KPMG

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

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

The Board of Directors
Oregon Health & Science University

Report on the Financial Statements

We have audited the accompanying financial statements of Oregon Health & Science University (the Company), which comprise the statements of net position as of June 30, 2014 and 2013, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oregon Health & Science University as of June, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1(c) to the financial statements, as of June 30, 2014, OHSU adopted GASB 65, *Items Previously Reported as Assets and Liabilities*. 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 19, and the schedule of funding progress for the postemployment healthcare benefit plan on page 67, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

KPMG LLP

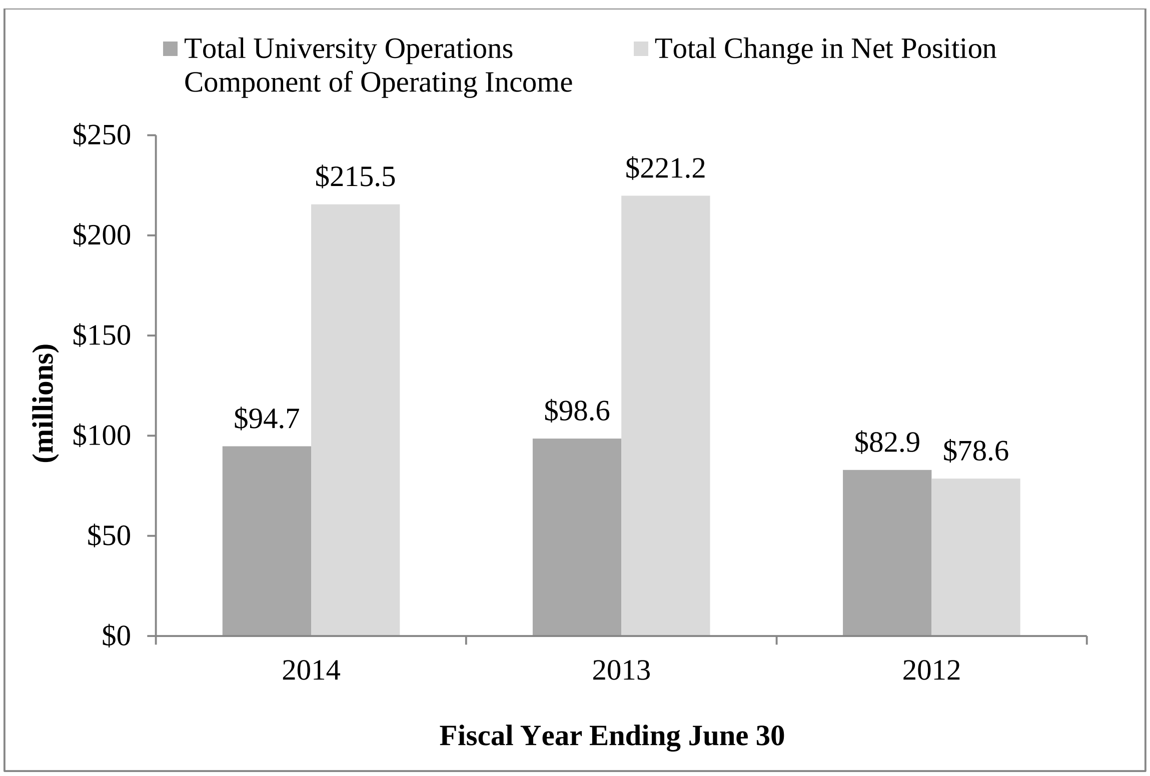
Portland, Oregon
October 24, 2014

Introduction and Financial Highlights

The following discussion and analysis provides an overview of the financial activities of Oregon Health & Science University (OHSU or the University) and should be read in conjunction with the financial statements and related note disclosures. This discussion was prepared by management and is designed to focus on current activities, resulting changes, and current known facts.

Financial Highlights

To manage its operations and monitor its financial position, OHSU focuses on two key indicators: the total university operations component of operating income (before consolidation of the Foundations and reclassification of state appropriations to nonoperating revenues), and the total change in consolidated net position, which includes the Foundations, investment income and other nonoperating items. The chart below shows these key indicators for the past three fiscal years. Fiscal year 2014 showed continued strong operating results and a further strengthening of the University's financial position, capping three years during which consolidated net position increased by $514 million. Total university operations contributed $276 million, and gifts and investments returned almost all of the remainder of the gain.



The following table reconciles these components to consolidated OHSU net position for fiscal years 2014, 2013 and 2012. This summary follows the methodology of the more detailed consolidating table included at the end of these financial statements.

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

	2014	2013	2012
Components of operating income:			
Hospital operations	$ 93,838	79,708	80,949
Other university operations	908	18,940	1,909
Total university operations	94,746	98,648	82,858
Foundations operations	(7,484)	57,126	(35,829)
Elimination of Foundations' restricted capital activity	22,030	(655)	(3,958)
Reclassification of state appropriations	(35,415)	(30,146)	(35,389)
Consolidated operating income	73,877	124,973	7,682
State appropriations	35,415	30,146	35,389
Investment and other nonoperating income	93,714	51,473	19,888
Consolidated net income	203,006	206,592	62,959
Capital/nonexpendable contributions and other	12,509	13,092	15,650
Total change in net position	215,515	219,684	78,609
Beginning net position	2,160,581	1,940,897	1,862,288
Ending net position	$ 2,376,096	2,160,581	1,940,897

University operations continued to show substantial strength with operating net income at $94.7 million in 2014, slightly below 2013 earnings. This reflects a 6.8% or $145 million growth in revenues, driven by continued strength in payment rates across managed care, Medicaid, and Medicare. This was supported by a 7.3% or $149 million growth in expenses representing investment for program growth, as well as higher defined benefit pension expenses.

The nearly $16 million improvement in 2013 over 2012 reflects a 4.7% or $96.4 million growth in revenues, driven by increased complexity of patient care plus application of gift funds in the Knight Cancer Institute and other programs, supported by a smaller 4.1% or $80.7 million growth in expenses. The smaller expense increase reflects savings in supply chain, administrative and support costs, plus a $6 million reduction in interest expense from a lower interest rate environment, restructuring debt and principal payments.

These core improvements reflect implementation of strategy and redesign efforts, including focus on tertiary and quaternary care, improvements in revenue cycle and competitive pricing, supply chain and workforce productivity, better self-insurance experience, and restructuring OHSU's debt to secure a lower cost of capital. The hospital operations segment exceeded its 5% operating margin target in each of the past three years, while the other university operations segment (which includes the clinical faculty practice, education, research and outreach missions) met or exceeded its target of balanced revenues and expenses as well.

Within the total university operations component of operating income, gifts and endowment payouts are recorded when transferred from the Foundations to OHSU as program support. This tends to yield a more even flow of philanthropic revenues within this earnings metric.

Within the Foundations' component of operating income, the contribution of program support to the University, together with the costs of running the Foundations, are recorded as operating expenses. These are largely funded by two sources: expendable gifts recorded as operating revenue, and investment income recorded as a nonoperating item. Over time, this can result in negative operating income on the Foundations' statements, because operating expenses (program and support costs) are supported by both operating revenues (largely gifts) and nonoperating revenues (largely investment returns). This was the case in 2014 when the Foundations showed a net operating loss of ($7.5) million.

The receipt of very large gifts is episodic, resulting in a gain in one year when the gift is made or recorded, offset by losses in subsequent years when the gift is transferred to the University in support of the intended program or purpose. This was illustrated in 2013 when the Foundations' operating income increased by $93 million primarily due to recording the major component of a $125 million gift from Phil and Penny Knight for the establishment of the OHSU Knight Cardiovascular Institute. Conversely, in 2014, the Foundations' operating results decreased to a loss of ($7.5) million as a result of the spending of the gifts without the corresponding revenue in the same year. Finally, the Foundations record expendable gifts for capital (such as buildings and equipment) within operating income, while the University records them as nonoperating items, requiring a reclassification in consolidation.

These recording and timing effects have become increasingly significant with larger gifts to OHSU, and with volatility in the financial markets and investment returns. Recent large gifts include the $40 million anonymous gift for education in 2007, the $100 million Knight Cancer Institute gift in 2009, the $25 million Moore Nutrition Institute gift in 2012, and the $125 million OHSU Knight Cardiovascular Institute gift mentioned above, which is the largest donation in the University's 125 year history. In September 2013, the Knight family challenged OHSU to raise $500 million in two years, which they would match for a total of $1 billion. If the challenge is successfully met, these funds will be used to help in the fight to eradicate cancer, particularly through advanced early detection. OHSU has already secured over $430 million toward this match, including $200 million from the State of Oregon and $100 million from Gert Boyle, plus gifts from all fifty states. The timing of when these contributions appear on the financial statements varies with the nature of the gift or grant.

To capture all of these various effects, OHSU uses a second key financial indicator: total change in net position. By design, this metric fluctuates much more than the total university component of operating income, but taken over several years, it provides a comprehensive picture of changes in OHSU's financial strength. Net position increased over $215 million or 10% in 2014, compared to $221 million or 11.4% in 2013 and $79 million or 4.2% in 2012. The largest contributors to changes in this indicator have been the Knight Cardiovascular Institute gift in 2013, and the change in investment and other nonoperating income, which was $94 million in 2014, compared to $51 million in 2013, and $20 million in 2012. Investment returns have been closely correlated with year-by-year performance in the overall stock and bond markets.

The net impact of all of these factors – investments in strategy, productivity and process redesign with subsequent improved operations, the timing and recording of gifts, and the volatility in investment returns – has been a 28%, or $514 million, increase in consolidated OHSU net position over three years, from $1,862 million on June 30, 2011 to $2,376 million on June 30, 2014.

When OHSU analyzes its consolidated statement of revenues, expenses and changes in net position, it relies upon a third indicator of financial performance: net income. Net income largely tracks the change in total net position, but excludes donations for capital and nonexpendable purposes, such as endowment. In 2014, consolidated net income was $203 million, compared to $207 million in 2013 and $63 million in 2012. The changes in net income over these three years largely reflect the continued increase in investment income plus the gift timing impacts noted above.

OHSU Partnership Strategy

The University's Vision 2020 strategic plan calls for OHSU to partner to make Oregon a leader in innovation to improve the health and well-being of Oregonians. Examples of these partnerships include a proposed affiliation with Salem Health, working with Moda Health, a joint arrangement with Intel, a mutual cooperative agreement with Mid-Columbia Medical Center, a new School of Public Health with Portland State University, and the construction of the Collaborative Life Sciences Building.

Proposed Affiliation with Salem Health

Changes in health care are challenging hospitals to improve quality and access and, at the same time, control and reduce costs. As a result of a very focused review and analysis of health care trends to determine the most effective ways to continue advancing its community mission, the Salem Health board of trustees invited seven organizations, five in the Northwest and two in California, to submit proposals to form an affiliation. OHSU was selected as the best choice for a partner and one that would best preserve their independence.

As part of the affiliation now under consideration, OHSU would offer advanced clinical services, and be a source of training for health care professionals. Salem Health could accept a number of patients from OHSU who do not need some of the more specialized care offered at its Portland hospital. Salem Health has 454 licensed acute-care beds, and OHSU 576 licensed beds. The goal is for the proposed affiliation to be substantially defined by the end of the fiscal year 2015.

Collaboration with Moda Health

OHSU is partnering with Moda Health, one of the four largest health plans in Oregon, to advance population health management within global budgets that rise at sustainable growth rates. Initial efforts include health plan offerings to Public Employees' Benefit Board (PEBB), Oregon Educators Benefit Board (OEBB), and OHSU employees, and working with other Oregon health systems to develop population health management tools, analytics and care protocols.

OHSU and Intel Joint Arrangement

OHSU and Intel Corp. have joined forces to combine Intel's next-generation supercomputing platforms with OHSU's unique capabilities in biomedical research to make it far faster and less costly to use an individual patient's own genetic data to find and treat the root causes of his or her disease. In the years ahead, collaborators will chip away at this problem by developing new computer architectures, algorithms, software, and workflows that are optimized for the unique information needs of personalized medicine. A new paradigm in supercomputing known as exascale computing is coming of age at Intel and through government-driven research initiatives around the world. The goal is to build the tools for the very highest level global challenges, including energy efficiency, climate modeling, and human health.

OHSU and Mid-Columbia Medical Center

Mid-Columbia Medical Center (MCMC) and Oregon Health & Science University (OHSU) signed a 10 year contract described as a mutual cooperation agreement. The hospitals have been collaborating for a number of years on projects in cardiology and other specialties. Work on this new, more integrated relationship began two years ago. Rather than an acquisition or merger, this new relationship is a collaboration. Mid-Columbia Medical Center will continue to remain independent, locally controlled and overseen by a volunteer board. The collaboration will be beneficial to both institutions through recruitment of medical professionals, who in the future would become employees of OHSU and their services leased to MCMC.

As part of the contract, MCMC will add an eighth position to its board of directors, selected by OHSU. In addition, MCMC will convert to the EPIC system of electronic medical records, as used by OHSU.

New School of Public Health with Portland State University (PSU)

OHSU and PSU are partnering to create a new joint School of Public Health, with a clinical focus on improving the health and well-being of Oregonians, and on urban populations. Initial efforts include publication of a comprehensive baseline survey of health status in each Oregon county, and appointment of an interim dean.

OHSU/OUS Collaborative Life Sciences Building (CLSB) and Skourtes Tower

In fiscal year 2012, OHSU began construction of the CLSB and Skourtes Tower. This new $295 million facility, approved by the OHSU board in June 2011, places programs of OHSU, Portland State University, and Oregon State University under one roof at the Schnitzer campus on the South Waterfront. In doing so, the facility strengthens partnerships between OHSU and the other institutions, expanding their teaching facilities, student enrollment, and research activities, while creating new employment opportunities. Thousands of students across undergraduate, graduate, and professional education programs from multiple institutions will be educated at the CLSB. The approximately 500,000 square foot facility, plus parking, includes lecture halls, classrooms, laboratories, specialty research centers, office space, and a complete replacement of the OHSU School of Dentistry.

The construction of the project commenced in October 2011 and was open for occupancy in July 2014.

The project consists of two parts built together. The first part was the $160 million joint project of OUS and OHSU, including education, research, and support space, funded by $110 million in State bonds ($50 million in Article XI G-Bonds and $60 million in Article XI F-Bonds), an anonymous $40 million gift from an OHSU donor, and $10 million in TriMet support for a new transit station adjacent to the building. Under the terms of the Tenancy In Common Agreement, OHSU assumed debt service for $30 million related to the State Article XI F-Bonds issued to fund the construction, which is recorded in the June 30, 2014 and 2013 statements of net position.

The second part was an OHSU project of $135 million, funded by $50 million in OHSU philanthropy and cash reserves, and $85 million from new OHSU debt issued in May 2012. This component provides space for the new OHSU Center for Spatial Systems Biomedicine, additional build-out and shelled laboratory space for leading edge research in basic and applied science, and education and clinical space for the School of Dentistry in the Skourtes Tower. The complete replacement of the School of Dentistry from its current 1950s building on Marquam Hill was made possible by lead gifts from Dr. Gene and Bonnie Skourtes, Moda Health (formerly ODS Health) and A-dec, plus additional funds raised by hundreds of other supporters.

Collectively, $205 million of the $295 million CLSB project was funded by OHSU, with approximately $115 million in debt and $90 million from gifts and cash reserves.

Statements of Net Position

In 2014, OHSU adopted GASB Statement No. 65 (GASB 65) which establishes standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes as outflows of resources (expense) or inflows of resources (revenue), certain items that were previously reported as assets and liabilities. OHSU restated its June 30, 2013 and 2012 Statements of Net Position reflecting the changes. As a result, previously deferred costs of issuance of debt have been recorded as an expense in the period in which they occurred or were written off against opening net position as of June 30, 2012. In the future, those costs will be reflected as an expense in the period in which they occur. In addition, two new sections appear on OHSU's Statements of Net Position: deferred outflows appear directly below assets and deferred inflows appear directly below liabilities. Most notably, those deferrals relate to the changes in fair value of hedging derivative instruments, gains and losses on refunding of debt, as well as insurance costs related to issuance of debt.

The Statements of Net Position includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector organizations. As noted above, net position – the difference between assets, liabilities, and deferred inflows and outflows, is among the broadest measures of the financial health of an institution. The following 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. Over the past two years, assets have increased by 14%, liabilities have remained flat, deferred inflows and outflows have decreased by (13%), and net position has grown by 22%. The cumulative growth in OHSU's financial strength since 2012 reflects strong operations, successful philanthropy, and recovery (with volatility) in financial markets since the economic crisis.

OREGON HEALTH & SCIENCE UNIVERSITY

Required Supplementary Information (Unaudited)

June 30, 2014 and 2013

Condensed Statements of Net Position

(Dollars in thousands)

		2014	2013	2012
Assets:				
Current assets	$	766,947	809,805	837,569
Capital assets		1,517,146	1,413,810	1,282,647
Other noncurrent assets		1,268,097	1,109,101	994,357
Total assets		3,552,190	3,332,716	3,114,573
Deferred outflows		16,634	19,370	19,629
Total assets and deferred outflows	$	3,568,824	3,352,086	3,134,202
Liabilities:				
Current liabilities	$	351,822	348,883	327,566
Noncurrent liabilities		837,021	838,220	860,789
Total liabilities		1,188,843	1,187,103	1,188,355
Deferred inflows		3,885	4,402	4,950
Net position:				
Net investment in capital assets	$	803,428	721,618	629,095
Restricted, expendable		401,940	396,599	309,035
Restricted, nonexpendable		189,210	181,156	175,023
Unrestricted		981,518	861,208	827,744
Total net position		2,376,096	2,160,581	1,940,897
Total liabilities, deferred outflows and net position	$	3,568,824	3,352,086	3,134,202

Assets

The largest components of OHSU's assets are cash and investments and capital assets, or physical plant. In 2014, as a result of a change made in investment managers and improvements to OHSU's investment policy that were adopted by the Board, OHSU showed a significant shift of cash and investments from short-term to long-term, as well as substantial gains in overall cash and investments. In 2013, OHSU's unrestricted and restricted cash and investments increased significantly from 2012, mostly due to strong earnings in a favorable market.

As a result of the shift from short-term to long-term investment strategies, there was a decrease to unrestricted and restricted cash and short-term investments in 2014 of approximately ($74) million over 2013. However, total cash and investments, including long-term investments, increased from $1,371 million to $1,474 million in 2014, and from $1,230 million to $1,371 million in 2013, showing a steady rise of 7% and 11.5% in fiscal years 2014 and 2013, respectively. This is a reflection of continued strong net income.

OREGON HEALTH & SCIENCE UNIVERSITY

Required Supplementary Information (Unaudited)

June 30, 2014 and 2013

Consolidated Asset Allocation of
Unrestricted and Restricted Cash and Investments

(Dollars in thousands)

	2014	2013	2012
Unrestricted Cash and Investments			
Cash and Equivalents	$ 124,513	$ 103,296	$ 156,317
Fixed Income Investments	568,866	555,437	443,767
Equity Investments	91,849	77,987	70,549
Mutual Funds	111,628	102,075	57,480
Other	96,587	90,036	85,732
Subtotal	$ 993,443	$ 928,831	$ 813,845
Restricted Cash and Investments			
Cash and Equivalents	$ 36,809	$ 32,368	$ 40,792
Fixed Income Investments	128,754	156,653	140,183
Equity Investments	155,634	112,744	101,433
Mutual Funds	14,881	10,764	10,045
Other	144,050	129,795	123,350
Subtotal	$ 480,128	$ 442,324	$ 415,803
Totals	$ 1,473,571	$ 1,371,155	$ 1,229,648

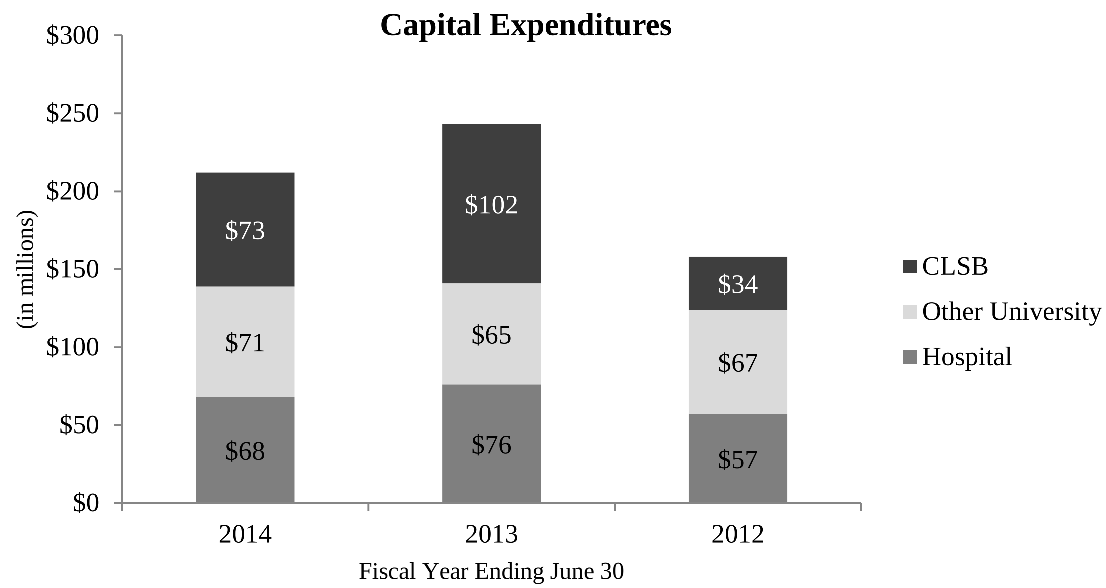
The unrestricted portion of cash and investments is represented in the calculation of days cash on hand for OHSU, as defined in the restated Master Trust Indenture, including the Foundations, as illustrated below.

Days of cash on hand increased slightly from 199 days in 2013 to 200 days in 2014, and increased significantly from 183 to 199 days in 2013, due to improved financial results and positive cash flow, offset in part by higher daily expenditures, as well as an increase in patient accounts receivable in 2014, due to a transition in outside billing vendors. Total long-term investments increased by $177 million during 2014 compared to 2013, which in part reflects OHSU's shift in investment strategy from short-term to long-term, as well as continued improvement in financial performance.

Days Unrestricted Cash and Investments on Hand
(Dollars in Thousands)

	2014	2013	2012
OHSU			
Unrestricted Cash and Investments	$ 639,064	$ 637,504	$ 545,901
Less NonOperating Cash and Investments	(13,633)	(33,245)	(23,365)
Operating Cash and Investments	625,431	604,259	522,536
Unrestricted Operating Expenses			
Total Operating Expenses	$ 1,879,313	$ 1,734,346	$ 1,651,539
Less Depreciation and Amortization	(115,240)	(100,330)	(97,898)
Net Unrestricted Operating Expenses	1,764,073	1,634,016	1,553,641
Daily Expense	4,833	4,477	4,245
Days Cash on Hand	129	135	123
OHSU plus OHSU and Doernbecher Foundations			
Unrestricted Cash and Investments	$ 993,443	$ 928,831	$ 813,845
Less NonOperating Cash and Investments	(13,633)	(33,245)	(23,365)
Operating Cash and Investments	979,810	895,586	790,480
Unrestricted Operating Expenses			
Total Operating Expenses	$ 1,903,322	$ 1,745,313	$ 1,675,242
Less Depreciation and Amortization	(115,428)	(100,491)	(98,055)
Net Operating Expenses	1,787,894	1,644,822	1,577,187
Daily Expense	$ 4,898	$ 4,506	$ 4,309
Days Cash on Hand	200	199	183

Capital assets, net of accumulated depreciation, increased by $103 million for fiscal year 2014, after increasing by $131 million in fiscal year 2013. This largely reflects construction of the CLSB, as well as timing of projects to increase hospital capacity. Capital expenditures for the years ended June 30, 2014, 2013 and 2012 are listed below.



Liabilities

Total liabilities increased slightly by $1.7 million, or 0.15%, in 2014 after decreasing ($1.3) million, or 0.11%, in 2013. In 2014, small increases in accruals for accounts payable and salaries, wages and benefits, were offset by slight decreases in noncurrent liabilities. In 2013, an increase in current liabilities of $21.3 million was related to work performed but not yet invoiced or paid on the building of the Collaborative Life Sciences Building (CLSB), and was offset by a substantial decrease in non-current liabilities of ($22.7) million resulting from the refinancing of debt and repayment of existing debt.

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 a small increase of $2.9 million in fiscal year 2014. This was due to increases in salaries, wages, and benefits related to the timing of the last two-week payroll period of the year and a one-time adjustment to faculty compensation included in the compensated absences payable calculation, which were offset by a significant drop in accounts payable and accrued expenses reflecting the near completion of the CLSB. In 2013, current liabilities increased $21.3 million due to increases in accounts payable and accrued expenses associated with work performed but not yet invoiced or paid on the Collaborative Life Sciences Building.

Total noncurrent liabilities decreased ($1.2) million in fiscal year 2014, due to repayment of existing debt offset by increases in liabilities for life income agreements. Total noncurrent liabilities decreased ($22.6) million in fiscal year 2013, due to savings resulting from the refinancing of the 2002A bonds, accompanied by the routine repayment of existing debt.

Debt Management

At the close of fiscal year 2013, OHSU had a total of approximately $752 million in long-term debt and capital leases outstanding, net of current portion. Of that, approximately 27% was variable-rate debt issued in the form of variable-rate demand bonds (VRDBs). In December 2012, OHSU continued the restructuring of its bond portfolio it began in May 2012 and issued series 2012E. This issue refinanced the remaining portion of the 2002A bonds. The series 2012E bonds were issued December 20, 2012 and will mature July 1, 2032. In May 2012, as part of a comprehensive bond portfolio restructuring, OHSU issued refunding Revenue Bonds, Series 2012A, Series 2012C and Series 2012D, which refinanced over 50% of its currently outstanding debt portfolio in order to reduce interest expense as well as convert its previously issued auction rate mode bonds to variable rate demand bonds backed by either irrevocable Standby Letters of Credit or as a direct placement. In this refunding, the 1995B, 1998A, 1998B and 2002B Bonds were currently refunded in their entirety as well as advance refunding a portion of the 2002A Bonds. Due to OHSU’s strong credit ratings (Moody’s A1, Standard & Poor’s A+, and Fitch A+), existing debt service reserve requirements on the refunded bonds were released and applied to downsize the refunding bond par amount by more than $9 million, resulting in further savings.

Additionally, during the refunding process, OHSU simultaneously issued approximately $85 million of new fixed-rate tax-exempt revenue bonds, the 2012B Series, to pay for certain costs of construction and other costs of issuance for phase two of the CLSB Skourtes Tower project. The Skourtes Tower was completed at the end of fiscal year 2014 and now houses the new OHSU School of Dentistry, whose construction had significant philanthropic support, as well as built-out and shelled laboratory space for leading edge research in basic and applied science.

In April 2013, OHSU also restructured its interest rate swaps, which were originally entered into with UBS in 2005 and amended by the University and UBS in 2009 and again in 2012. Under the terms agreement, UBS held a call option beginning in April 2014, which was expected to be exercised. For this reason, in April 2013, OHSU executed a swap novation, simultaneously terminating the agreement with UBS and entering into an agreement with a new counterparty, U.S. Bank. Under the new terms, OHSU’s effective rate on a notional amount of $82 million went from 3.358% to 3.45935%.

After OHSU’s continued improvement in operations and net position, in 2014, Standard & Poor’s and Fitch both increased OHSU outlook from stable to positive. Moody’s outlook is stable.

One measure of the degree of leverage on the University’s statement of net position is the ratio of long-term debt to net position, shown below. From fiscal 2012 to 2014, this metric improved, as the addition of new debt for the CLSB in 2013 was offset by operating income, investment return and gifts, regular repayments of principal, and the restructuring of the debt portfolio.

(dollars in millions)	2014	2013	2012
Long term debt	$ 757	$ 770	$ 800
Net position	2,376	2,161	1,941
Long term debt to net position	0.32	0.36	0.41

Maximum Annual Debt Service Coverage

The maximum annual debt service coverage ratio for an entity represents the amount of cash flow available to meet the maximum annual interest and principal payment on debt. Under the University's Master Indenture, OHSU (excluding the Foundations) must maintain a coverage ratio of 1.10 times or greater. The University continues to significantly exceed this minimum requirement, achieving an increasingly strong ratio of 5.59 in fiscal year 2014 and 4.80 in 2013.

Calculation of Maximum Annual Debt Service Coverage Ratio – Unrestricted
(Dollars in Thousands)

	2014	2013	2012
Total Excess of Revenues over Expenses	$ 203,006	$ 206,592	$ 62,959
Add/subtract Restricted Net Loss/Gain	(27,665)	(85,975)	36,764
Unrestricted Excess of Revenues over Expenses	$ 175,341	$ 120,617	$ 99,723
Adjustments			
Net Unrealized(gain) loss in Fair Value of Investments	$ (33,072)	$ (9,412)	$ 11,793
(Gain)Loss on Disposal of Assets	3,876	(658)	(1,592)
Interest Expense	22,620	28,144	33,482
Annual Refund/Payments on Trust Reserves held in Parity	(517)	—	1,824
Depreciation and Amortization	115,428	100,491	98,054
	$ 108,335	$ 118,565	$ 143,561
Income Available for Debt Service	$ 283,676	$ 239,182	$ 243,284
Maximum Annual Debt Service	$ 50,766	$ 49,788	$ 53,512
Maximum Annual Debt Service Coverage	5.59	4.80	4.55

Deferred inflows and outflows

With OHSU's adoption of GASB 65 in 2014 mentioned above, certain deferred outflows are presented below Assets and certain deferred inflows are presented below Liabilities.

Losses and gains on refunding of debt are amortized over the shorter of the life of the new debt or the remaining life of the old debt. Absent any refunding activity, these numbers will slowly decline. OHSU has both deferred gains and losses. The deferred loss on refunding of debt of $3.0 million in 2014 and $3.4 million in 2013 was reported in the Deferred inflows section below Assets. The deferred gain on refunding of debt of $3.9 million in 2014 and $4.4 million in 2013 was reported in the Deferred outflows section below Liabilities.

GASB 65 also established requirements for the reporting of the deferred amortization of derivative instruments within the newly created deferred outflows section of the Statement of Net Position. OHSU holds two interest-rate swap agreements (collectively, the swaps). The swaps were novated during fiscal year 2012 and reassigned to a new counterparty under substantially equivalent terms. The 2014 and 2013 deferred amortization of derivative instruments were ($13.6) million and ($16) million respectively.

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

Net position

As noted earlier, total net position increased $215.5 million during fiscal year 2014, as compared to an increase of $219.7 million during fiscal year 2013. Most of the increase in both fiscal years occurs within net investment in capital assets, (up $81.8 million in 2014 and $92.5 million in 2013), and in unrestricted net position (up $120.3 million in 2014 and $33.5 million in 2013). After restricted components of net position significantly increased in 2013 with the Knight Cardiovascular Institute gift, these components showed a $13.4 million increase in 2014 and currently comprise approximately 25% of OHSU's net position.

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

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the operating results, net income and change in net position of OHSU on a consolidated basis with the Foundations. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. In accordance with generally accepted accounting principles for a governmental entity, annual state appropriations are considered nonoperating revenue, but in practice are budgeted for operations because they support operating costs for specific education and service programs. In fiscal year 2014 and 2013, State appropriations totaled $35 million and $30 million, respectively.

Consolidated net income for OHSU including the Foundations totaled $203 million in fiscal year 2014, compared to $207 million in 2013 and $63 million in 2012. As noted above, a major driver of the year-to-year change in net income is the receipt of very large gifts in one year, followed by the spending of those gifts in subsequent years, as well as changes in investment returns. Case in point, in 2013 the Foundation recorded $93 million from the gift of Phil and Penny Knight to establish the OHSU Knight Cardiovascular Institute. This created a Foundations' operating gain in 2013 of $57.1 million, followed by an operating loss in 2014 of ($7.5) million, partly due to the spending of the gift in 2014.

Condensed Statements of Revenues, Expenses, and Changes in Net Position
(Dollars in thousands)

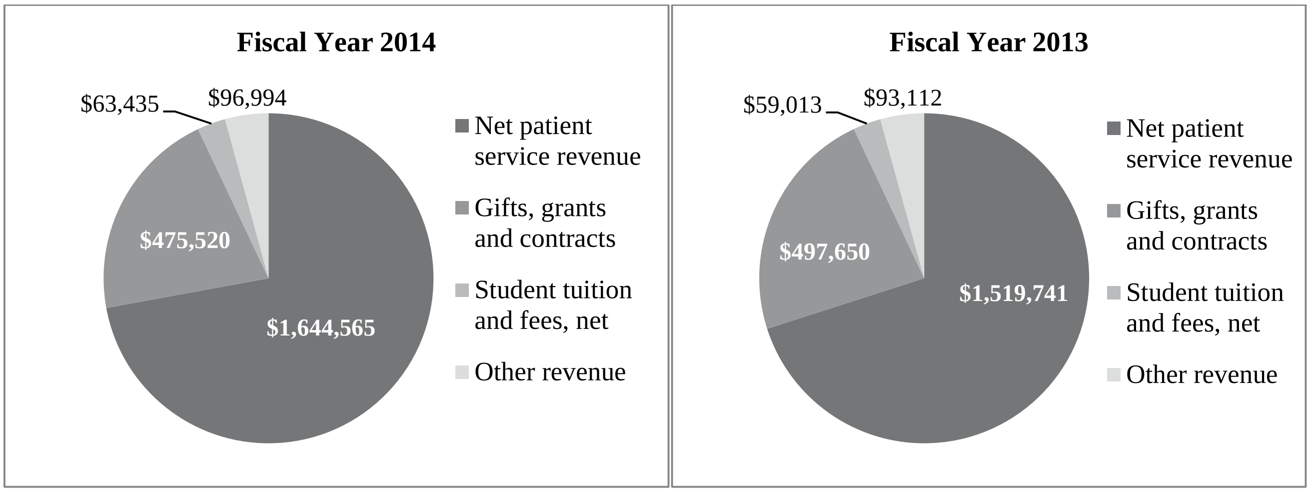
	2014	2013	2012
Total operating revenues	$ 2,280,514	2,169,516	1,975,605
Total operating expenses	2,206,637	2,044,543	1,967,923
Operating gain	73,877	124,973	7,682
Nonoperating revenues, incl. state appropriations	129,129	81,619	55,277
Net income before other changes in net position for capital and other	203,006	206,592	62,959
Contributions for capital and other	5,135	9,013	4,059
Nonexpendable donations	7,374	4,079	11,591
Change in net position	215,515	219,684	78,609
Net position – beginning of year	2,160,581	1,940,897	1,862,288
Net position – end of year	$ 2,376,096	2,160,581	1,940,897

Total Operating Revenues

Total operating revenues on a consolidated basis (including the Foundations and reclassification of State appropriations to nonoperating revenues), totaled $2,281 million and $2,170 million in 2014 and 2013, respectively. In 2014, the largest component of this growth was an increase of $125 million or 8% in net patient service revenue, driven by strong payment rates, combined, with a payer mix showing a marked decrease in uninsured activity since January, shifting to Medicaid with coverage expansion under the Affordable Care Act.

In 2013, the largest growth component was $116 million or 30% in gifts, grants, and contracts, due primarily to the Knight cardiovascular gift mentioned earlier, as well as an increase of $79 million or 6% in net patient service revenues, driven by continued increases in volume and complexity of cases.

Operating Revenue by Source
Fiscal Year 2014 and 2013 (Total $2.3 billion and $2.2 billion, respectively)
(Dollars in thousands)



Total Operating Expenses

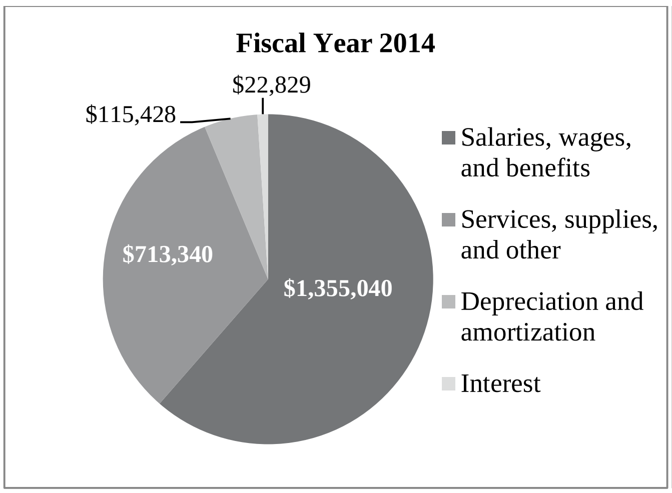
OHSU's total operating expenses on a consolidated basis increased by $162 million or 8% in fiscal year 2014, and $77 million or 4% in fiscal year 2013. Much of these increases in expenses were in support of the program growth driving the increases in revenue mentioned earlier. In fiscal year 2014, revenues grew by 5% supported by 8% growth in expenses showing, for the first time in several years, expenses outgrowing revenues. This represents the investment of better than budget operating income into targeted initiatives of program growth, particularly in areas supported by the Knight cancer and cardiovascular $100+ million gifts. In fiscal year 2013, revenues grew by 10% supported by only 4% growth in expenses.

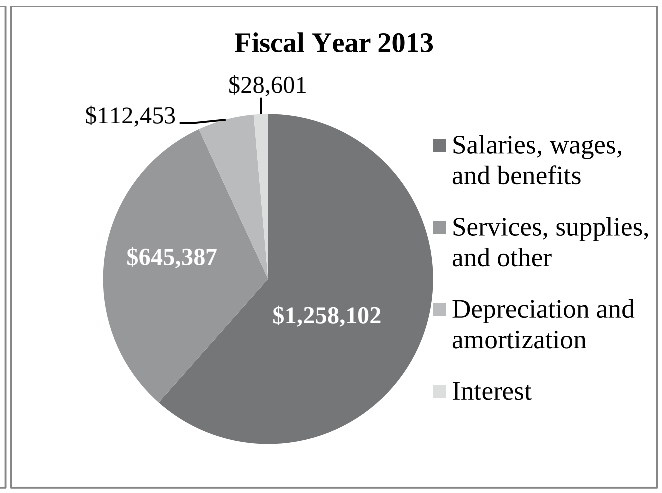
Salaries, wages and benefits, which comprise over 61% of total expenses, increased by $97 million, or 8% in 2014 and $64 million, or 5% in 2013. In addition to increased staffing to support program growth, and regular increases in salaries to maintain market competitive compensation, in the 2012-2014 biennium required contributions for the defined benefit component of the PERS pension plan increased. About half of OHSU's pension-eligible employees participate in PERS, with the other half covered by the University Pension Plan, a defined contribution plan. The PERS defined benefit increase was anticipated and planned for, and was mitigated by the implementation of key productivity initiatives. OHSU has announced changes to its benefits plans under which employees participating in PERS have started to contribute to its higher cost, phased in beginning in 2014. In addition, Oregon has entered legislation to reduce PERS costs, largely through lower cost of living allowances. The legislation is subject to review by the Oregon Supreme Court. The increase in compensation in 2014 and 2013 also reflected adjustments to market compensation levels for highly productive clinical staff, as well as recruitment for clinical programs that supported the continued growth in patient revenues.

Services, supplies and other expenses showed a significant increase of $68 million, or 11% in 2014, representing the non-labor costs associated with the targeted program growth mentioned above. In 2013, services, supplies and other expenses increased a modest $17.6 million or 3%, reflecting the ongoing focus on the University's supply chain, especially in the clinical enterprise, the improved experience in self-insurance programs, and cost saving initiatives within central services

Depreciation and amortization, which represents the reduction in value of capital assets with the passage of time, showed a 3% growth in 2014, as the University completed the CLSB. In 2013, depreciation and amortization showed a slower 1% growth. Interest expense declined in fiscal year 2014 and 2013 following the favorable restructuring of a substantial portion of OHSU's debt in April 2012 and December 2012. Interest decreased $6 million or 20% in 2014 and $6 million or 18% in 2013.

Operating Expenses
Fiscal Year 2014 and 2013 (Total $2.21 billion and $2.04 billion, respectively)
(Dollars in thousands)





Operating Expenses
By Functional Classification
(Dollars in thousands)

		2014	2013	2012
Instruction, research, and public service	$	395,540	384,801	381,684
Clinical activity		1,442,363	1,323,280	1,256,940
Auxiliary activities		11,794	10,662	10,872
Internal service centers		8,148	6,054	5,690
Student services		17,331	16,863	12,799
Academic support		41,208	39,364	43,531
Institutional support		64,985	55,361	48,424
Operations, maintenance, and other		81,061	75,020	73,263
Direct foundation expenditures		28,779	20,685	23,546
Depreciation and amortization		115,428	112,453	111,174
Total operating expenses	$	2,206,637	2,044,543	1,967,923

Economic Outlook

The general economy in both Oregon and the nation continues to recover, but at a slower pace than usual after a recession. Real growth in the U.S. GDP from the quarter ending June 30, 2013 to the quarter ending June 30, 2014 was 2.1%, faster than the 1.6% in the prior year but still below the historical average of 3.3% since 1947. The Oregon unemployment rate has fallen gradually, from 8.9% in August 2012, to 7.7% in August 2013 and 7.2% in August 2014, compared to 6.1% nationally. Interest rates have increased somewhat from historical lows, with the 10 year Treasury rate rising from 1.66% at the end of June 2012, to 2.48% at the end of June 2013, to 2.52% at the end of June 2014, while the stock market, measured by the S&P 500, rose by 22% in fiscal year 2014, compared to 18% in the prior year. Monetary policy to support economic recovery continues to keep interest rates relatively low, although the Federal Reserve is tapering off its bond purchasing program, and is widely expected to increase short-term interest rates if the economy continues to improve. Healthcare spending has slowed significantly, while federal budget deficits are continuing to put downward pressure on funding for research and education.

Healthcare reform is proceeding both nationally with the Affordable Care Act (ACA), and in Oregon with Medicaid transformation. The State of Oregon agreed with the federal government to lower the rate of growth in Medicaid spending per member from 5.4% per year to 3.4%, while maintaining quality and access. In return, the federal government has provided $1.9 billion over 5 years to support transformation. Oregon healthcare transformation includes the organization of Medicaid into coordinated care organizations (CCOs), charged with integrating physical, behavioral, and oral health for populations of Medicaid members across providers and care settings, under a global budget but with increased flexibility to implement new and innovative care models. Oregon's Medicaid enrollment has already increased from approximately 625,000 to 1 million members, largely through coverage expansion under the ACA. OHSU is a founding member of Health Share of Oregon, a collaboration of public and private entities that have formed the principal CCO for the tri-county region surrounding Portland. In addition, half of OHSU's patients come from outside the tri-county area, so the University is working with CCOs across the state. Oregon's health plans for state employees and teachers are now implementing a similar coordinated care approach.

OHSU's strategic plan calls for partnering to make Oregon a leader in health and science innovation, to improve the health and well-being of Oregonians. The economic trends described above are major inputs to OHSU's financial planning, and in response, the University has refined its strategy to accelerate the application of new knowledge and education across disciplines to better manage the health of populations. In the face of these challenges, results over the past several fiscal years, and especially in 2013 and 2014, show that OHSU's financial position is both very solid and getting stronger, with increased earnings from total university operations, significant philanthropic support, investment gains consistent with market trends, and a carefully managed statement of net position. The University's long range financial plans and its fiscal year 2015 budget continue on this trajectory, with leadership in healthcare transformation and strategic investments and partnerships in leading programs across education, research, patient care and outreach missions, while securing a broad based portfolio of revenues and improving productivity and business processes across the institution.

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Net Position

June 30, 2014 and 2013

(Dollars in thousands)

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	115,889	96,694
Short-term investments		206,070	299,636
Current portion of funds held by trustee		19,277	53,050
Patients accounts receivable, net of bad debt allowances of $7,859 in 2014 and $12,787 in 2013		285,723	217,850
Student receivables		19,812	18,805
Grant and contract receivables		45,202	34,723
Interest receivable		1,049	2,746
Current portion of pledges and estates receivable		30,680	39,090
Other receivables, net		10,173	12,130
Inventories, at cost		18,073	19,829
Prepaid expenses		14,999	15,252
Total current assets		766,947	809,805
Noncurrent assets:			
Capital assets, net of accumulated depreciation		1,517,146	1,413,810
Funds held by trustee – less current portion		26,251	25,643
Long-term investments:			
Long-term investments, restricted		459,782	403,076
Long-term investments, unrestricted		691,830	571,749
Total long-term investments		1,151,612	974,825
Prepaid financing costs, net		3,144	3,406
Pledges and estates receivable – less current portion		84,934	102,618
Other noncurrent assets		2,156	2,609
Total noncurrent assets		2,785,243	2,522,911
Total assets	$	3,552,190	3,332,716
Deferred outflows			
Deferred amortization of derivative instruments	$	13,586	16,017
Loss on refunding of debt		3,048	3,353
Total deferred outflows	$	16,634	19,370
Total assets and deferred outflows	$	3,568,824	3,352,086

(Continued)

OREGON HEALTH & SCIENCE UNIVERSITY

Statements of Net Position

June 30, 2014 and 2013

(Dollars in thousands)

Liabilities		2014	2013
Current liabilities:			
Current portion of long-term debt	$	17,409	17,872
Current portion of long-term capital leases		1,036	613
Current portion of self-funded insurance programs liability		20,303	18,303
Accounts payable and accrued expenses		128,423	158,061
Accrued salaries, wages, and benefits		78,152	64,315
Compensated absences payable		65,273	55,411
Unearned revenue		35,705	30,645
Other current liabilities		5,521	3,663
Total current liabilities		351,822	348,883
Noncurrent liabilities:			
Long-term debt – less current portion		732,858	750,514
Long-term capital leases – less current portion		6,057	690
Liability for self-funded insurance programs – less current portion		39,992	43,521
Liability for life income agreements		30,380	16,513
Other noncurrent liabilities		27,734	26,982
Total noncurrent liabilities		837,021	838,220
Total liabilities	$	1,188,843	1,187,103
Deferred inflows			
Gain on refunding of debt	$	3,885	4,402
Total deferred inflows		3,885	4,402
Net position			
Net Investment in capital assets	$	803,428	721,618
Restricted, expendable		401,940	396,599
Restricted, nonexpendable		189,210	181,156
Unrestricted		981,518	861,208
Total net position	$	2,376,096	2,160,581
Total liabilities, deferred inflows and net position	$	3,568,824	3,352,086

See accompanying notes to financial statements.

(Continued)

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, 2014 and 2013

(Dollars in thousands)

		2014	2013
Operating revenues:			
Patient service revenue, net of bad debt adjustments of $52,018 in 2014 and $62,266 in 2013	$	1,644,565	1,519,741
Student tuition and fees, net		63,435	59,013
Gifts, grants, and contracts		475,520	497,650
Other revenue		96,994	93,112
Total operating revenues		2,280,514	2,169,516
Operating expenses:			
Salaries, wages, and benefits		1,355,040	1,258,102
Services, supplies, and other		713,340	645,387
Depreciation and amortization		115,428	112,453
Interest		22,829	28,601
Total operating expenses		2,206,637	2,044,543
Operating income		73,877	124,973
Nonoperating revenues, net:			
Investment income and gain in fair value of investments		93,355	50,411
State appropriations		35,415	30,146
Other		359	1,062
Total nonoperating revenues, net		129,129	81,619
Net income before contributions for capital and other		203,006	206,592
Other changes in net position:			
Contributions for capital and other		5,135	9,013
Nonexpendable donations		7,374	4,079
Total other changes in net position		12,509	13,092
Total increase in net position		215,515	219,684
Net position – beginning of year		2,160,581	1,940,897
Net position – end of year	$	2,376,096	2,160,581

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, 2014 and 2013

(Dollars in thousands)

		2014	2013
Cash flows from operating activities:			
Receipts for patient services	$	1,576,692	1,509,198
Receipts from students		62,428	60,995
Receipts of gifts, grants, and contracts		510,814	436,359
Other receipts		99,404	134,357
Payments to employees for services		(1,331,341)	(1,256,863)
Payments to suppliers		(740,640)	(625,891)
Net cash provided by operating activities		177,357	258,155
Cash flows from noncapital financing activities:			
Federal direct loan proceeds		57,719	59,035
Federal direct loan disbursements		(56,098)	(60,397)
Nonexpendable donations and life income agreements		35,415	30,146
State appropriations		7,733	6,110
Net cash provided by noncapital financing activities		44,769	34,894
Cash flows from capital and related financing activities:			
Scheduled principal payments on long-term debt		(17,872)	(18,466)
Interest payments on long-term debt		(22,814)	(10,632)
Proceeds from issuance of long-term debt		—	126,365
Repayment on debt		—	(152,972)
Acquisition of capital assets		(218,764)	(245,358)
Payments on capital leases		5,790	(3,360)
Contributions for capital and other		5,135	9,013
Net cash used for capital and related financing activities		(248,525)	(295,410)
Cash flows from investing activities:			
Purchases of investments		(1,580,322)	(1,359,054)
Proceeds from sales and maturities of investments		1,612,408	1,278,335
Interest on investments and cash balances		13,508	24,000
Net cash (used for) provided by investing activities		45,594	(56,719)
Net increase (decrease) in cash and cash equivalents		19,195	(59,080)
Cash and cash equivalents, beginning of year		96,694	155,774
Cash and cash equivalents, end of year	$	115,889	96,694

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(Dollars in thousands)

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 73,877	124,973
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	115,428	112,453
Provision for bad debts	52,018	62,266
Interest expense reported as operating expense	22,829	28,601
Net changes in assets and liabilities:		
Patient accounts receivable	(119,891)	(72,809)
Student receivables	(1,007)	1,982
Grant and contracts receivable	(10,479)	(4,438)
Pledges and estates receivable	26,094	(64,327)
Other receivables and other assets	2,410	41,245
Inventories	1,756	(1,769)
Prepaid expenses	253	8
Accounts payable and accrued expenses	(12,423)	17,905
Drafts payable	(17,215)	(145)
Accrued salaries, wages, and benefits	13,837	(1,239)
Compensated absences payable	9,862	2,478
Other current liabilities	1,858	2,901
Annuity payment liability	13,867	278
Deferred revenue	5,060	6,146
Liability for self-funded insurance programs	(1,529)	596
Other noncurrent liabilities	752	1,050
Net cash provided by operating activities	$ 177,357	258,155
Supplemental schedule of noncash capital and related financing and investing activities:		
Unrealized change in fair value of investments	$ 82,142	27,025
Gain on sale of capital assets	1,169	596
Change in value of derivative liabilities	2,736	(1,030)

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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

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

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

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

 (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 for the FPP within the School of Medicine at OHSU. The FPP Management Committee acts as the Board of Directors for UMG and is responsible for the day-to-day oversight of the clinical practice. As the Board of UMG is under the supervision and control of the FPP, and therefore OHSU, UMG is a blended component unit of OHSU.

(b) Accounting Standards

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

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

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

(c) New Accounting Pronouncements

In June 2011, GASB issued Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, which specifically identifies transactions qualifying for "deferred outflows of resources" and "deferred inflows of resources" reporting, as required in GASB 63. This standard is effective for fiscal year 2014. As a result of adoption of this standard, OHSU reclassified $16,634 of amounts previously classified as assets to deferred outflows and $3,885 of amounts previously classified as liabilities to deferred inflows for the year ended June 30, 2014. Additionally, OHSU reduced their unrestricted net position as of July 1, 2012 by $7,800 and recorded $1,565 in additional expense for the year ended June 30, 2013 related to the write-off of previously capitalized debt issuance costs, as required by GASB 65.

(d) Accounting standards impacting the future

In June 2012, GASB issued Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*, which revises requirements for pensions of state and local governmental employers that are administered through trusts, by establishing standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses. Specifically, the liability of employers to employees of defined benefit plans is required to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of services, less the amount of the pension plan's fiduciary net position. This standard is effective for fiscal year 2015. OHSU has not implemented this statement. Management is in the process of evaluating the impact to their financial statements and believes that the impact will be material.

(e) Financial Reporting Entity

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

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

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

(f) Basis of Accounting

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

(g) Use of Estimates

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

(h) Cash and Cash Equivalents

OHSU considers money market funds and all highly liquid investments with an original or remaining maturity of three months or less as cash equivalents. Cash and cash equivalents include $161,322 and $135,812 of overnight repurchase agreements, commercial paper, bankers' acceptances, and short-term Treasury and Agency securities with an initial term of less than three months at June 30, 2014 and 2013, respectively.

(i) Investments

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

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

(j) Inventories

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

(k) Capital Assets

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

(Continued)

related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recorded as other in nonoperating revenue.

Interest on borrowed amounts during major construction is capitalized and amortized over the depreciable life of the related asset. During fiscal years 2014 and 2013, OHSU capitalized interest expense of approximately $5,801 and $4,075, respectively. This was net of approximately $59 and $132 of interest income, respectively, on unspent project funds.

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

(l) Net Position Classifications

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

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

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

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

A summary of restricted funds by restriction category for fiscal years ended June 30, 2014 and 2013 is as follows:

		2014	2013
Restricted expendable:			
Research	$	216,412	208,309
Academic support		47,126	38,761
Instruction		31,132	23,890
Capital projects and planning		5,705	27,116
Student aid		54,925	49,333
Clinical support		26,100	27,132
Institutional support		5,040	5,165
Other		15,500	16,893
	$	401,940	396,599
Restricted nonexpendable:			
Research	$	22,185	21,578
Instruction		43,641	39,689
Clinical support		2,621	2,571
Public service		1,123	1,113
Academic support		65,611	63,482
Student aid		39,001	38,286
Other		15,028	14,437
	$	189,210	181,156

(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 each of the years ended June 30, 2014 and 2013.

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

The endowment fund investment pool (endowment fund) is the repository for funds from restricted, nonexpendable contributions where the principal amount cannot be used but a spending distribution, described below, can be used for the designated purpose. The endowment fund also holds quasi-endowment funds, which have been designated as endowment by the Foundations' Boards of Trustees. All interest, dividends, and changes in fair value on the endowment fund are allocated to the appropriate unrestricted or restricted net position classification as specified by the donor at the time of receipt. Endowment accounts receive spending distributions subject to the Foundations'

(Continued)

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, 2014 and 2013, the fair value of investments in the endowment fund was $517,925 and $460,748, respectively. The fair value of the unspent portion of endowments in excess of corpus at June 30, 2014 was $75,241 and at June 30, 2013 was $56,174.

Spending distributions were not made for certain endowment accounts during 2014 or 2013 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, 2014, there were no endowment accounts with market value below corpus. At June 30, 2013, accumulated loss of $500 related to endowment accounts with market value below corpus was reflected in nonexpendable restricted net position.

(n) Federal Income Taxes

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

(o) State Appropriations

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

(p) Research Activity

Restricted grants receivable represent receivables for grant activities on which OHSU has met all applicable eligibility requirements and on which the funds are available from the granting agency. As of June 30, 2014 and 2013, the grants receivable balance was $24,120 and $19,903, respectively, and was included in grant and contract receivables in the accompanying statements of net position. The balance in deferred revenue as of year-end represents amounts advanced for which OHSU has not met all applicable eligibility requirements. As of June 30, 2014 and 2013, the grants deferred revenue balance was $20,694 and $17,531, respectively, and was included in deferred revenue in the accompanying statements of net position.

(q) Operating Revenues

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

(r) Net Patient Service Revenue

A summary of patient service revenues during the years ended June 30, 2014 and 2013 is as follows:

		2014	2013
Gross patient charges	$	3,334,238	3,076,328
Contractual discounts		(1,637,655)	(1,494,321)
Bad debt adjustments		(52,018)	(62,266)
Net patient service revenues	$	1,644,565	1,519,741

(s) Student Tuition and Fees Revenues

A summary of student tuition and fees revenues during the years ended June 30, 2014 and 2013 is as follows:

		2014	2013
Gross student tuition	$	74,470	71,290
Exemptions		(11,035)	(12,277)
Student tuition and fees revenues, net	$	63,435	59,013

(t) Charity Care

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

OHSU maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. Charity care provided, measured as charges forgone, based on established rates, was $88,440 and $112,230 in 2014 and 2013, 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. The majority of pledges are received within five years of the date the commitment was received. The majority of estates are received within one year. Pledges and estates receivable, less reserves for estimated uncollectible amounts, are discounted to their present value using rates that range from 0.30% to 4.88%.

(v) Life Income Agreements

The Foundations have been named as remainder beneficiaries for various life income agreements. Life income agreements provide for contractual payments to designated beneficiaries for a specific period, after which the remaining principal and interest revert to the Foundations. Contributions received under life income agreements are included in long-term investments, restricted, with the corresponding commitment to the beneficiary included in liability for life income agreements in the accompanying statements of net position.

(w) Reclassifications of Previously Issued Financial Statements

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These changes are due to the adoption of GASB issued Statement No. 65 and are explained in detail in footnote 1(c).

(2) Cash and Investments

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

OHSU's investment policies are approved by the Board of Directors and are accounted for as prescribed by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in the fair value of investments are included in nonoperating revenues. The composition of investments at fair value at June 30, 2014 and 2013 is as follows:

		2014	2013
Short-term investments:			
Cash and cash equivalents	$	631	1,127
Mutual funds		111,129	97,468
U.S. government securities		—	17,673
U.S. agency securities		—	39,770
Corporate obligations		22,253	63,629
Fixed income		72,057	79,969
		206,070	299,636
Funds held by trustee, current portion:			
Cash and cash equivalents		19,277	32,983
Fixed income		—	20,037
Other		—	30
		19,277	53,050
Funds held by trustee – less current portion:			
Cash and cash equivalents		45	12,991
U.S. government securities		—	757
U.S. agency securities		10,533	8,787
Fixed income		15,673	3,108
		26,251	25,643

(Continued)

		2014	2013
Long-term investments – less current portion:			
Cash and cash equivalents	$	45,730	37,843
U.S. government securities		154,648	134,397
U.S. agency securities		17,179	42,661
Corporate obligations		258,949	199,596
Fixed income		166,509	134,395
Equities		288,419	190,731
Alternative investments		93,735	112,042
Joint ventures and partnerships		49,663	58,517
Real estate investments and other		76,780	64,643
		1,151,612	974,825
Total investments, all categories	$	1,403,210	1,353,154

(3) Investments and Related Policies

(a) Interest Rate Risk

As of June 30, 2014, OHSU had the following investments and maturities at fair value:

		Maturity				
Investment type		**Less than 1 year**	**1–5 years**	**6–10 years**	**More than 10 years or none**	**Total**
Cash and money market funds	$	57,439	2,003	—	—	59,442
U.S. government securities		—	144,121	10,525	—	154,646
U.S. agency securities		—	17,173	6	—	17,179
Domestic equity securities		—	—	—	153,876	153,876
International equity securities		—	—	—	155,700	155,700
International debt securities		—	—	—	16,634	16,634
Commercial paper		17,357	—	—		17,357
U.S. Corporate securities		26,232	193,446	7,554	1,130	228,362
Non-U.S. Corporate securities		9,755	37,135	5,508	442	52,840
Interest receivable		—	—	—	—	—
Asset backed securities		38,607	71,824	2,969	28,854	142,254
Joint ventures and partnerships		—			49,663	49,663
Mutual funds – fixed income only		46,250	25,381	13,514	748	85,893
Municipal Bonds		—	3,220	—	5,026	8,246
Mutual funds, other		—	—	—	111,129	111,129
Alternative investments		—	—	—	93,735	93,735
Real estate investments and other		—	—	—	56,254	56,254
	$	195,640	494,303	40,076	673,191	1,403,210

(Continued)

As of June 30, 2013, OHSU had the following investments and maturities at fair value:

	Maturity				
Investment type	**Less than 1 year**	**1–5 years**	**6–10 years**	**More than 10 years or N/A**	**Total**
Cash and money market funds	$ 84,944	—	—	—	84,944
U.S. government securities	20,936	107,802	21,308	2,781	152,827
U.S. agency securities	45,466	45,752	—	—	91,218
Domestic equity securities	—	—	—	57,754	57,754
International equity securities	—	—	—	132,977	132,977
Commercial paper	99,250	—	—	—	99,250
U.S. Corporate securities	54,582	95,211	12,679	667	163,139
Non-U.S. Corporate securities	29,995	63,733	6,359	—	100,087
Interest receivable	30	—	—	—	30
Asset backed securities	29,908	37,846	1,103	—	68,857
Joint ventures and partnerships	—	—	—	58,517	58,517
Mutual funds – fixed income only	13,489	972	33,575	120	48,156
Municipal Bonds	14,292	6,953	—	—	21,245
Mutual funds, other	—	—	—	112,839	112,839
Alternative investments	—	—	—	112,042	112,042
Real estate investments and other	—	—	—	49,272	49,272
	$ 392,892	358,269	75,024	526,969	1,353,154

OHSU held $142,254 and $68,857 of asset-backed securities collateralized primarily by auto loans, credit card receivables and collateralized mortgage obligations as of June 30, 2014 and 2013, respectively. These securities are valued at their estimated fair values. The valuation of these securities is sensitive to principal prepayments, which may result from a decline in interest rates, and they are sensitive to an increase in average maturity, which may result from interest rate increases that lead to decreasing prepayments. These factors may increase the interest rate volatility of this component of OHSU's investment portfolio.

At June 30, 2014 and 2013, OHSU had certain joint ventures and partnerships, alternative investments, real estate investments, and other investments. These investments may contain elements of both credit and market risk. Such risks may include limited liquidity, absence of regulatory oversight, dependence upon key individuals, and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

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

The endowment portfolio, which is included in long-term investments in the accompanying statements of financial position, seeks to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. The Foundations' investment policies are set based on the investment objectives of the portfolio. Each portfolio has its own Board authorized asset allocation guideline. The current fund seeks to preserve principal and generate an above average rate of return. The current fund may invest in cash, cash equivalents, and fixed income securities. The duration of the portfolio shall be within a range of 70% to 130% of the Merrill Lynch 1-3 Year Treasury Index. The endowment fund may invest in cash and cash equivalents, fixed income securities, U.S. and non-U.S. equity securities, and other alternative investments. Fixed income securities held in this fund shall have a medium to long average duration (three to eight years).

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

(b) Credit Risk

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

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

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

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

As of June 30, 2014, OHSU had the following investments with credit rating at fair value:

Investment Type	Credit Rating Standard and Poor's or Equivalent		Total
Cash and money market funds	AAA	$	3,189
	A+		1,002
	A		1,001
	A-1+		2,953
	A-1		4,414
	NA		46,883
U.S. government securities	AAA		42,241
	AA+		112,103
	BBB-		302
U.S. agency securities	AAA		36
	AA+		17,143
Commercial paper	A-1+		4,432
	A-1		12,525
	A-2		400
U.S. Corporate securities	AAA		101
	AA+		6,751
	AA		4,417
	AA-		37,628
	A+		24,010
	A		34,829
	A-		52,296
	BBB+		26,858
	BBB		25,183
	BBB-		15,792
	n/a		497

Investment Type	Credit Rating Standard and Poor's or Equivalent	Total
International debt securities	AAA	$ 2,943
	AA+	2,941
	AA	296
	AA-	807
	A+	442
	A	1,440
	A-	2,750
	BBB+	565
	BBB	2,063
	BBB-	566
	BB+	592
	BB	582
	B+	15
	B	166
	Below B	238
	Not Rated	228
Non-U.S. corporate securities	AAA	300
	AA	1,027
	AA-	7,998
	A+	11,264
	A	10,848
	A-	7,128
	BBB+	4,622
	BBB	3,820
	BBB-	2,014
	NA	3,819
Asset backed securities	AAA	108,257
	AA+	14,158
	BBB	644
	A-1+	240
	NA	18,955
Mutual funds – fixed income only	AAA	52,210
	AA+	148
	AA	918
	AA-	148
	A+	148
	A	1,999
	A-	2,375

Investment Type	Credit Rating Standard and Poor's or Equivalent		Total
	BBB+	$	1,484
	BBB		5,662
	BBB-		856
	BB+		749
	BB		3,287
	BB-		3,884
	B+		2,786
	B		3,772
	Below B		5,387
	Not Rated		80
Municipal Bonds	AA+		2,515
	AA-		2,013
	A		1,208
	A-		2,510
Joint ventures and partnerships	NA		49,663
Mutual funds-other	NA		111,129
Alternative investments	NA		81,929
Real estate investments and other	NA		56,254
Domestic equity securities	NA		165,682
International equity securities	NA		155,700
		$	1,403,210

As of June 30, 2013, OHSU had the following investments with credit rating at fair value:

Investment Type	Credit Rating Standard and Poor's or Equivalent		Total
Cash and money market funds	n/a	$	84,946
U.S. government securities	n/a		152,827
U.S. agency securities	n/a		91,217
Domestic equity securities	n/a		57,754
International equity securities	n/a		132,977
Commercial paper	A-1+		14,440
	A-1		84,810

(Continued)

Investment Type	Credit Rating Standard and Poor's or Equivalent		Total
U.S. Corporate securities	AA+	$	5,894
	AA		13,433
	AA-		32,552
	A+		9,533
	A		33,784
	A-		18,353
	BBB+		4,737
	BBB		43,127
	BBB-		1,726
Non-U.S. corporate securities	AAA		4,740
	AA		24,447
	AA-		27,825
	A+		7,711
	A		20,702
	A-		3,262
	BBB+		1,159
	BBB		8,804
	BBB-		1,437
Interest receivable	various		30
Asset backed securities	AAA		62,411
	AA+		5,577
	A		870
Joint ventures and partnerships	n/a		58,517
Mutual funds – fixed income only	AAA		12,294
	AA		6,585
	A		7,075
	BBB		8,254
	BB		5,691
	B		5,575
	Below B		2,259
	Not Rated		423
Municipal Bonds	AAA		751
	AA		11,607
	A		8,887
Mutual funds-other	n/a		112,839
Alternative investments	n/a		112,042
Real estate investments and other	n/a		49,272
		$	1,353,154

(Continued)

(c) Concentration of Credit Risk

OHSU's operating and trustee held portfolios limit investments in any one issue to a maximum of 5%, (10% prior to investment policy amendment adopted by the Board in October 2013), depending upon the investment type, except for issues of the U.S. , which may be held without limitation, or U.S. government agencies limited to 15% (without limit prior to policy amendment). The endowment and charitable gift annuity portfolios limit investments in any one issue to a maximum of 5%, except for issues of the U.S. government or agencies of the U.S. government or diversified mutual funds, which may also be held without limitation. The foundation's investment policy for charitable trusts limits investments in any one issue to a maximum of 10%, except for issues of the U.S. government and its agencies or diversified mutual funds. The current fund investment policy places no limit on the amount that may be invested in any one issuer, except that a maximum of 3% may be invested in the securities of any nongovernmental issuer. As of June 30, 2014 and 2013, OHSU had no investments in excess of the thresholds discussed above.

(d) Foreign Currency Risk

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

Foreign currency		Value (U.S. dollar) 2014	2013
Australian dollar	$	1,227	1,234
British sterling pound		4,887	4,462
Canadian dollar		2,907	1,613
Euro		3,694	3,231
Swiss Franc		2,099	1,810
Total	$	14,814	12,350

(4) Due from/to Contractual Agencies

Due from/to contractual agencies represents amounts receivable from or payable to the State Medicaid Program (Medicaid), the Federal Medicare Program (Medicare), and other contractual agencies. As of June 30, 2014, $30,275 was the net amount due from Medicaid, $3,454 was the net amount due to Medicare, and $3,667 was due to various contractual agency related settlement activity. As of June 30, 2013, $19,249 was the net amount due from Medicaid, $6,164 was the net amount due to Medicare, and

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$8,761 was due to various contractual agency related settlement activity. At June 30, 2014 and 2013, the net receivable is included in patient accounts receivable in the statements of net position.

(5) Capital Assets

Capital assets for fiscal years ended June 30, 2014 and 2013 are listed by category below:

	2014	2013
Land and land improvements	$ 72,436	72,443
Buildings and other improvements	1,620,931	1,550,174
Equipment	766,355	726,187
Construction in progress	291,852	234,906
Accumulated depreciation	(1,234,428)	(1,169,900)
Total capital assets, net	$ 1,517,146	1,413,810

The following is a summary of capital assets for the fiscal years ended June 30, 2014 and 2013:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not depreciated:				
Land and land improvements	$ 72,443	—	(7)	72,436
Construction in progress	234,906	182,334	(125,388)	291,852
Total capital assets not depreciated	307,349	182,334	(125,395)	364,288
Other capital assets:				
Buildings and other improvements	1,550,174	83,926	(13,169)	1,620,931
Equipment	726,187	82,944	(42,776)	766,355
Total other capital assets	2,276,361	166,870	(55,945)	2,387,286
Less accumulated depreciation:				
Buildings and other improvements	(606,599)	(59,566)	9,346	(656,819)
Equipment	(563,301)	(55,862)	41,554	(577,609)
Total accumulated depreciation	(1,169,900)	(115,428)	50,900	(1,234,428)
Other capital assets, net	1,106,461	51,442	(5,045)	1,152,858
Total capital assets, net	$ 1,413,810	233,776	(130,440)	1,517,146

(Continued)

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Capital assets not depreciated:				
Land and land improvements	$ 72,443	—	—	72,443
Construction in progress	83,860	217,269	(66,223)	234,906
Total capital assets not depreciated	156,303	217,269	(66,223)	307,349
Other capital assets:				
Buildings and other improvements	1,511,882	39,464	(1,172)	1,550,174
Equipment	681,102	56,803	(11,718)	726,187
Total other capital assets	2,192,984	96,267	(12,890)	2,276,361
Less accumulated depreciation:				
Buildings and other improvements	(551,334)	(56,196)	931	(606,599)
Equipment	(515,306)	(58,203)	10,208	(563,301)
Total accumulated depreciation	(1,066,640)	(114,399)	11,139	(1,169,900)
Other capital assets, net	1,126,344	(18,132)	(1,751)	1,106,461
Total capital assets, net	$ 1,282,647	199,137	(67,974)	1,413,810

During fiscal year 2007, OHSU sold all of the real property that currently constitutes Oregon Graduate Institute's main campus, including all land and buildings and other improvements, in the amount of approximately $44,400 to an unrelated third party. Simultaneously, OHSU entered into an operating lease with the third party to lease the entire campus with a seven-year term with two additional three-year options to extend the lease at the option of OHSU. OHSU deferred a gain in the amount of approximately $16,300, which is being ratably recognized over the minimum lease term of seven years. During fiscal years 2014 and 2013, OHSU recognized approximately $1,169 and $2,338, respectively, of this gain, which is included in other nonoperating revenues in the accompanying statements of revenues, expenses, and changes in net position.

(6) Compensated Absences Payable

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

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

(7) Retirement Plans

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

OHSU's total payroll, excluding fringe benefits, for the years ended June 30, 2014 and 2013 was $1,011,168 and $955,001, respectively. Payroll applicable for employees covered by PERS for the years ended June 30, 2014 and 2013 was $365,618 and $378,893, respectively. PERS collects contributions from both employers and employees for the purpose of funding retirement benefits. Beginning July 1, 1979 and ending with the first payroll in January 2014, the employees' contribution for both plans under PERS has been assumed and paid by OHSU at the 6% rate set by law. Starting in January 2014, the 6% was deducted from employees' wages.

The employer contribution rate is established by the Retirement Board based upon actuarial valuations, which are performed once every two years to determine the level of employer contributions. The employer contribution rates for the PERS Tier 1 and Tier 2 were 9.33% from July 1, 2013 – June 30, 2014. The employer contribution rate for the OPSRP was 7.65% (OPSRP Police and Fire 10.38%) from July 1, 2013 – June 30, 2014. Additionally OHSU made a $7.5M lump sum payment to PERS in accordance with Oregon Administrative Rule (OAR) 459-009-0084, 459-009-0085, or 459-009-0090, which establishes the procedures and requirements for when a participating employer makes an unfunded actuarial liability lump-sum payment.

The State of Oregon PERS issues a publicly available financial report that includes financial statements and required supplementary information, including 10 – year historical trend information showing the accumulation of sufficient assets to pay benefits when due. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 73, Portland, Oregon 97207 – 0073.

Information regarding normal retirement age, early retirement age, and vesting can be found on the Oregon PERS web site at http://pershelp.pers.state.or.us/Robo/.

All employees not participating in PERS are eligible for one of two plans, depending on their employee group. OHSU employees that are not a part of the Faculty Practice Plan are enrolled in the University Pension Plan (UPP) and employees that are a part of the Faculty Practice Plan are enrolled in the Clinical Retirement Plan (CRP).

Effective July 1, 1996, OHSU established the University Pension Plan (UPP). The UPP is a defined contribution plan, which is available to all employees that are not a member of the Faculty Practice Plan as an alternative to PERS. Employees become fully vested in employer contributions over a three to four year period (depending on collective bargaining agreements) or upon reaching age 50. Contribution levels are determined by the Board of Directors of OHSU. In fiscal years 2014 and 2013, all employer contributions to the plan were 6% of salary and employee contributions were an additional 6%. Currently, OHSU is funding the employee portion of the contributions.

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

		2014	2013	2012
PERS:				
Employer contribution	$	38,799	32,272	33,458
Employee contribution (1)		21,937	22,739	23,549
	$	60,736	55,011	57,007
UPP:				
Employer contribution	$	22,438	20,243	17,490
Employee contribution (1)		22,318	19,382	17,350
	$	44,756	39,625	34,840
CRP:				
Employer contribution	$	16,787	14,519	13,600
	$	16,787	14,519	13,600

(1) Of the employees' share, the employer paid $33,093, $42,121, and $40,899 in 2014, 2013 and 2012, respectively, including UPP in all years and PERS through January 2014.

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 $917 and $823 for the purchase of retirement annuities during the fiscal years ended June 30, 2014 and 2013, respectively.

(8) Postemployment Healthcare Plan

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

The following table shows the components of OHSU's annual other postretirement employee benefit (OPEB) cost for the fiscal year ended June 30, 2014, the amount actually contributed to the plan, and changes in OHSU's net OPEB obligation to the plan:

		2014	2013	2012
Annual required contribution (ARC)	$	1,177	1,692	2,207
Interest on net OPEB obligation		256	225	173
Adjustment to ARC		(398)	—	—
Annual OPEB cost		1,035	1,917	2,380
Contributions made		(594)	(1,020)	(1,020)
Increase in OPEB obligation		441	897	1,360
Net OPEB obligation – beginning of fiscal year		7,328	6,431	5,071
Net OPEB obligation – end of fiscal year	$	7,769	7,328	6,431
Percentage of annual OPEB cost contributed		57%	53%	43%

The funded status of the OHSU plan as of the most recent actuarial valuation date is as follows:

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded accrued liability (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
October 1, 2013	$ —	9,722	9,722	—%	$ 874,327	1.1%

The actuarially determined amounts above use an assumed discount rate of 3.5% in the October 1, 2013 valuation. The assumed healthcare cost trend rate was 8.0% in 2014, declining gradually to 4.8% in 2084 and remaining at 4.8% thereafter.

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

(Continued)

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

Long-term debt, including related unamortized issuance costs, and capital leases at June 30, 2014 and 2013 are as follows:

		2014	2013
Debt service payment agreement (DSPA)	$	10,934	12,290
Bonds payable, revenue bonds, Series 2009 A		155,330	155,156
Bonds payable, revenue bonds, Series 2002 A		(160)	(172)
Bonds payable, revenue bonds, Series 1995 A and B		58,971	57,934
Bonds payable, revenue bonds, Series 2012 A, B, C, D, and E		469,981	483,683
Tenancy in Common Agreement (TIC) – CLSB – OUS Bonds		28,946	29,541
Local improvement district agreements		26,265	28,219
B of A capital equipment loans		—	1,735
Other capital leases		7,093	1,303
Less current portion of debt and capital leases		(18,445)	(18,485)
	$	738,915	751,204

(a) Debt Service Payment Agreement (DSPA)

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

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

During fiscal year 2011, OHSU entered into a joint construction project with Oregon University Systems (OUS) to build the Collaborative Life Sciences Building (CLSB) on OHSU's Schnitzer Campus located in Portland's South Waterfront to be jointly owned, developed, and operated. As partial consideration for OHSU's receipt of 50% undivided percentage interest in the tenancy in common of the CLSB, OHSU agreed to pay to OUS one half of each scheduled 2011 fixed rate Series F/G (OUS Bonds) Bond debt service payment issued to fund the construction of the project, not later than 30 days before the State of Oregon is required to make each scheduled OUS Bonds debt service payment. Payment under the terms of the Tenancy in Common Agreement by OHSU represents full satisfaction of any legal obligation related to such outstanding indebtedness.

(c) Bonds Payable

During fiscal year 1996, OHSU issued Insured Revenue Bonds Series A and B (1995 Revenue Bonds), which were partially refunded in 2012. The remaining 1995 Revenue Bonds mature beginning July 1, 2014 through July 1, 2021 and require semiannual interest payments at 5.35% to 5.75%. The 1995 Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 1995 Revenue Bonds are not general obligations of OHSU and are payable solely from the revenue pledged.

The 2009 Series A Revenue Bonds mature beginning July 1, 2033 through July 1, 2039. The Series A Revenue Bonds require interest payments semiannually. The interest rate on the Series A Revenue Bonds is fixed and ranges from 5.750% and 5.875%. The 2009A Revenue Bonds are limited obligations of OHSU and are secured by OHSU's gross revenues. Pursuant to the Oregon Uniform Revenue Bond Act, the 2009 Revenue Bonds are not general obligations of OHSU and are payable solely from revenue pledged.

In May 2012, as part of a comprehensive bond portfolio restructuring, OHSU issued refunding Revenue Bonds, Series 2012A, Series 2012C and Series 2012D, which refinanced over 50% of its existing outstanding debt portfolio. The 2012A Series was issued as fixed rate bonds with maturities July 1, 2014 to July 1, 2028 and rates from 2.0% to 5.0%. The Series 2012C variable rate bonds, mature July 1, 2014 to July 1, 2027, and the 2012D bonds, direct placement variable rate bonds mature July 1, 2014 to July 1, 2032. Then Series 2012E bonds, fixed rate bonds, refinanced the remaining 2002A bonds. The 2012E bonds were issued in December 2012 and will mature July 1, 2032.

Additionally, during the refunding process, OHSU simultaneously issued approximately $85 million of new tax-exempt revenue bonds, the 2012B Series, to pay for certain costs of construction and other costs of issuance for the expanded CLSB Skourtes Tower project, which contains the new OHSU School of Dentistry. The 2012B-1, B-2 and B-3 bonds, all variable rate demand bonds, have maturities of July 1, 2040 to July 1, 2042.

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

2012 BCD Variable Rate Debt as of June 30, 2014

Series	Facility counterparty	Bond Par (000's)	Facility matures	LT Ratings S&P/moodys/ Fitch	Reset
2012 B-1	Union Bank – LOC	$ 28,525	5/15/2017	A+ / A2 / A	weekly
2012 B-2	Union Bank – LOC	28,525	5/15/2017	A+ / A2 / A	weekly
2012 B-3	Union Bank – LOC	28,520	5/15/2017	A+ / A2 / A	daily
2012 C	US Bank, NA – LOC	19,125	11/15/2015	AA- / Aa2 / AA-	daily
2012 D	US Bank, NA – Direct Placement	88,805	11/1/2016	AA- / Aa2 / AA-	monthly
		$ 193,500			

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

Under the terms of the outstanding 1995 and 2009 Revenue Bonds, OHSU is required to maintain funds held by a trustee for reserve requirements for each of these series of bonds in amounts sufficient to pay specified principal and interest payments. The indenture and other loan agreements contain, among other things, provisions placing restrictions on additional borrowings and leases and require the maintenance of a debt service coverage ratio. Management believes that it is in compliance with its debt covenants.

(d) Local Improvement District Assessments

OHSU initially entered into various Local Improvement District agreements (LIDs) with the City of Portland, Oregon during fiscal years 2007 and 2008 for real improvements to Portland's South Waterfront District, of which $30 million of the initial debt is considered to be nonrecourse obligations to OHSU. During fiscal year 2012, OHSU entered into additional LIDs with the City of Portland for real improvements to the same Portland South Waterfront District for $4.8 million. All LID debt is scheduled to be repaid in semiannual installments with final maturities between ten and twenty years at interest rates ranging between 4.19% and 6.00%. The total outstanding balances due as of June 30, 2014 and 2013 were $26.3 million and $28.2 million, respectively, and have been included in long-term debt in the statements of net position.

(e) Interest Rate Swap Agreement

As of June 30, 2014 and 2013, OHSU held a total of two interest rate swap agreements, respectively (collectively, the swaps). The balances of all currently held swaps as of June 30, 2014 and 2013 are as follows:

	Notional amount June 30		Fair value June 30	
	2014	**2013**	**2014**	**2013**
Swap:				
2005A US Bank Modified Swap	$ 39,050	40,925	(5,791)	(5,838)
2005B US Bank Modified Swap	39,050	40,900	(5,791)	(5,838)
	$ 78,100	81,825	(11,582)	(11,676)

The notional amounts of the outstanding swaps and the principal amounts of the associated debt decline over time and terminate on July 1, 2028. The Swaps are callable. Under each agreement, OHSU makes fixed rate interest payments of 3.459% to the counterparty and receives variable rate payment computed as 62.67% of the London Interbank Offered Rate (LIBOR) plus 0.177%. The fair value represents the estimated amount that OHSU would pay or receive if the swap agreements were terminated at year-end, taking into account current interest rates and the creditworthiness of the underlying counterparty. Total cash payments made to swap counterparties were $2,478 and $2,511 during the years ended June 30, 2014 and 2013, respectively. Each of the Swaps were novated during fiscal year 2013, and reassigned to a new counterparty under substantially equivalent terms.

Each of the swaps above was established as part of a hedging arrangement during fiscal year 2009, as a hedge of total cash flows associated with the interest payments on the Series 1998A, Series 1998B, Series 2002B, and Series 2009B Bonds. As part of the 2012 refinancing, the hedging effectiveness was reevaluated, and the swaps were reassigned as hedges of the interest payments on the 2012B−1, 2012B−2 and 2012B−3 Series Bonds. In 2012, OHSU novated its swap agreements, replacing UBS with U.S. Bank, and effectively creating a new off-market interest rate swap agreement. These new swap agreements with U.S. Bank are assigned as hedges of the 2012B-1, 2012B-2, and 2012B-3 Series Bonds.

Management has evaluated the effectiveness of the current hedges assuming hybrid instruments; each swap consists of a companion debt instrument, representing the value of the swap at the inception of the current hedge, and a hedging instrument, representing the hypothetical value of the swap had it held a $0 value at the inception of the hedge. The total value of the companion debt instrument is as follows:

Instrument	Hedged bonds	Beginning date	Beginning balance	Ending date balance	Ending balance	Change in value
US Bank Modified 2005A	2012B-series	7/1/2013	6,973	6/30/2014	6,389	(584)
US Bank Modified 2005B	2012B-series	7/1/2013	6,973	6/30/2014	6,391	(582)

The companion debt instrument for the U.S. Bank swaps was determined at the date of novation during fiscal year 2013, and is reported in other liabilities. The liability is being amortized over the remaining term of the swap agreements on a straight-line basis as an offset to interest expense.

The fair value of the current hedging instrument liability for the U.S. Bank swaps are recorded in other liabilities, with an offsetting balance recorded in other deferred outflows. Any subsequent changes to the value of the hedging instruments are recorded by increasing or decreasing these statement of net position accounts. The total value of the liability is $1,059 and $2,082 as of June 30, 2014 and 2013, respectively.

OHSU is exposed to swap credit risk, which is the risk that the counterparty will not fulfill its obligation. As of June 30, 2014, the counterparties' credit ratings were A+ from Standard & Poor's, A2 from Moody's, and A+ from Fitch. Additionally, the swaps expose OHSU to basis risk, which is the risk that arises when the relationship between the rates on the variable rate bonds and the swap formulas noted above vary from historical norms. If this occurs, swap payments received by OHSU may not fully offset its bond interest payments. As these rates change, the effective synthetic rate on the bonds will change.

OHSU is additionally responsible for posting collateral if the total swap liability exceeds a predetermined value on their reporting date. The collateral posting limit was $30,000, compared to a total relevant swap liability value of $11,582, as of June 30, 2014 and $11,676 as of June 30, 2013, resulting in a requirement that OHSU post zero collateral as of June 30, 2014 and 2013.

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

(f) Capital Leases

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

Year(s) ending June 30:		
2015	$	1,295
2016		1,231
2017		1,015
2018		933
2019		918
2020-2024		2,754
		8,146
Less amount representing interest		(1,053)
		7,093
Less current portion		(1,036)
	$	6,057

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

Amounts due under the DSPA, the 1995 Revenue Bonds, the 2002 Revenue Bonds, the 2009 Revenue Bonds, 2012 Refunding Revenue Bonds, and the Tenancy in Common Agreement – CLSB are included in long-term debt in the accompanying statements of net position and are shown net of unamortized discounts and premiums of $25,189 and $30,923 as of June 30, 2014 and 2013. Amounts due under the DSPA and the 1995 Revenue Bonds include accreted interest of $43,914 and $41,904 as of June 30, 2014 and 2013, 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.

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

		Principal	Interest	Total
Year(s) ending June 30:				
2015	$	17,410	31,384	48,794
2016		18,144	31,907	50,051
2017		15,981	35,496	51,477
2018		14,333	35,339	49,672
2019 – 2023		83,868	161,199	245,067
2024 – 2028		126,353	104,491	230,844
2029 – 2033		148,650	79,714	228,364
2034 – 2038		113,300	43,177	156,477
2039 – 2043		143,908	7,344	151,252
	$	681,947	530,051	1,211,998

The insurance cost of obtaining debt is deferred and amortized over the term of the related debt using the effective-interest method.

(h) Changes in Long-term Liabilities

Changes in OHSU's total long-term liabilities during the fiscal years ended June 30, 2014 and 2013 are summarized below:

		Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Liability for self-funded insurance programs	$	61,824	12,613	(14,142)	60,295
Liability for life income agreements		16,513	18,626	(4,759)	30,380
Long-term debt		768,386	1,222	(19,341)	750,267
Long-term capital leases		1,303	6,460	(670)	7,093
Other noncurrent liabilities		26,982	3,437	(2,685)	27,734
	$	875,008	42,358	(41,597)	875,769

(Continued)

		Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013
Liability for self-funded insurance programs	$	61,228	14,661	(14,065)	61,824
Liability for life income agreements		16,235	4,056	(3,778)	16,513
Long-term debt		796,277	137,369	(165,260)	768,386
Long-term capital leases		4,663	949	(4,309)	1,303
Other noncurrent liabilities		24,843	3,431	(1,292)	26,982
	$	903,246	160,466	(188,704)	875,008

(10) Life Income Fund – Annuities

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

Life income contributions, included in gifts, grants, and contracts in the accompanying statements of revenues, expenses, and changes in net position are as follows for the fiscal years ended June 30, 2014 and 2013:

	2014				2013			
	Agreements		Asset	Liability	Agreements		Asset	Liability
Charitable remainder unitrusts	8	$	4,017	16,900	5	$	172	41
Charitable lead unitrusts	1		19,973	9,935	—		—	—
Charitable gift annuities	21		1,794	1,042	18		1,901	1,340
Life estate agreements	—		—	—	1		17	2
Total	30	$	25,784	27,877	24	$	2,090	1,383

The assets and corresponding liabilities related to life income agreements are included in long-term investments, restricted, and the liability for life income agreements in the accompanying statements of net position. Total life income agreements held at June 30, 2014 and 2013 are as follows:

	2014				2013			
	Agreements		Asset	Liability	Agreements		Asset	Liability
Charitable remainder unitrusts	77	$	25,713	11,679	77	$	18,718	8,282
Charitable lead unitrusts	1		20,121	9,944	—		—	—
Charitable remainder trust annuities	8		1,096	486	9		1,706	463
Charitable gift annuities	214		11,929	7,596	209		10,639	7,181
Life estate agreements	5		1,508	675	6		1,573	578
Total	305	$	60,367	30,380	301	$	32,636	16,504

(Continued)

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

(11) Funds Held in Trust by Others

Funds held in trust by others, for which OHSU is an income beneficiary, are not recorded in the financial statements. The approximate fair market value of such trusts was $5,613 and $6,972 on June 30, 2014 and 2013, respectively.

The Foundations are the named beneficiaries of twenty-nine trusts held by outside trustees. The reported fair market value of trust assets held by others was $40,500 and $40,500 as of June 30, 2014 and 2013, respectively. The Foundations record contributions as trust distributions occur. Trust distributions of $1,400 and $1,800 were recorded as contributions during the fiscal years ended June 30, 2014 and 2013, respectively.

(12) Pledges and Estates Receivables

The Foundations had the following pledges and estates receivable as of June 30, 2014 and 2013:

		2014	2013
Pledges maturing within 1 year	$	29,217	37,879
Pledges maturing within 2 – 10 years		88,502	106,097
		117,719	143,976
Less allowance for uncollectible pledges		(2,644)	(1,296)
		115,075	142,680
Less discount for net present value		(1,927)	(2,663)
Total net pledges receivable		113,148	140,017
Estates receivable		2,596	1,780
Less allowance for uncollectible estates		(130)	(89)
Total net estates receivable		2,466	1,691
Total pledges and estates receivable	$	115,614	141,708

(13) Commitments and Contingencies

(a) Liability for Self-Funded Insurance Programs

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

(Continued)

professional liability and $3.0 million for general liability. There is an annual aggregate of $17.5 million for professional liability.

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

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

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

OHSU has contracted with independent actuaries to estimate the ultimate costs of settlement related to the coverage provided by OHSU Insurance Company. The liabilities are discounted at 3% in 2014 and 2013 and, in management's opinion, provide an adequate reserve for loss contingencies.

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

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

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

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

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

On January 1, 2006, Workers Compensation coverage for all employees was placed with the SAIF Corporation in accordance with statutory requirements. SAIF also provides Employers Liability coverage in the amount of $500,000, without retention. The SAIF policy is written as a paid loss retrospective plan. SAIF charges a minimum premium quarterly. This paid premium is an estimate and varies with audited payroll. In addition, SAIF bills monthly for the prior month's paid losses, adding a 16.5% loss conversion factor to the paid loss costs. Six months after the policy term, and every 12 months thereafter, a retrospective evaluation is completed to determine any additional amounts to be paid, including outstanding reserves, for claims relating to the policy year.

(b) Unemployment Compensation

Unemployment compensation claims are administered by the Oregon Employment Division pursuant to Oregon Revised Statutes. The estimated amount of future benefits payments to claimants and the resulting liability to OHSU have been reflected as accrued salaries, wages, and benefits in the accompanying statements of net position.

(c) Employee Health Programs

OHSU is self-insured for its risk of loss related to costs to insure its employees for medical, dental, and vision coverage. OHSU has utilized a third-party actuary to assist in the estimation of its liability for the employee health programs related to claims payable and those claims incurred but not yet paid or reported of approximately $13,867 and $12,730 as of June 30, 2014 and 2013, respectively. These amounts are included in current portion of self-funded insurance program liabilities in the accompanying statements of net position.

(d) Labor Organizations

Approximately 16% of OHSU's employees are nurses represented by the Oregon Nurses Association (ONA). Approximately 39% of OHSU's employees are represented by the American Federation of State, County, and Municipal Employees (AFSCME), for a total of 55% of OHSU's employees being represented by labor organizations. The current contract with ONA expires on March 31, 2017. The current contract with AFSCME expires on June 30, 2015.

(e) Construction Contracts

OHSU had outstanding commitments on unexpended construction contracts totaling approximately $16,487 and $58,300 at June 30, 2014 and 2013, respectively. These commitments will be primarily funded from gifts, grants, funds held by trustee, and other investment accounts.

(f) Legal Proceedings

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

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

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

(g) Operating Leases

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

Rental expenses under operating leases were approximately $19,481 and $18,956 in 2014 and 2013, respectively. The following is a schedule of future minimum rental commitments under operating leases as of June 30, 2014 that have initial or remaining lease terms in excess of one year:

Year(s) ending June 30:		
2015	$	13,124
2016		11,143
2017		10,385
2018		8,591
2019		7,814
2020–2024		26,573
2025–2029		649
2030–2034		685
	$	78,964

(h) Healthcare Reform

As a result of federal and state healthcare reform legislation, substantial changes are occurring in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. Effective January 1, 2014, the impact of the Affordable Care Act (ACA) enrolled approximately 200,000 new Medicaid enrollees in the State of Oregon.

(14) Blended Component Units

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

(Amounts in thousands)

Condensed combining information for the statement of net position as of June 30, 2014 is as follows:

		University	INSCO	UMG	OHSUF Foundation	DCH Foundation	Eliminations/ reclassifications	Total Consolidated
Assets								
Current assets	$	748,328	8,688	6,638	46,299	1,561	(44,567)	766,947
Noncurrent assets:								
Capital assets, net of accumulated depreciation		1,516,257	—	518	368	3	—	1,517,146
Other non current assets		327,054	80,298	—	802,474	58,271		1,268,097
Total noncurrent assets		1,843,311	80,298	518	802,842	58,274	—	2,785,243
Total assets		2,591,639	88,986	7,156	849,141	59,835	(44,567)	3,552,190
Deferred outflows		16,634	—	—	—	—	—	16,634
Total assets and deferred outflows	$	2,608,273	88,986	7,156	849,141	59,835	(44,567)	3,568,824
Liabilities								
Current liabilities	$	347,252	239	1,807	44,300	2,791	(44,567)	351,822
Noncurrent liabilities		771,734	31,953	170	30,737	2,427	—	837,021
Total liabilities		1,118,986	32,192	1,977	75,037	5,218	(44,567)	1,188,843
Deferred inflows		3,885	—	—	—	—	—	3,885
Net position:								
Net investment in capital assets		803,057	—	—	368	3	—	803,428
Restricted, expendable		83,466	—	—	296,012	22,462	—	401,940
Restricted, nonexpendable		—	—	—	174,203	15,007	—	189,210
Unrestricted		598,879	56,794	5,179	303,520	17,146	—	981,518
Total net position		1,485,402	56,794	5,179	774,103	54,618	—	2,376,096
Total liabilities, deferred inflows and net position	$	2,608,273	88,986	7,156	849,140	59,836	(44,567)	3,568,824

(Amounts in thousands)

Condensed combining information related to revenues, expenses, and changes in net position for the year ended June 30, 2014 is as follows:

	University	INSCO	UMG	OHSUF Foundation	DCH Foundation	Eliminations/ reclassifications	Total Consolidated
Operating revenues:							
Patient service revenue	$ 1,644,565	—	—	—	—	—	1,644,565
Student tuition and fees, net	63,435	—	—	—	—	—	63,435
State appropriations	35,415	—	—	—	—	(35,415)	—
Gifts, grants, and contracts	437,693	—	—	98,156	17,398	(77,727)	475,520
Other revenue	96,559	12,296	13,802	2,372	308	(28,343)	96,994
Total operating revenues	2,277,667	12,296	13,802	100,528	17,706	(141,485)	2,280,514
Operating expenses:							
Salaries, wages, and benefits	1,332,676	764	10,197	11,666	2	(265)	1,355,040
Services, supplies, and other	716,678	6,485	4,151	98,381	15,480	(127,835)	713,340
Depreciation and amortization	115,080	—	159	184	5	—	115,428
Interest	22,829	—	—	—	—	—	22,829
Total operating expenses	2,187,263	7,249	14,507	110,231	15,487	(128,100)	2,206,637
Operating income	90,404	5,047	(705)	(9,703)	2,219	(13,385)	73,877
Nonoperating revenues (expenses):							
Investment income and gain (loss) in fair value of investments	31,267	2,658	—	55,897	3,533	—	93,355
State appropriations	—	—	—			35,415	35,415
Other	(3,876)	—	—	4,535	(300)	—	359
Total nonoperating revenues (expenses), net	27,391	2,658	—	60,432	3,234	35,415	129,129
Net income (loss) before other changes in net position	117,795	7,705	(705)	50,729	5,453	22,030	203,006
Other changes in net position:							
Contributions for capital and other	33,452	(6,287)	—	—	—	(22,030)	5,135
Change in interest in the Foundations	—	—	—	—	—	—	—
Nonexpendable donations	—	—	—	6,864	510	—	7,374
Total other changes in net position	33,452	(6,287)	—	6,864	510	(22,030)	12,509
Total increase (decrease) in net position	151,247	1,418	(705)	57,593	5,962	—	215,515
Net position – beginning of year	1,334,154	55,376	5,885	716,510	48,656	—	2,160,581
Net position – end of year	$ 1,485,402	56,794	5,179	774,103	54,618	—	2,376,096

(Amounts in thousands)

Condensed combining information related to cash flows for the year ended June 30, 2014 is as follows:

		University	INSCO	UMG	OHSUF Foundation	DCH Foundation	Eliminations/ reclassifications	Total Consolidated
Net cash provided by operating activities	$	148,221	1,879	(1,494)	25,269	3,030	—	176,905
Net cash provided by noncapital financing activities		25,517	—	—	18,803	449	—	44,769
Net cash used in capital and related financing activities		(248,366)	—	(116)	(43)	—	—	(248,525)
Net cash (used in) provided by investing activities		90,942	(1,588)		(40,156)	(3,152)	—	46,046
Net increase in cash and cash equivalents		16,314	291	(1,610)	3,873	327	—	19,195
Cash and cash equivalents, beginning of year		88,210	86	6,638	1,601	159	—	96,694
Cash and cash equivalents, end of year	$	104,524	377	5,028	5,474	486	—	115,889

(Amounts in thousands)

Condensed combining information for the statement of net position as of June 30, 2013 is as follows:

		University	INSCO	UMG	OHSUF Foundation	DCH Foundation	Eliminations/ reclassifications	Total Consolidated
Assets								
Current assets	$	780,834	8,686	8,241	49,119	1,297	(38,372)	809,805
Noncurrent assets:								
Capital assets, net of accumulated depreciation		1,412,726	—	567	509	8	—	1,413,810
Other non current assets		261,913	77,133	—	718,498	51,557	—	1,109,101
Total noncurrent assets		1,674,639	77,133	567	719,007	51,565	—	2,522,911
Total assets		2,455,473	85,819	8,808	768,126	52,862	(38,372)	3,332,716
Deferred outflows		19,370	—	—	—	—	—	19,370
Total assets and deferred outflows	$	2,474,843	85,819	8,808	768,126	52,862	(38,372)	3,352,086
Liabilities								
Current liabilities		346,633	134	2,791	35,808	1,889	(38,372)	348,883
Noncurrent liabilities		789,654	30,309	132	15,808	2,317	—	838,220
Total liabilities		1,136,287	30,443	2,923	51,616	4,206	(38,372)	1,187,103
Deferred inflows		4,402	—	—	—	—	—	4,402
Net position:								
Net investment in capital assets		721,101	—	—	509	8	—	721,618
Restricted, expendable		76,039	—	—	299,128	21,432	—	396,599
Restricted, nonexpendable		—	—	—	166,664	14,492	—	181,156
Unrestricted		537,014	55,376	5,885	250,209	12,724	—	861,208
Total net position		1,334,154	55,376	5,885	716,510	48,656	—	2,160,581
Total liabilities, deferred inflows and net position	$	2,474,843	85,819	8,808	768,126	52,862	(38,372)	3,352,086

(Amounts in thousands)

Condensed combining information related to revenues, expenses, and changes in net position for the year ended June 30, 2013 is as follows:

	University	INSCO	UMG	OHSUF Foundation	DCH Foundation	Eliminations/ reclassifications	Total Consolidated
Operating revenues:							
Patient service revenue	$ 1,519,741	—	—	—	—	—	1,519,741
Student tuition and fees, net	59,013	—	—	—	—	—	59,013
State appropriations	30,146	—	—	—	—	(30,146)	—
Gifts, grants, and contracts	428,644	—	—	140,967	14,946	(86,907)	497,650
Other revenue	94,679	11,957	15,421	2,764	161	(31,870)	93,112
Total operating revenues	2,132,223	11,957	15,421	143,731	15,107	(148,923)	2,169,516
Operating expenses:							
Salaries, wages, and benefits	1,236,540	764	10,024	11,208	—	(434)	1,258,102
Services, supplies, and other	667,727	774	4,230	76,105	14,239	(117,688)	645,387
Depreciation and amortization	112,162	—	130	156	5	—	112,453
Interest	28,601	—	—	—	—	—	28,601
Total operating expenses	2,045,030	1,538	14,384	87,469	14,244	(118,122)	2,044,543
Operating income	87,193	10,419	1,037	56,262	863	(30,801)	124,973
Nonoperating revenues (expenses):							
Investment income and gain (loss) in fair value of investments	12,930	256	3	35,161	2,061	—	50,411
State appropriations	—	—				30,146	30,146
Other	(969)	—		2,184	(153)	—	1,062
Total nonoperating revenues (expenses), net	11,961	256	3	37,345	1,908	30,146	81,619
Net income (loss) before other changes in net position	99,154	10,675	1,040	93,607	2,771	(655)	206,592
Other changes in net position:							
Contributions for capital and other	3,513	—	4,845	—	—	655	9,013
Change in interest in the Foundations	—	—	—	—	—	—	—
Nonexpendable donations	1	—	—	3,712	366	—	4,079
Total other changes in net position	3,514	—	4,845	3,712	366	655	13,092
Total increase (decrease) in net position	102,668	10,675	5,885	97,319	3,137	—	219,684
Net position – beginning of year	1,231,486	44,701	—	619,191	45,519	—	1,940,897
Net position – end of year	$ 1,334,154	55,376	5,885	716,510	48,656	—	2,160,581

(Amounts in thousands)

Condensed combining information related to cash flows for the year ended June 30, 2013 is as follows:

	University	INSCO	UMG	OHSUF Foundation	DCH Foundation	Eliminations/ reclassifications	Total Consolidated
Net cash provided by operating activities	258,852	8,492	2,257	(11,803)	357	—	258,155
Net cash provided by noncapital financing activities	23,372	—	—	11,244	278	—	34,894
Net cash used in capital and related financing activities	(294,919)	—	(356)	(135)	—	—	(295,410)
Net cash (used in) provided by investing activities	(47,457)	(9,322)	—	697	(637)	—	(56,719)
Net increase in cash and cash equivalents	(60,152)	(830)	1,901	3	(2)	—	(59,080)
Cash and cash equivalents, beginning of year	148,362	916	4,737	1,598	161	—	155,774
Cash and cash equivalents, end of year	88,210	86	6,638	1,601	159	—	96,694

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

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

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded actuarial accrued liability (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
January 1, 2010	—	19,185	19,185	—	669,000	2.9%
January 1, 2012	—	19,894	19,894	—	791,382	2.5%
October 1, 2013	—	9,772	9,772	—	874,412	1.1%

The actuarially determined amounts above use an assumed discount rate of 3.5% in the October 1, 2013 valuation. The assumed healthcare cost trend rate was 8.0% in 2014, declining gradually to 4.8% in 2084 and remaining at 4.8% thereafter.

See accompanying independent auditors' report.

OREGON HEALTH & SCIENCE UNIVERSITY

Combining Statement of Net Position

June 30, 2014 (with comparative totals for June 30, 2013)

(Dollars in thousands)

Assets	**Hospital**	**Other University**	**Total University**	**Foundations**	**Eliminations/ reclassifications**	**2014**	**2013**
Current assets:							
Cash and cash equivalents	$ 168,543	(58,613)	109,930	5,959	—	115,889	96,694
Short-term investments	189,745	15,694	205,439	631	—	206,070	299,636
Current portion of funds held by trustee	2,150	17,127	19,277	—	—	19,277	53,050
Patients accounts receivable, net of bad debt allowances of $7,859 in 2014 and $12,787 in 2013	266,522	19,201	285,723	—	—	285,723	— 217,850
Student receivables	—	19,812	19,812	—	—	19,812	18,805
Grant and contract receivable	—	45,202	45,202	—	—	45,202	34,723
Interest receivable	—	—	—	1,049	—	1,049	2,746
Current portion of pledges and estates receivable	—	—	—	30,680	—	30,680	39,090
Other receivables, net	3,506	41,956	45,462	9,278	(44,567)	10,173	12,130
Inventories, at cost	16,006	2,067	18,073	—	—	18,073	19,829
Prepaid expenses	9,485	5,251	14,736	263	—	14,999	15,252
Total current assets	655,957	107,697	763,654	47,860	(44,567)	766,947	809,805
Noncurrent assets:							
Capital assets, net of accumulated depreciation	686,587	830,188	1,516,775	371	—	1,517,146	1,413,810
Funds held by trustee – less current portion	23,075	3,176	26,251	—	—	26,251	25,643
Long-term investments:	—	—		—	—		
Long-term investments, restricted	—	34,547	34,547	425,235	—	459,782	403,076
Long-term investments, unrestricted	190,301	153,109	343,410	348,420	—	691,830	571,749
Total long-term investments	190,301	187,656	377,957	773,655	—	1,151,612	974,825
Prepaid financing costs, net	2,321	823	3,144	—	—	3,144	3,406
Pledges and estates receivable – less current portion	—	—	—	84,934	—	84,934	102,618
Other noncurrent assets	—	—	—	2,156	—	2,156	2,609
Interest in the Foundations	—	828,721	828,721	—	(828,721)	—	—
Total noncurrent assets	902,284	1,850,564	2,752,848	861,116	(828,721)	2,785,243	2,522,911
Total assets	$ 1,558,241	1,958,261	3,516,502	908,976	(873,288)	3,552,190	3,332,716
Deferred outflows							
Deferred amortization of derivative instruments	$ 7,582	6,004	13,586	—	—	13,586	16,017
Loss on refunding of debt	2,533	515	3,048	—	—	3,048	3,353
Total deferred outflows	$ 10,115	6,519	16,634	—	—	16,634	19,370
Total assets and deferred inflows	$ 1,568,356	1,964,780	3,533,136	908,976	(873,288)	3,568,824	3,352,086
Liabilities							
Current liabilities							
Current portion of long-term debt	$ 7,968	9,441	17,409	—	—	17,409	17,872
Current portion of long-term capital leases	702	334	1,036	—	—	1,036	613
Current portion of self-funded insurance programs liability	—	20,303	20,303	—	—	20,303	18,303
Accounts payable and accrued expenses	51,095	74,846	125,941	2,482	—	128,423	158,061
Accrued salaries, wages, and benefits	27,283	50,869	78,152	—	—	78,152	64,315
Compensated absences payable	28,584	36,689	65,273	—	—	65,273	55,411
Unearned revenue	2,519	33,186	35,705	—	—	35,705	30,645
Other current liabilities	1,318	4,161	5,479	44,609	(44,567)	5,521	3,663
Total current liabilities	119,469	229,829	349,298	47,091	(44,567)	351,822	348,883
Noncurrent liabilities:							
Long-term debt – less current portion	426,601	306,257	732,858	—	—	732,858	750,514
Long-term capital leases – less current portion	5,657	400	6,057	—	—	6,057	690
Liability for self-funded insurance programs – less current portion	—	39,992	39,992	—	—	39,992	43,521
Liability for life income agreements	—	—	—	30,380	—	30,380	16,513
Other noncurrent liabilities	8,354	16,596	24,950	2,784	—	27,734	26,982
Total noncurrent liabilities	440,612	363,245	803,857	33,164	—	837,021	838,220
Total liabilities	$ 560,081	593,074	1,153,155	80,255	(44,567)	1,188,843	1,187,103
Deferred inflows							
Gain on refunding of debt	$ 1,825	2,060	3,885	—	—	3,885	4,402
Total deferred inflows	$ 1,825	2,060	3,885	—	—	3,885	4,402
Net position							
Net investment in capital assets	$ 270,884	532,173	803,057	371	—	803,428	721,618
Restricted, expendable	—	401,940	401,940	318,474	(318,474)	401,940	396,599
Restricted, nonexpendable	—	189,210	189,210	189,210	(189,210)	189,210	181,156
Unrestricted	735,566	246,323	981,889	320,666	(321,037)	981,518	861,208
Total net position	$ 1,006,450	1,369,646	2,376,096	828,721	(828,721)	2,376,096	2,160,581
Total liabilities, defferred inflows and net position	$ 1,568,356	1,964,780	3,533,136	908,976	(873,288)	3,568,824	3,352,086

See accompanying independent auditors' report.

OREGON HEALTH & SCIENCE UNIVERSITY

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

Year ended June 30, 2014 (with comparative totals for June 30, 2013)

(Dollars in thousands)

	Hospital	Other University	Total University	Foundations	Eliminations/ reclassifications	2014	2013
Operating revenues:							
Patient service revenue, net of bad debt adjustments of $52,018 in 2014 and $63,202 in 2013	$ 1,294,300	350,265	1,644,565	—	—	1,644,565	1,519,741
Student tuition and fees, net	—	63,435	63,435	—	—	63,435	59,013
State appropriations	1,234	34,181	35,415	—	(35,415)	—	—
Gifts, grants, and contracts	1,804	435,889	437,693	115,554	(77,727)	475,520	497,650
Other revenue	45,884	50,382	96,266	2,680	(1,952)	96,994	93,112
Total operating revenues	1,343,222	934,152	2,277,374	118,234	(115,094)	2,280,514	2,169,516
Operating expenses:							
Salaries, wages, and benefits	602,347	741,025	1,343,372	11,668	—	1,355,040	1,258,102
Services, supplies, and other	577,719	123,468	701,187	113,862	(101,709)	713,340	645,387
Depreciation and amortization	57,459	57,781	115,240	188	—	115,428	112,453
Interest	11,859	10,970	22,829	—	—	22,829	28,601
Total operating expenses	1,249,384	933,244	2,182,628	125,718	(101,709)	2,206,637	2,044,543
Operating income	93,838	908	94,746	(7,484)	(13,385)	73,877	124,973
Nonoperating revenues (expenses):							
Investment income and gain (loss) in fair value of investments	23,099	10,826	33,925	59,430	—	93,355	50,411
State appropriations	—	—	—	—	35,415	35,415	30,146
Other	(587)	(3,289)	(3,876)	4,235	—	359	1,062
Total nonoperating revenues (expenses), net	22,512	7,537	30,049	63,665	35,415	129,129	81,619
Net income (loss) before contributions for capital and other	116,350	8,445	124,795	56,181	22,030	203,006	206,592
Other changes in net position:							
Contributions for capital and other	2,420	24,745	27,165	—	(22,030)	5,135	9,013
Change in interest in the Foundations	—	63,555	63,555	—	(63,555)	—	—
Nonexpendable donations	—	—	—	7,374	—	7,374	4,079
Total other changes in net position	2,420	88,300	90,720	7,374	(85,585)	12,509	13,092
Total increase (decrease) in net position	118,770	96,745	215,515	63,555	(63,555)	215,515	219,684
Net position – beginning of year	887,680	1,272,901	2,160,581	765,166	(765,166)	2,160,581	1,940,897
Net position – end of year	$ 1,006,450	1,369,646	2,376,096	828,721	(828,721)	2,376,096	2,160,581

See accompanying independent auditors' report.