Portland State
UNIVERSITY

2014 ANNUAL FINANCIAL REPORT

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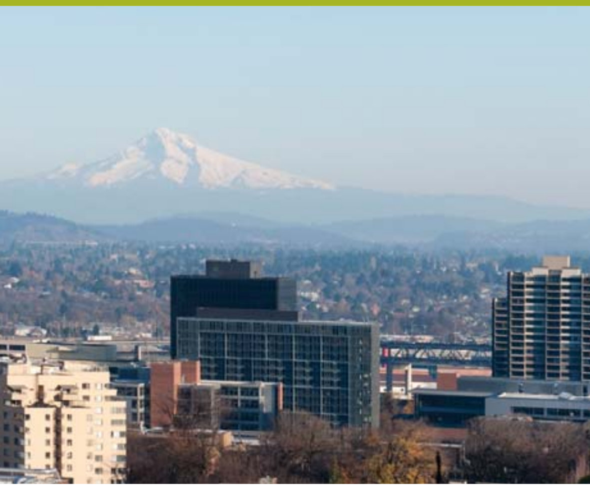


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PORTLAND STATE UNIVERSITY

Let Knowledge Serve the City

Portland State University (PSU), located on a 50-acre campus in downtown Portland, is a nationally acclaimed leader in sustainability and community-based learning. The University's position in the heart of Oregon's economic and cultural center enables PSU students and faculty to apply scholarly theory to the real-world problems of business and community organizations.

Portland State offers more than 220 undergraduate, master's, and doctoral degree options, as well as graduate certificates and continuing education programs. PSU is Oregon's largest and most diverse university, with some 30,000 students who come from all 50 states and from nearly 100 nations around the world.

MISSION AND GUIDING THEMES

Mission

Portland State University's mission is to enhance the intellectual, social, cultural and economic qualities of urban life by providing access throughout the life span to a quality liberal education for undergraduates and an appropriate array of professional and graduate programs especially relevant to metropolitan areas. The University conducts research and community service that support a high quality educational environment and reflect issues important to the region. It actively promotes the development of a network of educational institutions to serve the community.

Vision

Our vision is to be an internationally recognized urban university known for excellence in student learning, innovative research, and community engagement that contributes to the economic vitality, environmental sustainability, and quality of life in the Portland region and beyond.

Guiding Themes

PROVIDE CIVIC LEADERSHIP THROUGH PARTNERSHIPS

Lead as a civic partner, deepen our engagement as a critical community asset, demonstrate leadership in regional innovation, serve as an anchor institution in the Metro area.

IMPROVE STUDENT SUCCESS

Ensure a student experience that results in higher satisfaction, retention, and graduation rates.

ACHIEVE GLOBAL EXCELLENCE

Distinguish the institution nationally and internationally through the accomplishments of its faculty, reputation of its programs, and preparation of its students for a diverse and global economy.

ENHANCE EDUCATIONAL OPPORTUNITY

Ease the transition and create more effective pathways for students to move from K-12 to higher education.

EXPAND RESOURCES AND IMPROVE EFFECTIVENESS

Expand resources in each of the funding streams (state, private, business partnerships, research, tuition), manage resources effectively, and match investments to strategic priorities.

MESSAGE FROM THE PRESIDENT

Fiscal year 2014 was a year of historic change and solid financial stewardship at Portland State University (PSU). The change I speak of came as the provisions of SB 270 were enacted, removing PSU from the Oregon University System and allowing for its governance by a local Board of Trustees. Once the Legislature confirmed this Board, we began integrating its members into the financial management activities of the university. Already, the Board's Finance and Administration subcommittee has been meeting with our vice president for Finance and Administration and key budget staffers to better understand the University's finances and familiarize themselves with PSU's budget process. When the Board assumes full authority for the institution July 1, 2014, they will be ready.

Until then, the existing governance structure continues to ensure solid financial stewardship at PSU and even in the midst of a slow economic recovery we continue to provide an outstanding value to our students and the citizens of Oregon by focusing on access and excellence. One measure of this is how much we have done in 2014 to help the state attain its 40-40-20 objectives. This year more Oregonians than ever made PSU their university of choice and we set another state record for graduates. In this first year of tracking 40-40-20 outcomes, it is fair to say that PSU was Oregon's higher education "work horse."

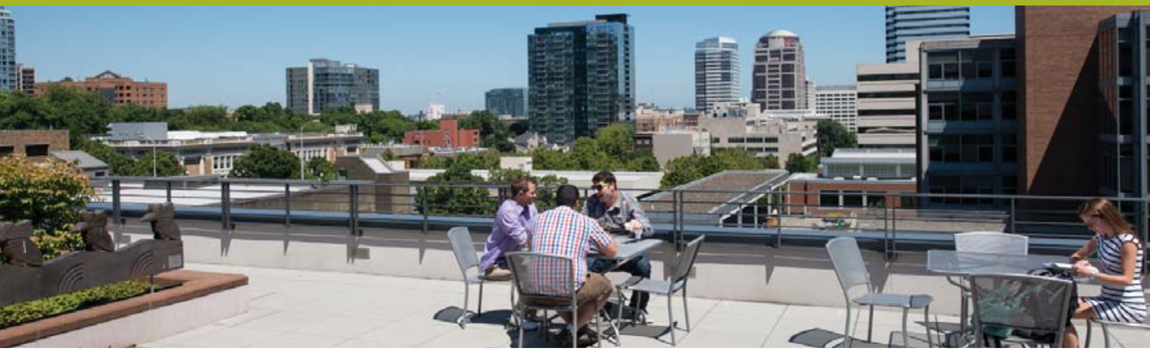
Besides recording fiscal diligence, an annual financial report provides an excellent opportunity to share some examples of how PSU pays dividends to our state. For example:

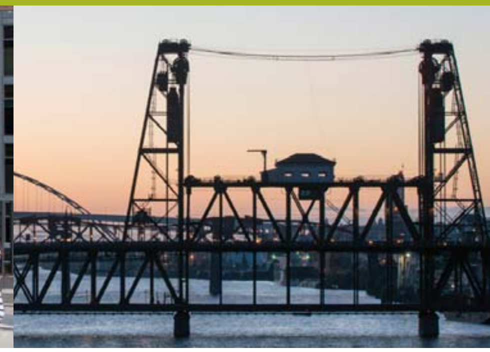
- We bring positive attention to Oregon: For the second year in a row PSU was listed as a top 10 up-and-coming national university in the *U.S. News & World Report's* "Best Colleges 2014. "The list recognizes universities that are making "the most promising and innovative changes in the areas of academics, faculty and student life." Other institutions in this year's top 10 included Arizona State, George Mason and Clemson University.

- We make a college education accessible: The number of minority students at PSU has increased more than 32 percent over the last five years. The largest increase is in the enrollment of Latino students. Now at 2,555, they tend to graduate at the same rate as our non-Latino students.

- We make a college education affordable: In the fall of 2014, PSU will be the first and only public university in Oregon to offer a four-year degree guarantee to entering freshmen. Full-time freshmen who sign an agreement and stay on track will get the support and courses they need to graduate in four years or PSU will not charge them tuition for any remaining required courses. This program will help students and families reduce the cost of a degree by streamlining the time it takes to earn one.

- We partner with our community: Provost Sona Andrews has been working closely with OHSU Provost Jeanette Mladenovic to prepare the OHSU/PSU joint School of Public Health for accreditation in FY 2015. This year the two provosts appointed Dr. Elena Andresen as interim dean of the new school. Dr. Andresen is a professor in the OHSU Department of Public Health and Preventive Medicine and director of the Oregon Office on Disability & Health at the OHSU Institute on Development and Disability.





- We invest in our community: Acting on our desire to increase the number and value of the contracts PSU awards to Minority, Women and Emerging Small Businesses (MWESB), in 2014 we awarded a record number of contracts—52 contracts worth $8.4 million dollars—to MWESB firms.

Fiscal year 2014 was also noteworthy for the progress we made implementing our plans to reach a state of financial equilibrium. This is the necessary first step to begin building back the capacity we have lost over the years to reduced state allocations. Double digit increases in health care and retirement costs, coupled with increases in salaries and continued state reductions make achieving this goal difficult. However, equilibrium can be achieved by taking a balanced approach to financial planning that matches strategic cost reductions, with revenue growth and increased enrollments. While working to meet these goals, we will be careful to maintain adequate reserves so we can manage unforeseen events and take advantage of key new opportunities. This year our strategic balancing efforts were assisted by the Legislature's decision to "buy down" tuition so we could afford to effectively freeze the cost of instruction for undergraduates—for one year. However, this action only provides students with temporary relief, unless and until the buy down is made permanent.

On the revenue side of the ledger we have enhanced income by successfully increasing enrollments and improving student retention rates. We also produced new revenue when PSU researchers generated twice as many patents as last year and earned a record amount of licensing income from university-owned intellectual property. Our decision to merge the office of University Advancement with the PSU Foundation will also help generate new revenue by sending a clear message to donors that PSU is doing everything possible to maximize the impact of their generosity. Already, 2014 is another record year for philanthropy at PSU. All told, strategic balancing is helping us retire a structural deficit and balance our budget, while we also make significant progress on increasing faculty compensation.

Looking back on last year's financial performance, I am pleased with the progress we have made. Although still new, our performance based budget model is now fully operational and in the coming year we will begin to use it and refine its application. When the Board assumes authority in July, their ability to control revenues and expenditures (including tuition—with some legislative safeguards) and issue revenue bonds, will offer PSU an excellent opportunity to generate the resources it needs to continue its growth.

In the coming year, we will partner with our students, faculty and staff, alumni and new Board to make a stronger case than ever for more general support from the state legislature. Our case is a simple one: if PSU is to continue as Oregon's work horse for achieving the 40-40-20 goals, we will need more support from the state. At the same time we make the case for more general support, we will continue to advocate for more targeted state investments as well. With the proper mix of adequate general and targeted state funding, PSU has a unique opportunity to leverage our urban advantage to recruit, retain and graduate more students in in-demand disciplines, where our location gives us a market advantage. As the state's higher education work horse, it is critical that we should do so. It is through PSU's continued success that Oregon has its best chance to meet its aspirational goals.

Wim Wiewel

Wim Wiewel
President



TOP CAMPUS ACCOMPLISHMENTS

- The first step in Provost Sona Andrews' reTHINK PSU— the Provost's Challenge— has spawned 24 new funded projects, many of which are already beginning to bear fruit. For example, in the STEM area, faculty members working to rethink chemistry and biology education at PSU have submitted a 3-year, $1.9 million grant application to the National Science Foundation. Also, the School of Social Work has begun a new fully Online Master of Social Work Degree in Community and Leadership Practice (95 students have applied for 40 slots).

- Besides being selected again this year as a *U.S. News & World Report's* "Top 10 Up-and-Coming National University," other 2014 accolades included top 50 *U.S. News & World Report* rankings for our City Management and Urban Policy, Public Affairs, Rehabilitation Counseling and Social Work programs. PSU was also a recipient of this year's Washington Center's National Civic Engagement Award.

- PSU's Urban Honors program has grown so much over the past two years (268 percent) that it has been elevated to an Honors College, Oregon's first and only in an urban setting. The college now has 600 students and has plans to grow to 650 by 2017, and statistics show that 85 percent of these students will go on to graduate school.

- Fiscal year 2014 was a record year for PSU faculty, students and staff competing for Fulbright scholarships. Faculty from the College of the Arts and the College of Liberal Arts and Sciences, as well as seven students from throughout the University and one staffer from International Affairs, were awarded Fulbrights this year.

- New undergraduate enrollment was up 7 percent this fall, reversing last year's flat enrollment. Our campus graduation rate was up again as well, as was the total number of degrees we awarded—6,400—another "all-time" record for Oregon. Of particular note is the progress we continue to make in serving Underrepresented Minority Students; student diversity increased again this year, from 27 to 29.2 percent.

- The two $20 million dollar bond match campaigns to renovate the Peter W. Stott Educational Center (aka, the Viking Pavilion) and expand the School of Business Administration continue apace. We have now raised $16.3 million towards the SBA match: this is 82 percent of the total needed. The Stott Center/Viking Pavilion campaign has raised nearly 65 percent of the necessary funds.

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INDEPENDENT AUDITORS' REPORT

Members of the Board

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Portland State University (the University), an institution of higher education of the Oregon University System (the System), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Portland State University Foundation, which represents 100 percent of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 (A), the financial statements present only the University, and do not purport to, and do not, present fairly the financial position of the System as of June 30, 2014, the changes in its financial position, or its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1 (A), effective July 1, 2014, the University became an independent public body separate from the System due to the passing of Senate Bill 270.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of funding progress of Other Post Employment Benefits on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

The Message from the President has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
November 20, 2014

Statement of Net Position

As of June 30,		University 2014
		(In thousands)
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	$	**55,670**
Collateral from Securities Lending (Note 2)		**5,286**
Accounts Receivable, Net (Note 3)		**62,904**
Notes Receivable, Net (Note 4)		**1,677**
Inventories		**574**
Prepaid Expenses		**2,155**
Total Current Assets		**128,266**
Noncurrent Assets		
Cash and Cash Equivalents (Note 2)		**13,109**
Investments (Note 2)		**30,789**
Notes Receivable, Net (Note 4)		**5,993**
Capital Assets, Net of Accumulated Depreciation (Note 5)		**463,164**
Total Noncurrent Assets		**513,055**
Total Assets	$	**641,321**
DEFERRED OUTFLOWS OF RESOURCES	$	**8,072**
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities (Note 6)	$	**31,758**
Deposits		**2,984**
Obligations Under Securities Lending (Note 2)		**5,286**
Current Portion of Long-Term Liabilities (Note 8)		**26,001**
Unearned Revenues		**23,185**
Total Current Liabilites		**89,214**
Noncurrent Liabilities		
Long-Term Liabilities (Note 8)		**394,020**
Total Noncurrent Liabilities		**394,020**
Total Liabilities	$	**483,234**
DEFERRED INFLOWS OF RESOURCES	$	**-**
NET POSITION		
Net Investment in Capital Assets	$	**87,363**
Restricted For:		
Nonexpendable Endowments		**1,285**
Expendable:		
Gifts, Grants and Contracts		**2,042**
Student Loans		**8,444**
Capital Projects		**20,130**
Debt Service		**14,526**
Unrestricted (Note 9)		**32,369**
Total Net Position	$	**166,159**

The accompanying notes are an integral part of these financial statements.

Statement of Financial Position

As of June 30,		Component Unit 2014
		(In thousands)
ASSETS		
Cash and Cash Equivalents	$	**1,094**
Contributions, Pledges and Grants Receivable, Net		**8,745**
Investments (Note 2)		**81,989**
Prepaid Expenses and Other Assets		**9,201**
Property and Equipment, Net		**34,706**
Total Assets	**$**	**135,735**
LIABILITIES		
Accounts Payable and Accrued Liabilities	$	**1,429**
Accounts Payable to Universities		**883**
Obligations to Beneficiaries of Split-Interest Agreements		**1,171**
Deposits and Unearned Revenue		**6,129**
Long-Term Liabilities		**44,173**
Total Liabilities	**$**	**53,785**
NET ASSETS		
Unrestricted	$	**(2,873)**
Temporarily Restricted		**42,908**
Permanently Restricted		**41,915**
Total Net Assets	**$**	**81,950**

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30,		University 2014
		(In thousands)
OPERATING REVENUES		
Student Tuition and Fees (Net of Allowances of $42,180)	$	**181,643**
Federal Grants and Contracts		**45,172**
State and Local Grants and Contracts		**5,245**
Nongovernmental Grants and Contracts		**14,111**
Educational Department Sales and Services		**6,522**
Auxiliary Enterprises Revenues (Net of Allowances of $3,552)		**78,635**
Other Operating Revenues		**12,585**
Total Operating Revenues		**343,913**
OPERATING EXPENSES		
Instruction		**155,959**
Research		**43,977**
Public Service		**12,809**
Academic Support		**33,505**
Student Services		**16,446**
Auxiliary Programs		**82,357**
Institutional Support		**38,603**
Operation and Maintenance of Plant		**22,968**
Student Aid		**32,074**
Other Operating Expenses		**26,883**
Total Operating Expenses (Note 11)		**465,581**
Operating Loss		**(121,668)**
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 12)		**59,371**
Financial Aid Grants		**52,938**
Investment Activity (Note 10)		**2,458**
Gain (Loss) on Sale of Assets, Net		**(1,084)**
Interest Expense		**(19,625)**
Other Nonoperating Items		**352**
Net Nonoperating Revenues		**94,410**
Income (Loss) Before Other Nonoperating Revenues		**(27,258)**
Capital and Debt Service Appropriations (Note 12)		**12,658**
Capital Grants and Gifts		**5,777**
Transfers within OUS		**5,702**
Total Other Nonoperating Revenues		**24,137**
Increase (Decrease) In Net Position		**(3,121)**
NET POSITION		
Beginning Balance		**169,280**
Ending Balance	$	**166,159**

The accompanying notes are an integral part of these financial statements.

Statement of Activities

For The Year Ended June 30,		Component Unit 2014
		(In thousands)
REVENUES		
Grants, Bequests and Gifts	$	**21,298**
Investment Income (Loss), Net		**6,295**
Other Revenues		**9,703**
Total Revenues		**37,296**
EXPENSES		
University Support		**22,708**
General and Administrative		**1,566**
Other Expenses		**834**
Total Expenses		**25,108**
Increase In Net Assets		**12,188**
NET ASSETS		
Beginning Balance		**69,762**
Ending Balance	$	**81,950**

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the Year Ended June 30,		University 2014
		(In thousands)
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$	**180,001**
Grants and Contracts		**65,014**
Educational Department Sales and Services		**6,522**
Auxiliary Enterprises Operations		**75,787**
Payments to Employees for Compensation and Benefits		**(291,211)**
Payments to Suppliers		**(120,119)**
Student Financial Aid		**(34,858)**
Other Operating Receipts		**6,156**
Net Cash Provided (Used) by Operating Activities		**(112,708)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations		**59,371**
Financial Aid Grants		**52,938**
Other Gifts and Private Contracts		**352**
Net Agency Fund Receipts (Payments)		**655**
Net Transfers Within OUS		**(601)**
Net Cash Provided (Used) by Noncapital Financing Activities		**112,715**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt Service Appropriations		**12,247**
Capital Grants and Gifts		**5,445**
Bond Proceeds from Capital Debt		**2,987**
Sales of Capital Assets		**1,208**
Purchases of Capital Assets		**(28,701)**
Interest Payments on Capital Debt		**(15,045)**
Principal Payments on Capital Debt		**(4,792)**
Net Cash Provided (Used) by Capital and Related Financing Activities		**(26,651)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Sales (Purchases) of Investments		**26,093**
Interest on Investments and Cash Balances		**2,105**
Net Cash Provided (Used) by Investing Activities		**28,198**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,554**
CASH AND CASH EQUIVALENTS		
Beginning Balance		**67,225**
Ending Balance	$	**68,779**

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows - Continued

For the Year Ended June 30,		University 2014
		(In thousands)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	**$**	**(121,668)**
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense		**24,442**
Changes in Assets and Liabilities:		
Accounts Receivable		**(8,893)**
Notes Receivable		**(248)**
Inventories		**(72)**
Prepaid Expenses		**(408)**
Accounts Payable and Accrued Liabilities		**(4,806)**
Long-Term Liabilities		**237**
Unearned Revenue		**(1,292)**
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$**	**(112,708)**
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Capital Assets Acquired by Gifts-in-Kind	**$**	**332**
Increase in Fair Value of Investments Recognized as a Component of Investment Activity		**353**
Internal Bank Loans Converted to XI-F(1) Debt		**141,479**

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Oregon State Board of Higher Education (Board), a citizen board appointed by the Governor with confirmation by the State Senate, governs the seven state-supported institutions of higher learning (institutions) in Oregon. These institutions are known as the Oregon University System (OUS). The law creating the Board was passed in 1929 by the Oregon Legislature and went into effect July 1, 1931. Portland State University (PSU) is one of the seven universities that make up the OUS.

The PSU financial reporting entity is reported under the heading of University on the Basic Financial Statements. PSU is located in downtown Portland. The PSU reporting entity also includes one university foundation which is reported as a discretely presented component unit in the PSU Financial Statements. See "Note 19. University Foundation" for additional information relating to this component unit. Organizations that are not financially accountable to PSU, such as booster and alumni organizations, are not included in the reporting entity.

PSU is also reported as one of the seven universities that make up OUS and is reported as part of the OUS Annual Financial Report. OUS is a part of the primary government of the State of Oregon (State) and is included as a proprietary (enterprise) fund in the Comprehensive Annual Financial Report issued by the State.

These financial statements present only PSU, including the discretely presented component unit described above, and are not intended to present the financial position, changes in financial position, or, where applicable, the cash flows of the OUS as a whole in conformity with accounting principles generally accepted in the United States of America.

Senate Bill 270 was passed by the Oregon Legislature during fiscal year 2013 and established Portland State University as an independent public body legally separate from OUS as of July 1, 2014. PSU will not be included in the OUS financial reporting entity starting with the fiscal year 2015 financial report. PSU will be included as a component unit in the Comprehensive Annual Financial Report issued by the State starting with the fiscal year 2015 financial report.

B. Financial Statement Presentation

PSU financial accounting records are maintained in accordance with U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB). The financial statement presentation required by GASB No. 35 provides a comprehensive, entity-wide perspective of PSU assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

In preparing the financial statements, significant interfund transactions and balances between university funds have been eliminated. Unless otherwise stated, dollars are presented in thousands.

Financial statements of the university foundation are presented in accordance with generally accepted accounting principles prescribed by the Financial Accounting Standards Board (FASB).

NEWLY IMPLEMENTED ACCOUNTING STANDARDS

PSU implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for the fiscal year ended June 30, 2014. GASB 65 amended or superseded the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. Certain items that were previously reported as assets and liabilities are now classified as deferred outflows or deferred inflows of resources, and certain items are now recognized as expenses or revenues in the period incurred. As a result of the implementation, PSU reclassified $8,072 in unamortized gain/(loss) on refundings previously reported as a liability to deferred outflows for financial reporting purposes.

PSU implemented GASB Statement No. 66, *Technical Corrections–2012–an amendment of GASB Statements No. 10 and No. 62*, effective for the fiscal year ended June 30, 2014. GASB 66 resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-1989 FASB and AICPA Pronouncements*. The adoption of GASB 66 did not materially impact the PSU financial statements.

The Oregon Public Employees Retirement System (PERS) implemented GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, effective for the fiscal year ended June 30, 2014. GASB 67 improves accounting and financial reporting by state and local governments for pensions and pension plans, and therefore applies directly to PERS, and indirectly to PSU. The measurement of net pension liability in accordance with GASB 67 will increase liabilities for PSU as it implements GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 in fiscal year 2015.

PSU implemented GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the fiscal year ended June 30, 2014. GASB 70 improves the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB 70 has resulted in an additional note to the financial statements, 8.H. Financial Guarantees. The adoption of GASB 70 did not materially impact the PSU financial statements.

UPCOMING ACCOUNTING STANDARDS

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. GASB 68 improves accounting and financial reporting by state and local governments for pensions, and is effective for the fiscal year ending June 30, 2015. The State is currently evaluating the impact of this standard on future financial statements. Information relating to any increase in the liabilities of PSU is unavailable at this time. However, the adoption of GASB 68 is expected to have a significant negative impact on the unrestricted net position of PSU.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. GASB 69 requirements are effective for the fiscal year ending June 30, 2015. The adoption of GASB 69 is not expected to have a material impact on the PSU financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the measurement Date - An Amendment of GASB Statement No. 68*. GASB 71 updates GASB 68 and refers to contributions, if any, made to a defined benefit pension plan after the measurement date of the beginning net pension liability. These requirements are effective for the fiscal year ending June 30, 2015. The adoption of GASB 71 is not expected to have a material impact on the PSU financial statements.

C. Basis of Accounting

For financial reporting purposes, PSU is considered a special-purpose government engaged only in business-type activities. Accordingly, the PSU financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when incurred.

D. Cash and Cash Equivalents

Cash and cash equivalents includes highly liquid investments with original maturities of three months or less. Cash and cash equivalents consists of: Cash on hand; cash and investments held by the State of Oregon in the Oregon Short-Term Fund (OSTF); cash and cash equivalents restricted for the payment of the current portion of debt service; and cash deposits, if any, of debt proceeds in investment funds held by a trustee.

E. Investments

Investments are reported at fair value as determined by market prices. Unrealized gains or losses on investments are reported as investment activity in the Statement of Revenues, Expenses, and Changes in Net Position.

Investments are classified as noncurrent assets in the Statement of Net Position.

F. Inventories

Inventories are recorded at the lower of average cost or market and consist primarily of supplies in storerooms and physical plant stores.

G. Capital Assets

Capital assets are recorded at cost on the date acquired or at fair market value on the date donated. PSU capitalizes equipment with unit costs of five thousand dollars or more and an estimated useful life of greater than one year. PSU capitalizes real property expenditures that increase the functionality and/or extend the useful life of the real property if total expenditures exceed the capitalization thresholds of $50 to $100, depending on the type of real property. Intangible assets valued in excess of $100 are capitalized. Expenditures below the capitalization threshold and repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

PSU capitalizes interest expense on projects exceeding $20 million that are partially or fully funded by XI-F debt or internally generated funds. Total interest costs of $8,159 was incurred on XI-F debt, of which $486 was capitalized for the fiscal year ended 2014.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets; generally 15 to 50 years for buildings, 10 to 20 years for infrastructure and land improvements, 10 years for library books and 5 to 11 years for equipment. Amortization terms of intangible assets vary depending on the factors relating to the specific asset. Depreciation is not applied to museum collections, works of art or historical treasures, or library special collections.

H. Unearned Revenues

Unearned revenues include amounts received for tuition and fees, grants and contracts, lease income and auxiliary enterprises activities in which cash has been received, but revenues will be earned in subsequent fiscal year(s).

I. Compensated Absences

PSU accrues a liability for vacation leave and other compensated absences that were earned but not used during the current or prior fiscal year for which employees can receive compensation in a future period. Sick leave is recorded as an expense when paid. There is no payout provision for unused sick leave and no liability exists for terminated employees.

J. Net Position

PSU's net position is classified as follows:

NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets represents the total investment in capital assets, net of accumulated depreciation and amortization, and outstanding debt obligations related to those capital assets.

RESTRICTED – NONEXPENDABLE

Restricted nonexpendable consists of endowment funds in which donors have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income. The income may either be expended or, depending on the terms of the gift instrument, added to principal.

RESTRICTED – EXPENDABLE

Restricted expendable includes resources which PSU is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

UNRESTRICTED

Unrestricted are resources that may be used at the discretion of the Board.

When an expense is incurred that can be paid using either restricted or unrestricted resources, restricted resources are applied first.

K. Endowments

Oregon Revised Statutes (ORS) Section 351.130 gives PSU the authority to use the interest, income, dividends, or profits of endowments. Current OUS Board policy is to annually distribute, for spending purposes, four percent of the preceding 20 quarter moving average of the market value of the endowment funds and to maintain the purchasing power of the funds as nearly as prudent investment permits. In accordance with current board policy, the amount available for distribution during fiscal year 2015 is estimated to be $89. For the year ended June 30, 2014, the net amount of appreciation available for authorization for expenditure was $657.

Nonexpendable Endowments on the Statement of Net Position of $1,285 at June 30, 2014, represent the original corpus of true endowment funds and does not include the accumulated gains of those endowments.

L. Income Taxes

PSU is treated as a governmental entity for tax purposes. As such, PSU is generally not subject to federal and state income taxes. However, PSU remains subject to income taxes on any income that is derived from a trade or business regularly carried on and not in furtherance of the purpose for which it was granted exemption from income taxes. No income tax provision has been recorded because there is no significant amount of taxes on such unrelated business income during fiscal year 2014.

M. Revenues and Expenses

PSU has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

Operating revenues and expenses generally have the characteristics of exchange transactions. These transactions can be defined as an exchange in which two or more entities both receive and sacrifice value, such as purchases and sales of goods or services. Examples of operating revenues include student tuition and fees, sales and services of auxiliary enterprises, most federal, state and local grants and contracts, and other operating revenues. Examples of operating expenses include employee compensation, benefits and related expense, scholarships and fellowships, utilities, supplies and other services, professional fees, and depreciation expenses of capital assets.

Nonoperating revenues generally have the characteristics of nonexchange transactions. In a nonexchange transaction, PSU receives value without directly giving equal value in exchange. Examples of nonoperating revenues include state appropriations, nonexchange grants, gifts, and contributions. Nonoperating expenses are defined in GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments*. Examples of nonoperating expenses include interest on capital asset related debt and bond expenses.

N. Allowances

Student tuition and fees and campus housing revenues included in auxiliary enterprises revenues are reported net of scholarship allowances. A scholarship allowance is the difference between the revenues charged to students and the amounts actually paid. PSU has two types of scholarship allowances that net into tuition and fees. Tuition and housing waivers, provided directly by PSU, amounted to $17,036 for the fiscal year ended 2014. Revenues from financial aid programs (e.g., Pell Grants, Supplemental Educational Opportunity Grants, and Oregon Opportunity Grants) used for paying student tuition and fees and campus housing was estimated to be $26,251 for the fiscal year ended 2014. Bad debt expense is included as an allowance to operating revenues and is estimated to be $2,445 for the fiscal year ended 2014.

O. Federal Student Loan Programs

PSU receives proceeds from the Federal Direct Student Loan Program. Since PSU transmits these grantor supplied moneys without having administrative or direct financial involvement in the program, these loans are reported in an agency fund. Federal student loans received by PSU students but not reported in operations was $161,663 for the fiscal year ended 2014.

P. 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 could affect the reported amounts of assets and liabilities, revenues and expenditures, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

OUS maintains centralized management for substantially all of the System's member universities cash and investments. The invested assets of OUS are managed through several investment pools at the Oregon State Treasury (State Treasury), which commingle the invested assets of all member universities including PSU. Each investment pool has a board approved investment policy and set of objectives identifying risk and return parameters for each investment pool.

In general, deposits and investment securities as described below are exposed to various risks such as credit, concentration of credit, custodial credit, interest rate and foreign currency. Although the objective of each investment pool is to preserve capital within defined risk parameters, it is likely that the value of the investment securities will fluctuate during short periods of time, and possible that such changes could materially affect the amounts reported in the financial statements. For more information on the OUS Portfolio risk exposure, see the OUS 2014 Annual Financial Statements at **www.ous.edu/sites/default/files/cont-div/annual_financial_reptg/fy2014_afs.pdf**.

A. Cash and Cash Equivalents

DEPOSITS WITH STATE TREASURY

PSU maintains the majority of its cash balances on deposit with the State Treasury. These deposits at the State Treasury are held, on a pooled basis as described above, in the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool for use by all state agencies. The State Treasurer invests these deposits in high-grade short-term investment securities. At the fiscal year ended June 30, 2014, PSU cash and cash equivalents on deposit at State Treasury was $68,580.

Cash and Cash Equivalents are classified as current and noncurrent which include both restricted and unrestricted cash. The current portion includes $259 in restricted agency funds for payroll liabilities and $12,788 restricted for debt service payments. The noncurrent portion includes $849 in restricted agency funds for PSU student groups and campus organizations.

A copy of the State Treasury audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St. NE, Suite 100, Salem, OR 97301-3896 or by linking to **oregon.gov/treasury/AboutTreasury/Pages/Annual-Reports.aspx.**

CUSTODIAL CREDIT RISK—DEPOSITS

Custodial credit risk is the risk that, in the event of a financial institution failure, cash balances will not be returned to a depositor. Since PSU cash balances held on deposit at the State Treasury are invested consistently, custodial credit risk exposure to the State Treasury is low.

FOREIGN CURRENCY RISK—DEPOSITS

Deposits in foreign currency run the risk of changing value due to fluctuations in foreign exchange rates. State Treasury deposits are in U.S. currency and therefore not exposed to foreign currency risk.

OTHER DEPOSITS

For the year ended June 30, 2014, PSU had vault and petty cash balances of $199. Additionally, PSU had small amounts of cash invested with a fiscal agent relating to debt issuances.

B. Investments

PSU funds are invested by the State Treasury. PSU investments are managed by OUS Treasury Management, which also develops and manages investment policy. OUS investment policies are governed by statute, the Oregon Investment Council (Council), and the Board. In accordance with ORS, investments of those funds are managed as a prudent investor would do, exercising reasonable care, skill and caution. While the State Treasury is authorized to utilize demand deposit accounts and fixed-income investments, equity investments must be directed by external investment managers who are under contract to the Council.

Investments are all classified as noncurrent and include both restricted and unrestricted funds. Of the total $30,789 in investments, $2,724 million are restricted endowments, $372 are restricted agency funds for payroll liabilities and $10,351 million are restricted for debt service payments.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and such changes could materially affect the amounts reported in the Statement of Net Position.

Significant events in domestic and international investment markets or aggressive action by the Federal Open Market Committee to influence both short and long-term interest rates contribute to price volatility. Consequently, the fair value of PSU's portion of OUS pooled investments is exposed to price volatility which could result in a substantial change in the fair value of certain investments from the amounts reported as of June 30, 2014.

For the Year Ended June 30, 2014 (dollars in thousands)

OUS monitors endowment investments to identify any accounts for which estimated fair value is less than historical value. As of June 30, 2014, PSU had no individually named permanent endowment funds with estimated fair values that, in total, were less than their permanently restricted or historical value.

Of PSU's total investments invested through the OUS investment pools, $7,841 is invested in an intermediate term pool managed by State Treasury, $20,224 is individually held investments of the OUS pool, and $2,724 are invested in a portfolio that is managed for the benefit of pooled gifts and endowments. PSU follows the OUS endowment investment policy and follows State Treasury policy for investments of unspent bond proceeds.

Investments of the PSU discretely presented component unit are summarized at June 30, 2014 as follows:

COMPONENT UNIT

Fair Value at June 30,		2014
Investment Type:		
Corporate Stocks, Bonds, Securities and Mutual Funds	$	65,636
Money Market Funds and Certificates of Deposit		1,663
Collateralized Mortgages, Mortgage Notes and Contracts, Realty Funds		1,088
Alternative Investments		11,315
Cash Value of Life Insurance Policies		2,287
Total Investments	$	81,989

CREDIT RISK

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. OUS has an investment policy for each segment of its investment portfolio. Of these, the policy on the endowment has the least restrictive credit requirements. The policy requires fixed income securities to have an average credit quality of A/Aa or better and limits below investment grade bonds to no more than 15% of the bond portfolio, exclusive of guaranteed investment contracts. The policy also permits holding unrated investments such as common stock, venture capital funds, and real estate. PSU, as a member university of the OUS, follows the OUS policy on investments.

Based on these parameters, as of June 30, 2014 and 2013, approximately 79.6 percent and 85.9 percent, respectively, of investments in the OUS Investment Pool are subject to credit risk reporting. Corporate bonds rated by the credit agencies as lower medium to high quality, indicating the issuer has a strong capacity to pay principal and interest when due, totaled $154,485 and $242,704 in fiscal years 2014 and 2013, respectively. Corporate bonds which have not been evaluated by the rating agencies totaled $79,936 and $55,907 in fiscal years 2014 and 2013, respectively. The OUS Investment Pool totalled $299,160 at June 30, 2014, of which PSU owned $30,789 or 10.3 percent.

CUSTODIAL CREDIT RISK

Custodial credit risk refers to OUS investments that are held by others and not registered in OUS's or the State Treasury's name. This risk typically occurs in repurchase agreements where cash is transferred to a broker-dealer in exchange for securities, but the securities are held by a separate trustee in the name of the broker-dealer. There are policy provisions around securities lending to control this risk. See "C. Securities Lending" in this footnote for additional information.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk refers to potential losses if total investments are concentrated with one or few issuers. OUS policy for reducing this risk in fixed income securities is that, with the exception of U.S. Government and Agency issues, no more than 10% of the bond portfolio, at market value, will be invested in securities of a single issuer or no more than five percent of the individual issue. For all other types of fixed income investments, not more than five percent of the market value of any investment fund will be invested in any single security, unless part of an index fund.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that investments may lose value due to fluctuations in foreign exchange rates. Of the total OUS Investment Pool of $299,160, $29,970 in deposits and mutual funds that are primarily invested in international debt and international equities at June 30, 2014. Approximately $6,201 of these investments have foreign currency exchange contracts to offset the associated foreign currency risk. A foreign currency exchange contract is a forward contract that is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Foreign currency forward contracts are privately negotiated contracts with customized terms and are transacted in over-the-counter markets. Risk associated with such contracts includes adverse changes in the value of the currency and the failure of the counterparty to perform.

INTEREST RATE RISK

Investments in fixed income securities are subject to the risk that changes in interest rates will adversely affect the fair value of the investments. As of June 30, 2014, securities in the OUS Investment Pool held subject to interest rate risk totaling $245,840 had an average duration of 3.04. Duration measures the change in the value of a fixed income security that will result from a 1% change in interest rates.

For the Year Ended June 30, 2014 (dollars in thousands)

C. Securities Lending

In accordance with the State investment policies, the State Treasurer participates in securities lending transactions. The State Treasurer has authorized its custodian to act as its agent in the lending of the OUS and OSTF's securities pursuant to a form of loan agreement, in accordance with OSTF investment policies. There have been no significant violations of the provisions of securities lending agreements. Amounts reported on PSU's Statement of Net Position as Collateral From and Obligations Under Securities Lending are a percent share of the amount owned by OUS in total.

The State Treasurer's securities lending agent lent short-term and fixed income securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to not less than 102% of the market value of the loaned security. The State Treasurer did not impose any restrictions during the year on the amount of the loans that the securities lending agent made on its behalf. The State Treasurer is fully indemnified by its securities lending agent against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

The Custodian is authorized by the Securities Lending Agreement to invest cash collateral received for PSU securities on loan in the OSTF. At June 30, 2014, the OSTF comprised commercial paper, U.S. agency securities, time certificates of deposit (TCD), and corporate notes. The funds' rules provide that broker/dealers meet certain qualifications and that investments are delivered to and held by a third party custodian, which holds the funds' securities in the State of Oregon's name.

The cash collateral of OSTF securities on loan was invested in a short-term investment fund (STIF) maintained by the custodial agent, into U.S. agency securities, and corporate notes. The investments were held by a third-party custodian in the State of Oregon's name. The STIF is not rated by a nationally recognized statistical rating organization, although the STIF's portfolio rules provide minimum requirements with respect to the credit quality of the STIF.

The State Treasurer and borrowers maintain the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with the cash collateral generally do not match the maturities of the securities loans.

3. ACCOUNTS RECEIVABLE

Accounts Receivable, including amounts due from component units, comprised the following:

	June 30, 2014
Student Tuition and Fees	$ 29,164
Auxiliary Enterprises and Other Operating Activities	8,639
Federal Grants and Contracts	8,618
Component Units	883
State, Other Government, and Private Gifts, Grants and Contracts	3,168
Other	22,604
	73,076
Less: Allowance for Doubtful Accounts	(10,172)
Accounts Receivable, Net	$ 62,904

4. NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2014. The program is funded through interest earnings and repayment of loans. Under certain conditions, the repayment of loans can be forgiven at differing annual rates ranging from 10 to 100 percent.

Federal Perkins loans deemed uncollectible are assigned to the U.S. Department of Education for collection. PSU has provided an allowance for uncollectible loans, which in management's opinion will absorb loans that will ultimately be written off. Notes Receivable comprised the following:

	June 30, 2014		
	Current	Noncurrent	Total
Institutional and Other Student Loans	$ 345	$ -	$ 345
Federal Student Loans	1,507	6,783	8,290
	1,852	6,783	8,635
Less: Allowance for Doubtful Accounts	(175)	(790)	(965)
Notes Receivable, Net	$ 1,677	$ 5,993	$ 7,670

For the Year Ended June 30, 2014 (dollars in thousands)

5. CAPITAL ASSETS

The following schedule reflects the changes in capital assets:

	Balance July 1, 2013	Additions	Transfer Completed Assets	Retire. And Adjust.	Balance June 30, 2014
Capital Assets,					
Non-depreciable/Non-amortizable:					
Land	$ 49,963	$ -	$ -	$ (971)	$ 48,992
Capitalized Collections	2,762	92	-	-	2,854
Construction in Progress	35,476	17,686	(5,541)	(157)	47,464
Total Capital Assets, Non-depreciable/Non-amortizable	88,201	17,778	(5,541)	(1,128)	99,310
Capital Assets, Depreciable/ Amortizable:					
Equipment	48,169	4,634	(681)	(3,623)	48,499
Library Materials	86,063	425	-	(743)	85,745
Buildings	480,485	9,415	6,099	-	495,999
Land Improvements	4,981	7	123	-	5,111
Improvements Other Than Buildings	5,299	-	-	-	5,299
Infrastructure	31,182	-	-	-	31,182
Intangible Assets	8,777	-	-	-	8,777
Total Capital Assets, Depreciable/Amortizable	664,956	14,481	5,541	(4,366)	680,612
Less Accumulated Depreciation/ Amortization for:					
Equipment	(34,449)	(4,169)	-	3,297	(35,321)
Library Materials	(74,648)	(3,124)	-	1,169	(76,603)
Buildings	(166,844)	(14,519)	-	(1,192)	(182,555)
Land Improvements	(2,689)	(291)	-	-	(2,980)
Improvements Other Than Buildings	(2,923)	(412)	-	-	(3,335)
Infrastructure	(7,432)	(1,365)	-	(71)	(8,868)
Intangible Assets	(6,534)	(562)	-	-	(7,096)
Total Accumulated Depreciation/ Amortization	(295,519)	(24,442)	-	3,203	(316,758)
Total Capital Assets, Net	$ 457,638	$ 7,817	$ -	$ (2,291)	$ 463,164
Capital Assets Summary					
Capital Assets, Non-depreciable/ Non-amortizable	$ 88,201	$ 17,778	$ (5,541)	$ (1,128)	$ 99,310
Capital Assets, Depreciable/ Amortizable	664,956	14,481	5,541	(4,366)	680,612
Total Cost of Capital Assets	753,157	32,259	-	(5,494)	779,922
Less Accumulated Depreciation/ Amortization	(295,519)	(24,442)	-	3,203	(316,758)
Total Capital Assets, Net	$ 457,638	$ 7,817	$ -	$ (2,291)	$ 463,164

For the Year Ended June 30, 2014 (dollars in thousands)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities comprised the following:

	June 30, 2014
Services and Supplies	$ 12,925
Salaries and Wages	6,674
Contract Retainage Payable	7,094
Accrued Interest	5,063
Other	2
Total	$ 31,758

7. OPERATING LEASES

A. Receivables/Revenues

PSU receives income for land, property and equipment that is leased to non-State entities. Rental income received from leases was $3,360 for the year ended June 30, 2014. The original cost of assets leased, net of depreciation, was $15,122 for the year ended June 30, 2014. Minimum future lease revenue for noncancelable operating leases at June 30, 2014 were:

For the year ending June 30, 2014	
2015	$ 2,828
2016	2,151
2017	1,976
2018	1,571
2019	1,361
2020-2024	4,982
2025-2029	4,400
2030-2034	3,103
2035-2039	2,985
2040-2044	2,985
2045-2049	2,985
2050-2054	2,985
2055-2059	2,985
Total Minimum Operating Lease Revenues	$ 37,297

B. Payables/Expenses

PSU leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases and rents were $4,456 for the year ended June 30, 2014.

Minimum future lease payments on operating leases at June 30, 2014 were:

For the year ending June 30,	
2015	$ 4,142
2016	3,733
2017	3,638
2018	3,517
2019	2,780
2020-2024	5,410
2025-2029	1,261
2030-2034	1,261
2035-2039	1,260
2040-2044	1,256
2045-2049	1,256
2050-2054	1,256
2055 and after	5,379
Total Minimum Operating Lease Payments	$ 36,149

For the Year Ended June 30, 2014 (dollars in thousands)

8. LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amount Due Within One Year	Long-Term Portion
Long-Term Debt						
Due to OUS:						
General Obligation Bonds XI-F(1)	$ 36,311	$ 144,378	$ (13)	$ 180,676	$ 8,706	$ 171,970
Internal Bank Loans	146,509	-	(146,509)	-	-	-
General Obligation Bonds XI-G	101,556	88	-	101,644	3,201	98,443
General Obligation Bonds XI-Q	3,769	-	(100)	3,669	104	3,565
Certificates of Participation (COPs)	41,320	-	(2,062)	39,258	2,040	37,218
Lottery Bonds	21,410	-	(538)	20,872	960	19,912
Oregon Department of Energy Loans (SELP)	45,193	-	(2,079)	43,114	2,140	40,974
Total Long-Term Debt	396,068	144,466	(151,301)	389,233	17,151	372,082
Other Noncurrent Liabilities						
PERS pre-SLGRP pooled Liability	18,716	-	(481)	18,235	337	17,898
Compensated Absences	8,019	8,879	(8,002)	8,896	8,394	502
Other Postemployment Benefits	3,540	-	(14)	3,526	-	3,526
Early Retirement Liability	276	131	(276)	131	119	12
Total Other Noncurrent Liabilities	30,551	9,010	(8,773)	30,788	8,850	21,938
Total Long-Term Liabilities	$ 426,619	$ 153,476	$ (160,074)	$ 420,021	$ 26,001	$ 394,020

The schedule of principal and interest payments for PSU debt is as follows:

	General Obligation Bonds					Lottery	Total		
For the Year Ending June 30,	XI-F(1)	XI-G	XI-Q	SELP	COPs	Bonds	Payments	Principal	Interest
2015	$ 15,068	$ 7,105	$ 249	$ 4,273	$ 3,957	$ 1,784	$ 32,436	$ 14,905	$ 17,531
2016	15,041	7,101	250	4,269	3,641	1,786	32,088	15,070	17,018
2017	14,900	7,125	248	4,236	3,571	1,787	31,867	15,037	16,830
2018	14,592	7,152	248	4,186	3,570	1,790	31,538	15,840	15,698
2019	14,628	7,030	249	4,175	3,479	1,797	31,358	16,898	14,460
2020-2024	67,436	35,152	1,246	18,412	16,733	9,965	148,944	88,074	60,870
2025-2029	59,509	34,321	1,246	18,050	16,347	7,399	136,872	98,124	38,748
2030-2034	37,076	23,325	1,245	6,416	8,471	1,701	78,234	59,382	18,852
2035-2039	17,251	22,673	498	-	1,603	-	42,025	34,987	7,038
2040-2044	4,172	6,995	-	-	-	-	11,167	10,496	671
Accreted Interest								5,043	(5,043)
								$ 373,856	$ 202,673
Total Future Debt Service	259,673	157,979	5,479	64,017	61,372	28,009	576,529		
Less: Interest Component of Future Payments	(87,741)	(60,749)	(2,201)	(20,903)	(22,858)	(8,221)	(202,673)		
Principal Portion of Future Payments	171,932	97,230	3,278	43,114	38,514	19,788	373,856		
Adjusted by:									
Unamortized Bond Premiums	8,744	4,414	391	-	744	1,084	15,377		
Total Long-Term Debt	$ 180,676	$ 101,644	$ 3,669	$ 43,114	$ 39,258	$ 20,872	$ 389,233		

The State of Oregon and the OUS Board issue various debt instruments to fund capital projects at all OUS institutions, including PSU. These debt instruments include General Obligation Bonds under articles XI-F(1), XI-G, and XI-Q of the Oregon Constitution, Certificates of Participation (COPs) and Lottery Bonds. In addition, PSU also borrows funds from the Oregon Department of Energy. Principal and interest amounts due relating to PSU's share of these debt issuances are payable to OUS.

A. General Obligation Bonds XI-F(1)

XI-F(1) bonds, with effective yields ranging from 0.14 percent to 7.0 percent, are due serially through 2044. During the fiscal year ended June 30, 2014, the OUS Board issued bonded indebtedness as follows:

- XI-F(1) Taxable and Tax Exempt Series 2013 NO, $115,105, effective rate of 4.3 percent for capital construction due serially through 2044.
- XI-F(1) Taxable and Tax Exempt Series 2014 CD, $68,440, effective rate of 3.6 percent for capital construction due serially through 2044.

PSU's portion of the 2013 NO bond sale for new money projects was a par value of $984, the proceeds of which funded Student Building Fee Projects.

PSU did not receive any portion of the 2014 CD bond sale.

B. Internal Bank

Through June 30, 2014, OUS managed an internal bank on behalf of the system universities. One primary role of the internal bank was to provide capital construction funding for OUS universities, including PSU. As a result of the pending changes in university governance effective July 1, 2014 (See Note 1), the internal bank was closed, with all loans called and repaid prior to June 30, 2014. Prior to the closing of the internal bank, PSU internal bank loans totaled $141,479. Of those loans, $141,431 were converted to XI-F(1) debt and $48 was transferred as a liability related to the premiums and discounts on the XI-F(1) bonds.

C. General Obligation Bonds XI-G

XI-G bonds, with effective yields ranging from 0.25 percent to 7.0 percent, are due serially through 2042. During the fiscal year ended June 30, 2014, the State did not issue any XI-G bonds on OUS's behalf.

D. General Obligation Bonds XI-Q

XI-Q bonds, with effective yields ranging from 0.46 percent to 3.7 percent, are due serially through fiscal year 2036. During the fiscal year ended June 30, 2014, the State did not issue any XI-Q bonds on OUS's behalf.

E. Oregon Department of Energy Loans

PSU has entered into loan agreements with the State of Oregon Department of Energy (DOE) Small Scale Energy Loan Program (SELP) for energy conservation projects at PSU. PSU makes monthly loan payments (principal and interest) to the DOE in accordance with the loan agreements. SELP loans, with interest rates ranging from 2.0 percent to 6.0 percent, are due through 2033.

F. Certificates of Participation

COPs, with effective yields ranging from 1.7 percent to 6.2 percent, are due through fiscal year 2035. The State has not issued COPs on behalf of OUS since fiscal year 2010.

G. Lottery Bonds

Lottery Bonds, with effective yields ranging from 0.24 percent to 5.3 percent, are due through fiscal year 2033. During the fiscal year ended June 30, 2014, the State did not issue any Lottery Bonds on OUS's behalf.

H. Defeased Debt

PSU participates in a debt portfolio managed by OUS. From time to time and when fiscally appropriate, OUS will sell bonds and use the proceeds to defease other debt. During the year ended June 30, 2014, OUS issued no XI-F(1), XI-G, XI-Q or Lottery Bonds to be used to defease previously issued debt.

I. Financial Guarantees

PSU is a governmental agency of the State of Oregon. Therefore, the State of Oregon is ultimately responsible for PSU's financial obligations. As of June 30, 2014, no amounts have been paid by the State of Oregon for PSU's financial obligations, both cumulatively and during the current reporting period.

J. State and Local Government Rate Pool

Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), and local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP effective January 1, 2002, at which time a transitional, pre-SLGRP liability was created. The pre-SLGRP liability is essentially a debt owed to the SLGRP by the SCCP employers. The balance of the pre-SLGRP pooled liability attributable to the State is being amortized over the period ending December 31, 2027. The liability is allocated by the State of Oregon, based on salaries and wages, to all proprietary funds and the government-wide reporting fund in the State Comprehensive Annual Financial Report. Interest expense was paid in the amount of $1,181 for June 30, 2014. Principal payments of $481 were applied to the liability for June 30, 2014.

For the Year Ended June 30, 2014 (dollars in thousands)

9. PRIOR PERIOD RESTATEMENTS

There are no prior period restatements or corrections for PSU for fiscal year 2014.

10. INVESTMENT ACTIVITY

Investment Activity detail is as follows:

	June 30, 2014
Internal Bank Investment Earnings	1,384
Royalties and Technology Transfer Income	636
Net Appreciation of Investments	355
Endowment Income	83
Total Investment Activity	**$ 2,458**

11. OPERATING EXPENSES BY NATURAL CLASSIFICATION

The Statement of Revenues, Expenses and Changes in Net Position reports operating expenses by their functional classification. The following displays operating expenses by natural classification:

	June 30, 2014
Compensation and Benefits	$ 291,432
Services and Supplies	114,778
Scholarships and Fellowships	34,858
Depreciation and Amortization	24,442
Other Expenses	71
Total Operating Expenses	**$ 465,581**

12. GOVERNMENT APPROPRIATIONS

Government appropriations comprised the following:

	June 30, 2014		
	General Operations	Debt Service	Total
State General Fund	$ 58,265	$ 10,879	$ 69,144
State Lottery Funding	1,106	1,779	2,885
Total Appropriations	**$ 59,371**	**$ 12,658**	**$ 72,029**

13. EMPLOYEE RETIREMENT PLANS

Portland State University, as a member university of the OUS, offers various retirement plans to qualified employees as described below.

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM/ OREGON PUBLIC SERVICE RETIREMENT PLAN

Oregon Public Employees Retirement System (System) holds assets in a pension trust provides a statewide defined benefit retirement plan in which PSU employees are eligible to participate. The plan is administered by the Public Employees Retirement Board (Retirement Board) as required by Chapters 238 and 238A of the ORS. An employee is considered vested and eligible for retirement benefits if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment.

The **State of Oregon Public Employees Retirement System** (PERS) is a single cost-sharing multi-employer defined benefit plan and an agency multiple-employer pension plan consisting of multiple tiers of membership. The 1995 Oregon Legislature enacted a law creating two tiers of PERS benefits. Employees hired into an eligible position prior to January 1, 1996 are enrolled in Tier One, while employees hired into an eligible position on or after January 1, 1996 but before August 29, 2003 are enrolled in Tier Two.

Tier One members are eligible for retirement with unreduced benefits at age 58 or at any age with 30 or more years of service. Employees may retire after reaching age 55; however, benefits are reduced if retirement occurs prior to age 58 with less than 30 years of service.

Tier Two members are eligible for retirement with unreduced benefits at age 60 or at any age with 30 or more years of service. Employees may retire after reaching age 55; however, benefits are reduced if retirement occurs prior to age 60 with less than 30 years of service.

PERS employee contribution requirements are established by ORS 238A.330 and are credited to an employee's account in the Individual Account Program, and may be amended by an act of the Oregon Legislature. PERS employer contributions are set by the PERS Board based on actuarial valuations performed in odd numbered years. Beginning July 1, 1979, the employee's contribution rate of 6 percent has been paid by the employer, except for those employees represented by the Portland State University Faculty Association, Local 3571 of the American Federation of Teachers (ATF) union, who self-pay. The PSU employer contribution rates for Tier One and Two for the year ended June 30, 2014 was 9.86 percent.

The Retirement Bond Debt Service Assessment was authorized by the State of Oregon Legislature in 2003 to sell general obligation bonds in the amount of $2 billion to pay a PERS unfunded actuarial liability. This action reduced the PERS contribution rate for PERS covered employers in the State actuarial pool in November 2003.

The Oregon Department of Administrative Services coordinates the debt service assessments to PERS employers to cover the bond debt service payments. PERS employers are assessed a percentage of PERS-subject payroll to fund the payments. The assessment rate is adjusted biennially over the life of the twenty-four year debt repayment schedule.

For the Year Ended June 30, 2014 (dollars in thousands)

The payroll assessment for the pension obligation bond began May 2004 and is currently at a rate of 6.33 percent. Payroll assessments for the fiscal year ended June 30, 2014 was $6,780.

The **Oregon Public Service Retirement Plan** (OPSRP) is composed of a pension program and an individual account program (IAP). OPSRP defined benefit component is part of the single cost-sharing defined benefit plan administered by PERS. IAP within the OPSRP is considered a defined contribution plan for financial reporting purposes. The 2003 Oregon Legislature enacted a law creating OPSRP. Employees hired into eligible positions on or after August 29, 2003 are enrolled.

OPSRP members are eligible for retirement with unreduced benefits at age 65 or age 58 with 30 or more years of service. Employees may retire after reaching age 55; however, benefits are reduced if retirement occurs prior to age 58 with less than 30 years of service.

OPSRP contribution requirements are established by ORS and may be amended by an act of the Oregon Legislature. OPSRP collects contributions from both employers and employees for the purpose of funding retirement benefits. Beginning July 1, 1979, the employee's contribution rate of 6 percent has been paid by the employer except for those employees represented by the Portland State University Faculty Association, Local 3571 of the American Federation of Teachers (ATF) union, who self-pay. The PSU employer contribution rate for OPSRP for the year ended June 30, 2014 was 8.14 percent.

PERS members as of January 1, 2004 have their employee contribution (paid by the employer) deposited to the defined contribution portion of the OPSRP and their employer contribution credited to the defined benefit portion of the OPSRP. They continue to retain their existing PERS accounts and other benefits associated with PERS membership.

PSU employer contributions to PERS and OPSRP for the year ended June 30, 2014 was $9,247, equal to the required contributions for that year.

An actuarial valuation of the System is performed every two years to determine the level of employer contributions. The most recently completed valuation was performed as of December 31, 2013. The valuation included projected payroll growth at 3.75 percent. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. It is adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. The actuarial accrued liability at December 31, 2013, for PERS and OPSRP, determined through an actuarial valuation performed as of that date, was $58.6 billion and $1.8 billion, respectively. PERS and OPSRP net assets available for benefits on that date (valued at market) were $48.1 billion and $1.2 billion, respectively. Information for OUS, including PSU as a member university, as a stand-alone entity is not available.

The System issues a separate, publicly available financial report that contains audited financial statements and required supplementary information. The report includes ten-year historical trend information showing the progress made in accumulating sufficient assets to pay benefits when due. That report may be obtained by writing to Fiscal Services Division, PERS, 11410 SW 68th Parkway, Tigard, OR 97223, or by linking on the Internet at **oregon.gov/pers/docs/financial_reports/2012_cafr.pdf**, or by calling 1-888-320-7377 or 1-503-598-7377 (in Portland Metro area).

OPTIONAL RETIREMENT PLAN

The 1995 Oregon Legislature enacted legislation that authorized OUS to offer a defined contribution retirement plan as an alternative to PERS. The Board appointed a Retirement Plan Committee to administer the Optional Retirement Plan (ORP) and established trustees to manage plan assets placed with mutual funds and insurance companies. Beginning April 1, 1996, the ORP was made available to PSU unclassified faculty and staff who are eligible for PERS membership. Employees choosing the ORP may invest the employee and employer contributions in one of multiple investment companies.

The ORP consists of three tiers. Membership under ORP Tier One and Tier Two is determined using the same criteria as PERS. The third tier is determined by membership under the OPSRP. Under the ORP Tier One, Tier Two and OPSRP Equivalent, the employee's contribution rate is 6 percent and is paid by the employer except for those employees represented by the Portland State University Faculty Association, Local 3571 of the American Federation of Teachers (ATF) union, who self-pay. The employer contribution rates for the ORP are as follows:

	2014
ORP Tier One	**16.50%**
ORP Tier Two	**16.50%**
OPSRP Equivalent	**6.42%**

TEACHER'S INSURANCE AND ANNUITY ASSOCIATION/COLLEGE RETIREMENT EQUITIES FUND

Eligible unclassified employees may participate in the Teacher's Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) retirement program, a defined contribution plan, on all salary in excess of forty-eight hundred dollars per calendar year. Employee contributions are directed to PERS on the first forty-eight hundred dollars. The employer contribution to TIAA-CREF is an amount sufficient to provide an annuity pension equal to the employee's contributions. To participate in this retirement option, employees must have been hired on or before September 9, 1995. This plan was closed to new enrollment at the time the ORP started in 1996.

For the Year Ended June 30, 2014 (dollars in thousands)

SUPPLEMENTAL RETIREMENT PLAN (SRP)

PSU maintains an IRC Section 414(d) cash balance defined benefit plan to provide a specific benefit value to the PSU university president upon separation. The 414(d) plan is qualified under IRC Section 401(a) as a governmental plan. As of June 30, 2014, the plan was fully funded.

SUMMARY OF PENSION PAYMENTS

PSU total payroll for the year ended June 30, 2014 was $201,213, of which $166,914 was subject to retirement contributions. The following schedule lists payments made by PSU for the fiscal year:

	June 30, 2014			
	Employer Contribution	As a % of Covered Payroll	Employee Contribution	As a % of Covered Payroll
PERS/OPSRP	$ 9,247	5.54%	$ 6,241	3.74%
ORP	6,200	3.71%	3,581	2.15%
TIAA-CREF	89	0.05%	89	0.05%
SRP	138	0.08%	-	0.00%
Total	$ 15,674	9.39%	$ 9,911	5.94%

Of the employee share, the employer paid $5,921 of PERS/OPSRP, $3,526 of ORP, and $89 of TIAA-CREF during the fiscal year ended June 30, 2014.

14. OTHER POSTEMPLOYMENT BENEFITS

During the year ended June 30, 2014, PSU was a part of OUS as a participant in the defined benefit postemployment health care plan.

Plan Description PSU participates in a defined benefit postemployment healthcare plan, administered by the Public Employees Benefit Board (PEBB), which offers medical, dental and vision benefits to eligible retired state employees and their beneficiaries. The PEBB plan is an agent multiple-employer postemployment healthcare plan. Chapter 243 of the ORS assigns PEBB the authority to establish and amend the benefit provisions of the PEBB plan. As the administrator of the PEBB plan, PEBB has the authority to determine postretirement benefit increases and decreases. PEBB does not issue a separate, publicly available financial report.

The PEBB plan allows PSU employees retiring under PERS or OPSRP to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. This plan creates an "implicit rate subsidy" because the healthcare insurance premiums paid by PSU for its employees is based on a blended premium of both employees and retirees combined, which is a higher premium than would have been paid for employees alone.

The PEBB plan is also offered to retirees of other Oregon state agencies. Therefore, the amounts presented in this note are limited to PSU's share, estimated at 4.8 percent of the total PEBB plan costs attributable to the State of Oregon. This allocation was based on health insurance premiums paid by state agencies during fiscal year 2014.

Funding Policy PSU's current policy is to pay the implicit rate subsidy on a pay-as-you-go basis. For fiscal year 2014, PSU paid healthcare insurance premiums of $36,759. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be $319 for the fiscal year ended 2014.

Annual OPEB Cost and Net OPEB Obligation PSU's annual OPEB expense is calculated based on PSU's annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of PSU's annual OPEB expense for the year, the amount actually contributed to the plan, and changes in PSU's net OPEB obligation:

	June 30, 2014
Annual Required Contribution	$ 617
Interest on Net OPEB Obligation	126
Adjustment to Annual Required Contribution	(241)
Prior Period Adjustment	(197)
Annual OPEB Cost	305
Contributions Made	(319)
Increase in Net OPEB Obligation	(14)
Net OPEB Obligation - Beginning of Year	3,540
Net OPEB Obligation - End of Year	$ 3,526

The PSU annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2014 was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	**$ 305**	**9%**	**$ 3,526**
2013	1,008	28%	3,540
2012	967	32%	2,980

Funding Status and Funding Progress. The funded status of the PSU OPEB plan for June 30, 2014 was as follows:

	June 30, 2014
Actuarial Accrued Liabilities	$ 5,052
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability	$ 5,052
Funded Ratio	0.00%
Covered Payroll (active plan members)	$ 166,914
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	3.03%

Actuarial valuations, prepared biennially, involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

For the Year Ended June 30, 2014 (dollars in thousands)

Accrual Methods and Assumptions Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between PSU and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	June 30, 2014
Actuarial Valuation Date	7/1/2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage
Amortization Period	15 Years (open)
Investment Rate of Return	3.5%
Projected Salary Increases	3.5%
Initial Healthcare Inflation Rates	3.6% (medical), 2.2% (dental)
Ultimate Healthcare Inflation Rates	5.4% (medical), 5.0% (dental)

15. FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others, for which PSU is an income beneficiary, are not recorded in the financial records. The approximate value of such trust funds at June 30, 2014 was $46.

16. RISK FINANCING

PSU participates in the OUS Risk Management Fund managed by the OUS Office of Risk Management. The following risks have been transferred to the OUS fund:

- Real property loss for university owned building, equipment, automobiles and other types of property
- Tort Liability claims brought against PSU, its officers, employees or agents
- Tort liability claims brought against the universities, their officers, employees or agents
- Workers' compensation and employers liability
- Crime, Fiduciary
- Specialty lines of business including marine, medical practicums, international travel, fine art, aircraft, camps, clinics and other items.

In July of 2012, in accordance with ORS 351.096, the Oregon State Board of Higher Education Finance & Administration Committee established the Oregon University System (OUS) Risk Management Program to protect the life safety, reputation, financial, operations, and property risks associated with the System's broad scope of enterprise activities. The OUS Office of Risk Management manages the program in a transparent manner using best practices and industry standards for risk financing including risk retention and transfer, and risk controls while supporting an enhanced culture of risk mitigation within the system. In the policy year ending June 30, 2014 risk mitigation efforts included tightening review of claims and loss prevention efforts which resulted in a decrease of $3 million in case reserves.

In addition to the Office of Risk Management the program is comprised of the Risk Oversight Committee and the Risk Council. The Risk Oversight Committee has responsibility for overseeing the strategic direction of the program and the Risk Council executes the program strategy. The Risk Oversight Committee is comprised of representatives from each of the seven OUS institutions. The financing for this program is provided through the establishment of a Risk Fund consisting of three sub-funds for Casualty, Property, and Workers' Compensation. The Risk Oversight Committee has oversight responsibility for this fund.

During the year ending June 30, 2014 the Office of Risk Management purchased excess commercial general liability insurance above the self-insurance layer among other underlying coverage as noted above. The total insurable value of property was re-assessed at $9 billion and included a $500 million limit with sub-limits for business interruption, earth movement, and flood. In addition, the universities applied a membership credit of over $190 towards seismic gas shut-off valves in 2013-2014 to help minimize fire damage in the event of an earthquake. The casualty program covers general tort claims as well as director's and officers, errors and omissions, and employment liability. Limits of liability for this program total $50 million and for general liability and educator's legal liability this is an excess of over $1 million in the self-insured program.

PSU is charged an assessment to cover the OUS Risk Management Fund's cost of servicing claims and payments based on the OUS Risk Allocation Model and actuarial estimates of the amounts needed to pay prior and current-year claims.

17. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed and planned but not initiated construction projects authorized by the Oregon State Legislature totaled approximately $22,760 at June 30, 2014. These commitments will be primarily funded from gifts and grants, bond proceeds, and other PSU funds. Refer to the table accompanying this note for projects relating to construction commitments as of June 30, 2014.

PSU is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Management is of the opinion that the outcome of such matters will not have a material effect on the financial statements.

For the Year Ended June 30, 2014 (dollars in thousands)

PSU participates in certain federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor for expenditures disallowed under terms of the grant. Management believes that disallowances, if any, will not have a material effect on the financial statements.

Unemployment compensation claims are administered by the Oregon Employment Division pursuant to ORS Chapter 657. PSU reimburses the Oregon Employment Division on a quarterly basis for actual benefits paid. Each year resources are budgeted to pay current charges. The amount of future benefit payments to claimants and the resulting liability to PSU cannot be reasonably determined at June 30, 2014.

CONSTRUCTION COMMITMENTS AS OF JUNE 30, 2014

	Total Commitment	Completed to Date	Outstanding Commitment
Campus Moves	$ 3,628	$ 2,430	$ 1,198
Capital Repair	38,689	21,462	17,227
Collaborative Life Science Building	49,537	48,903	634
Projects Budgets <$1 million	2,200	389	1,811
Projects with <$500 thousand remaining to be spent	7,713	7,092	621
Project Budgets <$1 million	2,010	741	1,269
	$ 103,777	$ 81,017	$ 22,760

18. SUBSEQUENT EVENTS

BONDED INDEBTEDNESS

On July 29, 2014, the State issued on behalf of OUS $13,361 in Lottery Bonds with an average interest rate of 5.0 percent to refund $14,250 in Lottery Bonds with an average interest rate of 5.0 percent. The net proceeds of the bonds were $15,831 (after payment of $65 in underwriting costs and bond premium of $2,534).

PSU's portion of the refunding was $4,775 in new bonds to refund $5,093 in previously issued debt. The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $372 The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 12 years by $565 and resulted in an economic gain of $469.

OREGON UNIVERSITY SYSTEM STRUCTURE CHANGES

Effective July 1, 2014 PSU is an independent legal entity governed by the Board of Trustees of Portland State University. See Note 1 for additional information about this change in legal status.

RISK MANAGEMENT STRUCTURE CHANGES

Effective as of July 1, 2014 the OUS Risk Fund (see Note 16) was transferred to the Public University Risk Management and Insurance Trust (Trust). The Trust is a separate legal entity which operates for the benefit of the participating universities. Under provisions of SB 270, PSU is required to participate in the Trust until June 30, 2015. At that time, membership in the Trust becomes optional. All assets and liabilities of the previously established OUS Risk Fund are transferred to the Trust on the effective date. The following risks have also been transferred from the Fund to the Trust:

- Real property loss for university owned building, equipment, automobiles and other types of property
- Tort liability claims brought against the universities, their officers, employees or agents
- Workers' compensation and employers liability
- Crime, Fiduciary
- Specialty lines of business including marine, medical practicums, international travel, fine art, aircraft, camps, clinics and other items.

19. UNIVERSITY FOUNDATION

Under policies approved by the Board, individual university foundations may be established to provide assistance in fund raising, public outreach and other support for the mission of PSU. The PSU Foundation is a legally separate, tax-exempt entity with an independent governing board. Although PSU does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of PSU and is discretely presented in the financial statements. The financial activity is reported for the year ended June 30, 2014.

During the year ended June 30, 2014 gifts of $10,096 were transferred from the university foundation to PSU. The PSU affiliated foundation is audited annually and received an unmodified audit opinion. Please see the financial statements for the PSU component unit on pages 11 and 13 of this publication.

Complete financial statements for the foundations may be obtained by writing to the following:

- Portland State University Foundation, 2125 SW Fourth Avenue, Suite 510, Portland, OR 97201

Required Supplementary Information (dollars in thousands)

Funding Status of Other Postemployment Benefits

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2010	-	6,994	6,994	0.0%	136,806	5.1%
6/30/2011	-	7,529	7,529	0.0%	145,061	5.2%
6/30/2012	-	7,461	7,461	0.0%	158,760	4.7%
6/30/2013	-	7,633	7,633	0.0%	161,216	4.7%
6/30/2014	-	5,052	5,052	0.0%	166,914	3.0%

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For information about the financial data included in this report, contact:

Office of the President

Portland State University

Market Center Building

1600 SW 4th Avenue

Portland, OR 97201

503-725-4411

www.pdx.edu

Portland State
UNIVERSITY