OREGON HEALTH & SCIENCE UNIVERSITY

(A Component Unit of the State of Oregon)

Financial Statements
and Supplementary Information

June 30, 2018 and 2017

(Dollars in thousands)

(With Independent Auditors' Report Thereon)

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Table of Contents

	Page(s)
Independent Auditors' Report	1–2
Management Discussion and Analysis	3–26
Financial Statements:	
Statements of Net Position	27–28
Statements of Revenues, Expenses, and Changes in Net Position	29
Statements of Cash Flows	30–31
Tuality Healthcare and Subsidiaries – Consolidated Balance Sheets	32–33
Tuality Healthcare and Subsidiaries – Consolidated Statements of Operations	34
Tuality Healthcare and Subsidiaries – Consolidated Statements of Changes in Net Assets	35
Notes to Financial Statements	36–103
Required Supplementary Information (Unaudited)	104
Combining Schedules of Net Position, Year ended June 30, 2018 with comparative totals for June 30, 2017	105–106
Combining Schedules of Revenues, Expenses, and Changes in Net Position, Year ended June 30, 2018 with comparative totals for June 30, 2017	107
Hospital Statement of Revenues, Expenses, and Changes in Net Position, Years ended June 30, 2018 and 2017	108

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

Independent Auditors' Report

The Board of Directors
Oregon Health & Science University:

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, 2018 and 2017, 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, 2018 and 2017, 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 years ended June 30, 2018 and 2017. 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.

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, 2018 and 2017 and the supplemental financial information of OHSU Hospital in schedule 3 for the years ended June 30, 2018 and 2017, and the respective changes in its financial position and, where applicable its cash flows thereof, for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matter

As discussed in note 2 to the financial statements, in 2018 OHSU adopted new accounting guidance as contained in the Governmental Accounting Standards Board Statement No. 81, Irrevocable Split Interest Agreements. Our opinion is not modified with respect to this matter.

Other Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 26, the schedule of funding progress for the postemployment healthcare benefit plan on page 103, the proportionate share of the net pension liability, and related ratios on page 103, and the schedule of defined-benefit pension plan contributions on page 103, 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 26, 2018

Introduction

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 for the year ended June 30, 2018 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 with selective comparative information for the years ended June 30, 2017 and June 30, 2016.

Net position has been adjusted at June 30, 2017 for the adoption of GASB Statement No. 81, *Irrevocable Split – Interest Agreements (*GASB 81) and is summarized as follows (in thousands):

Net position at June 30, 2017	$	3,140,701
Adoption of GASB 81		(29,120)
Net position at June 30, 2017, as adjusted	$	3,111,581

Additionally, during the year-ended June 30, 2018, OHSU adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75). While adjustment of all prior periods was not practical because the actuarial information was not available, the cumulative effect of applying this statement is reported as an adjustment of beginning net position as of July 1, 2017 and is summarized as follows (in thousands):

Net position at July 1, 2017	$	3,111,581
Adoption of GASB 75		(3,974)
Net position at July 1, 2017, as adjusted	$	3,107,607

For purposes of management's discussion and analysis, comparative data for the statement of net position will reflect the adoption of GASB 81 at June 30, 2017 and GASB 75 at July 1, 2017. Certain balances as of June 30, 2017 and July 1, 2017 have been reclassified to conform with current year presentation.

		2018	2017	2016
Net position – beginning of year, as previously reported	$	3,111,581	2,918,276	2,516,469
Adjustment to beginning of year net position due to GASB 81		—	(27,737)	—
Adjustment to beginning of year net position due to GASB 75		(3,974)	—	—
Net position beginning of year, as adjusted		3,107,607	2,890,539	2,516,469
Total increase in net position		259,684	222,425	401,807
Adjustment to total increase in net position due to GASB 81		—	(1,383)	—
Net position – end of year, as adjusted	$	3,367,291	3,111,581	2,918,276

Financial Highlights

The broadest indicator of OHSU's financial strength is net position, or assets and deferred outflows less liabilities and deferred inflows. In fiscal year 2018, net position increased by $260 million or 8.4% from strong operating income and investment returns. This follows an increase in net position of $221 million or 7.6% in 2017 (using adjusted positions), also driven by operations and investments, and an increase of $402 million or 16% in 2016, largely due to gift income offset in part by pension expense. Over these three years, OHSU's net position increased by a cumulative 34% to $3.37 billion.

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

(Dollars in thousands)

		2018	2017	2016
Patient service revenue, net	$	2,210,653	2,097,255	1,989,644
Gifts, grants, and contracts		613,352	554,829	899,805
All other operating revenues		226,053	196,690	183,645
Total operating revenues		3,050,058	2,848,774	3,073,094
Salaries, wages, and benefits		1,732,915	1,623,266	1,512,950
Defined benefit pension		76,587	85,277	222,124
All other operating expenses		1,130,475	1,091,677	1,029,761
Total operating expenses		2,939,977	2,800,220	2,764,835
Operating income		110,081	48,554	308,259
State appropriations		37,026	35,560	35,567
Other nonoperating revenues (expenses)		92,543	112,197	9,486
Other changes in net position		20,034	24,731	48,495
Total increase in net position, as adjusted		259,684	221,042	401,807
Net position – beginning of year, as adjusted		3,107,607	2,890,539	2,516,469
Net position – end of year	$	3,367,291	3,111,581	2,918,276

Operating income comprised $110 million of fiscal year 2018's increase in net position, up from $49 million in fiscal year 2017, on 7% revenue growth. Higher earnings reflected ongoing focus on OHSU's missions of education, research, health care and outreach, combined with the Knight Cancer Challenge, support from the State of Oregon (the State), and University-wide efforts to control costs.

During fiscal year 2018, the State and OHSU worked closely to secure federal funding through a new intergovernmental transfer (IGT) approach that reduced OHSU's loss on Medicaid and other unique services provided as the State's only public academic health center. While research and education support through the IGT partnership with the State dates back to 2000, in fiscal year 2018 the new program generated $97.5 million, up from $85 million in the prior fiscal year. This reduces OHSU's loss on Medicaid, allowing an additional $12.5 million of funds to support research and education in Oregon's health sciences university. The legislature authorized the program within the Oregon Health Authority's 2017-2019 budget, and the Centers for Medicare and Medicaid Services (CMS) gave federal approval prior to implementation on January 1, 2018. This new approach replaces several previous funding mechanisms and ended OHSU's participation in Oregon's provider tax.

Patient service revenue increased 5.4% to $2.2 billion in fiscal year 2018, on higher surgical cases, ambulatory visits and case mix index, a measure of the complexity of inpatient care provided. Patient services revenue net of provider tax, which ended midway through fiscal year 2018, increased by 7.5% in fiscal year 2018.

	Fiscal year ending June 30			Variance	
	2018	2017	2016	2018 v 2017	2017 v 2016
	(Dollars in thousands)				
Patient service revenue	$ 2,210,653	2,097,255	1,989,644	5.4 %	5.4 %
Provider tax	49,600	87,766	89,543	(43.5)	(2.0)
Patient service revenue net of provider tax	$ 2,161,053	2,009,489	1,900,101	7.5 %	5.8 %

Five years ago, Nike co-founder Phil Knight and his wife, Penny, issued a $500 million fundraising challenge to OHSU, which concluded successfully in June 2015. The State supported the Knight Cancer Challenge with a $200 million grant for research and clinical trial facilities on the South Waterfront campus, and contributions from more than 10,000 donors, including $100 million from Gert Boyle, completed the challenge. The $1 billion in total funds will be used in the fight to eradicate cancer, particularly through advanced early detection. In fiscal year 2016, the Knights' matching pledge of $500 million was recorded. In fiscal year 2018, gift, grants and contracts reflect $116 million of the State grant applied to research facilities, with an additional $75 million recorded across fiscal years 2017 and 2016.

Revenues to the University from grants and contracts, excluding the State grant to the Knight Cancer Challenge, totaled $448 million in fiscal year 2018, including nearly $92 million of indirect cost recovery for facility and administrative costs. This is an increase of 6.1% from fiscal year 2017, driven by consistent growth in federal government, industry and external Foundation grants, an indicator of the success of OHSU's research and other programs. Gifts are recorded at the OHSU Foundation and Doernbecher Children's Hospital Foundation when pledged, and at the University when transferred from the Foundations and applied to program expenditures. The receipt of large gifts pledged in one year, received in cash over time, then spent during subsequent periods, results in significant fluctuation in the gift component of OHSU revenues on a combined basis.

		Fiscal year ending June 30		
		2018	**2017**	**2016**
			(Dollars in thousands)	
University grants and contracts, direct portion	$	356,587	336,206	297,288
University grants and contracts, indirect cost recovery		91,869	86,430	80,961
State grant to Knight Cancer Challenge		116,085	59,037	15,661
Foundation gifts, net of eliminations, transferred to the University		48,811	73,156	505,895
Total gifts, grants, and contracts	$	613,352	554,829	899,805

State appropriations increased 4% in fiscal year 2018, the start of the State's 2017-2019 budget biennium. State appropriations support education in the Schools of Nursing, Dentistry and Medicine, as well as operations of the Child Development and Rehabilitation Center, the Office of Rural Health, and the Poison Center.

Student tuition and fees were $74 million and $70 million in fiscal year 2018 and 2017, respectively. Fiscal year 2018 marks the fifth year of the OHSU Tuition Promise. Under this initiative, students enrolled in eligible clinical degree programs pay a tuition rate that is fixed for the remainder of their studies, as long as they complete the degree within the normal timeframe specified by the program.

Operating expense has been impacted by OHSU's proportionate share of the Oregon Public Employees Retirement System (PERS) defined-benefit pension expense. Defined-benefit pension expense for 2018 and 2017 was $77 million and $85 million, respectively, reflecting several assumption changes made in prior years, including lowering the long-term expected rate of return to 7.5%. Fiscal year 2016 pension expense of $222 million 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.

Fiscal year 2018 operating expense also included integrated clinical operations support for Adventist Health Portland at $5 million, an affiliate since January 1, 2018, and Tuality Healthcare (Tuality) at $7 million, a partner since February 2016.

Other nonoperating revenues (expenses) and other changes in net position include investment returns, contributions for capital and nonexpendable donations. These totaled $113 million in fiscal year 2018 compared to $137 million in fiscal year 2017, largely due to higher market returns. Policies set by OHSU and the Foundations dictate how investments are allocated and what risk profiles are assumed. Working capital is primarily invested in short duration, liquid fixed-income assets. Long-term investment strategy, including the investment of endowment funds and the associated spending distribution policy at the OHSU Foundations, is equity oriented, aiming to maximize total return, promote diversification, preserve capital, and provide for cash flow needs of the University.

In conjunction with the Knight Cancer Challenge and construction of the Knight Cancer Research Building that opened in September 2018, OHSU began construction on a new ambulatory building, the Center for Health & Healing 2 (CHH-2), together with cancer clinical trial space, parking and the Rood Family Pavilion for patient and family housing. This second set of facilities on the South Waterfront is on track to open by the spring of 2019. CHH-2 will allow patients previously filling inpatient beds to be cared for in an advanced outpatient and short-stay setting, with access to leading-edge diagnostic and treatment services. In fiscal year 2017, OHSU issued a second round of new debt, totaling $120 million including premiums, to finance CHH-2, which was also part of matching the State grant. In 2016, OHSU issued the first round of new debt of $120 million for CHH-2 and took advantage of low interest rates and tight credit spreads to refinance existing debt for approximately $25 million in present value savings.

The recording of large gifts, the State grant to the Knight Cancer Challenge, and accrued expense for pension have caused large swings in OHSU’s revenues and expenses over the past several years. Management uses the following analysis of changes in net position to track underlying operating performance on a consistent basis.

Components of Change in Net Position

(Dollars in thousands)

		2018	2017	2016	Total
Operating income – Total University less State grant to the Knight Cancer Challenge and accrual adjustments for pension and other post-employment benefits (GASB 68 and GASB 75)	$	140,987	130,972	140,928	412,887
State grant to Knight Cancer Challenge		116,085	59,037	15,661	190,783
Accrual adjustments for pension and other post-employment benefits		(38,063)	(54,041)	(190,453)	(282,557)
Operating income – Total University		219,009	135,968	(33,864)	321,113
Foundations operating income, contributions for capital and other, nonexpendable donations and eliminations		(51,868)	(27,123)	426,185	347,194
Investment income and gain (loss) on fair value of investments		90,823	111,940	8,610	211,373
Other nonoperating revenues (expenses), net		1,720	257	876	2,853
Total change in net position, as adjusted	$	259,684	221,042	401,807	882,533

Annual total increases in net position as of June 30, 2018, as adjusted	$	882,533
Adjustment to beginning of year net position due to GASB 81		(27,737)
Adjustment to beginning of year net position due to GASB 75		(3,974)
Cumulative change over three years in net position, as adjusted	$	850,822

On the Combining Schedules of Revenues, Expenses and Changes in Net Position included at the end of the financial statements, the “Total University” column presents revenues and expenses before consolidation of the Foundations, with gifts recorded when transferred from the Foundations to the University for use, rather than when pledged. In addition, State appropriations are included within operating revenues to match the operating expenses for education and operations that the appropriations support. From this column, two other adjustments are made: revenue from the State grant to the Knight Cancer Challenge is removed, and expenses for pension and other post-employment benefits are recorded on a cash basis, rather than an accrual basis, as they were prior to adoption of GASB 68 for pension and GASB 75 for other post-employment benefits.

Using the noted management adjustments, Total University operating income was $141 million in fiscal year 2018, $131 million in fiscal year 2017, and $141 million in fiscal year 2016, totaling $413 million for the three years combined, reflecting the consistency of OHSU’s underlying operating performance, despite an environment where health care cost containment and industry consolidation, government budget constraints, and high student debt levels all limit the payment rate increases possible for most OHSU revenue streams.

Including the total State grant impact of $191 million and adjusting for the cash-to-accrual adjustments for pension and other post-employment benefits by $283 million, results in a three-year operating income for the Total University column of $321 million. The net impact of philanthropy through operating income at the Foundations, nonexpendable donations, capital contributions and other, totaled $347 million; while investment returns and other nonoperating items added $214 million over three years. Thus the total growth in net position during fiscal years 2016 through 2018 was $883 million or 35%, reflecting a diversified combination of earnings from OHSU operations, State support, philanthropy and investment returns.

OHSU Missions

With the appointment of Danny O. Jacobs, MD, MPH, FACS as the fifth president of OHSU effective August 1, 2018, and nearing conclusion of the existing Vision 2020 strategic plan first developed in 2007, the University is launching a new strategic planning process in fiscal year 2019. The following sections highlight achievements under Vision 2020 for each mission.

OHSU Education

OHSU's first mission is the education and training of dentists, nurses, physicians, physician assistants, other health professionals, biomedical scientists and engineers, through a broad range of undergraduate and graduate programs that provide healthcare and biomedical workforce for Oregon and beyond. Educational programs are conducted on the OHSU campus in Portland and at various locations throughout the State. Collaborative programs enable OHSU to offer a joint Doctor of Pharmacy degree through an affiliation with Oregon State University (OSU) as well as a joint Ph.D. degree and a joint Master of Science degree in Medical Physics. In partnership with Oregon Institute of Technology (OIT), OHSU offers a joint B.S. degree in Medical Laboratory Science, a joint B.S. degree in Emergency Medical Services Management and a joint Associate of Applied Science degree in Emergency Medical Technology–Paramedic. OHSU also offers a joint Master of Business Administration in Health Care Management and has established a joint School of Public Health with Portland State University (PSU).

As of the fall 2017 term, OHSU had 2,895 students enrolled in its various programs (excluding students enrolled in the joint degree programs with OSU and OIT as well as the School of Public Health joint degree students registered by PSU). The following table sets forth the number of students enrolled in OHSU's programs for each of the past three academic years.

Fall Headcount Enrollment [1]
for Programs in the years Indicated

	2017/2018	2016/2017	2015/2016
School of Dentistry:			
Graduate	27	27	27
Professional	290	294	298
Subtotal	317	321	325
School of Medicine:			
Undergraduate	14	13	15
Graduate	773	827	806
Professional	592	578	556
Subtotal	1,379	1,418	1,377
School of Nursing:			
Undergraduate	762	764	812
Graduate	214	217	228
Professional	40	41	36
Subtotal	1,016	1,022	1,076
School of Public Health: [2]			
Graduate	183	138	117
Total	2,895	2,899	2,895

(1) This table excludes interns, residents, trainees and students enrolled in the joint degree programs with OSU and OIT as well as the School of Public Health joint degree students registered by PSU.

(2) Public Health enrollment under the Schools of Medicine and Nursing were transferred to the School of Public Health in 2015-16.

OHSU Research

OHSU is a national leader in neuroscience; cancer research; hearing; microbiology; ophthalmology; infectious disease and immunology; reproductive biology; atomic, molecular, cellular, and tissue imaging; and evidence-based medicine. In 2018, OHSU research projects received 71.0% of the grants made by the National Institutes of Health (NIH) in the state of Oregon, with the next largest recipient receiving 10.3% of the grants. OHSU was ranked 28th out of the 2,498 entities that received funding from the NIH in 2018. Faculty members include five members of the National Academy of Sciences and five members of the National Academy of Medicine. Researchers at OHSU have developed many of the leading advances in medicine, including the first artificial heart valve, pioneering use of optical coherence tomography, the first percutaneous angioplasty procedure and the first molecularly targeted cancer therapy (Gleevec®). OHSU's many institutes are nationally and internationally recognized, including the Knight Cancer Institute, the only National Cancer Institute designated Comprehensive Cancer Center in Oregon.

OHSU actively pursues private and public partnerships on important and innovative research projects to supplement federal funding, with corporate partners such Thermo Fisher Scientific's Analytical Instrumentals Segment, a leading electronic microscopy company, and other major information technology and life sciences companies, and with academic partners such as PSU, OSU, University of Oregon, Pacific Northwest National Laboratory and Lawrence Berkeley National Laboratory.

In fiscal year 2018, OHSU was selected by the NIH to develop one of three national cryo-electron microscopy or cryo-EM, centers meant to broaden U.S. scientists' access to the imaging method that is revolutionizing structural biology. The NIH is anticipated to invest $129.5 million, pending the availability of funds, to establish all three centers and expand the use of this Nobel Prize winning method of imaging. OHSU's Pacific Northwest Center for cryo-EM, a partnership with the Pacific Northwest National Laboratory (PNNL), will bring four new electron microscopes to campus and will be staffed by scientists from OHSU and PNNL. The new center, slated to open in October 2018, will begin installing new cryo-EM instruments later this year in the Robertson Collaborative Life Sciences Building (RLSB) on OHSU's South Waterfront Campus.

OHSU Healthcare

OHSU is home to Oregon's only major academic health center, which serves a multistate area with tertiary health care services from its campus in Portland, Oregon, where it operates two hospitals, OHSU Hospital and OHSU Doernbecher Children's Hospital (Doernbecher Hospital and, collectively with OHSU Hospital, the OHSU Hospitals), with 576 licensed beds. During 2018, the OHSU Hospitals represented 7.2% of the available beds and 8.4% of the filled beds for the entire State. The OHSU Hospitals had an 83.3% occupancy rate for available beds in 2018, compared to the Oregon statewide average of 64.4% according to the Oregon Association of Hospitals and Health Systems' Oregon DataBank. As an academic health center, OHSU's professional staff is composed primarily of the faculty of OHSU's School of Medicine. The OHSU Practice Plan (OPP) is the largest organized clinical practice in Oregon. As of June 30, 2018, there were over 1,879 active

(Continued)

faculty practice plan members, including physicians, nurse practitioners, physician assistants and other licensed independent practitioners from across all medical specialties.

OHSU Patient Activity	Fiscal year ending June 30 2018	2017	2016	Variance 2018 v 2017	2017 v 2016
		(Dollars in thousands)			
Inpatient admissions	29,213	29,747	29,834	(1.8)%	(0.3)%
Average length of stay	5.94	5.92	5.89	0.3	0.5
Average daily census	464	470	469	(1.3)	0.2
Day/observation patients	40,378	37,552	37,708	7.5 %	(0.4)%
Emergency visits	48,461	47,193	49,180	2.7	(4.0)
Ambulatory visits	955,857	893,999	856,291	6.9	4.4
Surgical cases	35,560	33,892	33,137	4.9	2.3
Casemix index	2.18	2.09	2.03	4.3 %	3.0 %
Outpatient share of activity	51.5 %	49.5 %	47.6 %	4.0	4.0
CMI/OP adjusted admissions	131,210	122,967	115,368	6.7	6.6

In addition to its tertiary care focus in Portland, OHSU is working with other health care providers noted below to leverage expertise and resources throughout Oregon.

Adventist Health. Adventist Health Portland and OHSU finalized an agreement to integrate their clinical activities and services in the Portland metropolitan area through an affiliation effective January 1, 2018. This agreement makes OHSU and Adventist Health Portland part of the same Portland metropolitan health system, bringing together Adventist's health care enterprise that includes a 302-bed medical center, 34 medical clinics and home care and hospice services in the Portland-Vancouver metro area. Under this affiliation, OHSU and Adventist Health will share a bottom line and operate as a unified system. The agreement does not include OHSU's research and education missions. The other 19 Adventist Health hospitals in the western United States are also excluded from the agreement. Each organization will retain its existing hospital licenses, capital assets and employees. Each entity will continue to maintain its own mission and culture but together will seek to transform access and the delivery of health to Oregonians through a unified clinical enterprise and shared brand experience.

***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. In addition, Tuality is converting to the OHSU EPIC electronic health record system, with final go-live in inpatient units in November 2018.

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. OHSU and CMH jointly organize and operate an Oncology Collaboration, including a 18,000-square-foot comprehensive cancer treatment center and specialty clinic, with radiation therapy. CMH owns and operates the cancer treatment center, opened in October 2017, under its license while OHSU has provided the professional services and medical direction through OHSU-employed physicians.

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.

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 Council for Advancement and Support of Education (CASE) Reporting Standards and Management Guidelines, which may differ from recognition rules under governmental accounting standards.

Amount	OHSU major gifts description	Fiscal year
$25 million	OHSU and Doernbecher Children's Hospital gift	2017–18
$14.7 million	SMMART Trials grant	2017–18
$10 million	Doernbecher Children's Hospital Foundation NICU construction gift	2017–18
$15 million	Center for Pancreatic Health gift	2016–17
$15 million	Casey Eye Institute gift	2015–16
$12 million	Gary and Christine Rood Family Pavilion gift	2015–16
$500 million	Knight Cancer Institute gift	2014–15
$100 million	Knight Cancer Institute gift	2014–15
$38.8 million	Vaccine and Gene Therapy Institute, Oregon National Primate Research Center, and Behavioral Neuroscience grant	2014–15
$28.9 million	Knight Cancer Institute and OHSU Parkinson Center gift	2013–14
$25 million	Center for Pancreatic Health gift	2013–14
$10 million	Knight Cancer Institute gift	2013–14
$125 million	Gift to create a Cardiovascular Institute at OHSU	2012–13
$25 million	Bob and Charlee Moore Institute for Nutrition gift	2011–12
$10 million	New School of Dentistry gift	2010–11
$100 million	Knight Cancer Institute gift	2008–09

Statements of Net Position

The statements of net position present the assets and liabilities, deferred inflows of resources and deferred outflows of resources, and net position of OHSU as of a point in time. Net position, the difference between total assets and deferred outflows as compared to total liabilities and deferred inflows, presents the financial position at the end of the fiscal year and is one of the broadest measures of the financial condition of OHSU, while the change in net position is an indication of whether the overall financial condition has improved or worsened during the year.

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)

		2018	2017	2016
Assets:				
Current assets	$	1,155,648	1,209,077	1,262,697
Capital assets		2,009,564	1,742,740	1,606,554
Other noncurrent assets		2,229,923	2,143,462	1,820,172
Total assets		5,395,135	5,095,279	4,689,423
Deferred outflows		182,548	299,377	84,713
Total assets and deferred outflows	$	5,577,683	5,394,656	4,774,136
Liabilities:				
Current liabilities	$	536,439	517,683	495,305
Noncurrent liabilities		1,498,180	1,619,739	1,298,424
Total liabilities		2,034,619	2,137,422	1,793,729
Deferred inflows		175,773	145,653	62,131
Net position:				
Net investment in capital assets		1,160,403	997,731	876,150
Restricted, expendable		813,026	842,794	872,294
Restricted, nonexpendable		249,931	231,908	215,005
Unrestricted		1,143,931	1,039,148	954,827
Total net position, as adjusted		3,367,291	3,111,581	2,918,276
Total liabilities, deferred outflows and net position	$	5,577,683	5,394,656	4,774,136

Components of Net Position

As noted earlier, total net position increased $260 million during fiscal year 2018, as compared to an increase of $221 million during fiscal year 2017.

In fiscal years 2018 and 2017, the increase of net position occurred within net investment in capital assets and unrestricted, with net investment in capital assets up $163 million in 2018 and $122 million in 2017. Unrestricted net position increased $105 million and $84 million in 2018 and 2017, respectively. With the adoption of GASB 81 in fiscal year 2018, restricted net position, which is 31.6% and 34.5% of OHSU's total net position, decreased by $12 million and $13 million, in 2018 and 2017, respectively, primarily driven by

(Continued)

programmatic spending on research and academics and adjustment related to the irrevocable split-interest agreements.

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.

Assets

The largest components of OHSU's assets are cash and investments and capital assets, or physical plant. During fiscal year 2018, OHSU's unrestricted and restricted cash and investments increased from $1.95 billion to $2.14 billion attributable to operating and investment performance and the Foundations activity.

Consolidated Asset Allocation of
Unrestricted and Restricted Cash and Investments

(Dollars in thousands)

		2018	2017	2016
Unrestricted cash and investments:				
Cash and equivalents	$	60,678	82,583	331,560
Fixed-income investments		894,594	764,344	581,105
Equity investments		221,997	268,164	87,834
Mutual funds		138,980	126,396	110,952
Other		165,504	68,950	104,076
Subtotal		1,481,753	1,310,437	1,215,527
Restricted cash and investments:				
Cash and equivalents		13,374	3,712	88,619
Fixed-income investments		138,320	185,551	151,501
Equity investments		353,108	418,256	197,852
Mutual funds		—	9,181	3,634
Other		152,009	22,913	113,834
Subtotal		656,811	639,613	555,440
Totals	$	2,138,564	1,950,050	1,770,967

(Continued)

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 197 days in 2017 to 212 days in 2018, the effect of a 13.0% increase in unrestricted operating cash and investments.

Days Unrestricted Cash and Investments on Hand

(Dollars in thousands)

		2018	2017	2016
OHSU:				
Unrestricted cash and investments	$	1,025,102	881,840	840,612
Less nonoperating cash and investments		(38,909)	(33,508)	(31,426)
Operating cash and investments	$	986,193	848,332	809,186
Unrestricted operating expenses:				
Total operating expenses	$	2,607,181	2,487,844	2,464,602
Less depreciation and amortization		(150,986)	(146,473)	(137,385)
Net unrestricted operating expenses	$	2,456,195	2,341,371	2,327,217
Daily expense	$	6,729	6,415	6,376
Days cash on hand		147	132	127
OHSU plus OHSU and Doernbecher Foundations:				
Unrestricted cash and investments	$	1,481,753	1,310,436	1,215,527
Less nonoperating cash and investments		(38,909)	(33,508)	(31,426)
Operating cash and investments	$	1,442,844	1,276,928	1,184,101
Unrestricted operating expenses:				
Total operating expenses	$	2,630,036	2,511,126	2,486,990
Less depreciation and amortization		(151,095)	(146,596)	(137,521)
Net unrestricted operating expenses	$	2,478,941	2,364,530	2,349,469
Daily expense	$	6,792	6,478	6,437
Days cash on hand		212	197	184

The following table presents the days unrestricted cash on hand for OHSU as of fiscal year ended June 30, 2018, 2017, and 2016, 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)

		2018	2017	2016
OHSU plus OHSU and Doernbecher Foundations:				
Operating cash and investments	$	1,442,844	1,276,928	1,184,101
Net unrestricted operating expenses	$	2,478,941	2,364,530	2,349,469
Pension adjustment GASB 68		(38,938)	(54,041)	(190,453)
Adjusted net unrestricted operating expenses	$	2,440,003	2,310,489	2,159,016
Daily expense	$	6,685	6,330	5,915
Days cash on hand (pre-GASB 68)		216	202	200

Capital assets, net of accumulated depreciation, increased by $267 million and $136 million, respectively, during fiscal years 2018 and 2017. In 2018, capital expenditures included the design and construction of the Knight Cancer Research Facilities, CHH-2, and the Gary and Christine Rood family pavilion.

Liabilities

Total liabilities decreased by $103 million, or 4.8%, in fiscal year 2018 after two consecutive fiscal year increases of $344 million, or 19.2%, and $510 million, or 39.8%, in 2017 and 2016, respectively. The reduction in liabilities is primarily due to current year recognition of unearned revenue associated with the State grant supporting the Knight Cancer Challenge and a reduction of OHSU's proportionate share of the PERS pension liability. In fiscal year 2017 and 2016, the increases were primarily due to pension liability, additional long-term debt for the CHH-2 project, and deferred revenue associated with the State grant.

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 $19 million and $22 million in fiscal years 2018 and 2017, respectively. In 2018, the increase was due to recognition of $120 million associated with the State grant supporting the Knight Cancer Challenge research facility, offset by increases in current portion of long-term debt, timing of accounts payable and accrued expenses and other current liabilities (including $73 million to the State of Oregon supporting the new Medicaid program).

Total noncurrent liabilities decreased $122 million in fiscal year 2018, due to a $102 million reduction in the pension liability and long-term debt. In fiscal year 2017, noncurrent liabilities increased $321 million 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 the pension liability of $526 million.

Debt Management. At the close of fiscal years 2018 and 2017, OHSU had a total of approximately $977 million and $1,002 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.

Due to OHSU's sustained operating performance and increasing net position in 2018 and 2017, 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 2017 to 2018, this metric remained stable as the newly issued long-term debt related to the new ambulatory care tower was offset by operating results.

		2018	2017	2016
			(Dollars in millions)	
Long-term debt and capital leases	$	1,002	1,009	931
Net position, as adjusted		3,367	3,112	2,918
Long-term debt and capital leases to net position		0.30	0.32	0.32

Maximum Annual Debt Service Coverage. The maximum annual debt service coverage ratio for an entity represents the amount of cash flow available to meet the maximum annual interest and principal payment on debt. Per bond covenants, OHSU'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 4.90 in fiscal year 2018, 4.70 in 2017, and 2.87 in 2016. The difference between fiscal years 2018, 2017, and 2016 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)

		2018	2017	2016
Total excess of revenues over expenses	$	239,650	196,311	353,312
Add/subtract restricted net loss/gain		(95,251)	(56,505)	(374,504)
Unrestricted excess of revenues over expenses	$	144,399	139,806	(21,192)
Adjustments:				
Net unrealized (gain) loss in fair value of investments	$	(22,856)	(34,788)	3,615
Loss on disposal of assets		296	255	886
Interest expense(1)		27,319	28,657	33,962
Depreciation and amortization		151,095	146,596	137,521
Other		—	—	3,177
	$	155,854	140,720	179,161
Income available for debt service	$	300,253	280,526	157,969
Maximum annual debt service		61,230	59,629	55,080
Maximum annual debt service coverage		4.90	4.70	2.87

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

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)

		2018	2017	2016
Income available for debt service	$	300,253	280,526	157,969
Pension adjustment GASB 68		38,938	54,041	190,453
Adjusted income available for debt service	$	339,191	334,567	348,422
Maximum annual debt service	$	61,230	59,629	55,080
Maximum annual debt service coverage (pre-GASB 68)		5.54	5.61	6.33

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 2018, the decrease in deferred outflows of $117 million and increase of deferred inflows of $30 million were primarily attributed to changes in the defined-benefit pension obligations. In fiscal year 2017, the deferred outflows increased $215 million and the deferred inflows increased $84 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 and the addition of the life income agreements and pending funds.

Within the deferred outflows section of the statements of net position is 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 2018 and 2017 difference between the deferred amortization of derivative instruments were $1.5 million and $5.9 million, respectively. The overall difference in the deferred amortization of derivative instruments in 2018 was due to an increase in deferred inflows of $3.2 million and a decrease in deferred outflows of $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 $23.8 million in 2018 and $25.2 million in 2017 is reported in the deferred outflows section below assets. The deferred gain on refunding of debt of $2.2 million in 2018 and $2.5 million in 2017 is reported in the deferred inflows section below liabilities. The last refunding transaction occurred in 2016 with the advance refunding of the Series 2009A Revenue Bonds.

With the adoption of GASB 68 in fiscal year 2015, defined-pension obligation activities are now included in deferred inflows and outflows. In fiscal year 2018 and 2017, the deferred outflows related to the Oregon PERS pension obligation were $149 million and $264 million, respectively, primarily representing assumption changes, including lowering the long-term expected rate of return to 7.5%. Contributions made postmeasurement date are also reflected in deferred outflows. In fiscal year 2018, OHSU's contributions were $47 million, which included an additional $10 million in excess contribution above the contractually required $37 million. In fiscal year 2017, OHSU's contributions made post measurement date were $31 million. Deferred inflows related to pension activities for fiscal years 2018 and 2017 were $52 million and $36 million, respectively, representing an increase in proportionate share.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present OHSU's results of operations, including the Foundations. In accordance with generally accepted accounting principles for a government entity, revenues and expenses are classified as either operating or nonoperating.

Consolidated net income for OHSU, including the Foundations, totaled $240 million in fiscal year 2018, compared to $196 million in 2017. Major drivers of the fiscal year changes in net income are attributable to the continued growth of net patient service revenue (including a slowing payment rate growth), implementation of new Medicaid IGT program with the State of Oregon, and sustained growth in gifts, grants and contracts, offset by increases in services and supply costs, reflecting higher patient volume and operating support at Tuality and Adventist Health, and the recording of expenses associated with OHSU's proportionate share of the Oregon PERS's net pension liability.

In fiscal year 2018, OHSU launched a multi-year initiative called Accelerate OHSU that is designed to narrow the gap between payment rate and unit cost inflation; to facilitate volume growth across missions; to hold variable costs; and to reduce current expense base until new capacity can be brought fully online. Several of these initiatives are reflected in the current year.

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

(Dollars in thousands)

	2018	2017	2016
Total operating revenues	$ 3,050,058	2,848,774	3,073,094
Total operating expenses	2,939,977	2,800,220	2,764,835
Operating gain	110,081	48,554	308,259
Nonoperating revenues, incl. state appropriations	129,569	147,757	45,053
Net income before other changes in net position for capital and other	239,650	196,311	353,312
Contributions for capital and other	3,053	9,586	34,732
Nonexpendable donations	16,981	15,145	13,763
Changes in net position, as adjusted	259,684	221,042	401,807
Net position – beginning of year, as adjusted	3,107,607	2,890,539	2,516,469
Net position – end of year	$ 3,367,291	3,111,581	2,918,276

Total Operating Revenues

Total operating revenues on a combined basis (including the Foundations and reclassification of state appropriations to nonoperating revenues) totaled $3.05 billion and $2.85 billion in 2018 and 2017, respectively.

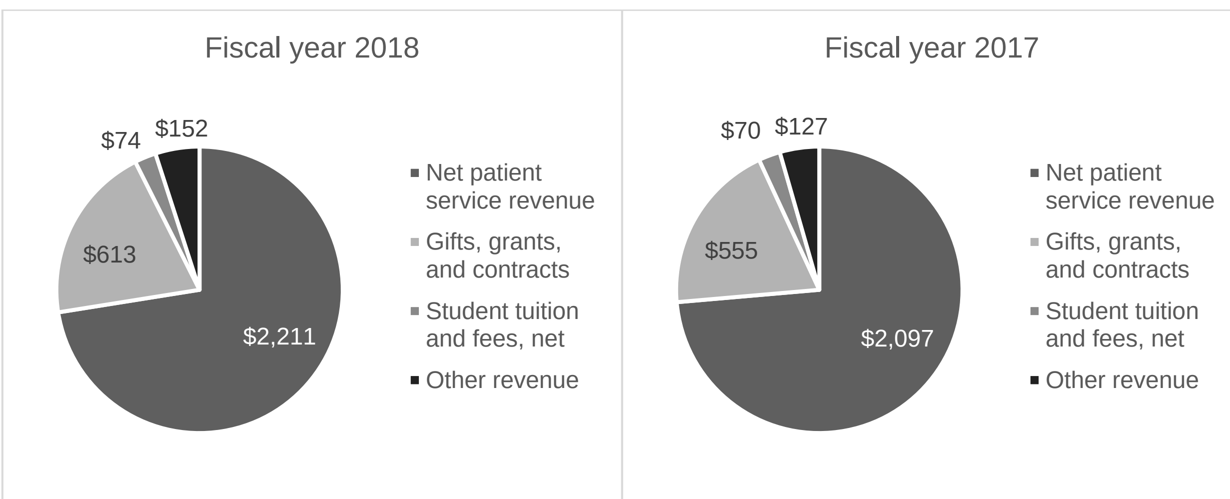
Net patient service revenue contributed to revenue growth, with an increase of $113 million and $108 million, or 5.4% and 5.4%, in fiscal years 2018 and 2017, respectively. Growth in ambulatory care, inpatient case mix, and pharmacy utilization drove much of these increases, with a flat growth in fiscal year 2018 reflecting capacity constraints (primarily in adult beds) and slowing payment rate growth.

Gifts, grants, and contracts continue to remain strong at $613 million and $555 million as portions of the State's $200 million grant supporting the Knight Cancer Challenge research facility were recognized in fiscal year 2018 and across 2017 and 2016 in the amount of $116 million and $75 million, respectively.

While annual state appropriations are considered nonoperating revenue, in practice they are budgeted for in operations as they support operating costs for specific education and service programs. State appropriations totaled $37 million and $36 million in fiscal years 2018 and 2017, respectively.

Operating Revenue by Source
Fiscal years 2018 and 2017 (Total $3.05 billion and $2.85 billion, respectively)

(Dollars in millions)



Total Operating Expenses

OHSU's total operating expenses on a combined basis increased by $140 million, or 5.0%, in fiscal year 2018, and $35 million, or 1.3%, in fiscal year 2017. In both 2018 and 2017, 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 $77 million and $85 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 59% of total expenses, increased by $110 million, or 6.8%, in 2018 and $110 million, or 7.3%, in 2017, respectively. In the current fiscal year, OHSU Accelerate initiatives contained expense growth, while in fiscal year 2017 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.

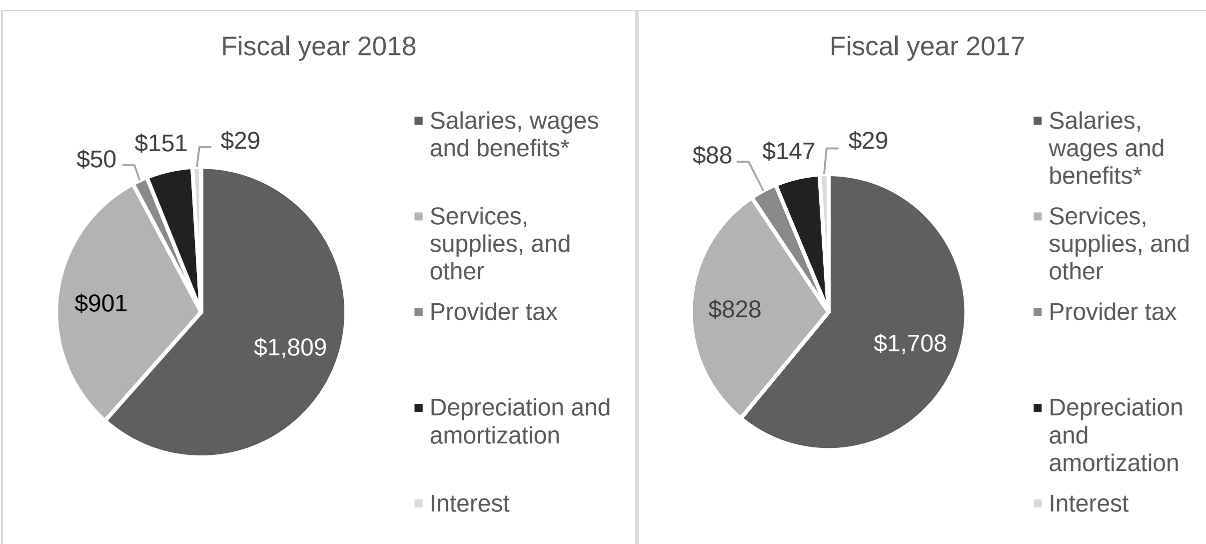
Services, supplies, and other expenses, including provider tax, showed an increase of $35 million, or 3.8%, in 2018, and $58 million, or 6.7%, in 2017 representing the nonlabor costs associated with the targeted program growth noted above and increased direct foundation support.

Depreciation and amortization, which represents the reduction in value of capital assets with the passage of time, showed an increase of $4.5 million, or 3.1%, in 2018, and $9 million, or 6.6%, in 2017.

Interest expense decreased by $0.7 million, or 2.3%, in fiscal year 2018 after a decrease of $4.9 million, or 14.5%, in fiscal year 2017. The decrease in interest expense in 2018 is driven by an increase in capitalized interest, and a decrease in debt issuance costs. Capitalized interest for 2018 and 2017 was $8.7 million and $6.5 million, respectively; while debt issuance costs incurred in 2018 and 2017 was $0.2 million and $1.3 million, respectively. Capitalized interest increased as a consequence of increased capital spending, while debt issuance costs decreased due to less debt financing activity.

Operating Expenses
Fiscal years 2018 and 2017 (Total $2.94 billion and $2.80 billion, respectively)

(Dollars in millions)



* Salaries, wages, and benefits figures include OHSU’s proportionate share of the Oregon PERS’s net pension liability of $77 million and $85 million in fiscal years 2018 and 2017, respectively.

Operating Expenses
by Functional Classification

(Dollars in thousands)

	2018	2017	2016
Instruction, research, and public service	$ 471,869	436,645	420,535
Clinical activity	1,860,679	1,745,058	1,612,788
Auxiliary activities	7,470	8,740	9,450
Internal service centers	9,082	12,184	10,898
Student services	13,545	12,459	15,057
Academic support	82,955	84,353	62,655
Institutional support	165,296	159,342	149,363
Operations, maintenance, and other	106,288	104,195	124,187
Direct foundation expenditures	33,635	36,606	31,927
Depreciation and amortization	151,095	146,597	137,522
Defined pension benefit, net of contribution	38,063	54,041	190,453
Total operating expenses	$ 2,939,977	2,800,220	2,764,835

Economic Outlook

As the U.S. economy enters the tenth year of recovery from the 2008 financial crisis and ensuing recession, the U.S. and Oregon economies have exhibited continued economic growth accompanied with robust labor markets. The Oregon unemployment rate continued to maintain historically low levels during the fiscal year, decreasing from 4.1% in June 2017 to 4.0% in June 2018. The unemployment rate also declined nationally, from 4.3% in June 2017 to 4.0% in June 2018. Economic growth has modestly accelerated above the post-recession trend of approximately 2% annually, with real GDP growing 2.8% year over year from March 2017 to March 2018.

For much of the past decade post financial crisis, interest rates in the U.S. and much of the developed world remained at historically low levels, with periodic fluctuations. Consistent with a strong U.S. economy, interest rates gradually increased over the fiscal year, with the 10-year U.S. treasury rate ending at 2.85% as of June 2018, compared to 2.31% in June 2017, with the short end of the treasury yield curve experiencing a greater upward shift than the long end.

The bull market in equities continued during fiscal year 2018 with the S&P 500 gaining nearly 19%. The Federal Reserve policymakers increased its target federal funds rate three times during the fiscal year, ending in a target range between 1.75% and 2.00% as of June 2018.

The healthcare regulatory environment continues to exhibit substantial policy uncertainty, especially at the federal level. Though legislative efforts to modify or repeal the Affordable Care Act (ACA) as of fiscal year end and into fiscal year 2019 appear to have subsided, executive actions continue to be considered and taken which have the potential to materially affect the functioning of the law going forward. The outcome of upcoming midterm elections in November 2018 could significantly reshape government policy toward the ACA and other laws and programs that impact OHSU across its missions. Consolidation in the healthcare industry, driven in part by the ACA, continues nationally and in Oregon, but at a somewhat slower pace than previously anticipated.

Oregon has taken a leading role in implementing the ACA, to significant effect. 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%.

The economic trends described above are major inputs to OHSU's financial and strategic planning. In response, the University continues to refine its efforts 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 34% over the last three fiscal years, from $2.52 billion in June 2015 to $3.37 billion in June 2018, driven by strong operating performance, philanthropy and investment returns.

OHSU's financial strength is further recognized by its credit ratings, Aa3/AA-/AA- confirmed during the past fiscal year with 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 of Oregon through biennial appropriations, capital support and Medicaid funding.

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Statements of Net Position

June 30, 2018 and 2017

(Dollars in thousands)

	2018	2017 (as adjusted)
Assets:		
Current assets:		
Cash and cash equivalents	$ 52,918	80,770
Short-term investments	312,765	295,855
Current portion of funds held by trustee	48,893	275,447
Patients accounts receivable, net of bad debt allowances of $2,346 in 2018 and $2,759 in 2017	413,197	346,464
Student receivables	22,255	24,432
Grant and contract receivables	75,845	44,080
Interest receivable	1,204	914
Current portion of pledges and estates receivable	129,510	61,983
Other receivables, net	42,645	29,203
Inventories at cost	24,088	22,789
Prepaid expenses	32,328	27,140
Total current assets	1,155,648	1,209,077
Noncurrent assets:		
Capital assets, net of accumulated depreciation	2,009,564	1,742,740
Funds held by trustee – less current portion	12,734	12,644
Long term receivables	33,500	33,500
Long-term investments:		
Long-term investments, restricted	653,068	622,534
Long-term investments, unrestricted	1,119,813	950,890
Total long-term investments	1,772,881	1,573,424
Prepaid financing costs, net	2,163	2,615
Pledges and estates receivable – less current portion	390,704	510,511
Restricted postemployment benefit asset	1,389	—
Other noncurrent assets	16,552	10,768
Total noncurrent assets	4,239,487	3,886,202
Total assets	5,395,135	5,095,279
Deferred outflows:		
Deferred amortization of derivative instruments	8,529	9,730
Loss on refunding of debt	23,777	25,248
Pension obligation	149,247	264,399
Goodwill	639	—
Other postemployment benefits (OPEB) obligation	356	—
Total deferred outflows	182,548	299,377
Total assets and deferred outflows	$ 5,577,683	5,394,656

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Statements of Net Position

June 30, 2018 and 2017

(Dollars in thousands)

	2018	2017 (as adjusted)
Liabilities:		
Current liabilities:		
Current portion of long-term debt	$ 23,394	5,659
Current portion of long-term capital leases	866	845
Current portion of self-funded insurance programs liability	29,885	26,956
Accounts payable and accrued expenses	159,453	137,326
Accrued salaries, wages, and benefits	90,058	83,682
Compensated absences payable	85,111	80,582
Unearned revenue	57,428	173,344
Other current liabilities	90,244	9,289
Total current liabilities	536,439	517,683
Noncurrent liabilities:		
Long-term debt – less current portion	974,677	998,731
Long-term capital leases – less current portion	2,714	3,454
Liability for self-funded insurance programs – less current portion	38,060	35,458
Liability for life income agreements	23,975	23,933
Pension liability	424,000	526,200
Other noncurrent liabilities	34,754	31,963
Total noncurrent liabilities	1,498,180	1,619,739
Total liabilities	2,034,619	2,137,422
Deferred inflows:		
Deferred amortization of derivative instruments	7,051	3,848
Gain on refunding of debt	2,165	2,540
Life income agreements	31,919	29,120
Pending fund	81,181	74,053
Pension obligation	52,078	36,092
Other postemployment benefits (OPEB) obligation	1,379	—
Total deferred inflows	175,773	145,653
Net position:		
Net investment in capital assets	1,160,403	997,731
Restricted, expendable	813,026	842,794
Restricted, nonexpendable	249,931	231,908
Unrestricted	1,143,931	1,039,148
Total net position	3,367,291	3,111,581
Total liabilities, deferred inflows, and net position	$ 5,577,683	5,394,656

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

(Dollars in thousands)

		2018	2017 (as adjusted)
Operating revenues:			
Patient service revenue, net of bad debt adjustments of $19,064 in 2018 and $18,056 in 2017	$	2,210,653	2,097,255
Student tuition and fees, net		73,975	69,706
Gifts, grants, and contracts		613,352	554,829
Other revenue		152,078	126,984
Total operating revenues		3,050,058	2,848,774
Operating expenses:			
Salaries, wages, and benefits		1,732,915	1,623,266
Defined benefit pension		76,587	85,277
Services, supplies, and other		901,243	828,113
Provider tax		49,600	87,766
Depreciation and amortization		151,095	146,596
Interest		28,537	29,202
Total operating expenses		2,939,977	2,800,220
Operating income		110,081	48,554
Nonoperating revenues, net:			
Investment income and gain in fair value of investments		90,823	111,940
State appropriations		37,026	35,560
Other		1,720	257
Total nonoperating revenues, net		129,569	147,757
Net income before contributions for capital and other		239,650	196,311
Other changes in net position:			
Contributions for capital and other		3,053	9,586
Nonexpendable donations		16,981	15,145
Total other changes in net position		20,034	24,731
Total increase in net position		259,684	221,042
Net position – beginning of year, as adjusted*		3,111,581	2,890,539
Adjustment due to implementation of GASB Statement No. 75		(3,974)	—
Net position – end of year	$	3,367,291	3,111,581

*FY17 beginning net position has been reduced due to implementation of GASB Statement No. 81 by $27,737. FY17 total increase in net position has also been reduced by $1,383 from current year adjustments, for a total decrease in ending net position of $29,120.

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(Dollars in thousands)

	2018	2017 (as adjusted)
Cash flows from operating activities:		
Receipts for patient services	$ 2,214,830	2,080,101
Receipts from students	76,152	69,835
Receipts of gifts, grants, and contracts	530,789	612,305
Other receipts	133,140	113,699
Payments to employees for services	(1,769,659)	(1,672,744)
Payments to suppliers	(919,627)	(907,051)
Net cash provided by operating activities	265,625	296,145
Cash flows from noncapital financing activities:		
Federal direct loan proceeds	54,447	64,896
Federal direct loan disbursements	(64,967)	(65,680)
State appropriations	37,026	35,560
Nonexpendable donations and life income agreements	9,482	13,045
Net cash provided by noncapital financing activities	35,988	47,821
Cash flows from capital and related financing activities:		
Scheduled principal payments on long-term debt	(4,503)	(25,901)
Interest payments on long-term debt	(30,276)	(36,841)
Proceeds from issuance of long-term debt	—	120,442
Repayment on debt	—	1,269
Acquisition of capital assets	(418,215)	(283,036)
Payments on capital leases	(719)	(866)
Contributions for capital and other	3,053	9,586
Net cash used for capital and related financing activities	(450,660)	(215,347)
Cash flows from investing activities:		
Purchases of investments	(4,280,745)	(2,145,428)
Proceeds from sales and maturities of investments	4,380,219	1,765,998
Interest on investments and cash balances	21,721	17,777
Net cash provided by (used for) investing activities	121,195	(361,653)
Net decrease in cash and cash equivalents	(27,852)	(233,034)
Cash and cash equivalents, beginning of year	80,770	313,804
Cash and cash equivalents, end of year	$ 52,918	80,770

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(Dollars in thousands)

		2018	2017 (as adjusted)
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	110,081	48,554
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		151,095	146,596
Provision for bad debts		19,064	18,056
Interest expense reported as operating expense		28,537	29,202
Noncash contribution		(11,050)	(34,497)
Defined benefit pension		28,938	54,042
Net changes in assets and liabilities:			
Patient accounts receivable		(85,797)	(35,210)
Student receivables		2,177	129
Grant and contracts receivable		(21,245)	(11)
Pledges and estates receivable		52,280	44,149
Other receivables, assets, and deferred outflows		(18,938)	(10,717)
Inventories		(1,299)	(960)
Prepaid expenses		(5,188)	(702)
Accounts payable and accrued expenses		22,127	4,581
Accrued salaries, wages, and benefits		6,376	(20,371)
Compensated absences payable		4,529	2,128
Other current liabilities		80,955	3,393
Liability for life income agreements		42	(897)
Unearned revenue		(115,916)	41,786
Liability for self-funded insurance programs		5,531	(52)
Other noncurrent liabilities and deferred inflows		13,326	6,946
Net cash provided by operating activities	$	265,625	296,145
Supplemental schedule of noncash capital and related financing and investing activities:			
Unrealized change in fair value of investments	$	9,257	16,158
Loss on disposal capital assets		(296)	(254)
Prior year adjustment for GASB Statement No. 75		(3,974)	—

See accompanying notes to financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2018 and 2017

Assets		2018	2017
Current assets:			
Cash and cash equivalents	$	15,201,900	18,824,800
Short-term investments		814,800	1,032,700
Patient accounts receivable, net of allowance for uncollectible accounts of $3,354,300 and $3,678,800		26,195,400	22,115,100
Other receivables		4,975,200	8,569,900
Inventory of supplies		3,427,900	3,670,600
Prepaid expenses and other		1,994,500	2,920,500
Current portion of assets whose use is limited		954,000	934,900
Total current assets		53,563,700	58,068,500
Assets whose use is limited:			
Board-designated funds		38,305,400	37,051,400
Under bond indenture agreement – held by Trustee		900	900
Donor-restricted – specific purpose		4,408,900	3,669,000
Donor-restricted – endowment		2,788,000	2,784,200
Required for current liabilities		(954,000)	(934,900)
Total assets whose use is limited		44,549,200	42,570,600
Property and equipment:			
Property and equipment, net of accumulated depreciation and amortization		49,402,300	43,538,800
Other assets:			
Other receivables – noncurrent		1,315,400	435,600
Investments in unconsolidated affiliates		3,023,200	2,864,700
Deferred compensation plan		2,265,300	2,152,000
Cash value of life insurance		502,700	474,200
Deferred costs and other		230,200	540,300
Intangible assets		1,747,300	1,824,000
Goodwill		318,500	318,500
Total other assets		9,402,600	8,609,300
Total assets	$	156,917,800	152,787,200

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2018 and 2017

Liabilities and Net Assets	2018	2017
Current liabilities:		
Accounts payable	$ 14,222,000	11,591,700
Accrued payroll and employee benefits	11,341,400	12,812,400
Estimated liabilities for Medicare and Medicaid settlements	562,300	478,100
Long-term debt due within one year	1,191,900	1,052,900
Accrued bond interest payable	104,000	109,900
Total current liabilities	27,421,600	26,045,000
Long-term liabilities:		
Long-term debt, net of amount due within one year	14,092,900	14,713,400
Liability for pension benefits	41,420,700	48,726,200
Other long-term liabilities	11,892,200	7,584,900
Total long-term liabilities	67,405,800	71,024,500
Total liabilities	94,827,400	97,069,500
Net assets:		
Unrestricted	54,733,400	49,255,300
Temporarily restricted by donors	4,569,000	3,678,200
Permanently restricted by donors	2,788,000	2,784,200
Total net assets	62,090,400	55,717,700
Total liabilities and net assets	$ 156,917,800	152,787,200

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

For the years ended June 30, 2018 and 2017

		2018	2017
Net patient service revenue:			
Patient service revenue (net of contractual allowances and discounts)	$	188,998,200	186,240,100
Provision for bad debts		(11,893,900)	(11,385,200)
Total net patient service revenue		177,104,300	174,854,900
Other revenue:			
OHSU support		7,235,700	10,559,500
Other revenue		9,493,200	12,524,700
Total other revenue		16,728,900	23,084,200
Total revenue		193,833,200	197,939,100
Operating expenses:			
Salaries and wages		85,211,100	92,751,700
Employee benefits		21,824,400	23,500,200
Supplies and other expenses		67,247,300	60,790,100
Professional fees		11,643,900	5,294,200
Depreciation and amortization		7,408,600	7,601,100
Interest		739,300	718,200
Total operating expenses		194,074,600	190,655,500
Loss from operations		(241,400)	7,283,600
Other income:			
Realized income on investments whose use is limited by board designation		727,700	27,100
Gain on investments in affiliated companies		1,110,200	1,329,200
Gain (Loss) on disposal of property and equipment		234,700	(17,900)
Other nonoperating expenses		(35,000)	—
Total other income		2,037,600	1,338,400
Excess of revenue over expenses		1,796,200	8,622,000
Contributions for property and equipment acquisition		89,500	223,000
Change in net unrealized gain on other-than-trading securities		500,600	2,616,100
Pension-related changes		3,091,800	4,288,700
Increase in unrestricted net assets	$	5,478,100	15,749,800

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2018 and 2017

	2018	2017
Unrestricted net assets:		
Excess (deficit) of revenue over expenses	$ 1,796,200	1,109,500
Contributions for property and equipment acquisition	89,500	223,000
Change in net unrealized gain on other-than-trading securities	500,600	2,616,100
Pension-related changes	3,091,800	4,288,700
Increase in unrestricted net assets	5,478,100	8,237,300
Temporarily restricted net assets:		
Gifts, grants, and bequests	1,430,500	1,171,500
Investment income	476,700	667,800
Net assets released from restrictions	(1,016,400)	(1,026,900)
Increase in temporarily restricted net assets	890,800	812,400
Permanently restricted net assets:		
Contributions for endowment funds	3,800	6,900
Increase in permanently restricted net assets	3,800	6,900
Change in net assets	6,372,700	9,056,600
Net assets, beginning of year	55,717,700	46,661,100
Net assets, end of year	$ 62,090,400	55,717,700

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 solely 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 discretely presented 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 statement.

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

(c) New Accounting Pronouncements

During the year ended June 30, 2018, OHSU adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75). This statement establishes standards of accounting and financial reporting for defined-benefit, other postemployment benefits (OPEB) and defined-contribution OPEB benefits that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. GASB 75 also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. While restatement of all prior periods was not practical because the actuarial information was not available, the cumulative effect of applying this statement is reported as an adjustment of beginning net position as of July 1, 2017. As of July 1, 2017, OHSU decreased beginning net position by $3,974.

Additionally, during the year ended June 30, 2018, OHSU adopted GASB Statement No. 81, *Irrevocable Split – Interest Agreements (GASB 81)*. GASB 81 provides accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. Irrevocable split-interest agreements are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments. GASB 81 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 new criteria requires reporting of OHSU's beneficial interest in irrevocable split-interest agreements, including those held by an intermediary such as an outside trust. The Foundations have lead income rights and remainder beneficiary rights in many internally and externally managed trusts. GASB 81 requires that the lead and remainder beneficial interest received be initially recorded at fair value as a deferred inflow of resources, and then revalued at the end of each financial reporting period with the change in fair value recognized as a change in deferred inflow. There is no change to the recording of any related remainder benefit liability owed by the Foundation where they are the trustee. Implementation of GASB 81 requires the Foundations to record revenue in the period in which it receives lead interest payments and at termination of the agreement for remainder interest payments. The Foundations previously reported revenue in the period where the irrevocable split-interest agreement were established. Retrospective application of GASB 81 is required. As a result of implementing GASB 81, the Foundations recorded deferred inflows of $31,919 and $29,120 at June 30, 2018 and 2017, respectively.

(d) Accounting Standards Impacting the Future

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations (GASB 83),* which is effective for reporting periods beginning after June 15, 2018. The objective of GASB 83 is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. GASB 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. GASB 83 requires that recognition occur when the liability is both incurred and reasonably estimable. The University is currently analyzing the impact of this statement.

In June 2017, GASB issued Statement No. 87, *Leases (GASB 87)*, which is effective for reporting periods beginning after December 15, 2019. The objective of GASB 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. 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 it has separate boards of directors and it does not provide services exclusively to OHSU. It is 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, revenue is 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, 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, 2018 or 2017.

(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) as a practical expedient. 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.

(Continued)

(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 2018 and 2017, OHSU capitalized interest expense of approximately $8,701 and $6,500, respectively. This was net of approximately $941 and $379, 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.
- 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.

(Continued)

(Dollars in thousands)

A summary of restricted funds by restriction category for fiscal years ended June 30, 2018 and 2017 is as follows:

		2018	2017
Restricted expendable:			
Research	$	595,298	643,644
Academic support		40,720	35,794
Instruction		38,225	33,036
Capital projects and planning		52,646	51,920
Student aid		52,123	52,205
Clinical support		12,939	11,611
Institutional support		3,340	3,056
Defined-benefit OPEB		1,389	—
Other		16,346	11,528
	$	813,026	842,794
Restricted nonexpendable:			
Research	$	32,406	29,200
Instruction		68,620	60,005
Clinical support		429	416
Public service		4,603	4,508
Academic support		80,614	77,877
Student aid		44,316	42,585
Other		18,943	17,317
	$	249,931	231,908

(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, 2018 and 2017.

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 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 quasiendowment 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, 2018 and 2017, the fair value of investments in the endowment fund was $651,900 and $592,000, respectively. The fair value of the unspent portion of endowments in excess of corpus at June 30, 2018 and 2017 was $59,600 and $47,700, respectively.

Spending distributions were not made for certain endowment accounts during 2018 and 2017 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, 2018 and 2017, the accumulated loss of $0 and $31, 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 nonoperating revenues 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, 2018 and 2017, the grants receivable balance was $36,025 and $18,856, 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, 2018 and 2017, the grants unearned revenue balance was $31,613 and $29,133, respectively; additionally, unearned revenue for the Knight Cancer Challenge State Grant of $7,217 and $123,302 was included in unearned revenue in the accompanying statements of net position as of June 30, 2018 and 2017, 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, 2018 and 2017 is as follows:

		2018	2017
Gross patient charges	$	4,958,597	4,441,078
Contractual discounts		(2,728,880)	(2,325,767)
Bad debt adjustments		(19,064)	(18,056)
Net patient service revenues	$	2,210,653	2,097,255

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.

During fiscal year 2018, OHSU partnered with the State of Oregon (the State) and created an innovative collaboration leveraging significant federal funding for Oregon’s Medicaid program. Through the Intergovernmental Transfer (IGT) partnership with the State this program enabled support for OHSU’s research and education missions and in fiscal year 2018 the program generated $97.5 million. The legislature approved the program in the Oregon Health Authority’s 2017–2019 budget and Oregon’s OHSU IGT Program was approved by Centers for Medicare and Medicaid Services (CMS) and implemented on January 1, 2018. By reducing OHSU’s losses from the Medicaid program, the IGT

(Continued)

(Dollars in thousands)

program enables OHSU to fund research and education missions. This new approach replaces several of OHSU's previous funding mechanisms and ended OHSU's participation in Oregon's provider tax.

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 $104 and $410 for the years ended June 30, 2018 and 2017, respectively, as a result of final settlements of prior years' cost reports and revisions of estimates for prior years cost report settlements.

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

Significant concentrations of gross patient accounts receivable as of June 30, 2018 and 2017 were approximately as follows:

	2018	2017
Medicare and Medicare managed care contracts	25 %	24 %
Medicaid and OHP	20	23
Commercial and managed care insurance	53	51
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, 2018 and 2017 is as follows:

		2018	2017
Gross student tuition	$	86,521	82,630
Exemptions		(12,546)	(12,924)
Student tuition and fees revenues, net	$	73,975	69,706

(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.

(Continued)

OHSU maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. Charity care provided measured as charges forgone and based on established rates was $45,537 and $39,909 in 2018 and 2017, respectively.

(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. The Foundations have investments with a fair value of $56,500 and $53,600 as at June 30, 2018 and 2017, respectively, related to its individually managed life income agreements.

(w) Moda Note Receivable

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 $50,000 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, which is 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 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 given a recent federal appeals court ruling in June 2018, which reversed a $214,000 judgment Moda won against the federal government in the previous year. Moda's case centered on the federal government's obligations under the risk corridor program.

(Continued)

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 $16,500 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. However, the Oregon insurance commissioner has not allowed payment of interest under the surplus note during 2018 or 2017 based on Moda's financial position and historical negative operating results.

OHSU reviewed the valuation of the note as of June 30, 2018 and 2017 and has retained the current net valuation of $33,500, which represents 1.00% and 1.07% of the University's total net position as of June 30, 2018 and June 30, 2017, respectively.

(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*

(Dollars in thousands)

Investment Pools. Changes in the fair value of investments are included in nonoperating revenues. The composition of investments at fair value at June 30, 2018 and 2017 is as follows:

	2018	2017
Short-term investments:		
Cash and cash equivalents	$ 409	480
Mutual funds	138,980	127,990
U.S. government securities	2,145	3,687
U.S. agency securities	785	1,712
Corporate obligations	79,924	57,893
Fixed income	90,522	104,093
	312,765	295,855
Funds held by trustee, current portion:		
Fixed income	48,893	275,447
	48,893	275,447
Funds held by trustee – less current portion:		
Fixed income	12,734	12,644
	12,734	12,644
Long-term investments – less current portion:		
Cash and cash equivalents	22,771	29,246
U.S. government securities	313,149	297,023
U.S. agency securities	21,879	28,081
Corporate obligations	406,642	323,834
Fixed income	115,823	102,291
Equities	362,749	419,322
Alternative investments	215,177	210,807
Joint ventures and partnerships	280,071	149,787
Real estate investments and other	34,620	13,033
	1,772,881	1,573,424
Total investments, all categories	$ 2,147,273	2,157,370

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

(Continued)

(Dollars in thousands)

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

The following table presents a categorization, based on the foregoing valuation hierarchy, of OHSU's financial instruments measured at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Fair value
Cash and money market funds	$ —	126,433	—	126,433
U.S. government securities	—	315,294	—	315,294
U.S. agency securities	—	22,664	—	22,664
Domestic equity securities	85,383	—	134	85,517
International equity securities	43,694	—	—	43,694
Commercial paper	—	9,508	—	9,508
U.S. corporate securities	—	337,807	—	337,807
Non-U.S. corporate securities	—	148,758	—	148,758
Asset-backed securities	—	58,023	—	58,023
Venture capital and private equity	—	—	47,354	47,354
Mutual funds – fixed income only	85,351	6,045	—	91,396
Municipal bonds	—	5,622	—	5,622
Other fixed income	—	1,633	—	1,633
Mutual funds – other	138,980	—	—	138,980
Real estate investments and other	1,209	1,797	5,382	8,388
	$ 354,617	1,033,584	52,870	1,441,071
Investments measured using NAV per share or its equivalent				667,293
Equity-method investments				38,909
Total assets				$ 2,147,273

(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

There were no transfers of financial instruments between Level 1 or Level 2 classifications either in 2018 or 2017. Changes in Level 3 financial instruments are as follows:

	2018	2017
Balance at beginning of year	$ 5,558	6,027
Net realized losses	(132)	(202)
Net unrealized gains	108	29
Purchases	47,371	32
Sales	(35)	(4,495)
Contributions	—	4,167
Balance at end of year	$ 52,870	5,558

(Continued)

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

OHSU uses a practical expedient for the estimation of the fair value of investments in funds for which the investment does not have a readily determinable fair value. The practical expedient used by OHSU for certain financial instruments is the NAV per share. Valuations provided by fund administrators for these financial instruments consider variables such as the financial performance of underlying investments, recent sales prices and other pertinent information. The valuation is adjusted when changes to inputs and assumptions are corroborated by evidence, such as completed or pending third-party transactions in the underlying security and changes in financial results, data, or cash flows. Management or its discretionary investment partner reviews the valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates 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, 2018 and 2017:

	Redemption frequency	Redemption notice period	
Public equity	Weekly to four years	3–90 days	**(1)**
Private equity	Event driven	N/A	
Natural resources	Event driven	N/A	
Real estate	Event driven	N/A	
Hedge funds	Monthly to annually	15–95 days	**(2)**

(1) Parvus has a two to four-year lockup (varies by tranche); otherwise, all are monthly or less. Himalaya lockup expires 11/30/2019.

(2) Most are available monthly, quarterly, or annually

Domestic equities, non-U.S. equities, global equities, and natural resources funds represent investments in equities, both in the United States and international, and may include investments in developed and emerging markets.

(Dollars in thousands)

(3) Investments and Related Policies

(a) Interest Rate Risk

As of June 30, 2018 and 2017, OHSU had the following investments and maturities at fair value:

	2018 Maturity				
	Less than 1 year	**1–5 Years**	**6–10 Years**	**More than 10 years or none**	**Total**
Cash and money market funds	$ 123,884	2,549	—	—	126,433
U.S. government securities	4,943	301,671	7,470	1,210	315,294
U.S. agency securities	785	12,889	4,685	4,305	22,664
Domestic equity securities	—	—	—	125,746	125,746
International equity securities	—	—	—	237,002	237,002
Commercial paper	9,508	—	—	—	9,508
U.S. corporate securities	68,757	257,188	9,664	2,198	337,807
Non-U.S. corporate securities	24,352	122,196	1,965	245	148,758
Asset-backed securities	19,221	24,163	1,359	13,280	58,023
Joint ventures and partnerships	—	—	—	280,071	280,071
Mutual funds – fixed income only	32,170	26,237	21,128	10,400	89,935
Municipal bonds	87	4,058	1,015	462	5,622
Other fixed income	—	1,299	334	—	1,633
Mutual funds, other	—	—	—	138,980	138,980
Alternative investments	—	—	—	215,177	215,177
Real estate investments and other	—	—	—	34,620	34,620
	$ 283,707	752,250	47,620	1,063,696	2,147,273

(Dollars in thousands)

	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

OHSU held $58,023 and $43,555 of asset-backed securities collateralized primarily by auto loans, credit card receivables, and collateralized mortgage obligations as of June 30, 2018 and 2017, 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.

At June 30, 2018 and 2017, 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

(Continued)

achieving growth of corpus. OHSU investment policies are established based on the investment objectives of the portfolio. Each portfolio has its own board-authorized asset allocation guidelines. The objective for the current fund is to provide a reliable source of liquidity to meet short-term working capital needs. The current fund may invest in cash, cash equivalents, fixed-income securities, equity mutual funds and exchange-traded funds, and quasiendowment within the endowment fund. The duration of the C/F one- to five-year portfolio shall be within a range of 75% to 125% of the Barclay's one- to five-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. The charitable gift annuity pool seeks to produce a relatively predictable and stable payout stream that will satisfy the funds distribution obligations while achieving long-term capital appreciation of the overall fund balance. The charitable gift annuity pool may invest in cash and cash equivalents, U.S. and non-U.S. equities, fixed income, and real estate. Charitable trusts are managed to provide for the distribution of a stated income payment while attempting to achieve reasonable expected total returns. 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 minimum ratings or better from S & P's, Moody's, or Fitch as follows:

	Minimum S&P's rating	Minimum Moody's rating	Minimum Fitch rating
U.S. and foreign corporate indebtedness	BBB- or A-2	Baa3 or P-2	BBB- or F-2
Certificates of deposit	BBB- or A-2	Baa3 or P-2	BBB- or F-2
Foreign government, foreign agency, or supranational organization debt	A or A-1	A2 or P-1	A or F-1
Agency mortgage-backed securities	AAA	Aaa	AAA
Commercial mortgage-backed securities	AAA	Aaa	AAA
Asset-backed securities	AAA	Aaa	AAA
Municipal bonds	A	A2	A

At the time of purchase, securities must be rated by at least two of the three rating agencies. If the security is rated by all three agencies, the middle rating will apply. If only two ratings are available, then the lower rating will be used.

If the credit quality of a holding in the current fund declines so that it is below the level required as stated above, a decision will be made by the Investment Committee to hold or sell the security.

Investments in the charitable gift annuity pool shall have a minimum credit quality rating of Baa/BBB or an average credit rating of Baa/BBB for mutual funds or pooled funds and a minimum rating of A 1/P 1 for investments in commercial paper. The charitable trust investments generally have a minimum credit quality rating in investment grade Baa/BBB bond investments and a minimum rating of A 1/P 1 for investments in commercial paper. However, an individual trust may hold up to 9% of the portfolio in below-investment-grade investments.

(Continued)

(Dollars in thousands)

As of June 30, 2018 and 2017, OHSU had the following investments with credit rating at fair value:

Investment type	Credit rating S&P or equivalent		Total 2018	Total 2017
Cash and money market funds	AAA	$	2,926	3,139
	AA-		—	1,003
	A+		1,002	—
	A-1+		3,024	2,012
	A-1		11,809	10,367
	A-2		—	1,268
	Not rated		40,595	277,657
	NA		67,077	70,017
U.S. government securities	AAA		64,850	74,534
	AA+		236,046	223,852
	AA		1,525	2,324
	AA-		2,662	—
	A+		3,618	—
	A		1,677	—
	A-		508	—
	BBB		117	—
	BBB-		1,155	—
	B		3,135	—
U.S. agency securities	AAA		7,979	12,636
	AA+		14,686	17,158
	A-1+		3,431	2,925
	A-1		4,844	5,727
	A-2		746	748
	NA		486	—
U.S. corporate securities	AAA		1,238	649
	AA+		3,718	6,326
	AA		12,545	4,054
	AA-		24,153	20,449
	A+		19,119	20,513
	A		89,137	45,808
	A-		46,955	25,559
	BBB+		54,244	82,809
	BBB		76,238	28,479
	BBB-		6,155	11,052
	BB+		—	88
	BB		1,320	73
	BB-		—	37
	B+		—	13

(Continued)

(Dollars in thousands)

Investment type	Credit rating S&P or equivalent	Total 2018	Total 2017
	B	$ 324	21
	Below B	37	21
	Not Rated	612	258
	n/a	2,013	1,075
Non-U.S. corporate securities	AAA	4,922	315
	AA+	—	33
	AA	—	47
	AA-	25,449	21,369
	A+	24,009	29,024
	A	55,760	37,557
	A-	8,620	11,354
	BBB+	11,145	9,238
	BBB	10,621	12,139
	BBB-	7,021	8,956
	BB+	—	629
	BB	—	525
	BB-	—	265
	B+	—	93
	B	—	151
	Below B	—	151
	A-2	—	1,493
	Not Rated	567	95
	NA	645	1,006
Asset-backed securities	AAA	37,053	24,190
	AA+	193	3,107
	AA	2,528	151
	AA-	—	61
	A+	—	36
	A	880	380
	A-	—	35
	BBB+	—	23
	BBB	156	18
	BBB-	—	84
	BB+	—	6
	BB	46	11
	BB-	—	10
	B+	—	57

(Continued)

(Dollars in thousands)

Investment type	Credit rating S&P or equivalent	Total 2018	Total 2017
	B	$ 50	118
	Below B	1,368	604
	A-1+	5,138	5,167
	Not rated	852	823
	NA	9,760	8,675
Mutual funds – fixed income only	AAA	56,904	60,574
	AA	4,917	6,145
	A	7,892	16,134
	BBB	8,540	8,645
	BB	3,136	3,557
	B	3,369	2,497
	Below B	2,282	2,059
	Not rated	2,893	1,452
Municipal bonds	AAA	1,874	114
	AA+	—	391
	AA	2,236	807
	AA-	—	551
	A+	—	1,540
	A	1,513	—
Other fixed income	AAA	—	6
	BBB	342	135
	BB	760	650
	B	524	508
	Below B	5	1
	Not Rated	1	16
Joint ventures and partnerships	NA	280,071	149,787
Mutual funds – other	NA	138,980	127,990
Alternative investments	NA	215,177	210,807
Real estate investments and other	NA	34,620	13,033
Domestic equity securities	NA	125,746	157,329
International equity securities	NA	237,002	261,995
		$ 2,147,273	2,157,370

(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. government, which may be held without limitation, or U.S. government agencies limited to 15% (without limit prior to policy amendment). The current fund's investment policy limits investments in any issuer or issuer as follows:

	Maximum concentration
U.S. and foreign corporate indebtedness	No more than 3% per issuer
Certificates of deposit	No more than 5% per issuer
Foreign government, foreign agency, or supranational organization debt	No more than 5% per issuer
Agency mortgage-backed securities	No more than 15% per cusip
Commercial mortgage-backed securities	No more than 5% per cusip
Asset-backed securities	No more than 5% per cusip
Municipal bonds	No more than 5% per cusip

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 Foundations' policies relating to the charitable gift annuity pool limit investments in any one issue to a maximum of 5%, except for issues of the U.S. government and its agencies or diversified mutual funds, which may be held without limitation. The Foundations' investment policy for charitable trusts limits investments in any one issue to a maximum of 5%, 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, 2018 or 2017, 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 endowment fund allows for investments in international equities and in non-U.S. dollar–denominated bonds. The current fund allows up to 20% of the portfolio to be invested in non-U.S. sovereign or supranational issues. The charitable gift annuity pool investment policy allows 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:

(Dollars in thousands)

Foreign currency		Value (U.S. dollar) 2018	2017
British sterling pound	$	5,265	—
Canadian dollar		7,228	3,961
Euro		4,462	3,853
Total	$	16,955	7,814

(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. A summary of the balances as of June 30, 2018 and 2017 is as follows:

		Due from contractual agencies		Due to contractual agencies		Net, due from (to)	
		As of June 30, 2017	As of June 30, 2018	As of June 30, 2017	As of June 30, 2018	As of June 30, 2017	As of June 30, 2018
Medicaid	$	33,156	18,693	—	—	33,156	18,693
Intergovernmental transfer		—	77,295	—	(73,136)	—	4,159
Medicare		—	—	(4,578)	(647)	(4,578)	(647)
Other contractual agencies		10,372	4,420	—	—	10,372	4,420
	$	43,528	100,408	(4,578)	(73,783)	38,950	26,625

In 2017, OHSU worked with the state legislature and the Oregon Health Authority to build a new program that would leverage additional federal funds for the state's Medicaid program, maintain historical principles of support for OHSU's missions, and simplify the complexity of prior funding programs between OHSU and the State. The legislature approved the program in the Oregon Health Authority's 2017–2019 budget and Oregon's OHSU Intergovernmental Transfer (IGT) Program was approved by the U.S. Centers for Medicare and Medicaid Services (CMS) and implemented on January 1, 2018, with the corresponding funding payments between entities beginning in March 2018. Under this new IGT program, OHSU no longer pays the hospital tax paid by other hospitals in Oregon. Instead, because OHSU is an Oregon public corporation, it transfers funds directly to the state to be used for Oregon's Medicaid program. The federal government matches funds used in the Medicaid program on approximately a three-to-one basis.

(Dollars in thousands)

Oregon's Medicaid coordinated care organizations (CCO's) pay OHSU an additional amount per clinical service provided to patients as Quality and Access payments. These additional payments have been approved by CMS and are funded through a combination of OHSU's IGT and federal dollars. The purpose of these funds is to maintain access to the high quality unique academic health center services OHSU provides to Medicaid patients.

During fiscal year 2018, OHSU made intergovernmental transfers of $71,850 to the State of Oregon. The State of Oregon used these dollars, and the corresponding federal match, for payment of Medicaid services throughout Oregon. Oregon's Medicaid CCO's paid OHSU $113,946 through Quality and Access payments.

(5) Capital Assets

Capital assets for fiscal years ended June 30, 2018 and 2017 are listed by category below:

		2018	2017
Land and land improvements	$	83,645	79,580
Buildings and other improvements		2,123,230	2,047,035
Equipment		986,769	940,085
Construction in progress		523,114	255,019
Accumulated depreciation		(1,707,194)	(1,578,979)
Total capital assets, net	$	2,009,564	1,742,740

(Dollars in thousands)

The following is a summary of capital assets for the fiscal years ended June 30, 2018 and 2017:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not depreciated:				
Land and land improvements	$ 79,580	4,065	—	83,645
Construction in progress	255,019	394,014	(125,919)	523,114
Total capital assets not depreciated	334,599	398,079	(125,919)	606,759
Other capital assets:				
Buildings and other improvements	2,047,035	76,284	(89)	2,123,230
Equipment	940,085	69,788	(23,104)	986,769
Total other capital assets	2,987,120	146,072	(23,193)	3,109,999
Less accumulated depreciation:				
Buildings and other improvements	$ (868,826)	(83,068)	89	(951,805)
Equipment	(710,153)	(68,027)	22,791	(755,389)
Total accumulated depreciation	(1,578,979)	(151,095)	22,880	(1,707,194)
Other capital assets, net	1,408,141	(5,023)	(313)	1,402,805
Total capital assets, net	$ 1,742,740	393,056	(126,232)	2,009,564

(Continued)

(Dollars in thousands)

	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
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

(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, 2018, there were 904 participating employers.

PERS is administered in accordance with ORS Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a). The State's 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 State's PERS's Comprehensive Annual Financial Report and Actuarial Valuations may be obtained from the PERS Web site at www.oregon.gov/pers/EMP/Pages/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 Cost of Living Adjustments (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.

(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 five 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 12.54% from July 1, 2015 to June 30, 2017 and 14.98% from July 1, 2017 to June 30, 2019. The employer contribution rate for OPSRP was 6.61% (OPSRP Police and Fire, 10.72%) from July 1, 2015 to June 30, 2017, and 7.86% (OPSRP Police and Fire, 12.63%) from July 1, 2017 to June 30, 2019.

Employer contribution rates during the period were based on the December 31, 2015 actuarial valuation. The rates were based on a percentage of payroll and first became effective July 1, 2017. 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. OHSU made a $10,000 lump-sum payment to PERS during fiscal year 2018. Amounts contributed post measurement date, which in fiscal year 2018 included the $10,000 side account contribution, are recorded as deferred outflows in the amount of $47,087 and $30,809 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 is $424,000 and $526,200, respectively, utilizing a June 30, 2017 and 2016 measurement date, respectively. The net pension liability for the June 30, 2018 and 2017 fiscal year-end was determined based on the results of the December 31, 2015 and December 31, 2014 actuarial valuation rolled forward to the respective measurement dates using standard actuarial procedures.

The results of the December 31, 2015 actuarial valuation reflect the Oregon Supreme Court ruling 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 COLA through Senate bills 822 and 861.

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 3.15% for the June 30, 2017 measurement date and 3.51% for the June 30, 2016 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, 2018 and 2017 was $76,587 and $85,277, 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 7.5% 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.

(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, 2018 and 2017:

	Deferred outflow of resources		Deferred inflow of resources	
	2018	**2017**	**2018**	**2017**
Differences between expected and actual experience	$ 20,505	17,409	—	—
Changes of assumptions	77,288	112,226	—	—
Net difference between projected and actual earnings on pension plan investments	4,367	103,955	—	—
Changes in proportionate share	—	—	(46,547)	(29,211)
Differences between contributions and OHSU's proportionate share of system contributions	—	—	(5,531)	(6,881)
Total (prior to post-MD contributions)	102,160	233,590	(52,078)	(36,092)
Contributions subsequent to the measurement date	47,087	30,809	—	—
Gross deferred outflow (inflow) of resources	$ 149,247	264,399	(52,078)	(36,092)

The contributions made subsequent to the measurement date of $47,087 will be recognized as a reduction in the net pension liability during the year ending June 30, 2019.

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	
2019	$ (5,310)
2020	(39,846)
2021	(23,769)
2022	17,724
2023	1,119
Total	$ (50,082)

(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, 2018.

Valuation date	December 31, 2015
Measurement date	June 30, 2017
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	2.50% 7.50% 7.50% 3.50% Blend of 2% COLA and graded COLA (1.25%/0.15%) in accordance with *Moro* case 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.

The following methods and assumptions were used in developing total pension liability 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 Long-term expected rate of return Discount rate Projected salary increases COLA	2.50% 7.50% 7.50% 3.50% 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.

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, 2018 and June 30, 2017, was based on the 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, 2017 and 2016 was 7.50%. 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 Sensitivity – Net Pension Liability
(Dollars in thousands)

OHSU's proportionate share		1% Decrease	Current discount rate	1% Increase
June 30, 2018	$	722,573	424,000	174,337
June 30, 2017		849,637	526,200	255,863

(Dollars in thousands)

(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 is the OPERF, which comprises the defined-benefit pension plan, the Individual Account Program, 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.

(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, 2017*

Asset class/strategy	OIC policy low range	OIC policy high range	OIC target allocation	Asset class/strategy	Actual allocation
Cash	— %	3.0 %	— %	Cash	4.1 %
Debt securities	15.0	25.0	20.0	Debt securities	19.2
Public equity	32.5	42.5	37.5	Public equity	38.8
Real estate	9.5	15.5	12.5	Real estate	11.2
Private equity	14.0	21.0	17.5	Private equity	19.4
Alternative equity	—	12.5	12.5	Alternative equity	5.3
Opportunity portfolio[1]	—	3.0	—	Opportunity portfolio[1]	2.0
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.

(Dollars in thousands)

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, 2016:

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 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.

(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.

(Dollars in thousands)

Asset class	2018 Target allocation*	2018 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	1.30	6.99
Micro cap U.S. equities	1.30	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
	100.00 %	

* 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	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	1.30	6.99
Micro cap U.S. equities	1.30	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
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
	100.00 %	

* 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.

(b) Other Retirement Plans

In addition to the PERS defined benefit retirement plan, OHSU has three defined-contribution plans – the PERS IAP, the 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 2018 and 2017, all employer contributions to the plan were 6% of salary.

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 American Federation of State, County and Municipal Employees (AFSCME) represented employees, were eliminated per a Memorandum of Understanding of the July 19, 2015–June 30, 2019 collective bargaining agreement, which states that 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 July 1, 2015–June 30, 2018 collective bargaining agreement, which states that 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.

(Dollars in thousands)

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.

		2018	2017
UPP:			
Employer contribution	$	37,551	35,560
Employee contribution [1]		24,185	23,241
	$	61,736	58,801
CRP:			
Employer contribution	$	26,308	24,051
	$	26,308	24,051

[1] Of the employees' share, the employer paid $24,185 and $23,241 related to noncollective bargaining employees and ONA-represented employees in fiscal years 2018 and 2017, respectively.

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

The Foundations have defined-contribution plans available for substantially all employees. The plans are funded through the purchase of a group annuity contract with an insurance company at a discretionary amount equal to 12% of eligible compensation. Contributions are fully vested after five years. The Foundations contributed $1,000 and $900 for the purchase of retirement annuities during the fiscal years ended June 30, 2018 and 2017, respectively.

(8) Postemployment Benefits Other than Pensions (OPEB)

OHSU administers a single-employer, defined-benefit healthcare plan for qualified employees and postemployment healthcare for retiring employees eligible to receive medical coverage. Additionally, for

(Continued)

(Dollars in thousands)

eligible PERS members, PERS administers the Retirement Health Insurance Account (RHIA) cost-sharing, multiple-employer defined-benefit OPEB plan.

(a) Single-Employer, Defined-Benefit Plans

(i) Plan Description

OHSU provides retiree health program coverage to current and future retirees of OHSU who qualify for retirement. Members who terminate prior to retirement eligibility or are not participating in the plan at retirement are not eligible to participate in the program. The employee must be actively enrolled in an OHSU medical plan at the time of separation from OHSU.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

(ii) Employees Covered by Benefit Terms

The plan provides access for retiring employees to OHSU's employee medical plans at the same premium rates assessed to active employees. As of the measurement date of October 1, 2017, the following employees were covered by the benefit terms.

	October 1, 2017
Active employees	13,018
Retired members and others, receiving benefits	101
Total participants	13,119

(iii) Benefit Payments

Benefit payments made for the fiscal year end June 30, 2018 were $663.

(iv) Total OPEB Liability

The total OPEB liability as of June 30, 2018 is $12,506 determined by an actuarial valuation as of October 1, 2017 and is included in other noncurrent liabilities in the accompanying statements of net position.

(Continued)

(Dollars in thousands)

(v) Actuarial Assumptions and Other Inputs

The following methods and assumptions were used in developing the total OPEB liability.

Fiscal year ending	**June 30, 2018**
Valuation date	October 1, 2017
Measurement date	October 1, 2017
Reporting date	June 30, 2018
Experience study report	2016 Oregon PERS Experience Study Based on January 1, 2013 to December 31, 2016
Inflation	2.50 %
Discount rate	3.64

(vi) Expense and Deferred (Inflows)/Outflows of Resources Related to OPEB

The OPEB expense, which is considered concurrent period interest cost, service cost, amortization of deferred outflows and inflows, and effect of plan changes, was $1,140 for the year ended June 30, 2018.

As of June 30, 2018 the deferred inflows and outflows of resources were as follows:

		Deferred outflow of resources	**Deferred inflow of resources**
Deferred inflows/outflow of resources:			
Differences between expected and actual experience	$	—	—
Changes of assumptions		—	(709)
Total (prior to post measurement date contributions)		—	(709)
Contributions made subsequent to measurement date		205	—
Gross deferred outflow/(inflow) of resources as of June 30, 2018	$	205	(709)

The contributions made subsequent to the measurement date of $205 will be recognized as a reduction in the total OPEB liability during the year ending June 30, 2019.

(b) Cost-Sharing, Multiple-Employer Defined-Benefit Plans

(i) Plan Description

ORS 238.420 established the RHIA. RHIA is a cost-sharing, multiple-employer OPEB plan for 904 participating employers. The plan was closed to new entrants hired on or after August 29, 2003.

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:
www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx.

(ii) Benefits Provided

The plan authorizes a payment of up to sixty dollars from RHIA toward the monthly cost of health insurance for eligible PERS members.

(iii) Contributions

Contributions are advance-funded on an actuarially determined basis. The contractually required contributions for retiree healthcare liabilities for the period July 1, 2017 through June 30, 2019 are 0.43% of all PERS-covered salaries to amortize the unfunded actuarial accrued liability and 0.07% of PERS-covered salaries for Tier One and Tier Two members normal cost portion of RHIA benefits. These rates were based on the December 31, 2015 actuarial valuation.

Contributions to the OPEB plan from OHSU were $1,656 and $1,545 for the years ended June 30, 2018 and June 30, 2017, respectively. Employees are not required to contribute to the OPEB plan.

(iv) OPEB Asset/(Liability), OPEB Expense/(Income), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At fiscal year ended June 30, 2018, OHSU reported an asset of $1,389 for its proportionate share of the net OPEB asset/(liability). The net OPEB asset/(liability) was measured as of June 30, 2017 and the total OPEB asset/(liability) used to calculate the net OPEB asset/(liability) was determined by an actuarial valuation as of December 31, 2015. OHSU's proportion of the net OPEB asset/(liability) was based on a projection of OHSU's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating members, actuarially determined. At the June 30, 2017 measurement date, OHSU's proportionate share was 3.33%.

The OPEB expense/(income), which is considered concurrent period interest cost, service cost, amortization of deferred outflows and inflows, and effect of plan changes, was $(3), for the year

(Continued)

(Dollars in thousands)

ended June 30, 2018. As of June 30, 2018, the deferred inflows and outflows of resources were as follows:

	Deferred outflow of resources	Deferred inflow of resources
Deferred inflows/outflow of resources:		
Differences between expected and actual experience	$ —	—
Changes of assumptions		
Net difference between projected and actual earnings on investments	—	(643)
Changes in proportionate share	—	(27)
Differences between employer contributions and employer's proportionate share of system contributions	—	—
Total (prior to post measurement date contributions)	—	(670)
Contributions made subsequent to measurement date	151	—
Gross deferred outflow/(inflow) of resources as of June 30, 2018	$ 151	(670)

The contributions made subsequent to the measurement date of $151 will be recognized as a reduction in the total OPEB liability during the year ending June 30, 2019.

(Continued)

(Dollars in thousands)

(v) Actuarial Assumptions and Other Inputs

The total OPEB liability/(asset) in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Fiscal year	June 30, 2018
Valuation date	December 31, 2015
Measurement date	June 30, 2017
Reporting date	June 30, 2018
Experience study report	2014, published September 23, 2015
	Based on data for the experience period
	January 1, 2011 to December 31, 2014
Actuarial assumptions:	
Actuarial cost method	Entry age normal
Inflation rate	2.50 %
Long-term expected rate of return	7.50
Discount rate	7.50

(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, 2018 and 2017, is as follows:

	2018	2017
Debt Service Payment Agreement (DSPA)	$ 5,864	7,657
Tenancy in Common Agreement (TIC)	25,258	25,813
Bonds payable, revenue bonds, Series 1995A	41,023	38,678
Bonds payable, revenue bonds, Series 2012A, B, C, and E	281,418	283,585
Bonds payable, revenue bonds, Series 2015A and B	138,380	139,460
Bonds payable, revenue bonds, Series 2015C	100,000	100,000
Bonds payable, revenue bonds, Series 2016A and B	269,015	270,012
Bonds payable, revenue bonds, Series 2017A and B	120,152	120,369
Local improvement district agreements	16,961	18,816
Capital leases	3,580	4,299
Less current portion of debt and capital leases	(24,260)	(6,504)
	$ 977,391	1,002,185

(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 2007 Bonds included as part of the State DSPA with the 2017 Series I Bonds, which resulted in decreased debt service payments over time. 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 – Robertson 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 Robertson Life Sciences Building (previously referred to as the Collaborative Life Sciences Building) 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 Robertson Life Sciences Building, 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, in fiscal year 2017, the State refunded a portion of the 2011 Series G Bonds with the 2017 Series I Bonds, which resulted in decreased debt service payments over time. 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, 2018 through July 1, 2021 requiring semiannual interest payments with outstanding rate of 5.75%. 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 1995 Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenue. 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, 2018 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 bonds 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. The Series 2015A refunded the 2012B 1 and 2012B 2 bonds. The Series 2015A was issued as direct placement variable rate bonds, with maturities due beginning July 1, 2040 to July 1, 2042. The Series 2015B refunded the Series 2012D bonds. The Series 2015B was issued as direct placement variable rate bonds, with and has remaining outstanding maturities due July 1, 2018 to July 1, 2032. No economic gain or loss was incurred as a result of this restructuring. The 2015 Revenue Bonds 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.

(Continued)

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 2.30%. 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 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.

The Series 2009A Revenue Bonds, which were advance refunded in fiscal year 2016, were fixed rate bonds with maturities due beginning July 1, 2033 through July 1, 2039. The amount of in-substance defeased debt outstanding as of June 30, 2018 is $158,505. The Series 2009A bonds are considered to be defeased in substance and the liability related to these bonds has been removed 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. The funds held in escrow for the refunding of the Series 2009A as of June 30, 2018 is $168,152.

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, 2018 and 2017 are $21,839 and $23,037, respectively.

In fiscal year 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.

(Continued)

(Dollars in thousands)

Additionally, in fiscal year 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.

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, 2018 and 2017:

2012BC and 2015AB variable rate debt as of June 30, 2018

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, 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			

(Dollars in thousands)

The letters of credit will fund any put made by bondholders that is not successfully remarketed. In the event the standby letter of credit funds a put by bondholders, no principal payments are due for 367 days.

The indenture and other loan agreements contain, among other things, provisions placing restrictions on additional borrowings and leases and require the maintenance of days cash of hand and debt service coverage ratio. Management believes that it is in compliance with its debt covenants.

(d) Local Improvement District Assessments

OHSU initially entered into various local improvement district agreements (LIDs) with the City of Portland, Oregon during fiscal years 2007 and 2008 for real improvements to Portland's South Waterfront District, of which $30,000 of the initial debt is considered to be nonrecourse obligations to OHSU. During fiscal year 2012, OHSU entered into additional LIDs with the City of Portland for real improvements to the same Portland South Waterfront District for $4,807. All 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, 2018 and 2017 are $16,961 and $18,816, respectively, and have been included in long-term debt in the statements of net position.

(e) Interest Rate Swap Agreement

As of June 30, 2018, OHSU held one interest rate swap agreement with Wells Fargo Bank, NA. The balances of OHSU's swap as of June 30, 2018 and 2017 are as follows:

		Notional		Fair value	
		2018	2017	2018	2017
Wells Fargo swap	$	70,200	70,200	(6,272)	(10,592)
	$	70,200	70,200	(6,272)	(10,592)

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 Bank, NA. The swap has the option of early termination with a cash settlement. Under the swap agreement with Wells Fargo Bank, NA, OHSU makes fixed-rate interest payments of 2.51% and receives a variable-rate payment computed as 70.00% 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 $993 and $1,391 during the years ended June 30, 2018 and 2017, respectively.

OHSU's interest rate swap agreement with Wells Fargo Bank, NA was established when OHSU entered into an International Swaps and Derivatives Association 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.

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 Bank, NA swap was determined at the date of novation in fiscal year 2017 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, 2018 and 2017 is $14,501 and $15,130, 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 $8,529 and $9,730 as of June 30, 2018 and 2017, respectively.

The on-market value portion of the hedging derivative instrument for the Wells Fargo Bank, NA 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 $7,051 and $3,848 as of June 30, 2018 and 2017, respectively.

OHSU is exposed to swap credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2018 and 2017, the counterparties' long-term credit ratings were A+- 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.

(Continued)

(Dollars in thousands)

OHSU may be additionally responsible for posting collateral based on its credit ratings and if the total swap liability exceeds a predetermined value on its reporting date. Based on current credit ratings for OHSU 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.

(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 ending June 30:		
2019	$	985
2020		967
2021		948
2022		948
2023		16
		3,864
Less amount representing interest		(284)
		3,580
Less current portion		(866)
	$	2,714

(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 $998,071 and $1,004,390 as of June 30, 2018 and 2017, respectively. Included in long-term debt are unamortized net original issue discounts and premiums of $41,651 and $44,858 and accreted interest for the DSPA and 1995 Revenue Bonds of $32,942 and $31,551 as of June 30, 2018 and 2017, 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)

Principal and interest payments 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:				
2019	$	14,488	43,368	57,856
2020		14,836	43,162	57,998
2021		14,834	42,882	57,716
2022		15,489	42,697	58,186
2023		24,922	32,393	57,315
2024–2028		126,408	148,796	275,204
2029–2033		158,630	122,830	281,460
2034–2038		127,730	90,054	217,784
2039–2043		160,513	59,317	219,830
2044–2048		265,630	23,722	289,352
	$	923,480	649,221	1,572,701

Interest on variable rate debt has been projected forward based on trailing 12-month average interest rates.

(h) Changes in Long-Term Liabilities

Changes in OHSU's total long-term liabilities during the fiscal years ended June 30, 2018 is summarized below:

		Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Liability for self-funded insurance programs	$	62,414	30,611	(25,080)	67,945
Liability for life income agreements		23,933	5,635	(5,593)	23,975
Long-term debt		1,004,390	—	(6,319)	998,071
Long-term capital leases		4,299	126	(845)	3,580
Other noncurrent liabilities		31,963	6,699	(3,908)	34,754
Pension liability		526,200	—	(102,200)	424,000
	$	1,653,199	43,071	(143,945)	1,552,325

(Dollars in thousands)

		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

(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, including 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, 2018 and 2017:

	2018			
	Agreements		Asset	Liability
Charitable remainder unitrusts	5	$	2,813	949
Charitable gift annuities	6		113	54
Total	11	$	2,926	1,003

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

(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, 2018 and 2017 are as follows:

	2018		
	Agreements	Asset	Liability
Charitable remainder unitrusts	68	$ 24,136	8,685
Charitable lead unitrusts	2	21,096	8,935
Charitable remainder trust annuities	2	217	127
Charitable gift annuities	190	9,641	5,664
Life estate agreements	3	909	564
Total	265	$ 55,999	23,975

	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

Fifteen 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, 2018 and 2017, respectively. The reported fair market value of trust assets held by others was $50,000 and $48,200 of the years ended June 30, 2018 and 2017, respectively. The Foundations record contributions as trust distributions occur. Trust distributions of $1,800 and $2,300 were recorded as contributions during the fiscal years ended June 30, 2018 and 2017, respectively.

(Dollars in thousands)

(12) Pledges and Estates Receivables

The Foundations had the following pledges and estates receivable as of June 30, 2018 and 2017:

		2018	2017
Pledges maturing within 1 year	$	128,449	62,296
Pledges maturing within 2–10 years		417,770	547,975
		546,219	610,271
Less allowance for uncollectible pledges		(2,741)	(3,815)
		543,478	606,456
Less discount for net present value		(24,964)	(34,784)
Total net pledges receivable		518,514	571,672
Estates receivable		1,789	866
Less allowance for uncollectible estates		(89)	(44)
Total net estates receivable		1,700	822
Total pledges and estates receivable	$	520,214	572,494

(13) Commitments and Contingencies

(a) Liability for Self-Funded Insurance Programs

Coverage for professional liability, patient general liability, and automobile liability is 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 2018 and 2017 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
07/01/2017–06/30/2018		2,118	4,236

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. OHSU's membership interest was 33.1% and 44.0% as of June 30, 2018 and 2017, respectively.

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 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. The State Accident Insurance Fund also provides Employers Liability coverage in the amount of $500, without retention. The State Accident Insurance Fund policy was written as a paid loss retrospective plan until July 1, 2017 at which time it converted its coverage to a guaranteed cost plan. This paid premium is an estimate and varies with audited payroll. In addition, the State Accident Insurance Fund bills monthly for the prior year's claims paid losses. (2006 to June 2017), 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 (for years 2006 to June 2017) 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 $16,241 and $14,835 as of June 30, 2018 and 2017, 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 ONA. Approximately 38% of OHSU's employees are represented by the 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, 2021.

(e) Construction Contracts

OHSU had outstanding commitments on unexpended construction contracts totaling approximately $71,503 and $78,235 at June 30, 2018 and 2017, respectively. These commitments will be primarily funded from gifts, grants, funds held by trustee, and other investment accounts.

(Continued)

(Dollars in thousands)

(f) Legal Proceedings

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

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

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

(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 $21,720 and $20,267 in 2018 and 2017, respectively. The following is a schedule of future minimum rental commitments under operating leases as of June 30, 2018 and 2017 that have initial or remaining lease terms in excess of one year:

Year ending June 30:		
2019	$	18,772
2020		15,602
2021		14,926
2022		13,420
2023		9,127
Thereafter		30,433
	$	102,280

(h) 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 Tuality's operating income and will provide operating cash flow support. The initial term of the Tuality Agreement is 20 years and it may be renewed or extended by written agreement of the parties. The Tuality Agreement is subject to termination in the event of material breaches of the Tuality Agreement or for certain other reasons specified in the Tuality Agreement.

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

If in any fiscal year, Tuality's operating cash flow, 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, subject to any required reserves for estimates of collectibility. 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 Tuality Agreement.

For fiscal years 2018 and 2017, operating income support amounted to $7,236 and $10,560, respectively. The operating cash flow support, recorded as a note receivable, was $2,592 and $4,721 for the years ended June 30, 2018 and 2017, respectively. The total note receivable as of June 30, 2018 was $7,313.

(i) Adventist Health

On January 1, 2018, OHSU and Adventist Health entered into a Health System agreement, an operating agreement and an academic affiliation agreement. Under this affiliation, OHSU and Adventist Health will operate as a unified clinical system with a shared bottom line. The affiliation applies to OHSU's Portland-area clinical services and activities and Adventist Health Portland, which includes the 302-bed Adventist Health Portland Medical Center and its 34 affiliated clinics and home care and hospice services in the Portland-Vancouver metro area. The agreements do not include OHSU's nonmetro area clinical activities and services. The other 19 Adventist Health hospitals in the western United States are also excluded from the agreements. Each organization will retain its existing hospital licenses, capital assets, and employees and will not join each other's master trust indenture obligated group or otherwise guarantee each other's outstanding debt.

Each entity will continue to maintain its individual mission and culture but will together strive to transform access and the delivery of healthcare to Oregonians through a unified clinical enterprise and shared brand experience. A board of managers comprising representatives from each organization has been created to oversee the system.

The initial term of the Adventist Agreement is 20 years and it may be renewed or extended by written agreement of the parties. The Adventist Agreement is subject to termination in the event of material breaches or for certain other reasons specified in the Adventist Agreement.

The Adventist Agreement provides for the combined net operating results, including a mutually agreed-upon capital charge of the integrated Metro Health System to be apportioned to the parties consistent with the allocation method established in the Adventist Agreement. In fiscal year 2018, OHSU's allocation percentage is 90% and Adventist Health allocation percentage is 10%. The allocation percentage is used to determine the amount of the integrated Metro Health System net operating results or "net share" amount.

OHSU and Adventist Health's allocation amount is determined by multiplying the consolidated Metro Health System net operating results by such party's proportional allocation percentage, including the amount of such party's total capital charges (for the same period for which such allocation amount is determined). The result shall equal the party's net share of the Metro Health System earnings before interest, depreciation, and amortization (EBIDA).

OHSU and Adventist's net share for each period shall be compared to each party's actual metro clinical enterprise adjusted EBIDA for the same period. OHSU and Adventist Health agree that if a party's net share for a period is less than such party's metro clinical enterprise adjusted EBIDA for such period, such party shall pay to the other party the amount of the difference (net share payment). OHSU and Adventist agree that if a party's net share for a period is more than such party's metro clinical enterprise adjusted EBIDA for the same period, such party shall receive from the other party a payment in the amount of the difference (net share receivable). During the first five years of the agreement, a net share payment cap of $5,000 will be applied in any calendar year.

For fiscal year 2018, OHSU's support payment to Adventist amounted to $5,000 as the payment cap was met.

(Dollars in thousands)

(14) Blended Component Units

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

	2018						
	University	INSCO	UMG	OHSUF Foundation	DCH Foundation	Eliminations/ reclassifications	Total combined
Assets:							
Current assets	$ 1,037,394	9,571	10,852	156,468	5,292	(63,929)	1,155,648
Noncurrent assets:							
Capital assets, net of accumulated depreciation	2,009,125	—	176	263	—	—	2,009,564
Other noncurrent assets	733,359	48,749	—	1,362,354	85,461	—	2,229,923
Total noncurrent assets	2,742,484	48,749	176	1,362,617	85,461	—	4,239,487
Total assets	3,779,878	58,320	11,028	1,519,085	90,753	(63,929)	5,395,135
Deferred outflows	182,548	—	—	—	—	—	182,548
Total assets and deferred outflows	$ 3,962,426	58,320	11,028	1,519,085	90,753	(63,929)	5,577,683
Liabilities:							
Current liabilities	$ 514,138	833	2,964	82,036	397	(63,929)	536,439
Noncurrent liabilities	1,438,175	33,245	69	24,872	1,819	—	1,498,180
Total liabilities	1,952,313	34,078	3,033	106,908	2,216	(63,929)	2,034,619
Deferred inflows	62,673	—	—	110,885	2,215	—	175,773
Net position:							
Net investment in capital assets	1,160,140	—	—	263	—	—	1,160,403
Restricted, expendable	78,712	—	—	704,548	29,766	—	813,026
Restricted, nonexpendable	—	—	—	221,061	28,870	—	249,931
Unrestricted	708,588	24,242	7,995	375,420	27,686	—	1,143,931
Total net position	1,947,440	24,242	7,995	1,301,292	86,322	—	3,367,291
Total liabilities, deferred inflows and net position	$ 3,962,426	58,320	11,028	1,519,085	90,753	(63,929)	5,577,683

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)
Notes to Financial Statements
June 30, 2018 and 2017
(Dollars in thousands)

	2017 (as adjusted)						
	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	24,729	1,842	—	1,619,739
Total liabilities	2,055,809	29,011	2,929	106,740	2,436	(59,503)	2,137,422
Deferred inflows	42,480	—	—	100,989	2,184	—	145,653
Net position:							
Net investment in capital assets	997,348	—	—	383	—	—	997,731
Restricted, expendable	78,302	—	—	738,054	26,437	—	842,793
Restricted, nonexpendable	—	—	—	204,499	27,410	—	231,909
Unrestricted	627,233	27,932	6,892	354,793	22,298	—	1,039,148
Total net position	1,702,883	27,932	6,892	1,297,729	76,145	—	3,111,581
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)

Condensed combining information related to revenues, expenses, and changes in net position for the years ended June 30, 2018 and 2017 is as follows:

	2018						
	University	INSCO	UMG	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total combined
Operating revenues:							
Patient service revenue	$ 2,210,653	—	—	—	—	—	2,210,653
Student tuition and fees, net	73,975	—	—	—	—	—	73,975
Gifts, grants, and contracts	662,755	—	—	48,061	15,774	(113,238)	613,352
Other revenue	149,428	18,527	18,532	3,387	103	(37,899)	152,078
Total operating revenues	3,096,811	18,527	18,532	51,448	15,877	(151,137)	3,050,058
Operating expenses:							
Salaries, wages, and benefits	1,708,088	—	12,056	12,771	—	—	1,732,915
Defined-benefit pension	76,587	—	—	—	—	—	76,587
Services, supplies, and other	954,216	16,161	5,256	115,571	10,928	(151,289)	950,843
Depreciation and amortization	150,867	—	119	109	—	—	151,095
Interest	28,537	—	—	—	—	—	28,537
Total operating expenses	2,918,295	16,161	17,431	128,451	10,928	(151,289)	2,939,977
Operating income (loss)	178,516	2,366	1,101	(77,003)	4,949	152	110,081
Nonoperating revenues (expenses):							
Investment income and change in fair value of investments	24,233	(208)	2	62,031	4,765	—	90,823
State appropriations	37,026	—	—			—	37,026
Other	(297)	—	—	2,732	(715)	—	1,720
Total nonoperating revenues (expenses), net	60,962	(208)	2	64,763	4,050	—	129,569
Net income (loss) before other changes in net position	239,478	2,158	1,103	(12,240)	8,999	152	239,650
Other changes in net position:							
Contributions for capital and other	9,053	(5,848)	—	—	—	(152)	3,053
Nonexpendable donations	—	—	—	15,803	1,178	—	16,981
Total other changes in net position	9,053	(5,848)	—	15,803	1,178	(152)	20,034
Total increase (decrease) in net position	248,531	(3,690)	1,103	3,563	10,177	—	259,684
Net position – beginning of year, as adjusted	1,702,883	27,932	6,892	1,297,729	76,145	—	3,111,581
Adjustment to implementation of GASB Statement No. 75	(3,974)	—	—	—	—	—	(3,974)
Net position – end of year	$ 1,947,440	24,242	7,995	1,301,292	86,322	—	3,367,291

(Dollars in thousands)

	2017 (as adjusted)						
	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	—	—	74,426	18,417	(123,733)	554,830
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	78,103	18,649	(158,163)	2,848,775
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	(49,657)	6,584	(8,780)	48,555
Nonoperating revenues (expenses):							
Investment income and change in fair value of investments	28,739	278	2	76,513	6,408	—	111,940
State appropriations	35,560	—	—	—	—	—	35,560
Other	(255)	—	—	1,315	(803)	—	257
Total nonoperating revenues (expenses), net	64,044	278	2	77,828	5,605	—	147,757
Net income (loss) before other changes in net position	157,954	6,168	610	28,171	12,189	(8,780)	196,312
Other changes in net position:							
Contributions for capital and other	11,405	(10,599)	—	—	—	8,780	9,586
Nonexpendable donations	—	—	—	11,920	3,225	—	15,145
Total other changes in net position	11,405	(10,599)	—	11,920	3,225	8,780	24,731
Total increase (decrease) in net position	169,359	(4,431)	610	40,091	15,414	—	221,043
Net position – beginning of year, as adjusted*	1,533,524	32,363	6,282	1,257,638	60,731	—	2,890,538
Net position – end of year	$ 1,702,883	27,932	6,892	1,297,729	76,145	—	3,111,581

* FY17 beginning net position has been reduced due to implementation of GASB Statement No. 81 by $27,737. FY17 total increase in net positions has also been reduced by $1,383 from current year adjustments, for a total decrease in ending net position of $29,120.

(Dollars in thousands)

Condensed combining information related to cash flows for the years ended June 30, 2018 and 2017 is as follows:

	2018						
	University	INSCO	UMG	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total combined
Net cash provided by (used in) operating activities	$ 292,600	2,540	992	(37,191)	6,684	—	265,625
Net cash provided by noncapital financing activities	27,837	—	—	8,000	151	—	35,988
Net cash provided by (used in) capital and related financing activities	(450,649)	—	(22)	11	—	—	(450,660)
Net cash provided by (used in) investing activities	103,608	(2,090)	—	25,572	(5,895)	—	121,195
Net change in cash and cash equivalents	(26,604)	450	970	(3,608)	940	—	(27,852)
Cash and cash equivalents, beginning of year	43,330	2,952	7,692	24,379	2,417	—	80,770
Cash and cash equivalents, end of year	$ 16,726	3,402	8,662	20,771	3,357	—	52,918

	2017 (as adjusted)						
	University	INSCO	UMG	OHSUF Foundations	DCH Foundations	Eliminations/ reclassifications	Total combined
Net cash provided by (used in) operating activities	$ 331,259	(5,230)	1,644	(33,630)	2,102	—	296,145
Net cash provided by noncapital financing activities	11,365	—	—	34,449	2,007	—	47,821
Net cash used in capital and related financing activities	(214,855)	—	(108)	(384)	—	—	(215,347)
Net cash provided by (used in) investing activities	(347,697)	6,623	—	(16,468)	(4,111)	—	(361,653)
Net change in cash and cash equivalents	(219,928)	1,393	1,536	(16,033)	(2)	—	(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	$ 43,330	2,952	7,692	24,379	2,417	—	80,770

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]		2018	2017	2016	2015	2014
OHSU's proportion of the net pension (asset) liability (rounded)		3.15 %	3.51 %	3.98 %	4.26 %	4.26 %
OHSU's proportionate share of the net pension (asset) liability	$	424,000	526,200	228,337	(96,652)	217,598
Covered payroll		337,473	326,959	345,363	365,618	378,893
OHSU's proportionate share of the net pension (asset) liability as a percentage of covered payroll		125.64 %	160.94 %	66.12 %	(26.44)%	57.43 %
Plan fiduciary net position as a percentage of the total pension liability		83.10 %	80.50 %	91.90 %	103.60 %	92.00 %

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

Required Supplementary Information – Unaudited
Schedule of Defined-Benefit Pension Plan Contributions

(Dollars in thousands)

Year ended June 30[1]		2018	2017	2016	2015	2014
Contractually required contributions	$	37,087	30,809	31,353	30,250	29,868
Contributions in relation to the contractually required contributions		47,087	30,809	31,353	37,750	37,368
Contribution excess	$	(10,000)	—	—	(7,500)	(7,500)
OHSU's covered payroll	$	323,343	337,473	326,959	345,363	365,618
Contributions as a percentage of covered payroll		14.56 %	9.13 %	9.59 %	10.93 %	10.22 %

[1] Ten-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, 2018 with comparative totals for June 30, 2017

(Dollars in thousands)

	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2018	2017
Assets							
Current assets:							
Cash and cash equivalents	$ 18,107	10,682	28,789	24,129	—	52,918	80,770
Short-term investments	279,684	32,672	312,356	409	—	312,765	295,855
Current portion of funds held by trustee	30,626	18,267	48,893	—	—	48,893	275,447
Patients accounts receivable, net of bad debt allowances	410,898	2,299	413,197	—	—	413,197	346,464
Student receivables	—	22,255	22,255	—	—	22,255	24,432
Grant and contract receivable	—	75,845	75,845	—	—	75,845	44,080
Interest receivable	—	—	—	1,204	—	1,204	914
Current portion of pledges and estates receivable	—	—	—	129,510	—	129,510	61,983
Other receivables, net	28,113	68,373	96,486	6,237	(60,078)	42,645	29,203
Inventories, at cost	23,568	520	24,088	—	—	24,088	22,789
Prepaid expenses	16,721	15,335	32,056	272	—	32,328	27,140
Total current assets	807,717	246,248	1,053,965	161,761	(60,078)	1,155,648	1,209,077
Noncurrent assets:							
Capital assets, net of accumulated depreciation	969,430	1,039,871	2,009,301	263	—	2,009,564	1,742,740
Funds held by trustee – less current portion	10,582	2,152	12,734	—	—	12,734	12,644
Surplus Note - Moda	—	33,500	33,500	—	—	33,500	33,500
Long-term investments:	—	—	—	—	—		—
Long-term investments, restricted	—	30,668	30,668	622,400	—	653,068	622,534
Long-term investments, unrestricted	532,167	155,124	687,291	432,522	—	1,119,813	950,890
Total long-term investments	532,167	185,792	717,959	1,054,922	—	1,772,881	3,362,308
Prepaid financing costs, net	1,585	578	2,163	—	—	2,163	2,615
Pledges and estates receivable – less current portion	—	—	—	390,704	—	390,704	510,511
Restricted post employment benefit asset		1,389	1,389	—	—	1,389	—
Other noncurrent assets	11,248	3,116	14,364	2,188	—	16,552	10,768
Interest in the Foundations	—	1,387,614	1,387,614	—	(1,387,614)	—	—
Total noncurrent assets	1,525,012	2,654,012	4,179,024	1,448,077	(1,387,614)	4,239,487	523,894
Total assets	$ 2,332,729	2,900,260	5,232,989	1,609,838	(1,447,692)	5,395,135	5,095,279
Deferred outflows							
Deferred amortization of derivative instruments	$ 4,760	3,769	8,529	—	—	8,529	9,730
Loss on refunding of debt	21,536	2,241	23,777	—	—	23,777	25,248
Pension obligation	—	149,247	149,247	—	—	149,247	264,399
Goodwill	639	—	639	—	—	639	—
Other Postemployment Benefits (OPEB) obligation	—	356	356	—	—	356	—
Total deferred outflows	$ 26,935	155,613	182,548	—	—	182,548	299,377
Total assets and deferred outflows	$ 2,359,664	3,055,873	5,415,537	1,609,838	(1,447,692)	5,577,683	5,394,656

Schedule 1

OREGON HEALTH & SCIENCE UNIVERSITY

Combining Schedules of Net Position

Year ended June 30, 2018 with comparative totals for June 30, 2017

(Dollars in thousands)

	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2018	2017
Liabilities							
Current liabilities:							
Current portion of long-term debt	$ 13,668	9,726	23,394	—	—	23,394	5,659
Current portion of long-term capital leases	803	63	866	—	—	866	845
Current portion of self-funded insurance programs liability	—	29,885	29,885	—	—	29,885	26,956
Accounts payable and accrued expenses	77,637	59,732	137,369	22,084	—	159,453	137,326
Accrued salaries, wages, and benefits	16,518	73,540	90,058	—	—	90,058	83,682
Compensated absences payable	36,015	49,096	85,111	—	—	85,111	80,582
Unearned revenue	1,885	55,543	57,428	—	—	57,428	173,344
Other current liabilities	84,010	6,070	90,080	60,242	(60,078)	90,244	9,289
Total current liabilities	230,536	283,655	514,191	82,326	(60,078)	536,439	517,683
Noncurrent liabilities:							
Long-term debt – less current portion	626,385	348,292	974,677	—	—	974,677	998,731
Long-term capital leases – less current portion	2,597	117	2,714	—	—	2,714	3,454
Liability for self-funded insurance programs – less current portion	—	38,060	38,060	—	—	38,060	35,458
Liability for life income agreements	—	—	—	23,975	—	23,975	23,933
Pension Liability	—	424,000	424,000			424,000	526,200
Other noncurrent liabilities	8,093	23,838	31,931	2,823	—	34,754	31,963
Total noncurrent liabilities	637,075	834,307	1,471,382	26,798	—	1,498,180	1,619,739
Total liabilities	$ 867,611	1,117,962	1,985,573	109,124	(60,078)	2,034,619	2,137,422
Deferred inflows							
Deferred amortization of derivative instruments	$ 3,935	3,116	7,051	—	—	7,051	3,848
Gain on refunding of debt	1,090	1,075	2,165	—	—	2,165	2,540
Life income agreements	—	—	—	31,919	—	31,919	29,120
Pending funds	—	—	—	81,181	—	81,181	74,053
Pension obligation	—	52,078	52,078	—	—	52,078	36,092
Other Postemployment Benefits (OPEB) obligation	—	1,379	1,379	—	—	1,379	—
Total deferred inflows	$ 5,025	57,648	62,673	113,100	—	175,773	145,653
Net position							
Net investment in capital assets	$ 382,152	778,251	1,160,403	—	—	1,160,403	997,731
Restricted, expendable	—	813,026	813,026	734,314	(734,314)	813,026	842,794
Restricted, nonexpendable	—	249,931	249,931	249,931	(249,931)	249,931	231,908
Unrestricted	1,104,876	39,055	1,143,931	403,369	(403,369)	1,143,931	1,039,148
Total net position	$ 1,487,028	1,880,263	3,367,291	1,387,614	(1,387,614)	3,367,291	3,111,581
Total liabilities, deferred inflows and net position	$ 2,359,664	3,055,873	5,415,537	1,609,838	(1,447,692)	5,577,683	5,394,656

Schedule 2

OREGON HEALTH & SCIENCE UNIVERSITY

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

Years ended June 30, 2018 and 2017

(Dollars in thousands)

	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2018	2017
Operating revenues:							
Patient service revenue, net of bad debt adjustments of $19,064 in 2018 and $18,056 in 2017	$ 1,749,524	461,129	2,210,653	—	—	2,210,653	2,097,255
Student tuition and fees, net	—	73,975	73,975	—	—	73,975	69,706
State appropriations	1,327	35,699	37,026	—	(37,026)	—	—
Gifts, grants, and contracts	671	662,084	662,755	63,835	(113,238)	613,352	554,829
Other revenue	99,224	52,498	151,722	3,490	(3,134)	152,078	126,984
Research & education support	(97,500)	97,500	—	—	—	—	—
Total operating revenues	1,753,246	1,382,885	3,136,131	67,325	(153,398)	3,050,058	2,848,774
Operating expenses:							
Salaries, wages, and benefits	787,186	932,958	1,720,144	12,771	—	1,732,915	1,623,266
Defined benefit pension	—	76,587	76,587	—	—	76,587	85,277
Services, supplies, and other	740,734	150,534	891,268	126,499	(116,524)	901,243	828,113
Provider tax	49,600	—	49,600	—	—	49,600	87,766
Depreciation and amortization	76,768	74,218	150,986	109	—	151,095	146,596
Interest	16,041	12,496	28,537	—	—	28,537	29,202
Total operating expenses	1,670,329	1,246,793	2,917,122	139,379	(116,524)	2,939,977	2,800,220
Operating income	82,917	136,092	219,009	(72,054)	(36,874)	110,081	48,554
Nonoperating revenues (expenses):							
Investment income and gain (loss) in fair value of investments	15,692	8,334	24,026	66,797	—	90,823	111,940
State appropriations	—	—	—	—	37,026	37,026	35,560
Other	67	(363)	(296)	2,016	—	1,720	257
Total nonoperating revenues (expenses), net	15,759	7,971	23,730	68,813	37,026	129,569	147,757
Net income (loss) before contributions for capital and other	98,676	144,063	242,739	(3,241)	152	239,650	196,311
Other changes in net position:							
Contributions for capital and other	4,517	(1,312)	3,205	—	(152)	3,053	9,586
Change in interest in the Foundations	—	13,740	13,740	—	(13,740)	—	—
Nonexpendable donations	—	—	—	16,981	—	16,981	15,145
Total other changes in net position	4,517	12,428	16,945	16,981	(13,892)	20,034	24,731
Total increase (decrease) in net position	103,193	156,491	259,684	13,740	(13,740)	259,684	221,042
Net position – beginning of year, as adjusted*	1,383,835	1,723,772	3,111,581	1,373,874	(1,373,874)	3,111,581	2,890,539
Restatement due to implementation of GASB Statement No. 75	—	—	(3,974)	—	—	(3,974)	—
Net position – end of year	$ 1,487,028	1,880,263	3,367,291	1,387,614	(1,387,614)	3,367,291	3,111,581

*FY17 Beginning net position has been reduced due to implementation of GASB 81, by $27,737. FY 17 total increase in net position has also been reduced by $1,383 from current year adjustments, for a total decrease in ending net position of $29,120.

See accompanying independent auditors' report.

Schedule 3

OREGON HEALTH & SCIENCE UNIVERSITY

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

Years ended June 30, 2018 and 2017

(Dollars in thousands)

	2018	2017
Operating revenues:		
Patient service revenue, net of bad debt adjustments of $15,103 in 2018 and $14,230 in 2017	$ 1,749,524	1,668,731
State appropriations	1,327	1,274
Gifts, grants, and contracts	671	4,792
Other revenue	99,224	75,440
Research & education support	(97,500)	(102,762)
Total operating revenues	1,753,246	1,647,475
Operating expenses:		
Salaries, wages, and benefits	787,186	724,419
Services, supplies, and other	740,734	666,302
Provider tax	49,600	87,766
Depreciation and amortization	76,768	74,749
Interest	16,041	16,674
Total operating expenses	1,670,329	1,569,910
Operating income	82,917	77,565
Nonoperating revenues (expenses):		
Investment income and gain (loss) in fair value of investments	15,692	18,914
Other	67	(159)
Total nonoperating revenues (expenses), net	15,759	18,755
Net income (loss) before contributions for capital and other	98,676	96,320
Other changes in net position:		
Contributions for capital and other	4,517	(410)
Total other changes in net position	4,517	(410)
Total increase (decrease) in net position	103,193	95,910
Net position – beginning of year	1,383,835	1,287,925
Net position – end of year	$ 1,487,028	1,383,835