts	552,579	899,805	556,185
All other operating revenues	196,690	183,645	166,216
Total operating revenues	2,846,524	3,073,094	2,530,597
Salaries, wages, and benefits	1,623,266	1,512,950	1,394,375
Defined benefit pension	85,277	222,124	(89,081)
All other operating expenses	1,091,677	1,029,761	948,724
Total operating expenses	2,800,220	2,764,835	2,254,018
Operating income	46,304	308,259	276,579
State appropriations	35,560	35,567	33,448
Other nonoperating revenues (expenses)	115,786	9,486	(8,474)
Other changes in net position	24,775	48,495	19,050
Total increase in net position	$ 222,425	401,807	320,603

(Continued)

Gift, grant, and contract revenues include the Knight Cancer Challenge, a fund-raising challenge set by Phil and Penny Knight in 2013 whereby they would contribute $500 million if the University raised a matching amount. OHSU met the goal eight months ahead of the deadline on June 25, 2015, through a nearly $200 million grant by the State of Oregon (the State), a $100 million gift from Gert Boyle, along with contributions from more than 10,000 donors in all 50 states. The present value of the Knights' matching pledge and Mrs. Boyle's gift were recorded in fiscal years 2016 and 2015, respectively, while the first $75 million from the State's grant was recorded across fiscal years 2017 and 2016. The Knight Cancer Challenge funds will be used in the fight to eradicate cancer, particularly through advanced early detection, including new cancer research and clinical trial facilities.

Operating income has been impacted by OHSU's proportionate share of the Oregon Public Employees Retirement System (PERS) defined-benefit pension expense. The defined-benefit pension expense for 2017 and 2016 was $85 million and $222 million, respectively, reflecting several assumption changes, including lowering the long-term expected rate of return to 7.5% and assumed inflation to 2.5%, as well as updating the mortality improvement scale. Fiscal year 2016 pension expense also included the Oregon Supreme Court decision in *Moro v. State of Oregon* that reversed a significant portion of reductions to future cost of living adjustments passed by the Oregon Legislature in prior years through Senate Bills 822 and 861.

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

Components of OHSU Change in Net Position

(Dollars in thousands)

		2017	2016	2015
Components of operating income:				
Hospital operations prior to research and education support	$	180,327	201,687	156,987
Research and education support transferred to other university		(102,762)	(81,294)	(62,139)
Other university operations prior to State grant		53,408	20,536	15,128
State grant to Knight Cancer Challenge		59,037	15,660	—
Total university operations before pension expense		190,010	156,589	109,976
Defined benefit pension expense, net of contributions		(54,042)	(190,453)	126,831
Total university operations		135,968	(33,864)	236,807
Foundations operations		(45,324)	409,223	71,955
Elimination of Foundations' restricted capital activity		(8,780)	(31,533)	1,265
Reclassification of state appropriations		(35,560)	(35,567)	(33,448)
Consolidated operating income		46,304	308,259	276,579

(Continued)

Components of OHSU Changes in Net Position

(Dollars in thousands)

		2017	2016	2015
State appropriations	$	35,560	35,567	33,448
Investment and other nonoperating income (expense)		115,786	9,486	(8,474)
Consolidated net income		197,650	353,312	301,553
Capital/nonexpendable contributions and other		24,775	48,495	19,050
Total change in net position		222,425	401,807	320,603
Net position – beginning of year		2,918,276	2,516,469	2,195,866
Net position – end of year	$	3,140,701	2,918,276	2,516,469

Hospital and other university operations are measured prior to applying Government Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pension* (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, of $31 million in fiscal year 2017, $32 million in fiscal year 2016, and $38 million in fiscal year 2015.

In addition, the 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 noncash, fluctuations in revenue and expense, allowing the University to better monitor and manage year-to-year trends in operations.

Hospital operations include the integrated clinical operations support of Tuality Healthcare (Tuality), as of February 1, 2016. Each year, a portion of gross hospital earnings (largely reflecting incremental payments from the Oregon Medicaid program) are transferred to other university operations to support research and education as the State's public health sciences university.

Using the noted management adjustments, total university operating income increased by $33 million, or 21%, from $157 million in fiscal year 2016 to $190 million in fiscal year 2017. The current year includes $59 million of the State's $200 million grant supporting the Knight Cancer Challenge for research and related facilities, compared to $16 million in fiscal year 2016. Absent the State grant, earnings were down slightly, largely reflecting the end of an income sharing and management agreement with Salem Health and the first full year of operating support for Tuality. Patient service revenue increased at a slower rate of 5% in fiscal year 2017, compared to previous growth of 10%, due to a leveling off of average payment rates as the Affordable Care Act was fully in place and growth was concentrated in ambulatory care; however, university-wide cost containment efforts were sufficient to offset this impact. Total university operating income increased by $47 million or 43% from $110 million in fiscal year 2015 to $157 million in 2016. A 10% growth in patient revenues to nearly

$2 billion, combined with recording the first $16 million of the State's grant to the Knight Cancer Challenge, account for most of this improvement.

The Foundations' operating income, which includes gifts to the University and operational activities (program and support costs), decreased from a gain of $409 million in fiscal year 2016, when the Knights' matching pledge was recorded, to a loss of $45 million in fiscal year 2017. The Foundations' operating income fluctuates from year to year as major gifts are recorded, resulting in a gain one-year offset by losses in subsequent years, when the gift funds are transferred to the University in support of the intended program or purpose.

Following reclassification of Foundations' restricted capital activity and of State appropriations, OHSU's consolidated operating income was $46 million in fiscal year 2017, compared to $308 million in fiscal year 2016, even though underlying performance as measured for management purposes is essentially level between the two years. The decrease is principally due to recording the Knights' matching pledge for the Knight Cancer Challenge in fiscal year 2016, offset in part by the Moro decision's impact on defined-benefit pension expense that year.

Investment and other nonoperating income was $116 million in fiscal year 2017, compared to $9 million in the prior year. The endowment portfolio and other investment assets generated strong returns consistent with broader market indices, as well as improved management of private investments. Consolidated net income (including reclassed State appropriations) was $198 million in fiscal year 2017, compared to $353 million in fiscal year 2016, as higher investment returns partially offset lower philanthropy.

Finally, in fiscal year 2017, OHSU issued the second round of new debt of $120 million, including premiums, to finance the Center for Health & Healing ambulatory care facility (CHH 2), which is part of matching the State grant for the Knight Cancer Institute research facilities. In the prior year, OHSU also issued new debt of $120 million for CHH 2 and took advantage of low-market interest rates and a tight credit spread to refinance existing debt for approximately $25 million in present value savings.

OHSU Strategic Plan

As noted above, OHSU's strategic plan, Vision 2020, developed in 2007 and updated in 2009 and 2013, calls for OHSU to partner for innovation to improve the health and well-being of Oregonians. Partnerships recently undertaken or currently being pursued by OHSU include the following:

Adventist Health. On August 8, 2016, OHSU executed a nonbinding agreement with Adventist Health System/West, doing business as Adventist Health. Adventist Health is a leading faith-based, not-for-profit healthcare provider with facilities in California, Hawaii, and Oregon, including Adventist Health – Portland, a 302-bed medical center with 34 medical clinics and home care and hospice services. Under the intentions set forth in the nonbinding agreement, OHSU and Adventist Health would manage and oversee an integrated health system for metropolitan Portland (including Tuality), with a consolidated bottom line and capital budget. OHSU and Adventist Health would remain separate legal entities, own their own assets and would not join each other's obligated groups or guarantee each other's outstanding debt. Although the nonbinding agreement provided that it would terminate if definitive agreements were not executed by December 31, 2016, the parties are continuing efforts to negotiate to enter into definitive agreements. If definitive agreements are entered into, the terms of the agreements may vary materially from the terms of the nonbinding agreement, including the terms summarized above.

Tuality Healthcare. On February 1, 2016, OHSU affiliated with 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. 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 continued and enhanced availability and local provision of primary care and specialty services at MCMC and in the MCMC service area recruitment and leasing of medical professionals from OHSU to MCMC. As part of the collaboration, OHSU supports the management and delivery of outpatient services at MCMC, and MCMC added an eighth position to its board of directors, selected by OHSU. In addition, MCMC converted to the EPIC electronic health records system, as used by OHSU.

Columbia Memorial Hospital. OHSU and Columbia Memorial Hospital (CMH) in Astoria, Oregon, have collaborated on programs, including cardiology and cancer, offering chemotherapy, imaging, pharmacy, and other services for individuals on the North Oregon Coast. In May 2015, OHSU and CMH announced plans to jointly organize and operate an Oncology Collaboration, including the development of a new 18,000-square-foot comprehensive cancer treatment center and specialty clinic, with radiation therapy. CMH will own and operate the cancer treatment center under its license, and OHSU will provide the professional services and medical direction through OHSU-employed physicians. Groundbreaking ceremonies for the new treatment center were held in August 2016, and it opened in 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 healthcare center. The grand opening ceremony was held on January 5, 2017, and inpatients moved in on January 31, 2017. Called the Unity Center for Behavioral Health, the facility was 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 has 79-adult and 22-adolescent patient beds. Adventist Health and OHSU have discontinued operating their own separate behavioral health inpatient facilities and have combined with Legacy Health to operate a single facility at Unity Center for Behavioral Health. The center is located on Legacy Health's Holladay Park campus in Portland following renovations and is operated under Legacy's hospital license. The cost of the construction was $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. The licensed independent practitioners providing professional services at Unity Center for Behavioral Health will be employed by OHSU.

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***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 tricounty 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 Population Health Alliance of Oregon, dba Propel Health, an organization comprised six Oregon health systems, which are Mid-Columbia Medical Center, Salem Health, Bay Area Hospital, Asante Health, SkyLake Medical Center, and OHSU, 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.

***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 below, OHSU and PSU have a joint MBA program and have created 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, appointment of a dean, and development of faculty office and related space for the school on the PSU campus. OHSU 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 among the largest event spaces on the west side of Portland.

***Collaborative Life Sciences Building and Skourtes Tower*.** In fiscal year ended June 30, 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 interprofessional 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. There were 505 OHSU students in joint programs with OSU and OIT in Fall 2016.

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***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 has focused 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. On November 2, 2016, the U.S. government, OHSU, and the Lao PDR Ministry of Health held a groundbreaking ceremony at the site of the future campus of the Lao-American Nutrition Institute in Vientiane, Laos in an effort to improve nutrition in Laos.

***Intel Corporation*.** OHSU and Intel Corporation entered into a multiyear partnership focused on building high performance computing hardware and software solutions for analyzing molecular data from cancer and other complex diseases. The partners established a research data center equipped with an Intel supercomputing cluster, where 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. During fiscal years 2016 and 2017, Intel and OHSU, joined by the Dana Farber Cancer Institute and the Ontario Cancer Institute for Cancer Research, demonstrated the Collaborative Cancer Cloud, 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 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 payor 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 Health Plan, Inc. (Moda) 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 had a large share of Oregon's new individual insurance market during the initial years of 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. However, it is uncertain if, or when, the federal government will pay these amounts.

In light of uncertain payment of federal risk corridor receivables, 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. 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 2017, as a result of Moda 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. The Oregon insurance commissioner has not allowed payment of interest under the surplus note during 2017. In January 2017, after a six-month review, the Oregon Educators Benefit Board selected Moda as one of its statewide health insurance plan for its 150,000 members.

OHSU reviewed the valuation of the note as of June 30, 2017, and has retained the current net valuation of $33.5 million, which represents 1.07% of the University's total net position as of June 30, 2017.

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.

The OHSU Foundation is an Oregon nonprofit corporation promoting the charitable, scientific, and educational purposes of OHSU. Doernbecher Foundation is an Oregon nonprofit corporation promoting interest in and support for Doernbecher Children's Hospital. Both Foundations are component units of OHSU for financial reporting purposes, but are not part of the OHSU 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.

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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, its successor in interest, or to another entity recognized by OHSU as an institution foundation. 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	Gift from Norman and Linda Brenden for the Center for Pancreatic Health	2016–17
$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 and 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 and 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 CLSB	2006–07
$34 million	Schnitzer Campus on South Waterfront (land value)	2003–04

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 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 PERS. As a result of the adoption of GASB 68, the accounting moved 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.

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

Condensed Statements of Net Position

(Dollars in thousands)

	2017	2016	2015
Assets:			
Current assets	$ 1,209,077	1,262,697	900,867
Capital assets	1,742,740	1,606,554	1,528,256
Other noncurrent assets	2,143,462	1,820,172	1,508,877
Total assets	5,095,279	4,689,423	3,938,000
Deferred outflows	299,377	84,713	53,006
Total assets and deferred outflows	$ 5,394,656	4,774,136	3,991,006
Liabilities:			
Current liabilities	517,683	495,305	408,337
Noncurrent liabilities	$ 1,693,792	1,298,424	874,997
Total liabilities	2,211,475	1,793,729	1,283,334
Deferred inflows	42,480	62,131	191,203
Net position:			
Net investment in capital assets	997,731	876,150	820,360
Restricted, expendable	869,038	872,294	574,712
Restricted, nonexpendable	234,784	215,005	204,601
Unrestricted	1,039,148	954,827	916,796
Total net position	3,140,701	2,918,276	2,516,469
Total liabilities, deferred outflows and net position	$ 5,394,656	4,774,136	3,991,006

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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 2017, OHSU's unrestricted and restricted cash and investments increased from $1.77 billion to $1.95 billion attributable to operating and investment performance and the Foundations activity.

Consolidated Asset Allocation of
Unrestricted and Restricted Cash and Investments

(Dollars in thousands)

		2017	2016	2015
Unrestricted cash and investments:				
Cash and equivalents	$	82,583	331,560	175,887
Fixed-income investments		764,344	581,105	568,776
Equity investments		268,164	87,834	60,684
Mutual funds		126,396	110,952	62,847
Other		68,950	104,076	126,098
Subtotal		1,310,437	1,215,527	994,292
Restricted cash and investments:				
Cash and equivalents		3,712	88,619	23,848
Fixed-income investments		185,551	151,501	181,245
Equity investments		418,256	197,852	122,474
Mutual funds		9,181	3,634	14,597
Other		22,913	113,834	224,212
Subtotal		639,613	555,440	566,376
Totals	$	1,950,050	1,770,967	1,560,668

The unrestricted portion of cash and investments is represented in the calculation of days cash on hand for OHSU. Days cash on hand increased from 184 days in 2016 to 197 days in 2017, the effect of a 7.1% increase in unrestricted operating cash and investments.

Days Unrestricted Cash and Investments on Hand

(Dollars in thousands)

		2017	2016	2015
OHSU:				
Unrestricted cash and investments	$	881,840	840,612	631,885
Less nonoperating cash and investments		(33,508)	(31,426)	(19,002)
Operating cash and investments	$	848,332	809,186	612,883
Unrestricted operating expenses:				
Total operating expenses	$	2,487,844	2,464,602	1,957,135
Less depreciation and amortization		(146,473)	(137,385)	(129,297)
Net unrestricted operating expenses	$	2,341,371	2,327,217	1,827,838
Daily expense	$	6,415	6,376	5,008
Days cash on hand(1)		132	127	122
OHSU plus OHSU and Doernbecher Foundations:				
Unrestricted cash and investments	$	1,310,436	1,215,527	994,292
Less nonoperating cash and investments		(33,508)	(31,426)	(19,002)
Operating cash and investments	$	1,276,928	1,184,101	975,290
Unrestricted operating expenses:				
Total operating expenses	$	2,511,126	2,486,990	1,984,766
Less depreciation and amortization		(146,596)	(137,521)	(129,479)
Net unrestricted operating expenses	$	2,364,530	2,349,469	1,855,287
Daily expense	$	6,478	6,437	5,083
Days cash on hand(1)		197	184	192

(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 $54,042, $190,453, and ($126,831), for fiscal years 2017, 2016, and 2015, respectively. Removing the pension adjustment from operating expenses results in days cash on hand of 202, 200, and 180 for fiscal year 2017, 2016, and 2015, respectively.

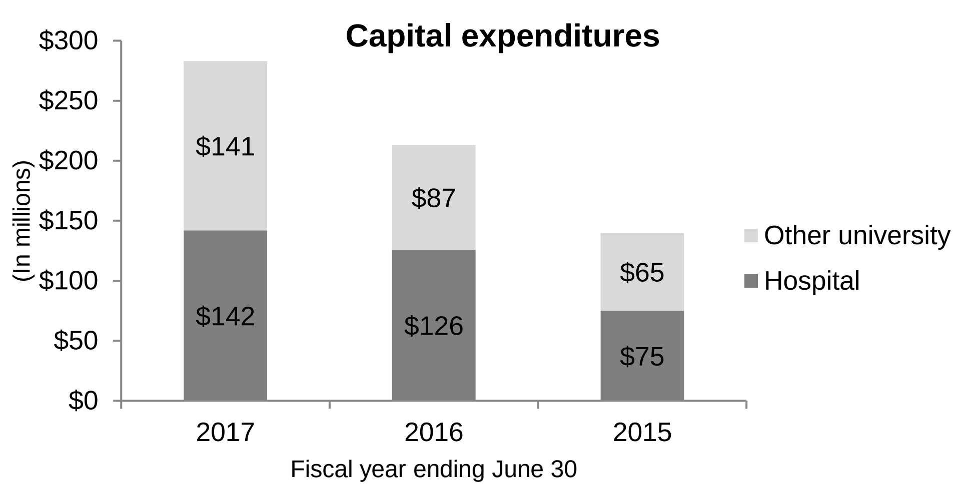
The following table presents the days unrestricted cash on hand for OHSU as of fiscal year ended June 30, 2017, 2016, and 2015, calculated with the removal of pension adjustments due to the adoption of GASB 68.

Days Unrestricted Cash and Investments on Hand Pre-GASB 68 Adjustment

(Dollars in thousands)

		2017	2016	2015
OHSU plus OHSU and Doernbecher Foundations:				
Operating cash and investments	$	1,276,928	1,184,101	975,290
Net unrestricted operating expenses	$	2,364,530	2,349,469	1,855,287
Pension adjustment GASB 68		(54,041)	(190,453)	126,831
Adjusted net unrestricted operating expenses	$	2,310,489	2,159,016	1,982,118
Daily expense	$	6,330	5,915	5,430
Days cash on hand (pre-GASB 68)		202	200	180

Capital assets, net of accumulated depreciation, increased by $136 million and $78 million, respectively, during fiscal years 2017 and 2016. In 2017, 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, 2017, 2016, and 2015 are listed below:



Liabilities

Total liabilities increased by $418 million, or 23.3%, in 2017 after an increase of $510 million, or 39.8%, in 2016. In 2017 and 2016, the increase is primarily due to three activities: the recording of OHSU's proportionate share of the Oregon PERS's net pension liability, additional long-term debt for the CHH 2 project, and deferred revenue associated with the State grant supporting the Knight Cancer Challenge.

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 $22 million and $87 million in fiscal years 2017 and 2016, respectively. In 2017, the increase was due, primarily, to the final $100 million installment of the State grant to fund the Knight Cancer Challenge research facility, offset by current year recognition of $59 million, while in 2016, the increase was due primarily to the first installment of the $100 million State grant, offset by fiscal year 2016 recognition of $16 million. There were also decreases 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 decreases in current portion of long-term debt related to timing of payments.

Total noncurrent liabilities increased $395 million in fiscal year 2017, due in part to the issuance of a series of long-term bonds totaling $120 million, including premiums, $42 million of principal payments and the recording of OHSU's proportionate share of the Oregon PERS's net pension liability at $526 million. 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.

Debt Management. At the close of fiscal years 2017 and 2016, OHSU had a total of approximately $1,002 million and $914 million in long-term debt and capital leases outstanding, respectively, net of current portion. Approximately 18% of the total long-term debt was variable-rate debt issued in the form of variable-rate demand bonds. In fiscal year 2017, OHSU issued the Series 2017A and Series 2017B as tax-exempt bonds.

Due to OHSU's sustained operating performance and increasing net position in 2017 and 2016, credit ratings have remained strong and stable. OHSU has maintained its Standard & Poor's and Fitch ratings of AA-, and Moody's rating of Aa3.

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 years 2016 to 2017, this metric remained stable as the newly issued long-term debt related to the new ambulatory care tower was offset by operating results.

(Dollars in millions)		2017	2016	2015
Long-term debt and capital leases	$	1,009	931	739
Net position		3,141	2,918	2,516
Long-term debt and capital leases to net position		0.32	0.32	0.29

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 4.70 in fiscal year 2017, 2.87 in 2016, and 7.57 in 2015. The difference between fiscal years 2017, 2016, and 2015 is largely due to the adoption of GASB 68 and the effect on OHSU's proportionate share of the Oregon PERS net pension liability.

Calculation of Maximum Annual Debt Service Coverage Ratio – Unrestricted

(Dollars in thousands)

		2017	2016	2015
Total excess of revenues over expenses	$	197,650	353,312	301,553
Add/subtract restricted net loss/gain		(57,844)	(374,504)	(92,432)
Unrestricted excess of revenues over expenses	$	139,806	(21,192)	209,121
Adjustments:				
Net unrealized (gain) loss in fair value of investments	$	(34,788)	3,615	20,570
Loss on disposal of assets		255	886	994
Interest expense(1)		28,657	33,962	26,749
Depreciation and amortization		146,596	137,521	129,479
Other		—	3,177	(906)
	$	140,720	179,161	176,886
Income available for debt service	$	280,526	157,969	386,007
Maximum annual debt service	$	59,629	55,080	51,012
Maximum annual debt service coverage(2)		4.70	2.87	7.57

(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 $54,042, $190,453, and ($126,831) for fiscal years 2017, 2016, and 2015, respectively. Removing the pension adjustment results in a maximum annual debt service coverage ratio of 5.61, 6.33, and 5.08 for fiscal years 2017, 2016 and 2015, respectively.

(Continued)

The following table presents the maximum annual debt service coverage ratio for the last three fiscal years, calculated with the removal of pension adjustments due to the adoption of GASB 68.

Calculation of Maximum Annual Debt Service Coverage Ratio – Unrestricted
Pre-GASB 68 Adjustment

(Dollars in thousands)

		2017	2016	2015
Income available for debt service	$	280,526	157,969	386,007
Pension adjustment GASB 68		54,041	190,453	(126,831)
Adjusted income available for debt service	$	334,567	348,422	259,176
Maximum annual debt service		59,629	55,080	51,012
Maximum annual debt service coverage (pre-GASB 68)		5.61	6.33	5.08

Deferred Inflows and Outflows

Under GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, certain deferred outflows are presented below assets and certain deferred inflows are presented below liabilities. In fiscal year 2017, the increase in deferred outflows of $215 million and reduction of deferred inflows of $20 million were primarily attributed to changes in the defined-benefit pension obligations. In fiscal year 2016, the deferred outflows increased $32 million and the 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.

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 2017 and 2016 deferred amortization of derivative instruments were $5.9 million and $14.3 million, respectively. The overall decrease in 2017 was due to a positive change in fair value of derivative instruments for $7.2 million and amortization of derivative instruments for $1.2 million.

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 $25 million in 2017 and $27 million in 2016 is reported in the deferred outflows section below assets. The deferred gain on refunding of debt of $2.5 million in 2017 and $2.9 million in 2016 is reported in the deferred inflows section below liabilities. The last refunding transaction, which OHSU completed occurred in 2016 with the advance refunding of the Series 2009A Revenue Bonds. The advance refunding of the Series 2009A increased the deferred loss on refunding of debt in 2016 by $24.2 million from 2015.

(Continued)

With the adoption of GASB 68 in fiscal year 2015, defined-pension obligation activities are now included in deferred inflows and outflows. Fiscal years 2017 and 2016 deferred outflows related to the Oregon PERS pension obligation were $264 million and $44 million, respectively. The deferred outflows in fiscal year 2017, primarily represented lower than actual investment earnings compared to the projected and assumption changes, including the lowering of the investment return assumption from 7.75% to 7.50%. Additionally, the deferral of contributions, made postmeasurement date, are reflected in both fiscal years 2017 and 2016. Deferred inflows for fiscal years 2017 and 2016 were $36 million and $59 million, respectively, representing an increase in proportionate share in fiscal year 2017, and lower than expected actual earnings on pension plan investments and changes to the assumed retiree life expectancy in fiscal year 2016.

Net Position

As noted earlier, total net position increased $222 million during fiscal year 2017, as compared to an increase of $402 million during fiscal year 2016.

In fiscal years 2017 and 2016, the increase of net position occurred within net investment in capital assets and unrestricted, with net investment in capital assets up $122 million in 2017 and $56 million in 2016. Unrestricted net position increased $84 million and $38 million in 2017 and 2016, respectively. Restricted net position, which is 35% and 37% of OHSU's total net position, increased in both 2017 and 2016, respectively, primarily due to foundation gifts, resulting in a $17 million and $308 million increase in 2017 and 2016, respectively.

When evaluating OHSU's net position, it is important to note that OHSU's Marquam Hill property is leased from the State 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 changes 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. State appropriations totaled $36 million in both fiscal years 2017 and 2016.

Consolidated net income for OHSU, including the Foundations, totaled $198 million in fiscal year 2017, compared to $353 million in 2016. As noted above, major drivers of the current fiscal year over year changes in net income are attributable to the continued growth of net patient service revenue (although at a slower pace), gifts, grants and contracts, and cost containment measures, such as hiring restraints, offset by services, and supply costs, reflecting higher patient volume and operating support at Tuality, and the recording of expenses associated with OHSU's proportionate share of the Oregon PERS's net pension liability.

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

(Dollars in thousands)

		2017	2016	2015
Total operating revenues	$	2,846,524	3,073,094	2,530,597
Total operating expenses		2,800,220	2,764,835	2,254,018
Operating gain		46,304	308,259	276,579
Nonoperating revenues, incl. state appropriations		151,346	45,053	24,974
Net income before other changes in net position for capital and other		197,650	353,312	301,553
Contributions for capital and other		9,586	34,732	4,791
Nonexpendable donations		15,189	13,763	14,259
Changes in net position		222,425	401,807	320,603
Net position – beginning of year		2,918,276	2,516,469	2,195,866
Net position – end of year	$	3,140,701	2,918,276	2,516,469

Total Operating Revenues

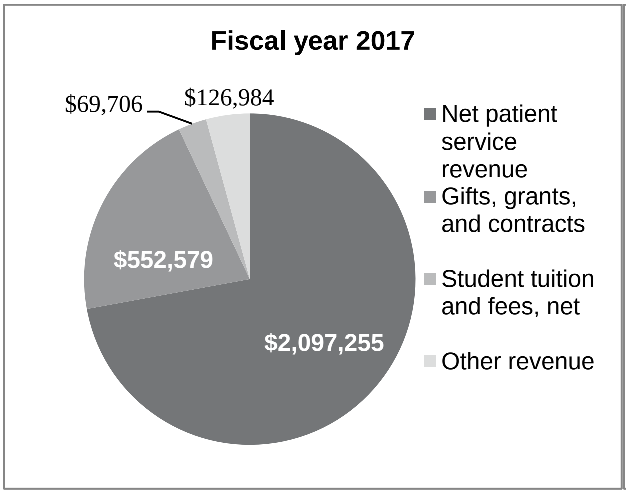
Total operating revenues on a combined basis (including the Foundations and reclassification of State appropriations to nonoperating revenues) totaled $2.85 billion and $3.07 billion in 2017 and 2016, respectively.

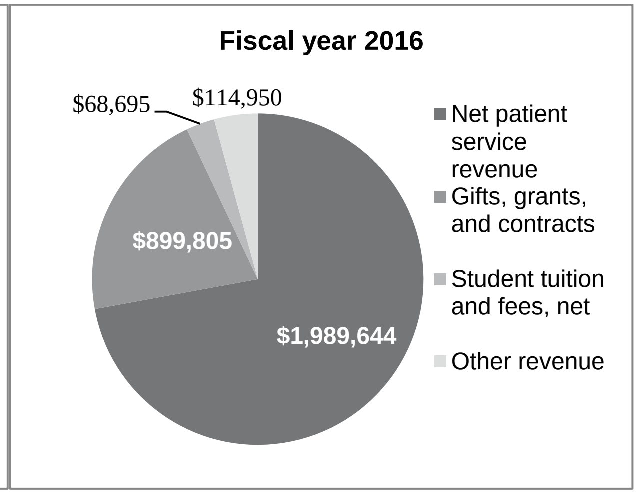
Gifts, grants, and contracts continue to remain strong at $553 million, despite a decline of 38.6%, or $347 million from prior fiscal year, which reflected the matching gift from Phil and Penny Knight for the Knight Cancer Challenge recorded in fiscal year 2016. Additionally, portions of the State's $200 million grant supporting the Knight Cancer Challenge research facility were recognized in fiscal years 2017 and 2016 in the amount of $59 million and $16 million, respectively.

Net patient service revenue contributed to revenue growth, with an increase of $108 million and $181 million, or 5% and 10%, in fiscal years 2017 and 2016, respectively. Growth in ambulatory care, inpatient case mix, and pharmacy utilization drove much of these increases, with the slower growth in fiscal year 2017 reflecting capacity constraints (primarily in adult beds) and the completion of coverage expansion under the ACA.

Operating revenue by source
Fiscal years 2017 and 2016 (Total $2.8 billion and $3.0 billion, respectively)

(Dollars in thousands)





Total Operating Expenses

OHSU's total operating expenses on a combined basis increased by $35 million, or 1.3%, in fiscal year 2017, and $511 million, or 22.7%, in fiscal year 2016. In both 2017 and 2016, a significant portion of the increase in expenses, reflected in salaries, wages, and benefits, was due to OHSU's proportionate share of the Oregon PERS's defined-benefit pension expense at $85 million and $222 million, respectively. The remaining increases were mainly in support of the program growth, which also drove increases in revenue.

Salaries, wages, and benefits (excluding the impact of defined-benefit pension expense) comprised approximately 58% of total expenses, increased by $110 million, or 7.3%, in 2017 and $119 million, or 8.5%, in 2016, respectively. In the current fiscal year, hiring restraint associated with the university-wide cost containment reduced expense growth, while in fiscal year 2016 salaries and wages were adjusted to reflect market compensation levels for highly productive clinical staff, as well as recruitment for clinical programs that supported the continued growth in patient revenues.

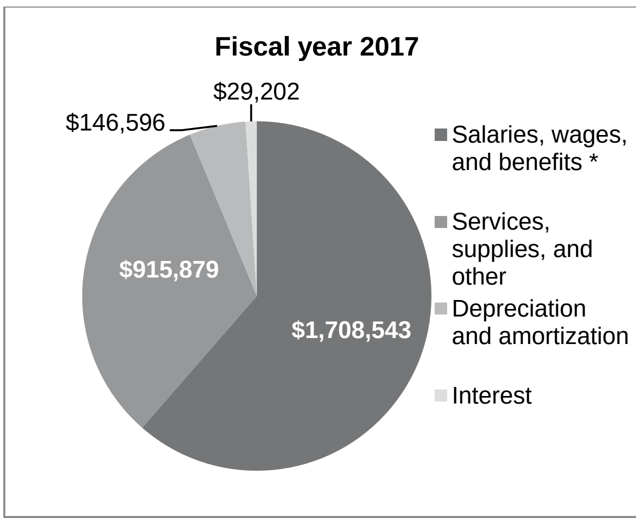
Services, supplies, and other expenses showed an increase of $58 million, or 6.7%, in 2017, and $66 million, or 8.3%, in 2016 representing the nonlabor costs associated with the targeted program growth noted above and increased direct foundation support.

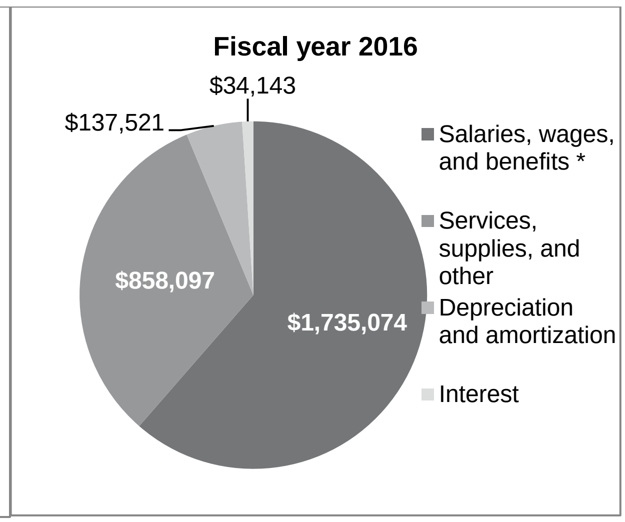
Depreciation and amortization, which represents the reduction in value of capital assets with the passage of time, showed an increase of $9 million, or 6.6%, in 2017, and $8 million, or 6.6%, in 2016.

Interest expense decreased by $4.9 million, or 14%, in fiscal year 2017 after a $7 million, or 27%, increase in fiscal year 2016. The decrease in interest expense in 2017 is driven by an increase in capitalized interest, and a decrease in debt issuance costs. Capitalized interest for 2017 and 2016 was $6.5 million and $2.7 million, respectively; while debt issuance costs incurred in 2017 and 2016 was $1.3 million and $3.7 million, respectively. Capitalized interest increased as a consequence of increased capital spending, while debt issuance costs decreased due to less debt financing activity. OHSU advance refunded the Series 2009A Bonds in prior fiscal year 2016, which lead to higher debt issuance costs in 2016 in comparison to 2017.

Operating expenses
Fiscal years 2017 and 2016 (Total $2.8 billion and $2.8 billion, respectively)

(Dollars in thousands)





* Salaries, wages, and benefits figures include OHSU's proportionate share of the Oregon PERS's net pension liability of $85,277 and $222,124 in fiscal years 2017 and 2016, respectively.

Operating Expenses
By Functional Classification

(Dollars in thousands)

		2017	2016	2015
Instruction, research, and public service	$	436,645	420,535	405,417
Clinical activity		1,745,058	1,612,788	1,583,199
Auxiliary activities		8,740	9,450	9,710
Internal service centers		12,184	10,898	8,079
Student services		12,459	15,057	15,775
Academic support		84,353	62,655	23,153
Institutional support		159,342	149,363	77,779
Operations, maintenance, and other		104,195	124,187	94,124
Direct foundation expenditures		36,606	31,927	34,135
Depreciation and amortization		146,597	137,522	129,479
Defined pension benefit, net of contribution		54,041	190,453	(126,832)
Total operating expenses	$	2,800,220	2,764,835	2,254,018

Economic Outlook

As the U.S. economy enters a ninth year of recovery from the last recession, the economy in Oregon has shown significant growth, evidenced by a strong labor market as well as other indicators, such as housing prices and in-migration. The Oregon unemployment rate decreased from 5.1% in June 2016 to 3.7% in June 2017, continuing its steady improvement from its postfinancial crisis peak of 11.9% in May 2009. Nationally, economic growth has continued along the postrecession trend of approximately 2% annually, with real GDP growing at 2.2% from March 2016 to March 2017.

Interest rates in the U.S. and much of the developed world continue to remain at low levels by historical standards even if rates generally increased over the fiscal year. The 10-year U.S. treasury rate ended at 2.31% as of June 2017, compared to 1.49% one year earlier, with a parallel increase across the yield curve. The bull market in equities continued during fiscal year 2017 with the S&P 500 gaining nearly 18%. In line with improving unemployment figures, Federal Reserve policy makers increased its target federal funds rate at a measured pace, with three separate 25-basis point increases during the fiscal year, resulting in a target range between 1.00% and 1.25% as of June 2017.

Healthcare reform continues in an environment of great policy uncertainty, especially at the federal level. Towards the end of the fiscal year, Congress reinitiated efforts to repeal and replace the ACA, yet these efforts have so far ended without any legislative changes. There remains substantial uncertainty from the legislative, executive, and judicial branches regarding what form the ACA will take going forward.

(Continued)

Since inception, Oregon and OHSU have leaned into the ACA, to significant effect on both. Approximately 500,000 Oregonians have gained health insurance coverage through the Oregon Health Plan (Medicaid expansion) or the new individual insurance market, with 95% of adults and 98% of children now covered. This has substantially reduced OHSU's share of patient activity, without any insurance coverage, from approximately 5% to 1%.

In 2012, the State received approval from the Centers for Medicare & Medicaid Services for a waiver to further transform its historically innovative Medicaid program. Oregon agreed to lower the rate of growth in Medicaid spending from 5.4% per year to 3.4%, while maintaining quality and access. In return, the federal government provided $1.9 billion over five years to support transformation, together with greater flexibility for the Oregon Health Plan to coordinate care across physical, behavioral, and oral health through 16 regional coordinated care organizations (CCOs). OHSU is a founding member of Health Share of Oregon, a collaboration of public and private entities that formed the principal CCO for the tricounty region surrounding Portland. In addition, half of OHSU's inpatient care comes from outside the tricounty area, so OHSU serves CCOs across Oregon. The State achieved the targeted improvements and the waiver was renewed for another five-year term on January 12th, 2017.

A reduction in the historic rate of cost growth will likely be necessary in other healthcare programs, such as Medicare and public employee health plans, to help bring federal and state budgets into balance over the long run. Government budget deficits also continue to place 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 continues to refine its partnership strategy to maintain access for Oregonians to their public academic health center, to accelerate the development and application of new knowledge, and to educate health professionals and scientists across disciplines to improve health and well-being. Results over the past several fiscal years show that OHSU's financial position remains strong, with net position increasing 43% over three years, from $2.20 billion in June 2014 to $3.14 billion in June 2017, driven by strong operating earnings, philanthropy, and investment returns that together have more than offset higher pension expense.

OHSU's financial strength is further recognized by its credit ratings, Aa3, AA-, AA- confirmed during the past fiscal year with stable outlooks by Moody's, S&P, and Fitch, respectively. The University's disciplined budget process and long range financial planning are designed to maintain this trajectory, while continuing to invest in faculty, programs, technology, and facilities consistent with a nationally ranked health sciences university. On this path, OHSU has continued to receive unwavering public and philanthropic support, as evidenced by the Knight Cancer Challenge, the OHSU Onward campaign to raise a second billion dollars, success in federal and nonfederal research awards, and continued support from the State through biennial appropriations, capital support, and Medicaid funding.

OREGON HEALTH & SCIENCE UNIVERSITY
(Primary Government)

Statements of Net Position

June 30, 2017 and 2016

(Dollars in thousands)

Assets		**2017**	**2016**
Current assets:			
Cash and cash equivalents	$	80,770	313,804
Short-term investments		295,855	237,062
Current portion of funds held by trustee		275,447	173,013
Patients accounts receivable, net of bad debt allowances of $2,759 in 2017 and $2,823 in 2016		346,464	329,310
Student receivables		24,432	24,561
Grant and contract receivables		44,080	43,285
Interest receivable		914	1,207
Current portion of pledges and estates receivable		61,983	67,721
Other receivables, net		29,203	24,467
Inventories, at cost		22,789	21,829
Prepaid items		27,140	26,438
Total current assets		1,209,077	1,262,697
Noncurrent assets:			
Capital assets, net of accumulated depreciation		1,742,740	1,606,554
Funds held by trustee – less current portion		12,644	12,617
Long-term receivables		33,500	33,500
Long-term investments:			
Long-term investments, restricted		622,534	526,449
Long-term investments, unrestricted		950,890	693,652
Total long-term investments		1,573,424	1,220,101
Prepaid financing costs, net		2,615	2,915
Pledges and estates receivable – less current portion		510,511	548,921
Other noncurrent assets		10,768	2,118
Total noncurrent assets		3,886,202	3,426,726
Total assets		5,095,279	4,689,423
Deferred outflows:			
Deferred amortization of derivative instruments		9,730	14,327
Loss on refunding of debt		25,248	26,720
Pension related		264,399	43,666
Total deferred outflows		299,377	84,713
Total assets and deferred outflows	$	5,394,656	4,774,136

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY
(Primary Government)

Statements of Net Position

June 30, 2017 and 2016

(Dollars in thousands)

Liabilities		**2017**	**2016**
Current liabilities:			
Current portion of long-term debt	$	5,659	16,032
Current portion of long-term capital leases		845	881
Current portion of self-funded insurance programs liability		26,956	30,576
Accounts payable and accrued expenses		137,326	127,855
Accrued salaries, wages, and benefits		83,682	104,053
Compensated absences payable		80,582	78,454
Unearned revenue		173,344	131,558
Other current liabilities		9,289	5,896
Total current liabilities		517,683	495,305
Noncurrent liabilities:			
Long-term debt – less current portion		998,731	909,993
Long-term capital leases – less current portion		3,454	4,284
Liability for self-funded insurance programs – less current portion		35,458	31,890
Liability for life income agreements		23,933	24,830
Pension liability		526,200	228,337
Other noncurrent liabilities		106,016	99,090
Total noncurrent liabilities		1,693,792	1,298,424
Total liabilities		2,211,475	1,793,729
Deferred inflows:			
Deferred amortization of derivative instruments		3,848	—
Gain on refunding of debt		2,540	2,951
Pension related		36,092	59,180
Total deferred inflows		42,480	62,131
Net position:			
Net Investment in capital assets		997,731	876,150
Restricted, expendable		869,038	872,294
Restricted, nonexpendable		234,784	215,005
Unrestricted		1,039,148	954,827
Total net position		3,140,701	2,918,276
Total liabilities, deferred inflows, and net position	$	5,394,656	4,774,136

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, 2017 and 2016

(Dollars in thousands)

		2017	2016
Operating revenues:			
Patient service revenue, net of bad debt adjustments of $18,056 and $22,194 in 2017 and 2016, respectively	$	2,097,255	1,989,644
Student tuition and fees, net		69,706	68,695
Gifts, grants, and contracts		552,579	899,805
Other revenue		126,984	114,950
Total operating revenues		2,846,524	3,073,094
Operating expenses:			
Salaries, wages, and benefits		1,623,266	1,512,950
Defined-benefit pension		85,277	222,124
Services, supplies, and other		915,879	858,097
Depreciation and amortization		146,596	137,521
Interest		29,202	34,143
Total operating expenses		2,800,220	2,764,835
Operating income		46,304	308,259
Nonoperating revenues, net:			
Investment income and change in fair value of investments		111,560	8,610
State appropriations		35,560	35,567
Other		4,226	876
Total nonoperating revenues, net		151,346	45,053
Net income before contributions for capital and other		197,650	353,312
Other changes in net position:			
Contributions for capital and other		9,586	34,732
Nonexpendable donations		15,189	13,763
Total other changes in net position		24,775	48,495
Total increase in net position		222,425	401,807
Net position – beginning of year		2,918,276	2,516,469
Net position – end of year	$	3,140,701	2,918,276

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY

(Primary Government)

Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Dollars in thousands)

		2017	2016
Cash flows from operating activities:			
Receipts for patient services	$	2,080,101	2,008,875
Receipts from students		69,835	66,809
Receipts of gifts, grants, and contracts		609,835	574,068
Other receipts		113,699	106,482
Payments to employees for services		(1,672,744)	(1,520,941)
Payments to suppliers		(904,729)	(881,561)
Net cash provided by operating activities		295,997	353,732
Cash flows from noncapital financing activities:			
Federal direct loan proceeds		64,896	56,383
Federal direct loan disbursements		(65,680)	(56,069)
Nonexpendable donations and life income agreements		15,483	15,524
State appropriations		35,560	35,567
Net cash provided by noncapital financing activities		50,259	51,405
Cash flows from capital and related financing activities:			
Scheduled principal payments on long-term debt		(25,901)	(18,125)
Interest payments on long-term debt		(36,841)	(39,925)
Proceeds from issuance of long-term debt		120,442	374,246
Repayment on debt		1,269	(182,466)
Acquisition of capital assets		(283,036)	(216,705)
Payments on capital leases		(866)	(965)
Contributions for capital and other		9,586	34,732
Net cash used for capital and related financing activities		(215,347)	(49,208)
Cash flows from investing activities:			
Purchases of investments		(2,145,990)	(1,284,194)
Proceeds from sales and maturities of investments		1,760,611	1,030,805
Interest on investments and cash balances		21,436	15,974
Net cash used for investing activities		(363,943)	(237,415)
Net (decrease) increase in cash and cash equivalents		(233,034)	118,514
Cash and cash equivalents, beginning of year		313,804	195,290
Cash and cash equivalents, end of year	$	80,770	313,804

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY

(Primary Government)

Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Dollars in thousands)

		2017	2016
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	46,304	308,259
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		146,596	137,521
Provision for bad debts		18,056	22,194
Interest expense reported as operating expense		29,202	34,143
Noncash contributions		(34,497)	—
Defined-benefit pension expense		54,042	190,452
Net changes in assets and liabilities that provided (used) cash:			
Patient accounts receivable		(35,210)	(2,963)
Student receivables		129	(1,886)
Grant and contracts receivable		(11)	729
Pledges and estates receivable		44,149	(411,707)
Other receivables and other assets		(13,285)	(8,468)
Inventories		(960)	(1,866)
Prepaid items		(702)	(1,857)
Accounts payable and accrued expenses		9,471	(25,645)
Accrued salaries, wages, and benefits		(20,371)	13,785
Compensated absences payable		2,128	9,895
Other current liabilities		3,393	2,944
Annuity payment liability		(897)	(5,477)
Deferred revenue		41,786	86,438
Liability for self-funded insurance programs		(52)	2,961
Other noncurrent liabilities		6,726	4,280
Net cash provided by operating activities	$	295,997	353,732
Supplemental schedules of noncash capital and related financing and investing activities:			
Unrealized change in fair value of investments	$	16,158	(19,845)
Loss on disposal of capital assets		(254)	(886)

See accompanying notes to financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES
(Nongovernmental Discretely Presented Component Unit)

Consolidated Balance Sheets

June 30, 2017 and 2016

Assets		2017	2016
Current assets:			
Cash and cash equivalents	$	18,824,800	11,845,900
Short-term investments		1,032,700	2,126,500
Patient accounts receivable, net of allowance for uncollectible accounts of $3,678,800 and $3,760,800		22,115,100	23,590,000
Other receivables		8,569,900	6,740,800
Inventory of supplies		3,670,600	3,402,800
Prepaid expenses and other		2,920,500	2,782,000
Current portion of assets whose use is limited		934,900	915,700
Total current assets		58,068,500	51,403,700
Assets whose use is limited:			
Board-designated funds		37,051,400	36,400,200
Under bond indenture agreement – held by Trustee		900	3,589,500
Donor-restricted – specific purpose		3,669,000	2,846,900
Donor-restricted – endowment		2,784,200	2,777,300
Required for current liabilities		(934,900)	(915,700)
Total assets whose use is limited		42,570,600	44,698,200
Property and equipment:			
Property and equipment, net of accumulated depreciation and amortization		43,538,800	42,102,400
Other assets:			
Other receivables – noncurrent		435,600	1,003,400
Investments in unconsolidated affiliates		2,864,700	2,650,500
Deferred compensation plan		2,152,000	1,773,300
Cash value of life insurance		474,200	446,800
Deferred costs and other		540,300	535,500
Intangible assets		1,824,000	1,907,300
Goodwill		318,500	318,500
Total other assets		8,609,300	8,635,300
Total assets	$	152,787,200	146,839,600

TUALITY HEALTHCARE AND SUBSIDIARIES
(Nongovernmental Discretely Presented Component Unit)

Consolidated Balance Sheets

June 30, 2017 and 2016

Liabilities and Net Assets	**2017**	**2016**
Current liabilities:		
Accounts payable	$ 11,591,700	10,942,300
Accrued payroll and employee benefits	12,812,400	13,334,300
Estimated liabilities for Medicare and Medicaid settlements	478,100	623,000
Long-term debt due within one year	1,052,900	1,116,100
Accrued bond interest payable	109,900	115,700
Total current liabilities	26,045,000	26,131,400
Long-term liabilities:		
Long-term debt, net of amount due within one year	14,713,400	15,766,300
Liability for pension benefits	48,726,200	54,706,200
Other long-term liabilities	7,584,900	3,574,600
Total long-term liabilities	71,024,500	74,047,100
Total liabilities	97,069,500	100,178,500
Net assets:		
Unrestricted	49,255,300	41,017,900
Temporarily restricted by donors	3,678,200	2,865,900
Permanently restricted by donors	2,784,200	2,777,300
Total net assets	55,717,700	46,661,100
Total liabilities and net assets	$ 152,787,200	146,839,600

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

(Nongovernmental Discretely Presented Component Unit)

Consolidated Statements of Operations

Year ended June 30, 2017 and nine months ended June 30, 2016

	2017	2016
Net patient service revenue:		
Patient service revenue (net of contractual allowances and discounts)	$ 178,727,600	130,735,900
Provision for bad debts	(11,385,200)	(7,708,200)
Total net patient service revenue	167,342,400	123,027,700
Other revenue:		
OHSU support	10,559,500	2,682,700
Other revenue	12,524,700	9,990,200
Total other revenue	23,084,200	12,672,900
Total revenue	190,426,600	135,700,600
Operating expenses:		
Salaries and wages	92,751,700	67,189,800
Employee benefits	23,500,200	16,378,900
Supplies and other expenses	60,790,100	45,566,200
Professional fees	5,294,200	3,148,400
Depreciation and amortization	7,601,100	5,819,100
Interest	718,200	488,500
Total operating expenses	190,655,500	138,590,900
Loss from operations	(228,900)	(2,890,300)
Other income:		
Realized income on investments whose use is limited by board designation	27,100	643,300
Gain on investments in affiliated companies	1,329,200	991,600
Loss on disposal of property and equipment	(17,900)	(357,500)
Other nonoperating expenses	—	(165,900)
Total other income	1,338,400	1,111,500
Excess (deficit) of revenue over expenses	1,109,500	(1,778,800)
Contributions for property and equipment acquisition	223,000	387,000
Change in net unrealized gain on other-than-trading securities	2,616,100	639,400
Pension-related changes	4,288,700	(10,943,900)
Increase (decrease) in unrestricted net assets	$ 8,237,300	(11,696,300)

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

(Nongovernmental Discretely Presented Component Unit)

Consolidated Statements of Changes in Net Assets

Year ended June 30, 2017 and nine months ended June 30, 2016

		2017	2016
Unrestricted net assets:			
Excess (deficit) of revenue over expenses	$	1,109,500	(1,778,800)
Contributions for property and equipment acquisition		223,000	387,000
Change in net unrealized gain on other-than-trading securities		2,616,100	639,400
Pension-related changes		4,288,700	(10,943,900)
Increase (decrease) in unrestricted net assets		8,237,300	(11,696,300)
Temporarily restricted net assets:			
Gifts, grants, and bequests		1,171,500	788,500
Investment income		667,800	380,600
Net assets released from restrictions		(1,026,900)	(1,102,900)
Increase in temporarily restricted net assets		812,400	66,200
Permanently restricted net assets:			
Contributions for endowment funds		6,900	240,800
Increase in permanently restricted net assets		6,900	240,800
Change in net assets		9,056,600	(11,389,300)
Net assets, beginning of year		46,661,100	58,050,400
Net assets, end of year	$	55,717,700	46,661,100

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

As the only health sciences university and major academic health center in the State of Oregon (the State), Oregon Health & Science University (OHSU 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 OHSU Practice Plan (OPP), and the Institute on Development and Disability. Doernbecher Children’s Hospital is a unit of the Hospital serving pediatric patients. The Knight Cancer Institute is the only National Cancer Institute 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.

 (Continued)

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 soley for the OPP within the School of Medicine at OHSU. The OPP 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 OPP, 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 annual 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". 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

In March 2016, GASB issued Statement No. 82, *Pension Issues – an amendment of GASB statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans,* No. 68*, Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. OHSU already complies with, or is unaffected by, the topics addressed in this Statement, therefore, there is no impact to OHSU's financial statements, note disclosures, or required supplementary information as a result of implementation.

(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, 2018. 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, 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. OHSU Foundation, Doernbecher Children's Hospital Foundation, INSCO and UMG 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 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, 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, 2017 or 2016.

(Continued)

(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 $3 and capital projects greater than $10. 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 2017 and 2016, OHSU capitalized interest expense of approximately $6,500 and $2,630, respectively. This was net of approximately $379 and $46, respectively, of interest income on unspent project funds.

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

(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.

(Dollars in thousands)

- Net position restricted, expendable, carries externally imposed time or purpose restrictions that expire in the future.
- Net position restricted, nonexpendable, carries externally imposed restrictions that never expire.
- Net position unrestricted carries no externally imposed restrictions.

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

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

A summary of restricted funds by restriction category for fiscal years ended June 30, 2017 and 2016 is as follows:

		2017	2016
Restricted expendable:			
Research	$	657,436	685,938
Academic support		38,017	33,208
Instruction		33,057	24,412
Capital projects and planning		51,919	40,297
Student aid		52,607	47,436
Clinical support		12,937	14,683
Institutional support		5,608	5,032
Other		17,457	21,288
	$	869,038	872,294
Restricted nonexpendable:			
Research	$	29,199	26,015
Instruction		60,475	55,535
Clinical support		565	2,641
Public service		4,508	1,731
Academic support		77,934	72,083
Student aid		42,974	40,186
Other		19,129	16,814
	$	234,784	215,005

(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, 2017 and 2016.

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

The endowment fund investment pool (endowment fund) held by the Foundations, 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, 2017 and 2016, the fair value of investments in the endowment fund was $592,000 and $491,900, respectively. The fair value of the unspent portion of endowments in excess of corpus at June 30, 2017 and 2016 was $47,700 and $23,600, respectively.

Spending distributions were not made for certain endowment accounts during 2017 and 2016 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, 2017 and 2016, the accumulated loss of $31 and $3,800, 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, 2017 and 2016, the grants receivable balance was $18,856 and $27,142, 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, 2017 and 2016, the grants unearned revenue balance was $29,133 and $29,181, respectively; additionally, unearned revenue for the Knight Cancer Challenge State Grant of $123,302 and $84,340 was included in unearned revenue in the accompanying statements of net position as of June 30, 2017 and 2016, respectively.

(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, 2017 and 2016 is as follows:

		2017	2016
Gross patient charges	$	4,441,078	4,136,215
Contractual discounts		(2,325,767)	(2,124,377)
Bad debt adjustments		(18,056)	(22,194)
Net patient service revenues	$	2,097,255	1,989,644

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 $410 and $513 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 were approximately as follows:

	2017	2016
Medicare and Medicare managed care contracts	24 %	23 %
Medicaid and OHP	23	22
Commercial and managed care insurance	51	53
Nonsponsored	2	2
	100 %	100 %

(s) Student Tuition and Fees Revenues

A summary of student tuition and fees revenues during the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
Gross student tuition	$ 82,630	80,965
Exemptions	(12,924)	(12,270)
Student tuition and fees revenues, net	$ 69,706	68,695

(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 $39,909 and $40,761 in 2017 and 2016, 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 5 to 10 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 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, OHSU recorded a valuation reserve of $16,500 against the surplus note receivable as of June 30, 2015. 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 2017, as a result of Moda 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. The Oregon insurance commissioner has not allowed payment of interest under the surplus note during 2017. In January 2017, after a six-month review, the Oregon Educators Benefit Board selected Moda as one of its statewide health insurance plans for its 150,000 members. OHSU reviewed the valuation of the note as of June 30, 2017, and has retained the current net valuation of $33.5 million, which represents 1.07% and 1.10% of the University’s total net position as of June 30, 2017 and June 30, 2016, respectively.

(Continued)

(Dollars in thousands)

(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).

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, 2017 and 2016 is as follows:

		2017	2016
Short-term investments:			
Cash and cash equivalents	$	480	1,081
Mutual funds		127,990	115,729
U.S. government securities		3,687	—
U.S. agency securities		1,712	1,913
Corporate obligations		57,893	31,004
Fixed income		104,093	87,335
		295,855	237,062
Funds held by trustee, current portion:			
Fixed income		275,447	173,013
		275,447	173,013
Funds held by trustee – less current portion:			
Fixed income		12,644	12,617
		12,644	12,617
Long-term investments – less current portion:			
Cash and cash equivalents		29,246	122,730
U.S. government securities		297,023	212,076
U.S. agency securities		28,081	42,336
Corporate obligations		323,834	272,619

(Continued)

(Dollars in thousands)

		2017	2016
Fixed income	$	102,291	61,486
Equities		419,322	300,456
Alternative investments		210,807	111,950
Joint ventures and partnerships		149,787	52,397
Real estate investments and other		13,033	44,051
		1,573,424	1,220,101
Total investments, all categories	$	2,157,370	1,642,793

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.

(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, 2017:

	Level 1	Level 2	Level 3	Fair value
Cash and money market funds	$ —	365,462	—	365,462
U.S. government securities	—	300,710	—	300,710
U.S. agency securities	—	29,793	—	29,793
Domestic equity securities	145,992	2	134	146,128
International equity securities	70,935	9,441	—	80,376
Commercial paper	—	9,400	—	9,400
U.S. corporate securities	—	287,061	—	287,061
Non-U.S. corporate securities	—	94,666	—	94,666
Asset-backed securities	—	43,555	—	43,555
Mutual funds – fixed income only	96,021	5,043	—	101,064
Municipal bonds	—	3,403	—	3,403
Other fixed income	—	1,316	—	1,316
Mutual funds – other	127,990	—	—	127,990
Real estate investments and other	1,129	1,951	5,424	8,504
	$ 442,067	1,151,803	5,558	1,599,428
Investments measured using NAV per share or its equivalent				524,451
Equity method investments				33,491
Total assets				$ 2,157,370

(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, 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 NAV per share or its equivalent				181,671
Equity method investments				31,315
Total assets				$ 1,642,793

There were no transfers of financial instruments between Level 1 or Level 2 classifications either in 2017 or 2016. Changes in Level 3 financial instruments are as follows:

	2017	2016
Balance at beginning of year	$ 6,027	7,477
Net realized (losses) gains	(202)	563
Net unrealized gains (losses)	29	(264)
Purchases	32	13
Sales	(4,495)	(1,762)
Contributions	4,167	—
Balance at end of year	$ 5,558	6,027

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, 2017 and 2016:

	Frequency	Notice period	2017	2016
Domestic equities	Monthly	30 Days	$ 36,739	—
Non-U.S. equities	Monthly	10–30 Days	82,127	30,084
Global equities	Monthly	10 Business days	40,462	16,767
Venture capital/private equity	Event-driven	N/A	149,787	52,397
Marketable alternative investments	Quarterly to every two years on quarter-end	30–95 Days	210,807	80,529
Real estate investments and contracts	Event-driven	N/A	4,529	1,894
			$ 524,451	181,671

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)

(3) Investments and Related Policies

(a) Interest Rate Risk

As of June 30, 2017 and 2016, OHSU had the following investments and maturities at fair value:

	2017				
	Maturity				
	Less than 1 year	1–5 Years	6–10 Years	More than 10 years or none	Total
Cash and money market funds	$ 365,237	225	—	—	365,462
U.S. government securities	76,834	210,447	13,427	—	300,708
U.S. agency securities	1,712	15,156	5,600	7,326	29,794
Domestic equity securities	—	—	—	157,328	157,328
International equity securities	—	—	—	261,995	261,995
Commercial paper	9,400	—	—	—	9,400
U.S. corporate securities	57,086	217,491	8,247	4,237	287,061
Non-U.S. corporate securities	20,062	71,662	2,943	—	94,667
Asset-backed securities	20,161	11,905	1,479	10,010	43,555
Joint ventures and partnerships	—	—	—	149,787	149,787
Mutual funds – fixed income only	53,715	18,918	20,363	8,068	101,064
Municipal bonds	52	2,111	911	330	3,404
Other fixed income	1,105	128	83	—	1,316
Mutual funds, other	—	—	—	127,990	127,990
Alternative investments	—	—	—	210,807	210,807
Real estate investments and other	—	—	—	13,032	13,032
	$ 605,364	548,043	53,053	950,910	2,157,370

(Dollars in thousands)

	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

OHSU held $43,555 and $69,821 of asset-backed securities collateralized primarily by auto loans, credit card receivables, and collateralized mortgage obligations as of June 30, 2017 and 2016, 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, 2017 and 2016, 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's 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 Barclays' 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 Barclays' 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 (S&P) at the date of purchase:

	Minimum Moody's rating	Minimum S&P 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 certificate of deposits (CD) 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 S&P 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 S&P) fixed-income securities.

The charitable trust investments generally have a minimum credit quality rating in investment-grade Baa/BBB bond investments and a minimum rating of A-1/P-1 for investments in commercial paper.

(Dollars in thousands)

However, an individual trust may hold up to 9% of the portfolio in below-investment-grade investments. As of June 30, 2017, OHSU had the following investments with credit rating at fair value:

As of June 30, 2017 and 2016, OHSU had the following investments with credit rating at fair value:

Investment type	Credit rating S&P or equivalent		Total 2017	Total 2016
Cash and money market funds	AAA	$	3,139	8,107
	AA-		1,003	2,005
	A-1+		2,012	4,517
	A-1		10,367	5,874
	A-2		1,268	—
	Not rated		277,657	124,470
	NA		70,017	201,494
U.S. government securities	AAA		74,534	—
	AA+		223,852	212,046
	AA		2,324	
	Not rated		—	31
	AAA		12,636	—
	AA+		17,158	—
U.S. agency securities	AAA		—	—
	AA+		—	44,249
Commercial paper	A-1+		2,925	6,801
	A-1		5,727	6,465
	A-2		748	1,492
U.S. corporate securities	AAA		649	884
	AA+		6,326	6,583
	AA		4,054	3,783
	AA-		20,449	22,197
	A+		20,513	24,336
	A		45,808	45,887
	A-		25,559	31,072
	BBB+		82,809	73,677
	BBB		28,479	25,266
	BBB-		11,052	16,937
	BB+		88	—
	BB		73	—
	BB-		37	—
	B+		13	—

(Dollars in thousands)

Investment type	Credit rating S&P or equivalent		Total 2017	Total 2016
	B	$	21	—
	Below B		21	—
	Not Rated		258	—
	n/a		1,075	832
Non-U.S. corporate securities	AAA		315	301
	AA+		33	—
	AA		47	339
	AA-		21,369	11,183
	A+		29,024	11,127
	A		37,557	13,268
	A-		11,354	6,909
	BBB+		9,238	2,016
	BBB		12,139	3,553
	BBB-		8,956	2,783
	BB+		629	—
	BB		525	—
	BB-		265	—
	B+		93	—
	B		151	—
	Below B		151	—
	A-2		1,493	—
	Not rated		95	—
	NA		1,006	692
Asset-backed securities	AAA		24,190	44,223
	AA+		3,107	1,685
	AA		151	—
	AA-		61	—
	A+		36	—
	A		380	—
	A-		35	—
	BBB+		23	—
	BBB		18	—
	BBB-		84	—
	BB+		6	—
	BB		11	—
	BB-		10	—
	B+		57	—

(Dollars in thousands)

Investment type	Credit rating S&P or equivalent	Total 2017	Total 2016
	B	$ 118	—
	Below B	604	—
	A-1+	5,167	4,322
	Not rated	823	4,057
	NA	8,675	15,536
Mutual funds – fixed income only	AAA	60,574	12,245
	AA	6,145	1,461
	A	16,134	5,010
	BBB	8,645	3,791
	BB	3,557	995
	B	2,497	729
	Below B	2,059	592
	Not rated	1,452	—
Municipal bonds	AAA	114	86
	AA+	391	418
	AA	807	835
	AA-	551	398
	A+	1,540	197
	A	—	62
	Not rated	—	392
Other fixed income	AAA	6	—
	BBB	135	—
	BB	650	—
	B	508	—
	Below B	1	—
	Not rated	16	—
Joint ventures and partnerships	NA	149,787	52,397
Mutual funds – other	NA	127,990	115,730
Alternative investments	NA	210,807	80,529
Real estate investments and other	NA	13,033	44,051
Domestic equity securities	NA	157,329	111,392
International equity securities	NA	261,995	220,484
		$ 2,157,370	1,642,793

(Continued)

(Dollars in thousands)

(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, 2017 or 2016, OHSU had no investments in excess of the thresholds discussed above.

(d) Foreign Currency Risk

OHSU's investment policies permit investments in international equities and other asset classes, which can include foreign currency exposure. The operating and trustee-held portfolios allow investments in Eurodollar CDs. The endowment portfolio allows up to 35% of the portfolio to be invested in international equities and up to 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		**2017**	**2016**
British sterling pound	$	—	1,436
Canadian dollar		3,961	—
Euro		3,853	2,239
Swiss Franc		—	1,629
Total	$	7,814	5,304

(4) Due from/to Contractual Agencies

Due from/to contractual agencies represents amounts receivable from or payable to the State Medicaid Program (Medicaid), the Federal Medicare Program (Medicare), and other contractual agencies. As of June 30, 2017 and 2016, $33,156 and $33,290 was the net amount due from Medicaid, respectively, $4,578 and $3,920 was the net amount due to Medicare, respectively, and $10,372 and $1,630 was the amount due from various contractual agency related settlement activity, respectively. A corresponding amount included in current liabilities in the statements of net position of $0 and $5,596 due to the State

(Dollars in thousands)

Medicaid Program offsets some of the $33,156 and $33,290 in receivables recorded as of June 30, 2017 and 2016, respectively. This amount in fiscal year 2016 represented state and federal matching funds that was returned to the State following offsetting payments to OHSU, which resulted in a net neutral position. At June 30, 2017 and 2016, the net receivable is included in patient accounts receivable in the statements of net position.

(5) Capital Assets

Capital assets for fiscal years ended June 30, 2017 and 2016 are listed by category below:

		2017	2016
Land and land improvements	$	79,580	72,435
Buildings and other improvements		2,047,035	1,982,183
Equipment		940,085	886,972
Construction in progress		255,019	107,225
Accumulated depreciation		(1,578,979)	(1,442,261)
Total capital assets, net	$	1,742,740	1,606,554

The following is a summary of capital assets for the fiscal years ended June 30, 2017 and 2016:

		Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not depreciated:					
Land and land improvements	$	72,435	7,145	—	79,580
Construction in progress		107,225	230,589	(82,795)	255,019
Total capital assets not depreciated		179,660	237,734	(82,795)	334,599
Other capital assets:					
Buildings and other improvements		1,982,183	64,927	(75)	2,047,035
Equipment		886,972	63,219	(10,106)	940,085
Total other capital assets		2,869,155	128,146	(10,181)	2,987,120

(Continued)

(Dollars in thousands)

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Less accumulated depreciation:				
Buildings and other improvements	$ (791,569)	(77,289)	32	(868,826)
Equipment	(650,692)	(69,307)	9,846	(710,153)
Total accumulated depreciation	(1,442,261)	(146,596)	9,878	(1,578,979)
Other capital assets, net	1,426,894	(18,450)	(303)	1,408,141
Total capital assets, net	$ 1,606,554	219,284	(83,098)	1,742,740

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 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)

(6) 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.

(7) Retirement Plans

The University, excluding blended component units, offers various pension plans to all qualified employees: the State's 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 is a cost-sharing, multiemployer retirement system, available to units of state government, political subdivisions, community colleges, and school districts, containing multiple actuarial pools. Plan assets may be used to pay the benefits of the employees of any employer that provides pensions through the plan. As of June 30, 2016, there were 906 participating employers.

PERS is administered in accordance with ORS Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a). The Oregon legislature has delegated authority to the Public Employees Retirement Board (PERS Board) to administer the system. The PERS Board is composed of five trustees who administer retirement (service and disability), death, and retiree health insurance benefits. All members of the PERS Board are appointed by the governor and confirmed by the state senate. The governor designates the chairperson. Statute specifies PERS Board membership must be three people with experience in business management, pension management, or investing who are not members of the PERS system; one person who is either an employee of the state in a management position or a person who holds an elective office in the governing body of a participating public employer other than the state; and one person representing public employees and retirees.

The State's PERS issues a publicly available financial report that includes financial statements and required supplementary information, including a 10-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 Web site at:
oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx.

PERS comprises three separate defined-benefit groups: PERS Tier 1, PERS Tier 2, and Oregon Public Service Retirement Plan (OPSRP).

(i) Benefits Provided

The following describes the benefits provided through the PERS plan.

(1) PERS Tier 1/PERS Tier 2

(a) The Tier 1/Tier 2 plans are closed to new members hired on or after August 29, 2003.

(b) Members are provided retirement, disability, and death benefits.

(c) Vesting occurs if either of the following conditions are met, unless the account is withdrawn:

1. An active member in each of 5 calendar years

2. Reached at least 55 years of age while working in a qualifying position (age 50 for police and fire members)

(d) The retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds.

(e) The basic benefit is based on years of service and final average salary. A percentage (2.00% for police and fire employees, 1.67% for general employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

(f) Normal retirement age for general members is age 58 for Tier 1 and age 60 for Tier 2, or any age with 30 years or more of retirement credit. Normal retirement age for police and fire members is age 55, or age 50 with 25 years or more of retirement credit. Benefits are reduced if normal retirement age is not attained.

(g) Annual COLA of up to 2% annually for service time accrued before October 1, 2013. COLA for service time after that date uses a lower rate. Service time accrued in both periods is "blended."

(2) PERS OPSRP

(a) The OPSRP plan is open to members hired on or after August 29, 2003.

(b) Members are provided retirement, disability, and death benefits.

(Continued)

(c) Vesting occurs if either of the following conditions are met, unless the account is withdrawn:

1. Completion of at least 600 hours of service in each of 5 calendar years

2. Reached normal retirement age as an active member on that date

(d) The retirement allowance is payable monthly for life.

(e) The basic benefit is based on years of service and final average salary. A percentage (1.8% for police and fire employees, 1.5% for general employees) is multiplied by the number of years of service and the final average salary.

(f) Normal retirement age for general members is age 65, or age 58 with 30 years or more of retirement credit. Normal retirement age for police and fire members is age 60, or age 53 with 25 years or more of retirement credit. Benefits are reduced if normal retirement age is not attained.

(g) Annual COLA of up to 2% annually for service time accrued before October 1, 2013. COLA for service time after that date uses a lower rate. Service time accrued in both periods is "blended."

(ii) 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 OPEBs.

The employer contribution rate for active employees is established by the PERS 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. The State 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 $30,809 and $31,353 for the year ended June 30, 2017 and 2016, respectively.

The defined-benefit pension plan contributions can be found in the required supplementary Information.

(iii) Net Pension Liability

OHSU's proportionate share of the net pension liability for PERS as of June 30, 2017 and 2016 is $526,200 and $228,337, respectively, utilizing a June 30, 2016 and 2015 measurement date, respectively. The net pension liability for the June 30, 2017 and 2016 fiscal year-end was determined based on the results of the December 31, 2014 and December 31, 2013 actuarial valuation rolled forward to the respective measurement dates, using standard actuarial procedures. OHSU's proportion of the net pension 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 3.51% for the June 30, 2016 measurement date and 3.98% for the June 30, 2015 measurement date.

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

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

OHSU's pension expense for the years ended June 30, 2017 and 2016 was $85,277 and $222,124, respectively. The pension expense, which is considered concurrent period interest cost, service cost, amortization of deferred outflows and inflows, and changes in benefit terms has decreased since prior year.

For the year ended June 30, 2017, several assumption changes were adopted by the PERS Board, including lowering of the long-term expected rate of return to 7.50% and lowering of the assumed inflation to 2.50%. In addition, the healthy mortality assumption was changed to reflect an updated mortality improvement scale for all groups, and assumptions were updated for merit increases, unused sick leave, and vacation pay.

For the year ended June 30, 2016, the pension expense included the Oregon Supreme Court decision in *Moro v. State of Oregon*, issued on April 30, 2015, which reversed a significant portion of the reductions the 2013 Oregon legislature made to future system Cost of Living Adjustments (COLA) through Senate Bills 822 and 861. This reversal increased the total pension liability measured as of June 30, 2015 compared to the total pension liability measured as of June 30, 2014.

(Continued)

(Dollars in thousands)

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of the fiscal years ended June 30, 2017 and 2016:

	Deferred outflow of resources		Deferred inflow of resources	
	2017	2016	2017	2016
Differences between expected and actual experience	$ 17,409	12,313	—	—
Changes of assumptions	112,226	—	—	—
Net difference between projected and actual earnings on pension plan investments	103,955	—	—	(47,865)
Changes in proportionate share	—	—	(29,211)	(4,927)
Differences between contributions and OHSU's proportionate share of system contributions	—	—	(6,881)	(6,388)
Total (prior to post-MD contributions)	233,590	12,313	(36,092)	(59,180)
Contributions subsequent to the measurement date	30,809	31,353	—	—
Gross deferred outflow (inflow) of resources	$ 264,399	43,666	(36,092)	(59,180)

The contributions made subsequent to the measurement date of $30,809 will be recognized as a reduction in the net pension liability during the year ending June 30, 2018.

Remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal year	
2018	$ (33,027)
2019	(33,027)
2020	(71,497)
2021	(53,400)
2022	(6,547)
Total	$ (197,498)

(Dollars in thousands)

(v) Actuarial Methods and Assumptions

The following methods and assumptions were used in developing total pension liability reported as of June 30, 2017.

Valuation date	December 31, 2014
Measurement date	June 30, 2016
Experience study report	2014, published September 2015 Based on data for the experience period January 1, 2011 to December 31, 2014
Actuarial-cost method	Entry age normal
Actuarial assumptions:	
Inflation rate	2.50%
Long-term expected rate of return	7.50%
Discount rate	7.50%
Projected salary increases	3.50%
COLA	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 BB, with collar adjustments and setbacks 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 (70% for males and 95% for females) of the RP-2000 sex-distinct, generational per Scale BB, disabled mortality table.

(Dollars in thousands)

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 Based on data for the experience period January 1, 2011 to December 31, 2014
Actuarial-cost method	Entry age normal
Actuarial assumptions: Inflation rate Long-term expected rate of return Discount rate Projected salary increases 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.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The 2014 experience study, used in developing total pension liability reported as of June 30, 2017 and June 30, 2016, was based on data for the experience period January 1, 2011 to December 31, 2014.

(vi) Discount Rate

The discount rate used to measure the total pension liability at June 30, 2016 and 2015 was 7.50% and 7.75%, respectively. 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 1.00% decrease and increase in the discount rate on the net pension liability is as follows:

Discount Rate Sensitvity – Net Pension Liability
(Dollars in thousands)

OHSU's proportionate share		1% Decrease	Current discount rate	1% Increase
Year ended June 30, 2017	$	849,637	526,200	255,863
Year ended June 30, 2016		551,083	228,337	(43,653)

(vii) Investments

The Oregon State Treasury is the investment officer for the State. Investment standards are established in ORS 293.726 and require funds to be managed as a prudent investor would do. The Oregon Investment Council (OIC) establishes policies for the investment and reinvestment of moneys in the Oregon Public Employees Retirement Fund (OPERF).

ORS 293.701 defines the investment funds over which OIC has responsibility. Included are the OPERF, which comprises the defined-benefit pension plan, the Individual Account Program, and the OPEB plans, and the deferred compensation fund. OIC establishes policies for the investment and reinvestment of moneys in the investment funds as well as the acquisition, retention, management, and disposition of investments in the investment funds. OIC is also responsible for providing an examination of the effectiveness of the investment program.

(Continued)

(Dollars in thousands)

(1) Assumed Asset Allocation

The following table illustrates both the assumed and actual asset allocation.

OIC Target and Actual Investment Allocation as of June 30, 2016*

Asset class/strategy	OIC policy low range	OIC policy high range	OIC target allocation	Asset class/strategy	Actual allocation
Cash	— %	3.0 %	— %	Cash	3.9 %
Debt securities	15.0	25.0	20.0	Debt securities	20.7
Public equity	32.5	42.5	37.5	Public equity	37.9
Real estate	9.5	15.5	12.5	Real estate	12.0
Private equity	13.5	21.5	17.5	Private equity	19.5
Alternative equity	—	12.5	12.5	Alternative equity	4.1
Opportunity portfolio[1]	—	3.0	—	Opportunity portfolio[1]	1.9
Total			100.0 %	Total	100.0 %

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

The following table illustrates both 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:

OIC Target and Actual Investment Allocation as of June 30, 2015*

Asset class/strategy	OIC policy low range	OIC policy high range	OIC target allocation	Asset class/strategy	Actual allocation
Cash	— %	3.0 %	— %	Cash	4.3 %
Debt securities	15.0	25.0	20.0	Debt securities	21.1
Public equity	32.5	42.5	37.5	Public equity	40.7
Real estate	9.5	15.5	12.5	Real estate	10.4
Private equity	16.0	24.0	20.0	Private equity	20.1
Alternative equity	—	10.0	10.0	Alternative equity	2.0
Opportunity portfolio[1]	—	3.0	—	Opportunity portfolio[1]	1.4
Total			100.0 %	Total	100.0 %

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

*The OIC target allocations are based on OIC asset classes as determined by each manager's primary investment type, not the financial statement classification of individual holdings. The target allocation amounts do not include deferred compensation plan investments. The actual investment allocation is based on the financial statement investment classifications, including deferred compensation plan investments.

(Dollars in thousands)

(2) *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 2015, the PERS Board reviewed long-term assumptions developed by the consulting actuary's capital market assumptions team and the OIC investment advisers. The table below shows the actuary'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.

Asset class	2017 Target allocation*	2017 Compound annual return (Geometric)
Core fixed income	8.00 %	4.00 %
Short-term bonds	8.00	3.61
Bank/leveraged loans	3.00	5.42
High-yield bonds	1.00	6.20
Large/mid cap U.S. equities	15.75	6.70
Small cap U.S. equities	1.31	6.99
Micro cap U.S. equities	1.31	7.01
Developed foreign equities	13.13	6.73
Emerging market equities	4.12	7.25
Non-U.S. small cap equities	1.88	7.22
Private equity	17.50	7.97
Real estate (property)	10.00	5.84
Real estate (REITs)	2.50	6.69
Hedge fund of funds – diversified	2.50	4.64
Hedge fund – event-driven	0.63	6.72
Timber	1.88	5.85
Farmland	1.88	6.37
Infrastructure	3.75	7.13
Commodities	1.88	4.58
Assumed inflation – mean	—	2.50

*Based on the OIC Statement of Investment Objectives and Policy Framework for the Oregon Public Employees Retirement Fund, revised as of December 3, 2014. The revised allocation was adopted at the June 26, 2015 OIC meeting.

(Dollars in thousands)

Asset class	2016 Target allocation*	2016 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	100.00 %	

*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.

(b) Other Retirement Plans

In addition to the PERS defined benefit retirement plan, OHSU has three defined contribution plans – the PERS Individual Account Plan (IAP), the University Pension Plan (UPP), and the 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 UPP. The UPP is a defined-contribution plan, which is available as an alternate to PERS for employees who are not eligible for the CRP. 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 collective bargaining agreements for union represented employees and the board of directors of OHSU for noncollective bargaining employees. In fiscal years 2017 and 2016, all employer contributions to the plan were 6% of salary.

(Dollars in thousands)

For Oregon Nurse Association (ONA) represented employees and noncollective bargaining employees which includes faculty, research, and unclassified administrative participating in the UPP; OHSU offers a 6% employee contribution, which is employer paid and is fully vested at the time of the contribution.

In January 2016, the 6% employee contributions that OHSU funded for AFSCME represented employees, were eliminated per a Memorandum of Understanding of the 7/19/15–6/30/19 collective bargaining agreement which states: The Employer will discontinue the 6% employee contribution pickup for eligible employees participating in the UPP.

In July 2016, the 6% employee contributions that OHSU funded for the OHSU Police Association-represented employees, were eliminated from the 7/1/15–6/30/18 collective bargaining agreement which states: The Employer shall continue to “pick up” a 6% employee retirement plan contribution for eligible employees participating in the UPP prior to the first full-pay period following July 1, 2016, at which time the pickup will be discontinued.

For employees who are members of the OPP who work in a qualifying position, OHSU offers participation in the 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.

		2017	**2016**
UPP:			
Employer contribution	$	35,560	30,007
Employee contribution [1]		23,241	25,378
	$	58,801	55,385
CRP:			
Employer contribution	$	24,051	20,349
	$	24,051	20,349

[1] Of the employees’ share, the employer paid $23,241 and $25,378 related to noncollective barganing employees and ONA-represented employees in fiscal years 2017 and 2016, 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.

(Dollars in thousands)

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, 2017 and 2016, respectively.

(8) Postemployment Healthcare Plan

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

The following table shows the components of OHSU's annual OPEB cost for the fiscal years ended June 30, 2017 and 2016, the amount actually contributed to the plan, and changes in OHSU's net OPEB obligation to the plan:

	2017	2016
Annual required contribution (ARC)	$ 1,161	1,161
Interest on net OPEB obligation	303	288
Adjustment to ARC	(470)	(447)
Annual OPEB cost	994	1,002
Contributions made	(604)	(572)
Increase in OPEB obligation	390	430
Net OPEB obligation – beginning of fiscal year	8,652	8,222
Net OPEB obligation – end of fiscal year	$ 9,042	8,652
Percentage of annual OPEB cost contributed	61 %	57 %

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	0.91 %

(Dollars in thousands)

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 6.0% and 6.1% in 2017 and 2016, 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.

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

Long-term debt, including related unamortized original issue discounts and premiums and capital leases at June 30, 2017 and 2016, is as follows:

	2017	2016
Debt Service Payment Agreement (DSPA)	$ 7,657	9,370
Tenancy in Common Agreement (TIC)	25,813	26,550
Bonds payable, revenue bonds, Series 1995A	38,678	57,263
Bonds payable, revenue bonds, Series 2012A, B, C, and E	283,585	298,927
Bonds payable, revenue bonds, Series 2015A and B	139,460	140,550
Bonds payable, revenue bonds, Series 2015C	100,000	100,000
Bonds payable, revenue bonds, Series 2016A and B	270,012	271,026
Bonds payable, revenue bonds, Series 2017A and B	120,369	—
Local improvement district agreements	18,816	22,339
Capital leases	4,299	5,165
Less current portion of debt and capital leases	(6,504)	(16,913)
	$ 1,002,185	914,277

(a) Debt Service Payment Agreement

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 DSPA, 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. In fiscal year 2017, the State refunded a portion of the Series 2007 State Bonds included as part of the DSPA with the Series 2017I State Bonds, which resulted in decreased debt service payments over time and present value savings of $39 for OHSU as calculated by the State. 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 Agreement – Collaborative Life Sciences Building

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) 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 and G State Bonds debt service issued to fund the construction of the project. Subsequently, the State refunded a portion of the Series 2011G State Bonds in fiscal year 2017 with the Series 2017I State Bonds, which resulted in decreased debt service payments over time and present value savings of $904 for OHSU as calculated by the State. Payments under the terms of the TIC 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, 2017 through July 1, 2021 requiring semiannual interest payments with outstanding rate of 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 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, 2017 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, 2017 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 and direct placement expiration dates. Series 2015A was issued as direct placement variable rate bonds, 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 bonds, refunding the 2012D bond, with remaining outstanding maturities due July 1, 2017 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.

In fiscal year 2016, OHSU issued the federally taxable Series 2015C Revenue Bonds in the amount of $100,000. The Series 2015C was 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.

In fiscal year 2016, OHSU issued the Series 2016A Revenue Bonds in the amount of $50,000. The Series 2016A was 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.

Additionally in fiscal year 2016, OHSU issued the Series 2016B Revenue Bonds in the amount of $199,835. The Series 2016B was issued as fixed-rate bond 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 2009A Revenue Bonds, which were advance refunded, were fixed-rate bonds with maturities due beginning July 1, 2033 through July 1, 2039 totaling $158,505. The Series 2009A bonds are considered to be defeased in substance and the liability related to these bonds has been removed

(Continued)

from long-term debt. At the time of the advance refunding, funds 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 of July 1, 2019 on which the University intends to redeem the bonds. While the advance refunding of the Series 2009A resulted in an economic gain for OHSU, the event generated a deferred accounting loss, which has been reflected as a deferred outflow in the financial statements. The deferred accounting loss is being amortized using the effective-interest method over the original life of the Series 2009A. The balances of the deferred accounting loss from the advance refunding of the Series 2009A as of June 30, 2017 and 2016 are $23,037 and $24,236, respectively. 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.

On February 28, 2017, OHSU issued the Series 2017A Revenue Bonds in the amount of $65,460. The Series 2017A Revenue Bonds were issued as fixed-rate bonds with maturities due beginning July 1, 2033 through July 1, 2046 requiring semiannual interest payments with outstanding interest rates ranging from 3.5% to 5.0%. The Series 2017A Revenue Bonds were 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 2017A Revenue Bonds are limited obligations of OHSU and are secured by OHSU’s gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2017A Revenue Bonds are not general obligation bonds and are payable solely from revenue pledged.

Additionally, on February 28, 2017, OHSU issued the Series 2017B Revenue Bonds in the amount of $50,000. The Series 2017B Revenue Bonds were issued as direct placement bonds with a maturity date of July 1, 2047, requiring monthly interest payments currently calculated at a rate of 1.90%. The Series 2017B Revenue Bonds were 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 2017A Revenue Bonds are limited obligations of OHSU and are secured by OHSU’s gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2017B Revenue Bonds are not general obligation bonds and are payable solely from revenue pledged.

(Dollars in thousands)

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 tables below for the periods ended June 30, 2017 and 2016:

2012BC and 2015AB variable rate debt as of June 30, 2017

Series	Facility counterparty	Principal outstanding	Facility matures	LT Ratings S&P/Moody's /Fitch	Reset
2012B-3	U.S. Bank, NA	$ 28,520	5/21/2020	AA-/Aa2/AA	Daily
2012C	U.S. Bank, NA	14,905	5/21/2020	AA-/Aa2/AA	Daily
2015A	Wells Fargo Municipal Capital Strategies LLC	57,050	5/2/2022	AA-/Aa2/AA	Monthly
2015B	JPMorgan Chase Bank NA/DNT Asset Trust	82,410	5/3/2027	A+/Aa3/AA-	Monthly
		$ 182,885			

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	U.S. Bank, NA	$ 28,520	5/21/2020	AA-/Aa2/AA	Daily
2012C	U.S. Bank, NA	15,025	5/21/2020	AA-/Aa2/AA	Daily
2015A	Wells Fargo Municipal Capital Strategies LLC	57,050	5/2/2022	AA-/Aa2/AA	Monthly
2015B	JPMorgan Chase Bank NA/DNT Asset Trust	83,500	5/3/2027	A+/Aa3/AA-	Monthly
		$ 184,095			

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.

(Dollars in thousands)

(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 outstanding LID debt is scheduled to be repaid in semiannual installments, with final maturities through fiscal year 2029 and interest rates ranging between 4.19% and 4.71%. The total outstanding balances due as of June 30, 2017 and 2016 are $18,816 and $22,339, respectively, and have been included in long-term debt in the statements of net position.

(e) Interest Rate Swap Agreement

As of June 30, 2017, OHSU held one interest rate swap agreement with Wells Fargo Bank, NA. The balances of OHSU's swap as of June 30, 2017 and 2016 are as follows:

	Notional		Fair value	
	2017	**2016**	**2017**	**2016**
Wells Fargo swap	$ 70,200	70,200	(10,592)	(20,022)
	$ 70,200	70,200	(10,592)	(20,022)

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 Series 2012B-3 and Series 2015A bonds are the assigned hedges under the current swap agreement with Wells Fargo. The swap has the option of early termination with a cash settlement. Under the 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. 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 $1,391 and $2,061 during the years ended June 30, 2017 and 2016, respectively.

OHSU's interest rate swap agreement with Wells Fargo Bank, NA was established when OHSU entered into an ISDA swap novation in fiscal year 2016. Previously, OHSU held two interest rate swap agreements with U.S. Bank, NA. Prior to the swap agreements with U.S. Bank, NA, OHSU held swap agreements with UBS originally established in fiscal year 2005 and subsequently novated in fiscal year 2013. The assigned hedges at the time of novation in fiscal year 2013 were the Series 2012B-1, Series 2012B-2, and Series 2012B-3 Bonds. Subsequently, the Series 2012B-1 and 2012B-2 Bonds were refunded with the Series 2015A Bonds in fiscal year 2015, at which point the Series 2012B-3 and Series 2015A Bonds were established as the new assigned hedges. The Series 2012B-3 and Series 2015A Bonds are the assigned hedges under the current agreement with Wells Fargo Bank, NA.

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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, 2017 and 2016 is $15,130 and $15,759, 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 $9,730 and $10,934 as of June 30, 2017 and 2016, respectively.

The on-market value portion of the hedging derivative instrument for the Wells Fargo swap is recorded in other noncurrent liabilities, with an offsetting balance recorded in either deferred outflows or deferred inflows dependent on the fair value as of fiscal year-end. Any changes to the value of the hedging instruments are recorded by increasing or decreasing the statements of net position accounts. During the current fiscal year, the total value changed from a liability and corresponding deferred outflow to an asset and corresponding deferred inflow. The total value recorded is an asset of $3,848 and liability of $3,394 as of June 30, 2017 and 2016, respectively.

OHSU is exposed to swap credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2017 and 2016, 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.

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 and the current market value of the swap, 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.

(Continued)

(Dollars in thousands)

(f) Capital Leases

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

Year(s) ending June 30:		
2018	$	991
2019		953
2020		936
2021		916
2022		916
		4,712
Less amount representing interest		(413)
		4,299
Less current portion		(845)
	$	3,454

(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 $1,004,390 and $926,025 as of June 30, 2017 and 2016, respectively. Included in long-term debt are unamortized net original issue discounts and premiums of $44,858 and $43,022 and accreted interest for the DSPA and 1995 Revenue Bonds of $31,551 and $44,377 as of June 30, 2017 and 2016, 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.

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

(Dollars in thousands)

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

		Principal	Interest	Total
Year(s) ending June 30:				
2018	$	4,503	28,831	33,334
2019		14,488	41,788	56,276
2020		14,836	41,595	56,431
2021		14,834	41,344	56,178
2022		15,489	41,204	56,693
2023–2027		125,592	146,743	272,335
2028–2032		149,191	123,977	273,168
2033–2037		134,788	91,907	226,695
2038–2042		154,050	60,785	214,835
2043–2047		250,210	32,441	282,651
2048–2052		50,000	79	50,079
	$	927,981	650,694	1,578,675

(h) Changes in Long-Term Liabilities

Changes in OHSU's total long-term liabilities during the fiscal years ended June 30, 2017 and 2016 are summarized below:

		Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Liability for self-funded insurance programs	$	62,466	28,792	(28,844)	62,414
Liability for life income agreements		24,830	5,311	(6,208)	23,933
Long-term debt		926,025	123,538	(45,173)	1,004,390
Long-term capital leases		5,165	30	(896)	4,299
Other noncurrent liabilities		99,090	14,837	(7,911)	106,016
Pension liability		228,337	297,863	—	526,200
	$	1,345,913	470,371	(89,032)	1,727,252

(Dollars in thousands)

	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

(10) Life Income Fund – Annuities

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

Life income contributions, included in gifts, grants, and contracts in the accompanying statements of revenues, expenses, and changes in net position, are as follows for the fiscal years ended June 30, 2017 and 2016:

	2017		
	Agreements	Asset	Liability
Charitable remainder unitrusts	1	$ 2	1
Charitable gift annuities	11	711	425
Total	12	$ 713	426

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

(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, 2017 and 2016 are as follows:

	2017			
	Agreements		Asset	Liability
Charitable remainder unitrusts	69	$	21,771	8,485
Charitable lead unitrusts	2		19,879	8,644
Charitable remainder trust annuities	3		350	142
Charitable gift annuities	193		10,342	6,142
Life estate agreements	3		811	520
Total	270	$	53,153	23,933

	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

Sixteen charitable gift annuities, included above, have been reinsured with insurance carriers in order to reduce liability exposure. Under the reinsurance contracts, the future beneficiary payments are paid by the insurance carrier. To the extent the insurance carriers are unable to perform under the contract, OHSU would be responsible for payment.

(11) Funds Held in Trust by Others

The Foundations are the named beneficiaries of 43 and 44 trusts held by outside trustees as of June 30, 2017 and 2016, respectively. The reported fair market value of trust assets held by others was $48,200 and $48,000 of the years ended June 30, 2017 and 2016, respectively. The Foundations record contributions as trust distributions occur. Trust distributions of $2,300 and $1,800 were recorded as contributions during the fiscal years ended June 30, 2017 and 2016, respectively.

(Dollars in thousands)

(12) Pledges and Estates Receivables

The Foundations had the following pledges and estates receivable as of June 30, 2017 and 2016:

		2017	2016
Pledges maturing within 1 year	$	62,296	64,302
Pledges maturing within 2–10 years		547,975	592,668
		610,271	656,970
Less allowance for uncollectible pledges		(3,815)	(3,672)
		606,456	653,298
Less discount for net present value		(34,784)	(41,074)
Total net pledges receivable		571,672	612,224
Estates receivable		866	4,651
Less allowance for uncollectible estates		(44)	(233)
Total net estates receivable		822	4,418
Total pledges and estates receivable	$	572,494	616,642

(13) Commitments and Contingencies

(a) Liability for Self-Funded Insurance Programs

Coverage for professional liability, patient general liability, and automobile liability are provided through OHSU's solely owned captive insurance company, OHSU Insurance Company. Current coverage limits are $4,200 per claim with an annual aggregate of $17,500 for professional liability and $3,000 per claim for general liabilities.

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 2017 and 2016 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		2,048	4,097
07/01/2016–06/30/2017		2,074	4,147

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 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.

Effective January 1, 2017, OHSU Insurance Company affiliated with a newly formed Oregon limited liability company called OHSU Project Co., LLC (a controlled affiliate of OHSU), which comprises OHSU and other nonaffiliated healthcare providers and systems, referred to as members. The operating agreement of OHSU Project Co., LLC asserts that OHSU's membership interest or voting power with respect to OHSU Project Co., LLC may not constitute less than ten percent (10%) of the outstanding membership interests. As of 2017 fiscal year-end, OHSU's membership interest is 44%.

The OHSU Project Co., LLC's sole purpose is to purchase casualty stop-loss insurance from OHSU Insurance Company for the benefit of its members. Each provider is entitled to coverage equal to its percentage membership interest in the limited liability company. The contracted payor effectuated the health insurance products entering into a provider-networking contract with OHSU Project Co., LLC.

Insco provides to OHSU Project Co., LLC medical aggregate excess of loss coverage for its share of the medical loss ratio (MLR) risk and cedes a portion of the risk to Swiss Re. Should MLR deteriorate sufficiently so as to trigger the risk ceded to Swiss Re, then Swiss Re will be liable for 90% of OHSU Project Co., LLC's risk share, subject to a maximum liability of $1,500,000 with the 10% retention staying with OHSU Insurance Company.

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 $14,835 and $14,910 as of June 30, 2017 and 2016, 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 15% of OHSU's employees are nurses represented by the Oregon Nurses Association (ONA). Approximately 38% of OHSU's employees are represented by the American Federation of State, County, and Municipal Employees (AFSCME), less than 1% of OHSU's employees are represented by the newly formed OHSU Police Association, for a total of 53% of OHSU's employees being represented by labor organizations. The current contract with ONA expires on June 30, 2020. 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 $78,235 and $54,837 at June 30, 2017 and 2016, 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.

(Dollars in thousands)

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

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

(g) Operating Leases

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

Rental expenses under operating leases were approximately $20,267 and $18,606 in 2017 and 2016, respectively. The following is a schedule of future minimum rental commitments under operating leases as of June 30, 2017 and 2016 that have initial or remaining lease terms in excess of one year:

Year(s) ending June 30:		
2018	$	17,828
2019		18,103
2020		14,761
2021		13,979
2022		12,707
Thereafter		35,050
	$	112,428

(h) Salem Health Affiliation

On November 19, 2015, OHSU affiliated with Salem Health Hospitals and Clinics, an Oregon public benefit corporation (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 were the sole members of OHSU

Partners. Under the terms of the Management Agreement, each of OHSU and Salem Health remained separate legal entities and owned their own assets. OHSU Partners, however, managed 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 were apportioned to OHSU and Salem Health consistent with an allocation method based on each party's historical operating income.

On May 4, 2017, OHSU and Salem Health executed a transition agreement that terminated the Management Agreement dated October 1, 2015, and returned to each of OHSU and Salem Health full management and oversight of each party's own clinical enterprise. Following a series of discussions, Salem Health and OHSU have decided not to enter into a new agreement. While OHSU and Salem Health will no longer pursue an integrated partnership, the two organizations will continue to collaborate on existing programs and explore additional collaborations that are determined mutually beneficial.

(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.

After February 1, 2016, OHSU guarantees operating income support in the following manner: 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, defined in the Tuality Agreement as operating income plus depreciation less regular principal payments on long-term debt and less capital spending, 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.

For fiscal years 2017 and 2016, operating income support amounted to $10,560 and $2,622, respectively. The operating cash flow support, recorded as a note receivable in fiscal year 2017, was $4,721 ($1,855 for fiscal year 2017 and $2,866 for fiscal year 2016).

(Dollars in thousands)

(14) Blended Component Units

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

	2017						
	University	INSCO	UMG	OHSUF Foundation	DCH Foundation	Eliminations/ reclassifications	Total combined
Assets:							
Current assets	$ 1,153,337	10,745	9,528	89,833	5,137	(59,503)	1,209,077
Noncurrent assets:							
Capital assets, net of accumulated depreciation	1,742,065	—	293	382	—	—	1,742,740
Other noncurrent assets	606,393	46,198	—	1,415,243	75,628		2,143,462
Total noncurrent assets	2,348,458	46,198	293	1,415,625	75,628	—	3,886,202
Total assets	3,501,795	56,943	9,821	1,505,458	80,765	(59,503)	5,095,279
Deferred outflows	299,377	—	—	—	—	—	299,377
Total assets and deferred outflows	$ 3,801,172	56,943	9,821	1,505,458	80,765	(59,503)	5,394,656
Liabilities:							
Current liabilities	$ 491,560	223	2,798	82,011	594	(59,503)	517,683
Noncurrent liabilities	1,564,249	28,788	131	98,782	1,842	—	1,693,792
Total liabilities	2,055,809	29,011	2,929	180,793	2,436	(59,503)	2,211,475
Deferred inflows	42,480	—	—	—	—	—	42,480
Net position:							
Net investment in capital assets	997,348	—	—	383	—	—	997,731
Restricted, expendable	78,302	—	—	762,264	28,472	—	869,038
Restricted, nonexpendable	—	—	—	207,226	27,558	—	234,784
Unrestricted	627,233	27,932	6,892	354,792	22,299	—	1,039,148
Total net position	1,702,883	27,932	6,892	1,324,665	78,329	—	3,140,701
Total liabilities, deferred inflows and net position	$ 3,801,172	56,943	9,821	1,505,458	80,765	(59,503)	5,394,656

(Continued)

(Dollars in thousands)

	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 position	$ 3,265,352	62,893	8,210	1,427,363	65,317	(54,999)	4,774,136

(Continued)

(Dollars in thousands)

Condensed combining information related to revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016 is as follows:

	2017						
	University	INSCO	UMG	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total combined
Operating revenues:							
Patient service revenue	$ 2,097,255	—	—	—	—	—	2,097,255
Student tuition and fees, net	69,706	—	—	—	—	—	69,706
Gifts, grants, and contracts	585,720	—	—	72,166	18,426	(123,733)	552,579
Other revenue	125,350	15,899	16,256	3,677	232	(34,430)	126,984
Total operating revenues	2,878,031	15,899	16,256	75,843	18,658	(158,163)	2,846,524
Operating expenses:							
Salaries, wages, and benefits	1,599,391	—	10,563	13,312	—	—	1,623,266
Defined benefit pension	85,277	—	—	—	—	—	85,277
Services, supplies, and other	923,895	10,009	4,968	114,325	12,065	(149,383)	915,879
Depreciation and amortization	146,356	—	117	123	—	—	146,596
Interest	29,202	—	—	—	—	—	29,202
Total operating expenses	2,784,121	10,009	15,648	127,760	12,065	(149,383)	2,800,220
Operating income (loss)	93,910	5,890	608	(51,917)	6,593	(8,780)	46,304
Nonoperating revenues (expenses):							
Investment income and change in fair valueof investments	28,739	278	2	76,320	6,221	—	111,560
State appropriations	35,560	—	—			—	35,560
Other	(255)	—	—	4,994	(513)	—	4,226
Total nonoperating revenues (expenses), net	64,044	278	2	81,314	5,708	—	151,346
Net income (loss) before other changes in net position	157,954	6,168	610	29,397	12,301	(8,780)	197,650
Other changes in net position:							
Contributions for capital and other	11,405	(10,599)	—	—	—	8,780	9,586
Nonexpendable donations	—	—	—	11,962	3,227	—	15,189
Total other changes in net position	11,405	(10,599)	—	11,962	3,227	8,780	24,775
Total increase (decrease) in net position	169,359	(4,431)	610	41,359	15,528	—	222,425
Net position – beginning of year	1,533,524	32,363	6,282	1,283,306	62,801	—	2,918,276
Net position – end of year	$ 1,702,883	27,932	6,892	1,324,665	78,329	—	3,140,701

(Dollars in thousands)

	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 change in fair valueof 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 revenues (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)

Condensed combining information related to cash flows for the years ended June 30, 2017 and 2016 is as follows:

	2017						
	University	INSCO	UMG	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total combined
Net cash provided by (used for) operating activities	$ 331,259	(5,230)	1,644	(33,755)	2,079	—	295,997
Net cash provided by noncapital financing activities	11,366	—	—	36,649	2,244	—	50,259
Net cash used in capital and related financing activities	(214,855)	—	(108)	(384)	—	—	(215,347)
Net cash (used for) provided by investing activities	(347,697)	6,623	—	(18,543)	(4,326)	—	(363,943)
Net change in cash and cash equivalents	(219,927)	1,393	1,536	(16,033)	(3)	—	(233,034)
Cash and cash equivalents, beginning of year	263,258	1,559	6,156	40,412	2,419	—	313,804
Cash and cash equivalents, end of year	$ 43,331	2,952	7,692	24,379	2,416	—	80,770

	2016						
	University	INSCO	UMG	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total combined
Net cash provided by (used for) operating activities	$ 375,265	(11,787)	412	(8,702)	(1,456)	—	353,732
Net cash provided by (used in) 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 for) 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

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, 2015	—	9,405	9,405	—	1,038,424	0.91

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 6.0% and 6.1% in 2017 and 2016, 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]	2017	2016	2015	2014
OHSU's proportion of the net pension (asset) liability (rounded)	3.51 %	3.98 %	4.26 %	4.26 %
OHSU's proportionate share of the net pension (asset) liability	$ 526,200	228,337	(96,652)	217,598
Covered payroll	326,959	345,363	365,618	378,893
OHSU's proportionate share of the net pension (asset) liability as a percentage of covered payroll	160.94 %	66.12 %	(26.44)%	57.43 %
Plan fiduciary net position as a percentage of the total pension liability	80.50 %	91.90 %	103.60 %	92.00 %

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

OREGON HEALTH & SCIENCE UNIVERSITY
(a component unit of the State of Oregon)
Required Supplementary Information (Unaudited)
June 30, 2017 and 2016

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

Year ended June 30[1]		2017	2016	2015	2014
Contractually required contributions	$	30,809	31,353	30,250	29,868
Contributions in relation to the contractually required contributions		30,809	31,353	37,750	37,368
Contribution excess	$	—	—	(7,500)	(7,500)
OHSU's covered payroll	$	337,473	326,959	345,363	365,618
Contributions as a percentage of covered payroll		9.13 %	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

Year ended June 30, 2017 with comparative totals for June 30, 2016

(Dollars in thousands)

Assets	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2017	2016
Current assets:							
Cash and cash equivalents	$ 37,404	16,570	53,974	26,796	—	80,770	313,804
Short-term investments	269,341	26,034	295,375	480	—	295,855	237,062
Current portion of funds held by trustee	148,423	127,024	275,447	—	—	275,447	173,013
Patients accounts receivable, net of bad debt allowances	343,048	3,416	346,464	—	—	346,464	329,310
Student receivables	—	24,432	24,432	—	—	24,432	24,561
Grant and contract receivable	—	44,080	44,080	—	—	44,080	43,285
Interest receivable	—	—	—	914	—	914	1,207
Current portion of pledges and estates receivable	—	—	—	61,983	—	61,983	67,721
Other receivables, net	14,433	66,425	80,858	4,552	(56,207)	29,203	24,467
Inventories, at cost	22,242	547	22,789	—	—	22,789	21,829
Prepaid items	13,275	13,620	26,895	245	—	27,140	26,438
Total current assets	848,166	322,148	1,170,314	94,970	(56,207)	1,209,077	1,262,697
Noncurrent assets:							
Capital assets, net of accumulated depreciation	829,955	912,402	1,742,357	383	—	1,742,740	1,606,554
Funds held by trustee – less current portion	10,508	2,136	12,644	—	—	12,644	12,617
Other long-term receivables, net of reserves	—	33,500	33,500	—	—	33,500	33,500
Long-term investments:							
Long-term investments, restricted	—	46,174	46,174	576,360	—	622,534	526,449
Long-term investments, unrestricted	438,691	110,399	549,090	401,800	—	950,890	693,652
Total long-term investments	438,691	156,573	595,264	978,160	—	1,573,424	1,220,101
Prepaid financing costs, net	1,761	854	2,615	—	—	2,615	2,915
Pledges and estates receivable – less current portion	—	—	—	510,511	—	510,511	548,921
Restricted pension asset		—	—			—	—
Other noncurrent assets	6,869	1,700	8,569	2,199	—	10,768	2,118
Interest in the Foundations	—	1,402,994	1,402,994	—	(1,402,994)	—	—
Total noncurrent assets	1,287,784	2,510,159	3,797,943	1,491,253	(1,402,994)	3,886,202	3,426,726
Total assets	2,135,950	2,832,307	4,968,257	1,586,223	(1,459,201)	5,095,279	4,689,423
Deferred outflows:							
Deferred amortization of derivative instruments	5,431	4,299	9,730	—	—	9,730	14,327
Loss on refunding of debt	22,856	2,392	25,248	—	—	25,248	26,720
Pension related	—	264,399	264,399	—	—	264,399	43,666
Total deferred outflows	28,287	271,090	299,377	—	—	299,377	84,713
Total assets and deferred outflows	$ 2,164,237	3,103,397	5,267,634	1,586,223	(1,459,201)	5,394,656	4,774,136

Schedule 1

OREGON HEALTH & SCIENCE UNIVERSITY

Combining Schedules of Net Position

Year ended June 30, 2017 with comparative totals for June 30, 2016

(Dollars in thousands)

Liabilities		Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2017	2016
Current liabilities:								
Current portion of long-term debt	$	883	4,776	5,659	—	—	5,659	16,032
Current portion of long-term capital leases		779	66	845	—	—	845	881
Current portion of self-funded insurance programs liability		—	26,956	26,956	—	—	26,956	30,576
Accounts payable and accrued expenses		71,363	40,099	111,462	25,864	—	137,326	127,855
Accrued salaries, wages, and benefits		11,697	71,985	83,682	—	—	83,682	104,053
Compensated absences payable		33,361	47,221	80,582	—	—	80,582	78,454
Unearned revenue		2,466	170,878	173,344	—	—	173,344	131,558
Other current liabilities		3,973	4,936	8,909	56,587	(56,207)	9,289	5,896
Total current liabilities		124,522	366,917	491,439	82,451	(56,207)	517,683	495,305
Noncurrent liabilities:								
Long-term debt – less current portion		640,633	358,098	998,731	—	—	998,731	909,993
Long-term capital leases – less current portion		3,400	54	3,454	—	—	3,454	4,284
Liability for self-funded insurance programs – less current portion		—	35,458	35,458	—	—	35,458	31,890
Liability for life income agreements		—	—	—	23,933	—	23,933	24,830
Pension liability		—	526,200	526,200			526,200	228,337
Other noncurrent liabilities		8,444	20,728	29,172	76,844	—	106,016	99,090
Total noncurrent liabilities		652,477	940,538	1,593,015	100,777	—	1,693,792	1,298,424
Total liabilities		776,999	1,307,455	2,084,454	183,228	(56,207)	2,211,475	1,793,729
Deferred inflows:								
Deferred amortization of derivative instruments		2,148	1,700	3,848			3,848	—
Gain on refunding of debt		1,255	1,285	2,540	—	—	2,540	2,951
Pension related		—	36,092	36,092	—	—	36,092	59,180
Total deferred inflows		3,403	39,077	42,480	—	—	42,480	62,131
Net position:								
Investments in capital assets		358,158	639,190	997,348	383	—	997,731	876,150
Restricted, expendable		—	869,038	869,038	790,736	(790,736)	869,038	872,294
Restricted, nonexpendable		—	234,784	234,784	234,784	(234,784)	234,784	215,005
Unrestricted		1,025,677	13,853	1,039,530	377,092	(377,474)	1,039,148	954,827
Total net position		1,383,835	1,756,865	3,140,700	1,402,995	(1,402,994)	3,140,701	2,918,276
Total liabilities, deferred inflows, and net position	$	2,164,237	3,103,397	5,267,634	1,586,223	(1,459,201)	5,394,656	4,774,136

See accompanying independent auditors' report.

Schedule 2

OREGON HEALTH & SCIENCE UNIVERSITY

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

Year ended June 30, 2017 with comparative totals for June 30, 2016

(Dollars in thousands)

	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2017	2016
Operating revenues:							
Patient service revenue, net of bad debt adjustments	$ 1,668,731	428,524	2,097,255	—	—	2,097,255	1,989,644
Student tuition and fees, net	—	69,706	69,706	—	—	69,706	68,695
State appropriations	1,274	34,286	35,560	—	(35,560)	—	—
Gifts, grants, and contracts	4,792	580,928	585,720	90,592	(123,733)	552,579	899,805
Other	75,440	49,226	124,666	3,909	(1,591)	126,984	114,950
Total operating revenues	1,750,237	1,162,670	2,912,907	94,501	(160,884)	2,846,524	3,073,094
Operating expenses:							
Salaries, wages, and benefits	724,419	885,535	1,609,954	13,312	—	1,623,266	1,512,950
Defined benefit pension	—	85,277	85,277	—	—	85,277	222,124
Services, supplies, and other	754,068	151,965	906,033	126,390	(116,544)	915,879	858,097
Depreciation and amortization	74,749	71,724	146,473	123	—	146,596	137,521
Interest	16,674	12,528	29,202	—	—	29,202	34,143
Research and mission support	102,762	(102,762)	—	—	—	—	—
Total operating expenses	1,672,672	1,104,267	2,776,939	139,825	(116,544)	2,800,220	2,764,835
Operating income (expenses)	77,565	58,403	135,968	(45,324)	(44,340)	46,304	308,259
Nonoperating revenues (expenses):							
Investment income and change in fair value of investments	18,914	10,105	29,019	82,541	—	111,560	8,610
State appropriations	—	—	—	—	35,560	35,560	35,567
Other	(159)	(96)	(255)	4,481	—	4,226	876
Total nonoperating revenues, net	18,755	10,009	28,764	87,022	35,560	151,346	45,053
Net income before contributions for capital and other	96,320	68,412	164,732	41,698	(8,780)	197,650	353,312
Other changes in net position:							
Contributions for capital and other	(410)	1,216	806	—	8,780	9,586	34,732
Change in interest in the Foundations	—	56,887	56,887	—	(56,887)	—	—
Nonexpendable donations	—	—	—	15,189	—	15,189	13,763
Total other changes in net position	(410)	58,103	57,693	15,189	(48,107)	24,775	48,495
Total increase in net position	95,910	126,515	222,425	56,887	(56,887)	222,425	401,807
Net position – beginning of year	1,287,925	1,630,351	2,918,276	1,346,107	(1,346,107)	2,918,276	2,516,469
Net position – end of year	$ 1,383,835	1,756,866	3,140,701	1,402,994	(1,402,994)	3,140,701	2,918,276

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, 2017 and 2016

(Dollars in thousands)

	2017	2016
Operating revenues:		
Patient service revenue, net of bad debt adjustments of $14,230 and $18,262 in 2017 and 2016 respectively	$ 1,668,731	1,579,879
State appropriations	1,274	1,274
Gifts, grants, and contracts	4,792	663
Other revenue	75,440	65,826
Total operating revenues	1,750,237	1,647,642
Operating expenses:		
Salaries, wages, and benefits	724,419	681,071
Services, supplies, and other	754,068	678,451
Depreciation and amortization	74,749	67,276
Interest	16,674	19,157
Research and Mission Support	102,762	81,294
Total operating expenses	1,672,672	1,527,249
Operating income	77,565	120,393
Nonoperating revenues (expenses):		
Investment income and change in fair value of investments	18,914	24,069
Other	(159)	(228)
Total nonoperating revenues (expenses), net	18,755	23,841
Net income before contributions for capital and other	96,320	144,234
Other changes in net position:		
Contributions for capital and other	(410)	(14)
Total other changes in net position	(410)	(14)
Total increase in net position	95,910	144,220
Net position – beginning of year	1,287,925	1,143,705
Net position – end of year	$ 1,383,835	1,287,925

See accompanying independent auditor’s report.