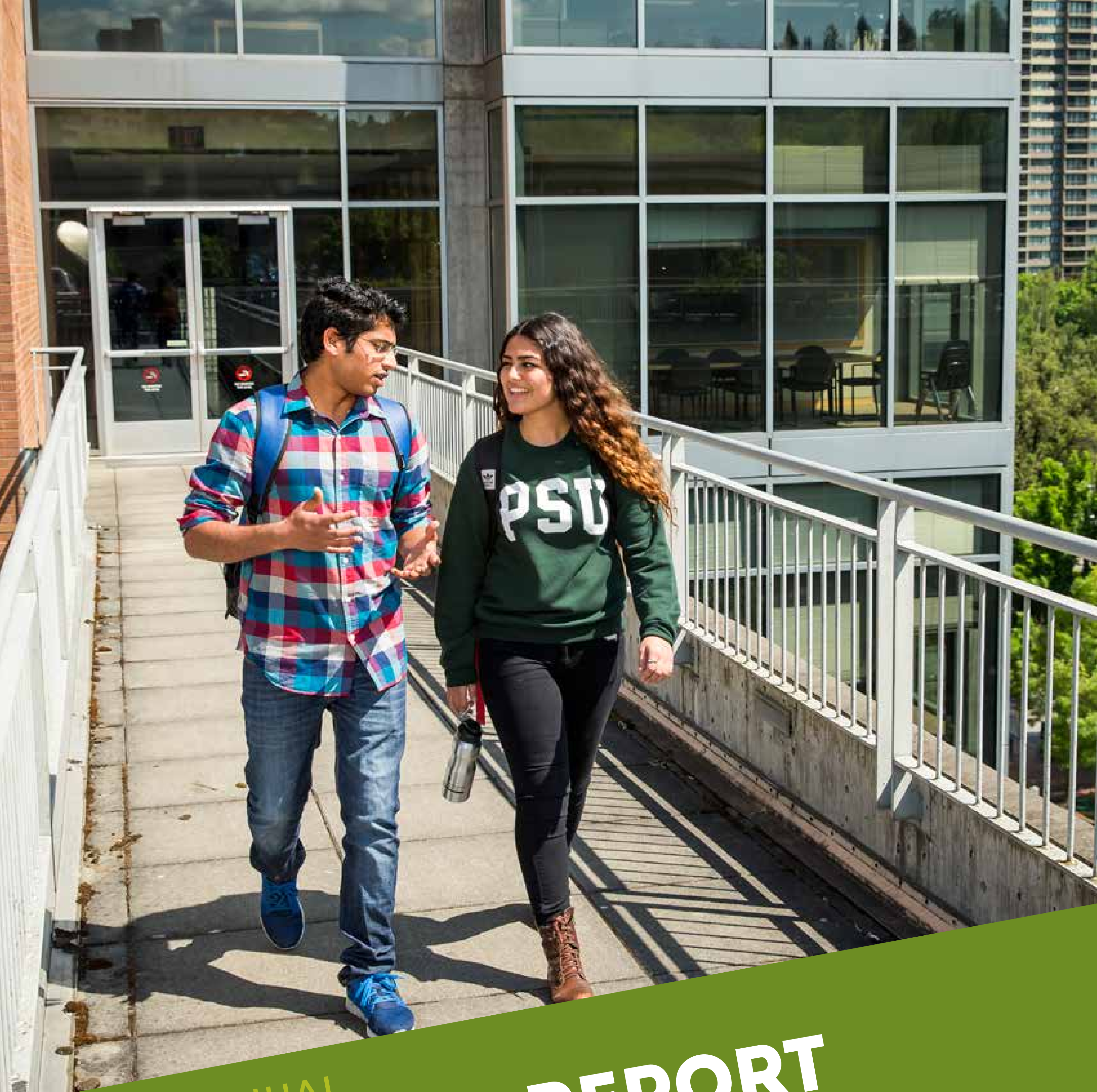

2015 ANNUAL
FINANCIAL REPORT

Portland State
UNIVERSITY

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Let knowledge serve the city

Located on a 50-acre downtown campus, Portland State University 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 students and faculty to apply scholarly theory to the real-world problems of business and community organizations.

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

VISION

Portland State University leads the way to an equitable and sustainable future through academic excellence, urban engagement, and expanding opportunity for all.

MISSION

- We serve and sustain a vibrant urban region through our creativity, collective knowledge and expertise.
- We are dedicated to collaborative learning, innovative research, sustainability, and community engagement.
- We educate a diverse community of lifelong learners.
- Our research and teaching have global impact.

VALUES

- We promote access, inclusion, and equity as pillars of excellence.
- We commit to curiosity, collaboration, stewardship, and sustainability.
- We strive for excellence and innovation that solves problems.
- We believe everyone should be treated with integrity and respect.

STRATEGIC GOALS

GOAL 1: ELEVATE STUDENT SUCCESS

We will put students first by ensuring a clear path to a degree, offering excellent academics and enhanced support services, containing costs and providing a safe and welcoming campus.

GOAL 2: ADVANCE EXCELLENCE IN TEACHING AND RESEARCH

We will strengthen our relationship with our urban region by making our work more visible and accessible and deepening our strategic partnerships with business, government and civic organizations.

GOAL 3: EXTEND OUR LEADERSHIP IN COMMUNITY ENGAGEMENT

We will attract and retain the highest quality faculty by recognizing excellence, prioritizing professional development and focusing on research and programs that enhance our competitive advantage.

GOAL 4: EXPAND OUR COMMITMENT TO EQUITY

We will create an inclusive environment by adopting best practices for recruitment, retention and advancement of a diverse faculty and staff and ensuring all students and faculty embrace culturally responsive teaching and learning.

GOAL 5: INNOVATE FOR LONG-TERM STABILITY

We will foster innovation that puts us on a sustainable path by diversifying our revenue streams, inspiring greater community and alumni support and improving campus infrastructure.

Classes in Portland State's new state-of-the-art labs and lecture hall in Collaborative Life Sciences Building began this fall.

MESSAGE FROM THE PRESIDENT

FISCAL YEAR 2015 was a year of solidifying our position as Oregon's urban research university and laying the groundwork for a stable and successful future. For the first time in PSU's history, we were governed by our own Board of Trustees—a change that has given us a new level of financial independence and accountability. The switch from centralized oversight by the now-dissolved Oregon University System to a governor-appointed board went smoothly. In its first year, the board tackled several challenging issues, including establishing a sworn police force on campus and approving a budget that contains a modest tuition increase. Both decisions helped bolster PSU's reputation as an institution that cares about its students, faculty and staff and one that is willing to make the hard choices necessary to thrive.

Despite the dissolution of the OUS—and defying predictions of upheaval—the presidents of Oregon's seven public universities worked closely together during the 2015 legislative session to ensure better funding for higher education. The result is a state funding package that, for the first time in years, reinvests in the state's universities and allows PSU to focus more resources on student access, student support and faculty—all with a goal of greater student success. Additionally, the Higher Education Coordinating Commission changed its distribution formula to more accurately reflect each university's outcomes, a move that will benefit PSU over time.

Although the increase in state aid is welcome and laudable, state spending on higher education remains well below pre-recession levels. PSU will continue to be part of a joint effort to boost funding when the Legislature convenes in February 2016 for its short session. With Oregon's economy clearly on the upswing, we hope to use additional revenues to keep PSU as accessible as possible to Oregonians looking for opportunities that only an excellent college education would give them.

In another key initiative, we embarked this year on a successful effort to create a new strategic plan to guide PSU for the next five years and stay ahead of rapid changes in higher education. Instead of assigning the plan to a handful of higher-ups, we asked for a campus-wide conversation on the University's future. The response was

heartening and almost overwhelming. Thousands of students, faculty and staff members have offered their insights and suggestions either online or at one of several town halls throughout the year. The final plan was approved by the Board of Trustees in December 2015.

Looking ahead, I see a number of promising trends for PSU:

- Increased awareness of Portland State's unique and growing value to a region that is heavily dependent on the knowledge economy.
- A deepening partnership with Oregon Health & Science University, which benefits our students, their students and the rapidly growing health care sector.
- Increased attention on, and funding of, PSU research, including our biggest grant ever—$24 million from the National Institutes of Health to educate more underrepresented students in the health sciences.
- Explosive growth in student demand for our Urban Honors College, which has a higher standard for admissions and is now up to more than 700 students.

These and other positive developments give me encouragement and confidence that PSU is positioned for continued growth, financial stability and academic excellence in 2016 and beyond.

Wim Wiewel
President, Portland State University

Top Campus ACCOMPLISHMENTS

- Working jointly with Oregon Health & Science University and Oregon State University, we successfully opened the Collaborative Life Sciences Building on Portland's dynamic South Waterfront. The new building, with its sweeping architectural style and state-of-the-art labs, already has proven to be a game-changer for our chemistry and biology programs.

- Fiscal year 2015 saw increased national and international attention for our research. Work by PSU scientists exposed risky levels of formaldehyde in e-cigarette vapor, a study that made headlines around the globe and helped prompt changes in laws, locally and statewide. Our applied research on low-gravity fluid dynamics went viral when an Italian astronaut tweeted a photo of herself drinking espresso from a PSU-designed coffee cup in the International Space Station.

- Our enrollment remained steady despite a post-recession downturn in community college enrollment and increasingly intense competition for students. We benefited from higher international and out-of-state enrollment and strong local recruitment efforts. We conferred 6,050 degrees in June, one of the biggest and most diverse graduating classes in the state.

- PSU continued to push for innovation and modernization in the way we offer education and degrees. We launched PSUOnline, a web site where students from anywhere in the world can enroll in 100 percent online degree programs. Our reThink PSU and Provost's Challenge led to the creation of a host of new programs designed to stay current with rapid changes in technology and student demands.

- Thanks to a mix of private fundraising, state investment and community partnerships the PSU campus will undergo some significant improvements in the coming years. We secured funding to begin a major renovation and expansion of the School of Business Administration this fall. We also put together financing for a $50 million renovation of the Stott Center into the Viking Pavilion and Academic Center—a 4,000 seat venue for sports, classes, performances and other events. The Oregon Legislature approved our request for $60 million in bonds to renovate our aging Neuberger Hall in the heart of campus.

- *U.S. New & World Report* ranked us in the nation's Top 20 "Most Innovative" universities, a list that includes Harvard, Stanford, MIT, Cornell and other great institutions. The new ranking came after three straight years as one of the nation's Top 10 "Up and Coming" universities.

CliftonLarsonAllen

CliftonLarsonAllen LLP
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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) as of and for the years ended June 30, 2015 and 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 audits. We did not audit the 2015 and 2014 financial statements of the discretely presented component unit, the Portland State University Foundation (the Foundation). Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 aggregate discretely presented component units of the University as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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 Oregon University System (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. Also 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. Our opinion is not modified with respect to this matter.

As discussed in Note 1(B), to the financial statements, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pension* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ended June 30, 2015, which represents a change in accounting principle. As of July 1, 2014, the University's net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note 9. Fiscal Year 2014 was not restated for this change in accounting principle due to fact information was not available to the University to restate net position as of July 1, 2013. Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 - 11, the schedule of the University contributions and schedule of the University's changes in net pension liability on page 47, and the schedule of funding status of Other Post Employment Benefits on page 48 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Portland State University's basic financial statements. The Message from the President is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
December 18, 2015

Management's Discussion and Analysis
For the Years Ended June 30, 2015 and 2014 (dollars in millions)

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Portland State University (PSU) for the years ended June 30, 2015 and 2014. As described in Note 1 to the Financial Statements, PSU separated from the Oregon University System (OUS) and was established as an independent public body with its own board of trustees effective July 1, 2014.

Annual Full Time Equivalent (FTE) Student Enrollment Summary

	2015	2014	2013	2012	2011
Annual FTE	**21,389**	21,546	21,763	22,403	22,601

Understanding the Financial Statements

The MD&A is intended to foster a greater understanding of PSU's financial activities and provides an objective analysis of PSU's financial activities based on currently known facts, decisions and conditions. Since this presentation includes summarized formats, it should be read in conjunction with the financial statements, which have the following six components.

Independent Auditor's Report presents an unmodified opinion rendered by an independent certified public accounting firm, CliftonLarsonAllen LLP, on the fairness in presentation (in all material respects) of the financial statements.

Statement of Net Position (SNP) presents a snapshot of PSU assets, deferred outflows, liabilities, deferred inflows and net position under the accrual basis of accounting at the end each fiscal year presented. The SNP helps the reader understand the types and amounts of assets available to support operations; how much PSU owes to vendors and bondholders; and net position delineated based upon its availability for future expenditures.

Statement of Revenues, Expenses and Changes in Net Position (SRE) presents PSU revenues and expenses categorized between operating, nonoperating and other related activities. The SRE reports the PSU operating results for each fiscal year presented.

Statement of Cash Flows (SCF) provides information about PSU's sources (receipts) and uses (payments) of cash during the fiscal year. The SCF classifies sources and uses of cash into four categories, and assists in determining whether PSU has the ability to generate future net cash flows to meet its obligations as they come due.

Notes to the Financial Statements (Notes) provide additional information to clarify and expand on the financial statements.

PSU's supporting foundation is discretely presented as a **component unit** in PSU financial statements and in Notes 1 and 19.

The MD&A discusses the comparison of current and prior year results. Unless otherwise noted, all years refer to the fiscal year ended June 30.

Statements of Net Position

The term "Net Position" refers to the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources, and is an indicator of PSU's current financial condition. Changes in net position that occur over time indicate improvement or deterioration in PSU's financial condition. The following summarizes PSU assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position:

For the Years Ended June 30, 2015 and 2014 (dollars in millions)

Condensed Statements of Net Position

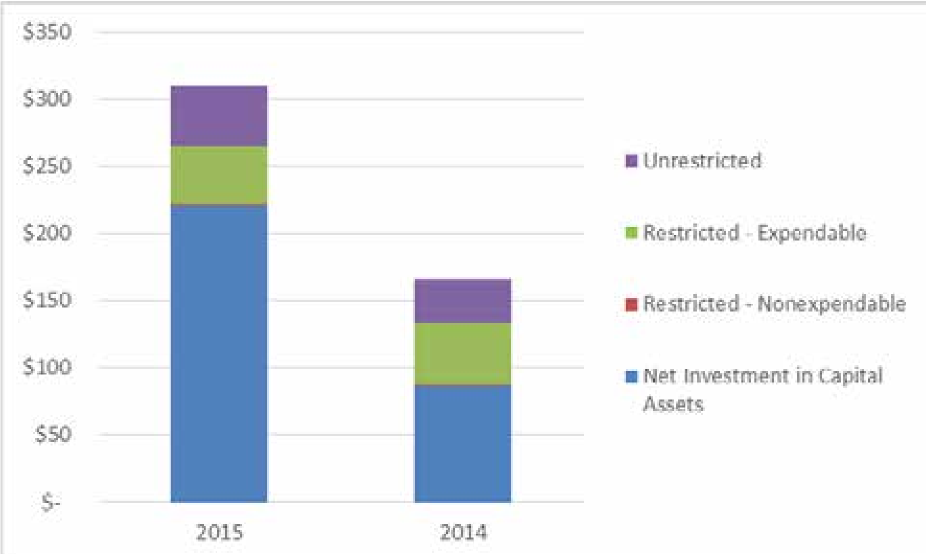
As of June 30,		**2015**		2014
Current Assets	**$**	**116**	$	141
Noncurrent Assets		**113**		37
Capital Assets, Net		**450**		463
Total Assets	**$**	**679**	$	641
Deferred Outflow s of Resources	**$**	**14**	$	8
Current Liabilities	**$**	**84**	$	89
Noncurrent Liabilities		**259**		394
Total Liabilities	**$**	**343**	$	483
Deferred Inflow s of Resources	**$**	**40**	$	-
Net Investment in Capital Assets	**$**	**221**	$	87
Restricted - Nonexpendable		**1**		1
Restricted - Expendable		**43**		46
Unrestricted		**45**		32
Total Net Position	**$**	**310**	$	166

Total Net Position

Total Net Position increased $144 million to $310 million at June 30, 2015 compared to 2014, including the impacts resulting from the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68*, (referred to in combination as GASB No. 68). Refer to Notes 1, 13 and 18 for additional information, including the estimated impact of an April 2015 Oregon Supreme Court ruling on PSU's net pension asset.

$145 million of the increase in Total Net Position results from the separation of PSU from OUS on July 1, 2014 and ultimate dissolution of OUS on June 30, 2015. As result of these changes, $142 million of long-term debt previously reflected as PSU's debt became a direct obligation of the State of Oregon on July 1, 2014 as indicated in Note 8. Due to PSU being absolved of the debt, it no longer receives debt service appropriations and has no responsibility to service the debt payments. Also as a result of the dissolution of OUS, $3 million of residual balances previously held by OUS were transferred to PSU. Hereinafter, impacts resulting from the above are referred to as the "University System Reorganization." Refer to Note 8 for further information.

As illustrated by the following graph, the composition of net position changed between 2015 and 2014.



- **Net Investment in Capital Assets** increased $134 million mainly due to PSU being absolved of $142 million of certain long-term debt as a result of the University System Reorganization. The remaining change in Net Investment in Capital Assets results primarily from increases in accumulated depreciation of $25 million, partially offset by $16 million of capital asset additions and a net $5 million decrease in long-term debt outstanding attributable to the capital assets.
- **Restricted Expendable Net Position** decreased $3 million from 2014 to 2015. Net position related to funds reserved for debt service decreased by over $14 million due to certain legislative restrictions no longer being in place effective July 1, 2014 as a result of the establishment of PSU's independent board of trustees supplanting the Oregon State Board of Higher Education. Although no external restrictions remain on these debt service funds, PSU had internally designated $19 million for debt service at June 30, 2015. Net position relating to the funding of capital projects increased $12 million primarily as a result of $14 million of capital gifts revenue in 2015 for the School of Business remodel and renovation of the Peter Stott Center and Viking Pavilion. Net position related to gifts, grants and contracts were relatively consistent with the prior year.
- **Net position restricted for Nonexpendable Endowments** was consistent with the prior year.
- **Unrestricted Net Position** increased $13 million primarily due to the $14 million increase resulting from debt service funds no longer being externally restricted, partially offset by a $12 million decrease resulting from the adoption of GASB No. 68.

Total Assets and Liabilities

Total Assets increased $38 million, or 6%, and Total Liabilities decreased $140 million, or 29% during the year ended 2015. Securities lending is excluded from the following discussion and analysis because the net activity is zero (equal amounts of assets and liabilities, equal amounts of income and expense) and its inclusion can distort the analysis of the business activities of PSU. See Note 2 for additional information relating to securities lending. Absent the securities lending balances, Total Assets increased $36 million, or 6%, and Total Liabilities decreased $142 million, or 30%. Current assets exceeded current liabilities at both June 30, 2015 and 2014.

- **Current Assets** decreased $25 million, or 18%. Current cash and cash equivalents decreased $15 million primarily due to more funds being held in investments, partially offset by increases resulting from funds internally designated for debt service and capital gifts and contributions received for the School of Business Remodel and the renovation of the Peter Stott Center and Viking Pavilion. Accounts receivable decreased $14 million due to Other Receivables related to costs associated with Oregon Health and Sciences University's share of the Collaborative Life Sciences Building in 2014. Student Tuition and Fees Accounts Receivable decreased $4 million in part due to implementation of a student payment plan. State, Other Government and Private Gifts, Grants and Contracts Receivables increased $5 million.
- **Noncurrent Assets**, excluding Capital Assets, Net of Accumulated Depreciation, increased $76 million. Investments increased $56 million, primarily due to capital gifts and contributions received for the School of Business Remodel and the renovation of the Peter Stott Center and Viking Pavilion, funds internally designated for debt service and $3 million received as a result of the dissolution of OUS. Noncurrent assets also increased due to a $21 million Net Pension Asset established as a result of the adoption of GASB No. 68.
- **Capital Assets, Net** decreased $13 million. See "Capital Assets" in this MD&A for additional information.
- **Deferred Outflows of Resources** increased $6 million primarily due to the adoption of GASB No. 68, including $7 million of contributions made to defined benefit pension plans subsequent to the measurement date, partially offset by nearly $2 million of decreases resulting from the removal of deferred losses on long-term debt refundings as a result of the University System Reorganization.
- **Current Liabilities** decreased $5 million, or 6%. The current portion of Long-Term Liabilities decreased by $5 million and Accrued Interest decreased $2 million due to the University System Reorganization. Contract Retainage Payable decreased $7 million due to completion of the Collaborative Life Sciences Building in early fiscal year 2015.
- **Unearned Revenue** increased $8 million primarily due to contributions associated with the Peter Stott Center and Viking Pavilion renovation.
- **Deposits** increased $6 million due to timing of payments on agency funds.
- **Long-Term Liabilities** decreased $142 million, or 36%, primarily due the University System Reorganization, which decreased total long-term debt by $142 million. Refer to "Debt Administration" later in this MD&A for additional information.
- **Deferred Inflows of Resources** increased $40 million due to investment experience gains established as a result of the adoption of GASB No. 68.

Statements of Revenues, Expenses and Changes in Net Position (SRE)

Due to the classification of certain revenues as nonoperating revenue, PSU shows a loss from operations. State General Fund Appropriations, nonexchange grants and non-capital gifts, although considered nonoperating revenue under GASB No. 35 and reflected accordingly in the nonoperating section of the SRE, are used solely for operating purposes.

The following summarizes the revenue and expense activity of PSU:

For the Years Ended June 30, 2015 and 2014 (dollars in millions)

Condensed Statements of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30,		**2015**		2014
Operating Revenues	**$**	**352**	$	344
Operating Expenses		**450**		465
Operating Loss		**(98)**		(121)
Nonoperating Revenues, Net of Expenses		**115**		94
Other Revenues		**165**		24
Increase in Net Position		**182**		(3)
Net Position, Beginning of Year		**166**		169
Adjustment to Beginning Net Position, GASB No. 68 (Note 1)		**(38)**		-
Restated Net Position, Beginning of Year		**128**		169
Net Position, End of Year	**$**	**310**	$	166

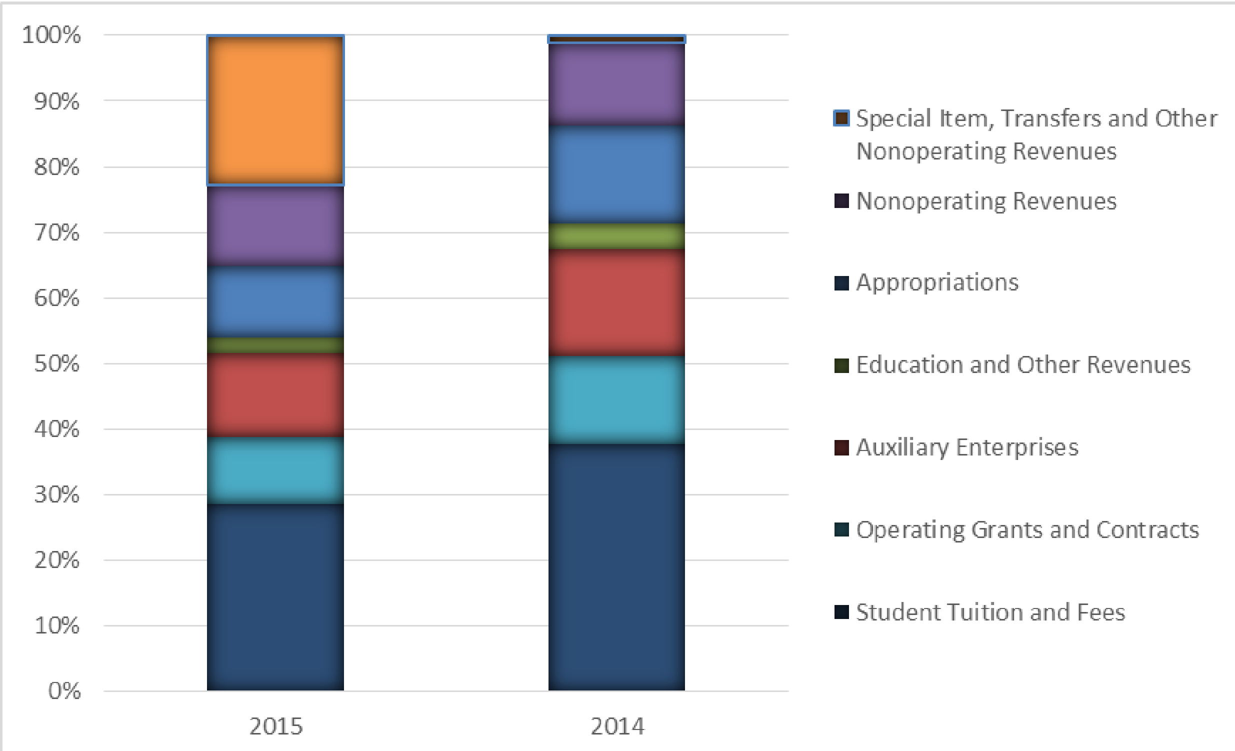
Changes in Net Position

Net Position increased by $182 million in 2015 compared to a $3 million decrease in 2014 primarily due to the $145 million Special Item – Change Due to University System Reorganization included in "Other Revenues" above.

Total Operating, Nonoperating and Other Revenues

For the Year Ended June 30,		**2015**		2014
Student Tuition and Fees	**$**	**186**	$	182
Grants and Contracts		**67**		64
Auxiliary Enterprises		**83**		79
Educational and Other		**16**		19
Total Operating Revenues		**352**		344
Appropriations		**70**		72
Financial Aid Grants		**53**		53
Investment Activity		**2**		2
Capital Grants and Gifts		**18**		6
Special Item, Transfers and Other Nonoperating Revenues		**148**		5
Total Nonoperating and Other Revenues		**291**		138
Total Revenues	**$**	**643**	$	482

Total Operating, Nonoperating and Other Revenues increased $161 million in 2015 over 2014, including the impact of the Special Item – Change Due to University System Reorganization.



Operating Revenues

Operating revenues increased $8 million in 2015, or 2%, over 2014, to $352 million. These changes are primarily due to increases in Student Tuition and Fees and Auxiliary Enterprises Revenues, partially offset by decreases in Other Operating Revenues.

Student Tuition and Fees increased $4 million, or 2%, in 2015 compared to 2014 primarily due to an increase in non-resident and graduate student credit hours and an approximately 1% increase in tuition rates for all but resident undergraduate students for which tuition rates decreased approximately 0.5%. Fee remissions and scholarship allowances were relatively consistent with the prior period.

Federal, State and Nongovernmental Grants and Contracts increased $3 million, or 5%, in 2015 compared to 2014.

- Federal grant and contract revenues decreased $4 million compared to the prior year.
- State grant activity increased $11 million compared to the prior year.
- Nongovernmental grant activity decreased $4 million compared to the prior year.

Auxiliary Enterprises revenues increased $4 million, or 5%, in 2015 compared to 2014.

- Housing revenues increased by $3 million in 2015 as the result of higher student occupancy, density and retention rates, as well as increased summer conferencing activities.
- Athletics revenues increased by $1 million primarily due to game guarantees in 2015.

Educational and Other revenues decreased $3 million, or 16%, in 2015 compared to 2014 due to proceeds resulting from an asbestos settlement that occurred in 2014.

For the Years Ended June 30, 2015 and 2014 (dollars in millions)

Nonoperating and Other Revenues

Nonoperating and Other Revenues increased $153 million in 2015 compared to 2014 primarily due to the $145 million Special Item – University System Reorganization.

Appropriations revenues decreased $2 million, or 3%.

- Capital and Debt Service Appropriations Revenues decreased $10 million due to lower debt service appropriations from the State of Oregon as a result of PSU being absolved of State obligation bonds effective July 1, 2014.
- Government Appropriations revenues increased $8 million due to higher funding received from the State of Oregon.

Financial Aid Grants revenues were relatively unchanged in 2015 compared to 2014.

Investment Activity revenues were relatively unchanged in 2015 compared to 2014.

Capital Grants and Gifts revenues increased $12 million to $18 million primarily due to $14 million of gifts associated with the renovation of the Stott Center and Viking Pavilion and School of Business Administration remodel.

Special Item, Transfers and Other Nonoperating Revenues increased $143 million in 2015, including the $145 million resulting from the Special Item – University System Reorganization.

Expenses

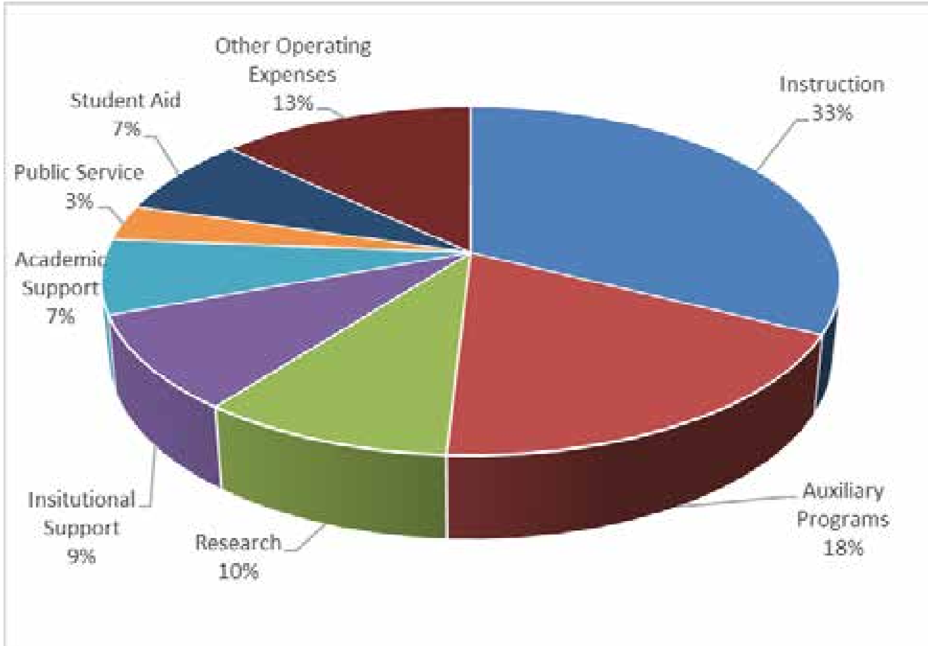
Operating Expenses

Operating expenses decreased $15 million in 2015, or 3%, over 2014, to $450 million. The 2015 decrease was mainly due to the adoption of GASB No. 68, which resulted in negative pension expense of $19 million compared to a positive pension expense of $7 million in 2014. As described in Note 1, GASB No. 68 was not adopted retroactively due to lack of information specific to PSU prior to July 1, 2014. The following summarizes operating expenses by functional classification.

Operating Expense by Function

For the Year Ended June 30,	**2015**	2014
Instruction	**$ 146**	$ 156
Auxiliary Programs	**83**	82
Research	**43**	44
Insitutional Support	**40**	39
Academic Support	**31**	33
Public Service	**15**	13
Student Aid	**33**	32
Other Operating Expenses	**59**	66
Total Operating Expenses	**$ 450**	$ 465

For the Years Ended June 30, 2015 and 2014 (dollars in millions)

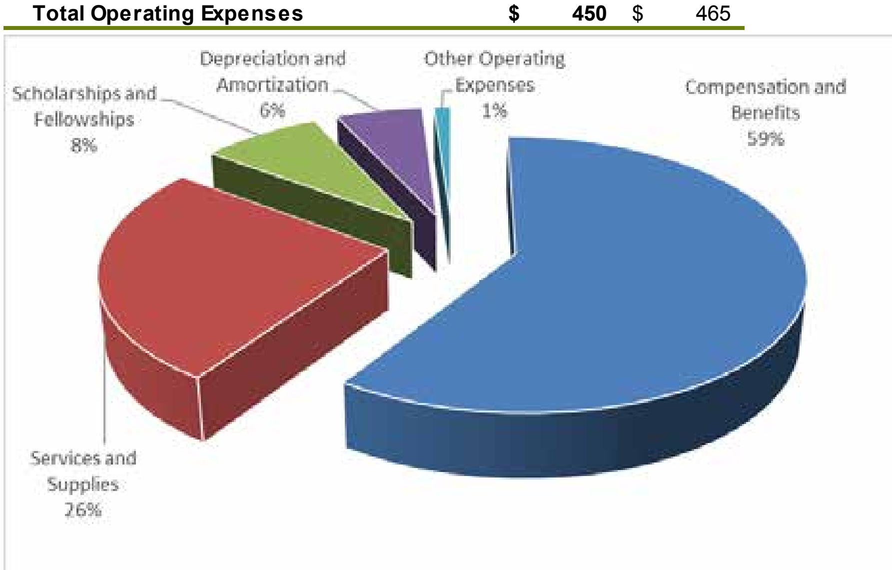


Due to the way in which expenses are incurred by PSU, variances are presented and explained by analyzing changes in the natural classification of expenses. Each natural classification analysis can be applied to many of the functional expense caption items.

The following summarizes operating expenses by natural classification:

Operating Expense by Natural Classification

For the Year Ended June 30,	2015	2014
Compensation and Benefits	$ 267	$ 291
Services and Supplies	116	115
Scholarships and Fellow ships	36	35
Depreciation and Amortization	26	24
Other Operating Expenses	5	-
Total Operating Expenses	**$ 450**	$ 465



For the Years Ended June 30, 2015 and 2014 (dollars in millions)

Compensation and Benefits costs decreased $25 million, or 9%, in 2015 compared to 2014 primarily due to:

- Lower retirement costs due to the adoption of GASB No. 68 in 2015, which resulted in negative defined benefit pension expense of $19 million compared to positive expense of $7 million associated with contributions to the defined benefit pension plans in 2014. Refer to Notes 1, 13 and 18 for further information regarding the adoption of GASB No. 68, including discussion of the April 2015 Oregon Supreme Court ruling that may lead to an increase in pension expense prospectively.
- Other compensation and benefits costs were relatively consistent with the prior year.

Services and Supplies expense was relatively consistent with the prior year.

Scholarships and Fellowships expenses were relatively consistent with the prior year.

Depreciation and Amortization expense increased $2 million during 2015 primarily due to the recently constructed Collaborative Life Sciences Building that was placed into service early in fiscal year 2015.

Other Operating Expenses increased $5 million, including $3.6 million due to City of Portland local improvement district assessments.

Nonoperating Expenses

Interest Expense decreased $8 million in 2015 compared to 2014 substantially due to the University System Reorganization.

Capital Assets and Related Financing Activities

Capital Assets

At June 30, 2015, PSU had $792 million in capital assets, less accumulated depreciation of $342 million, for net capital assets of $450 million. At June 30, 2014, PSU had $780 million in capital assets, less accumulated depreciation of $317 million, for net capital assets of $463 million. During fiscal year 2015, $45 million in construction projects were completed and placed into service, substantially due to the recently completed Collaborative Life Sciences Building.

PSU is committed to a comprehensive program of capital investment and facility maintenance that includes addressing current maintenance needs and minimizing PSU's deferred maintenance backlog. State, federal, private, debt and internal PSU funding are used to accomplish PSU's capital objectives.

Changes to Capital Assets

	2015	2014
Capital Assets, Beginning of Year	**$ 780**	$ 753
Add: Purchases/Construction	**16**	32
Less: Retirements/Disposals/Adjustments	**(4)**	(5)
Total Capital Assets, End of Year	**$ 792**	$ 780
Accum. Depreciation, Beginning of Year	**(317)**	(296)
Add: Depreciation Expense	**(26)**	(24)
Less: Retirements/Disposals/Adjustments	**1**	3
Total Accum. Depreciation, End of Year	**$ (342)**	$ (317)
Total Capital Assets, Net, End of Year	**$ 450**	$ 463

Capital additions totaled $16 million for 2015 and $32 million for 2014.

Accumulated depreciation at June 30, 2015 increased $25 million, which represented $26 million in depreciation and amortization expense offset by $1 million in asset retirements and adjustments. Accumulated depreciation at June 30, 2014 increased $21 million, which represented $24 million in depreciation and amortization expense offset by $3 million in asset retirements and adjustments.

Capital Commitments

PSU has outstanding capital commitments on partially completed and planned construction projects authorized by the Oregon State Legislature of $122 million as of June 30, 2015. See Note 17 for additional information relating to capital construction commitments.

Debt Administration

Effective July 1, 2014, PSU was absolved of its XI-G and XI-Q State general obligation bonds, State lottery bonds and certain certificates of participation. While part of OUS, PSU received debt appropriations from the State of Oregon to service these debt payments; however, as a result of the University System Reorganization, the State determined that the Higher Education Coordinating Council would service the debt going forward. Thus, PSU no longer receives appropriations for the general obligation bonds or services the debt payments. State general obligation debt issued under Article XI-F(1) of the Oregon Constitution remains debt of PSU to be repaid with revenue generated by PSU. During 2015, the State issued $2 million of XI-F(1) debt on behalf of PSU with proceeds to be released to PSU on a cost-reimbursement basis for certain capital projects. Also during 2015, PSU made principal payments on XI-F(1) debt of $9 million and defeased $14 million of XI-F(1) debt at an economic gain of $1.3 million. During 2014, $142 million of internal bank loans with OUS were converted to XI-F(1) bonds.

Economic Outlook

Funding for the major activities of PSU continues to be stable and diversified being generated through a variety of sources including tuition and fees, financial aid programs, state appropriations, grant and contracts through government and private sources, donor gifts and investment earnings, as well as, the revenues of cost recovery associated with federal grant and contract activity serving to offset the related facilities and administrative expenses of the university. Although PSU has seen modest declines in full time equivalent student enrollment and credit hour production, the university continues to see increased tuition revenues through rate increases and successes in recruiting out-of-state domestic and international students.

In cooperation with the other public universities of the state while working with the Oregon Legislature, PSU was successful in positively changing the underlying funding formula, receiving authorization for capital projects significantly financed by state debt, and garnering greater financial support for education and general operations. The latter resulted in a more than 35 percent increase in state appropriations for the 2015-17 biennium over the 2013-15 biennium. Although the State economic outlook remains steady, it is not possible to estimate if the increases in support resulting from recent legislative sessions can be duplicated in the future biennium.

While diverse revenue streams continue to provide stability for the university, PSU could potentially face increasing costs associated with labor expenditures embodied in collective bargaining agreements, benefits costs arising from Public Employees Retirement System pension obligations, and the expense and investment requirements of legislative action associated with the aspirations of the State of Oregon's 40/40/20 goals. Despite these challenges, the PSU Board of Trustees remains committed to ensuring the long-term financial health of the university to carry out its core mission.

Statements of Net Position

As of June 30,		University 2015		University 2014
		(in thousands)		
ASSETS				
Current Assets				
Cash and Cash Equivalents	$	53,897	$	68,779
Collateral from Securities Lending		7,064		5,286
Due from Primary Government		1,980		-
Accounts Receivable, Net		49,047		62,904
Notes Receivable, Net		1,551		1,677
Inventories		613		574
Prepaid Expense		1,769		2,155
Total Current Assets		115,921		141,375
Noncurrent Assets				
Investments		86,555		30,789
Notes Receivable – Noncurrent, Net		5,900		5,993
Net Pension Asset		20,769		-
Capital Assets, Net of Accumulated Depreciation		450,313		463,164
Total Noncurrent Assets		563,537		499,946
Total ASSETS	$	679,458	$	641,321
DEFERRED OUTFLOWS OF RESOURCES	$	14,073	$	8,072
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Liabilities	$	23,153	$	31,758
Obligations Under Securities Lending		7,064		5,286
Deposits		9,274		2,984
Current Portion of Long-Term Liabilities		20,862		26,001
Unearned Revenues		24,037		23,185
Total Current Liabilities		84,390		89,214
Noncurrent Liabilities				
Unearned Revenues	$	7,500	$	-
Long-Term Liabilities		251,632		394,020
Total Noncurrent Liabilities		259,132		394,020
Total Liabilities	$	343,522	$	483,234
DEFERRED INFLOWS OF RESOURCES	$	40,075	$	-
NET POSITION				
Net Investment in Capital Assets	$	220,546	$	87,363
Restricted for:				
Nonexpendable Endowments		1,285		1,285
Expendable:				
Gifts, Grants and Contracts		2,290		2,042
Student Loans		8,320		8,444
Capital Projects		32,278		20,130
Debt Service		1		14,526
Unrestricted		45,214		32,369
Total Net Position	$	309,934	$	166,159

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

Statements of Financial Position

As of June 30,		Unit 2015		Unit 2014
		(In thousands)		
ASSETS				
Cash and Cash Equivalents	$	1,839	$	1,094
Contributions, Pledges and Grants Receivable, Net		11,156		8,745
Investments (Note 2)		78,702		81,989
Prepaid Expenses and Other Assets		10,341		9,201
Property and Equipment, Net		34,171		34,706
Total Assets	$	136,209	$	135,735
LIABILITIES				
Accounts Payable and Accrued Liabilities	$	2,409	$	1,429
Accounts Payable to University		565		883
Notes Payable		2,367		2,459
Obligations to Beneficiaries of Split-Interest Agreements		1,268		1,171
Deposits and Unearned Revenue		5,196		3,670
Endowments Held for University		2,635		-
Long-Term Liabilities		43,089		44,173
Total Liabilities	$	57,529	$	53,785
NET ASSETS				
Unrestricted	$	(1,363)	$	(2,873)
Temporarily Restricted		35,283		42,908
Permanently Restricted		44,760		41,915
Total Net Assets	$	78,680	$	81,950

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

Statements of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30,	University 2015	University 2014
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Allowances)	$ 186,119	$ 181,643
Federal Grants and Contracts	40,991	45,172
State and Local Grants and Contracts	16,067	5,245
Nongovernmental Grants and Contracts	9,957	14,111
Educational Department Sales and Services	6,819	6,522
Auxiliary Enterprises Revenues (Net of Allowances)	83,135	78,635
Other Operating Revenues	8,704	12,585
Total Operating Revenues	351,792	343,913
OPERATING EXPENSES		
Instruction	145,932	155,959
Research	42,432	43,977
Public Service	14,874	12,809
Academic Support	31,367	33,505
Student Services	14,985	16,446
Auxiliary Programs	82,551	82,357
Institutional Support	40,114	38,603
Operation and Maintenance of Plant	18,573	22,968
Student Aid	33,368	32,074
Other Operating Expenses	25,711	26,883
Total Operating Expenses	449,907	465,581
Operating Income (Loss)	(98,115)	(121,668)
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations	67,431	59,371
Financial Aid Grants	53,176	52,938
Investment Activity	2,291	2,458
Gain (Loss) on Sale of Assets, Net	(52)	(1,084)
Interest Expense	(11,629)	(19,625)
Other Nonoperating Items	3,286	352
Total Nonoperating Revenues (Expenses)	114,503	94,410
Income (Loss) Before Other Expenses, Gains, Losses and Transfers	16,388	(27,258)
Capital and Debt Service Appropriations	2,241	12,658
Capital Grants and Gifts	18,086	5,777
Transfers within OUS	-	5,702
Special Item - Change Due to University System Reorganization	144,979	-
Total Income (Loss) Before Other Expenses, Gains, Losses and Transfers	165,306	24,137
Increase (Decrease) In Net Position	181,694	(3,121)
NET POSITION		
Beginning Balance	166,159	169,280
Prior Period Adjustment (see Note 9)	(37,919)	-
Beginning Balance, as Restated	128,240	169,280
Ending Balance	$ 309,934	$ 166,159

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

Statements of Activities

For The Year Ended June 30,	Component Unit 2015	Component Unit 2014
	(In thousands)	
REVENUES		
Grants, Bequests and Gifts	$ 25,380	$ 21,298
Investment Income (Loss), Net	1,160	6,295
Other Revenues	16,137	9,703
Total Revenues	42,677	37,296
EXPENSES		
University Support	37,314	22,708
General and Administrative	4,195	1,566
Other Expenses	4,438	834
Total Expenses	45,947	25,108
Increase (Decrease) In Net Assets	(3,270)	12,188
NET ASSETS		
Beginning Balance	81,950	69,762
Ending Balance	$ 78,680	$ 81,950

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

Statements of Cash Flows

For the Years Ended June 30,	University 2015	University 2014
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 190,046	$ 180,001
Grants and Contracts	63,562	65,014
Educational Department Sales and Services	6,819	6,522
Auxiliary Enterprises Operations	83,341	75,787
Payments to Employees for Compensation and Benefits	(293,839)	(291,211)
Payments to Suppliers	(117,502)	(120,119)
Student Financial Aid	(36,033)	(34,858)
Other Operating Receipts	21,172	6,156
Net Cash Provided (Used) by Operating Activities	(82,434)	(112,708)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	67,431	59,371
Financial Aid Grants	53,176	52,938
Other Gifts and Private Contracts	5,510	352
Net Agency Fund Receipts (Payments)	6,290	655
Transfers resulting from OUS Dissolution	3,029	(601)
Net Cash Provided (Used) by Noncapital Financing Activities	135,436	112,715
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt Service Appropriations	2,241	12,247
Capital Grants, Gifts and Contracts	24,925	5,445
Bond Proceeds from Capital Debt	-	2,987
Sales of Capital Assets	94	1,208
Purchases of Capital Assets	(22,023)	(28,701)
Interest Payments on Capital Debt	(10,503)	(15,045)
Principal Payments on Capital Debt	(9,143)	(4,792)
Net Cash Provided (Used) by Capital and Related Financing Activities	(14,409)	(26,651)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Sales (Purchases) of Investments	(55,717)	26,093
Interest on Investments and Cash Balances	2,242	2,105
Net Cash Provided (Used) by Investing Activities	(53,475)	28,198
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,882)	1,554
CASH AND CASH EQUIVALENTS		
Beginning Balance	68,779	67,225
Ending Balance	$ 53,897	$ 68,779

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

Statements of Cash Flows - Continued

For the Years Ended June 30,	University 2015	University 2014
	(In thousands)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (98,115)	$ (121,668)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	26,256	24,442
Changes in Assets and Liabilities:		
Accounts Receivable	12,078	(8,893)
Notes Receivable	219	(248)
Inventories	(39)	(72)
Prepaid Expenses	386	(408)
Accounts Payable and Accrued Liabilities	573	(4,806)
Net Pension Asset Adjustments	(26,300)	-
Long-Term Liabilities	1,657	237
Unearned Revenue	851	(1,292)
NET CASH USED BY OPERATING ACTIVITIES	$ (82,434)	$ (112,708)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Capital Assets Acquired by Gifts in Kind	$ 661	$ 332
Increase in Fair Value of Investments Recognized as a Component of Investment Activity	49	353
Internal Bank Loans Converted to XI-F(1) Debt	-	141,479
Debt Transferred to State Agency as a Result of University System Reorganization	141,983	-
Debt Refunding for General Obligation Bonds XI-F(1):		-
Bonds Defeased at Carrying Value	(14,111)	-
Bonds Issued at Carrying Value	15,457	
General Obligation Bonds XI-F(1) Issued on Cost Reimbursable Basis	2,000	-

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

Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

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, governed the seven state-supported institutions of higher learning (institutions) in Oregon prior to 2014. The law creating the Board was passed in 1929 by the Oregon Legislature and went into effect July 1, 1931. Through June 30, 2014, the seven institutions, including Portland State University (PSU) located in downtown Portland, were known as the Oregon University System (OUS). During fiscal year 2013, Senate Bill 270 was passed by the Oregon Legislature and established Portland State University as an independent public body legally separate from OUS as of July 1, 2014 with its own board of trustees (Board). As a result of the separation and effective for fiscal year 2015, PSU is no longer included in the OUS financial reporting entity.

The PSU financial reporting entity is reported under the heading of University on the Basic Financial Statements. 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, including how to obtain the PSU Foundation's audited financial statements that should be read in conjunction with these financial statements. Organizations that are not financially accountable to PSU, such as booster and alumni organizations, are not included in the reporting entity.

Starting with the fiscal year 2015 financial report, PSU and the university's foundation will be reported as a discretely presented component unit in the Comprehensive Annual Financial Report issued by the State of Oregon (State). Through June 30, 2014, PSU was included in the OUS Annual Financial Report. Through June 30, 2015, OUS continued to be a part of the primary government of the State and included as a proprietary (enterprise) fund in the Comprehensive Annual Financial Report issued by the State.

These financial statements present only PSU, including its 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 OUS or the State as a whole, in conformity with accounting principles generally accepted in the United States of America (GAAP).

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, *Basic Financial Statements – And Management's Discussion and Analysis – For Public Colleges and Universities – An Amendment of GASB Statement No. 34,* 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.

NEWLY IMPLEMENTED ACCOUNTING STANDARDS

PSU adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB No. 68), effective July 1, 2014. Due to PSU's participation in state-wide defined benefit plans and lack of historical information specific to PSU, PSU was unable to retroactively adopt GASB No. 68. As a result, PSU recorded a $37,919 reduction in net position at July 1, 2014, representing the net effect of adoption of GASB No. 68. In addition, PSU established a $20,769 net pension asset and $32,389 of net deferred inflows at June 30, 2015. Pension expense under GASB No. 68 was ($18,984). Refer to Note 13 for further information.

Effective July 1, 2015, PSU also adopted GASB Statement No. 71*, Pension Transition for Contributions made Subsequent to the measurement Date - An Amendment of GASB Statement No. 68.* GASB No. 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. Hereinafter, references to GASB 68 include the associated impacts of adopting GASB No. 71.

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 No. 69 requirements were effective for the fiscal year ending June 30, 2015 and did not have a significant impact on the PSU financial statements.

UPCOMING ACCOUNTING STANDARDS

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application.* This statement establishes guidance for measuring assets and liabilities for financial reporting purposes, including for certain types of investments, and describes fair value as an exit price. GASB No. 72 also expands disclosure requirements related to fair value measurements that increase the transparency of the reliability of fair value measurements. GASB No. 72 establishes a “fair value hierarchy” that categorizes fair value measurements into three levels based on reliability. Level 1 inputs, the first and most reliable level, are quoted prices for assets or liabilities in active markets that governments can access at a particular date. Level 2 inputs are those that are directly or indirectly observable but lack quoted prices in active markets. Level three inputs are the lowest level of reliability. Level three inputs are prices that cannot be observed. If an asset or liability is measured using more than one input, the government must categorize the item at the lowest of the inputs used. GASB No. 72 is effective for the fiscal year ended June 15, 2016. PSU is currently evaluating the impact of adopting GASB No. 72 on its financial statements and disclosures.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB No. 74 addresses reporting by other postemployment benefit (OPEB) plans that administer benefits on behalf of governments and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB No. 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in GASB No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and required supplementary information (RSI) related to the measurement of the OPEB liabilities for which assets have been accumulated. GASB No. 74 also sets forth note disclosure requirements for defined contribution OPEB plans. GASB No. 74 is effective in the financial reports of applicable OPEB plans for fiscal years beginning after June 15, 2016 and will not directly impact PSU’s financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. GASB 75 requires governments in all types of OPEB plans to present more extensive disclosures and RSI about their OPEB liabilities. Among the new disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government’s actual OPEB contributions to its contribution requirements. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances—called special funding situations—GASB No. 75 requires these governments to recognize in their financial statements a share of the other government’s net OPEB liability. GASB No. 75 is effective for the fiscal year June 15, 2018. PSU is currently evaluating the impact of adopting GASB No. 75 on its financial statements and disclosures.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 establishes the hierarchy of GAAP in the context of the current governmental financial reporting environment. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB No. 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB No. 76 is effective for the fiscal year ended June 15, 2016, and should be applied retroactively. PSU is currently evaluating the impact of adopting GASB No. 76 on its financial statements and disclosures.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. GASB No. 77 requires governments that enter into tax abatement agreements to disclose information about a reporting government's own tax abatement agreements and information about those that are entered into by other governments and that reduce the reporting government's tax revenues. GASB No. 77 is effective for the fiscal year ended June 30, 2017 and is not expected to impact PSU's 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 in the Oregon Short-Term Fund (OSTF); cash and cash equivalents restricted for the payment of the current portion of debt service; cash and cash equivalents restricted for capital construction; agency funds; 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 and may include amounts restricted for endowments, debt service, capital construction and agency funds. Unrealized gains or losses on investments are reported as investment activity in the Statements of Revenues, Expenses and Changes in 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 $5 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.

When appropriate, PSU capitalizes interest expense on construction projects. No interest was capitalized during the fiscal year ended 2015. Capitalized interest totaled $486 during 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. Deferred Outflows of Resources

Deferred Outflows of Resources represent expected future decreases in net assets and include $6,386 of losses on refundings of long-term debt and $7,687 of amounts related to defined benefit pension plans, including $7,315 of contributions made subsequent to the measurement date. Refer to Note 13 for additional information regarding deferred outflows associated with the defined benefit pension plans.

I. Unearned Revenues

Unearned revenues include amounts received for tuition and fees, grants and contracts, lease income and auxiliary enterprises activities that relate to the subsequent fiscal year(s).

J. 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.

K. Deferred Inflows of Resources

Deferred Inflows of Resources represent future increases in net assets and include $40,075 of differences between projected and actual earnings on investments of the defined benefit pension plans described in Note 13.

L. Net Position

PSU 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. Although no external restrictions are in place, PSU had $18,783 internally designated for debt service at June 30, 2015.

M. Endowments

PSU entered into a fund management agreement with the PSU Foundation in June 2014. All investments and reinvestment of the endowment funds are managed in accordance with the Oregon Uniform Prudent Management of Institutional Funds Act. Current PSU Foundation policy is to annually distribute, for spending purposes, a weighted combination of inflation and endowment market value increasing the prior year's spending amount. The policy for fiscal year 2015 was 4.5% of a three-year moving average of the endowment market value.

Nonexpendable Endowments on the Statements of Net Position of $1,285 at June 30, 2015 and 2014, respectively represent the original corpus of true endowment funds and does not include the accumulated gains of those endowments.

N. Income Taxes

PSU is an agency of the State and 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, in the opinion of management, there is no significant amount of taxes on such unrelated business income.

O. 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 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.

P. 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 $17,477 and $17,036 for the fiscal year ended 2015 and 2014, respectively. 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 $23,678 and $26,251 for the fiscal year ended 2015 and 2014, respectively. Bad debt expense is included as an allowance to operating revenues and was $2,463 and $2,445 for the fiscal years ended 2015 and 2014, respectively.

Q. 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 were $152,934 and $161,663 for the fiscal years ended 2015 and 2014, respectively.

R. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that could affect the reported amounts of assets and liabilities, revenues and expenses, 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

The Public University Fund (PUF) maintains centralized management for substantially all of PSU's cash and investments. The invested assets 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.

At June 30, 2015, PSU had $24,556 of cash and cash equivalents and investments associated with matching funds unconditionally available for specified capital projects, as well as $18,783 of cash and cash equivalents and investments internally designated for debt service.

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 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 years ended June 30, 2015 and 2014, PSU cash and cash equivalents on deposit at State Treasury were $53,712 and $68,580, respectively.

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, 2015 and 2014, PSU had vault and petty cash balances of $185 and $199, respectively.

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

B. Investments

As of June 30, 2015, PSU's operating funds were invested in the Public University Fund - Pooled Investment Account (PUF-PIA). The PUF investment policy is governed by the Oregon Investment Council (OIC). At June 30, 2014, all PSU funds were invested by the State Treasury and managed by OUS. In accordance with ORS, all investments 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 OIC.

Investments are all classified as noncurrent and include both restricted and unrestricted funds. At June 30, 2015, total investments of $86,555 included $2,585 of endowments, including nonexpendable corpus of $1,285, and $1 restricted for debt service payments. At June 30, 2014, of the total $30,789 in investments, $2,724 were restricted endowments and $14,526 were restricted for debt service payments.

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 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, 2015 and 2014.

The PSU Foundation monitors endowment investments to identify any accounts for which estimated fair value is less than historical value. As of June 30, 2015, PSU had no individually named permanent endowment funds with estimated fair values that, in total, were less than their permanently restricted or historical values.

Of PSU's total investments invested through the PUF-PIA, $52,253 were invested in an intermediate-term pool and $31,717 were invested in a long-term fixed income pool managed by State Treasury.

At June 30, 2014, of PSU's total investments invested through the OUS investment pools, $7,841 was invested in an intermediate term pool managed by State Treasury, $20,224 was in individually held investments of the OUS pool and $2,724 were invested in a portfolio that was managed for the benefit of pooled gifts and endowments.

Investments of the PSU discretely presented component unit are summarized at June 30, 2015 and 2014 as follows:

Component Unit

Fair Value at June 30,	2015	2014
Investment Type:		
Corporate Stocks, Bonds, Securities and Mutual Funds	$ 57,669	$ 65,636
Money Market Funds and Certificates of Deposit	4,746	1,663
Collateralized Mortgages, Mortgage Notes and Contracts, Realty Funds	1,110	1,088
Alternative Investments	13,067	11,315
Cash Value of Life Insurance Policies	2,110	2,287
Total Investments	$ 78,702	$ 81,989

CREDIT RISK

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. The PUF has an investment policy for each segment of its investment portfolio. Of these, the policy on endowments 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.

Based on these parameters, as of June 30, 2015, approximately 35.7 percent of investments in the PUF pools 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 $99,259 at June 30, 2015. Corporate bonds that have not been evaluated by the rating agencies totaled $10,759 at June 30, 2015. The PUF Investment Pools totaled $307,793 at June 30, 2015, of which PSU owned $83,970, or 27.3 percent.

As of June 30, 2014, approximately 79.6 percent of investments in the OUS Investment Pools were subject to credit risk reporting. Corporate bonds rated by the credit agencies as lower medium to high quality, indicating the issuer had a strong capacity to pay principal and interest when due, totaled $154,485. Corporate bonds which have not been evaluated by the rating agencies totaled $79,935. The OUS Investment Pool totaled $299,160 of which PSU owned $30,789, or 10.3 percent.

CUSTODIAL CREDIT RISK

Custodial credit risk refers to PUF investments that are held by others and not registered in PUF's or the State Treasury's name. This risk typically occurs in repurchase agreements where one transfers cash 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. PUF 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 percent 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. No amounts of the PUF investments had reportable foreign currency risk at June 30, 2015.

Of the total OUS Investment Pool of $299,160 at June 30, 2014, $29,970 in deposits and mutual funds were primarily invested in international debt and international equities at June 30, 2014. Of those investments, $6,201 had 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, 2015, securities in the PUF Investment Pool held subject to interest rate risk totaling $110,017 had an average duration of 3.38 years. 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 years. Duration measures the change in the value of a fixed income security that will result from a one percent change in interest rates.

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 PSU 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 the PUF in total.

The State's securities lending agent lent short-term and fixed income securities and received as collateral U.S. dollar-denominated cash and U.S. Treasury securities. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security. The State may pledge or sell the collateral securities received only in the event of a borrower default. The State has the ability to impose restrictions on the amount of the loans that the securities lending agent made on its behalf. Several such restrictions were made during the year ended June 30, 2015. The State 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, 2015, the OSTF comprised commercial paper, U.S. agency securities, time certificates of deposit 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 and maintained by the custodial agent, into U.S. Agency Securities, U.S. Treasury and Corporate notes. The investments were held by a third-party custodian in the State of Oregon's name. The Pool is not rated by a nationally recognized statistical rating organization although the portfolio rules provide minimum requirements with respect to the credit quality of the investments.

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

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 unit, comprised the following:

	June 30, 2015	June 30, 2014
Student Tuition and Fees	$ 25,213	$ 29,164
Auxiliary Enterprises and Other Operating Activities	8,432	8,639
Federal Grants and Contracts	8,002	8,618
Component Unit	565	883
State, Other Government, and Private Gifts, Grants and Contracts	8,695	3,168
Other	8,677	22,604
	59,584	73,076
Less: Allowance for Doubtful Accounts	(10,537)	(10,172)
Accounts Receivable, Net	$ 49,047	$ 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, 2015 and 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, 2015			June 30, 2014		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Institutional and Other Student Loans	$ 229	$ -	$ 229	$ 345	$ -	$ 345
Federal Student Loans	1,519	6,788	8,307	1,507	6,783	8,290
	1,748	6,788	8,536	1,852	6,783	8,635
Less: Allowance for Doubtful Accounts	(197)	(888)	(1,085)	(175)	(790)	(965)
Notes Receivable, Net	$ 1,551	$ 5,900	$ 7,451	$ 1,677	$ 5,993	$ 7,670

For the Years Ended June 30, 2015 and 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	Additions	Transfer Completed Assets	Retire. And Adjust.	Balance June 30, 2015
Capital Assets,									
Non-depreciable/Non-amortizable:									
Land	$ 49,963	$ -	$ -	$ (971)	$ 48,992	$ -	$ -	$ (41)	$ 48,951
Capitalized Collections	2,762	92	-	-	2,854	111	-	-	2,965
Construction in Progress	35,476	17,686	(5,541)	(157)	47,464	5,153	(44,746)	(2,183)	5,688
Total Capital Assets, Non-depreciable/Non-amortizable	88,201	17,778	(5,541)	(1,128)	99,310	5,264	(44,746)	(2,224)	57,604
Capital Assets, Depreciable/ Amortizable:									
Equipment	48,169	4,634	(681)	(3,623)	48,499	3,413	759	(1,487)	51,184
Library Materials	86,063	425	-	(743)	85,745	290	-	(176)	85,859
Buildings	480,485	9,415	6,099	-	495,999	6,559	43,903	(23)	546,438
Land Improvements	4,981	7	123	-	5,111	-	-	-	5,111
Improvements Other Than Buildings	5,299	-	-	-	5,299	84	84	-	5,467
Infrastructure	31,182	-	-	-	31,182	165	-	-	31,347
Intangible Assets	8,777	-	-	-	8,777	-	-	-	8,777
Total Capital Assets, Depreciable/Amortizable	664,956	14,481	5,541	(4,366)	680,612	10,511	44,746	(1,686)	734,183
Less Accumulated Depreciation/ Amortization for:									
Equipment	(34,449)	(4,169)	-	3,297	(35,321)	(4,180)	-	1,364	(38,137)
Library Materials	(74,648)	(3,124)	-	1,169	(76,603)	(2,396)	-	176	(78,823)
Buildings	(166,844)	(14,519)	-	(1,192)	(182,555)	(17,238)	-	-	(199,793)
Land Improvements	(2,689)	(291)	-	-	(2,980)	(178)	-	-	(3,158)
Improvements Other Than Buildings	(2,923)	(412)	-	-	(3,335)	(411)	-	-	(3,746)
Infrastructure	(7,432)	(1,365)	-	(71)	(8,868)	(1,435)	-	-	(10,303)
Intangible Assets	(6,534)	(562)	-	-	(7,096)	(418)	-	-	(7,514)
Total Accumulated Depreciation/ Amortization	(295,519)	(24,442)	-	3,203	(316,758)	(26,256)	-	1,540	(341,474)
Total Capital Assets, Net	$ 457,638	$ 7,817	$ -	$ (2,291)	$ 463,164	$ (10,481)	$ -	$ (2,370)	$ 450,313
Capital Assets Summary									
Capital Assets, Non-depreciable/ Non-amortizable	$ 88,201	$ 17,778	$ (5,541)	$ (1,128)	$ 99,310	$ 5,264	$ (44,746)	$ (2,224)	$ 57,604
Capital Assets, Depreciable/ Amortizable	664,956	14,481	5,541	(4,366)	680,612	10,511	44,746	(1,686)	734,183
Total Cost of Capital Assets	753,157	32,259	-	(5,494)	779,922	15,775	-	(3,910)	791,787
Less Accumulated Depreciation/ Amortization	(295,519)	(24,442)	-	3,203	(316,758)	(26,256)	-	1,540	(341,474)
Total Capital Assets, Net	$ 457,638	$ 7,817	$ -	$ (2,291)	$ 463,164	$ (10,481)	$ -	$ (2,370)	$ 450,313

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities comprised the following:

	June 30, 2015	June 30, 2014
Services and Supplies	$ 11,914	$ 12,925
Salaries and Wages	7,757	6,674
Contract Retainage Payable	184	7,094
Accrued Interest	2,795	5,063
Other	503	2
Total	$ 23,153	$ 31,758

7. OPERATING LEASES

A. Revenues

PSU receives income for land, property and equipment that is leased to non-State entities. Rental income received from leases was $3,701 and $3,360 for the year ended June 30, 2015 and 2014, respectively. The original cost of assets leased, net of depreciation, was $15,389 and $15,122 for the years ended June 30, 2015 and 2014, respectively. Minimum future lease revenue for noncancelable operating leases at June 30, 2015 were:

For the year ending June 30,	
2016	$ 2,359
2017	2,130
2018	1,741
2019	1,465
2020	1,354
2021-2025	5,457
2026-2030	4,720
2031-2035	3,175
2036-2040	3,057
2041-2045	3,020
2046-2050	2,985
2051-2055	2,985
2056 and After	12,238
Total Minimum Operating Lease Revenues	$ 46,686

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

B. Expenses

PSU leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases and rents were $4,349 and $4,456 for the years ended June 30, 2015 and 2014, respectively.

Minimum future lease payments on operating leases at June 30, 2015 were:

For the year ending June 30,	
2016	$ 4,063
2017	3,725
2018	3,561
2019	2,772
2020	2,315
2021-2025	4,431
2026-2030	1,261
2031-2035	1,261
2036-2040	1,260
2041-2045	1,256
2046-2050	1,256
2051-2055	1,256
2056 and After	5,128
Total Minimum Operating Lease Payments	$ 33,545

8. LONG-TERM LIABILITIES

Historically, the State of Oregon and the OUS Board issued various debt instruments to fund capital projects at all OUS institutions, including PSU. These debt instruments included 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 borrowed funds from the Oregon Department of Energy. As a result of PSU becoming an independent public body with its own governing board effective July 1, 2014, PSU was absolved of $142 million of general obligation XI-G and XI-Q bonds, lottery bonds and certain COPs previously reflected as PSU's debt. Also due to being absolved of the debt, PSU no longer receives debt service appropriations and has no responsibility to service the debt payments. Long-term liability activity was as follows for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Reductions due to University System Reorganization	Other Reductions	Balance June 30, 2015	Amount Due Within One Year	Long-Term Portion
Long-Term Debt							
Due to State:							
General Obligation Bonds XI-F(1)	$ 180,676	$ 17,782	$ -	$ (22,856)	$ 175,602	$ 8,871	$ 166,731
General Obligation Bonds XI-G	101,644	-	(101,644)	-	-	-	-
General Obligation Bonds XI-Q	3,669	-	(3,669)	-	-	-	-
Certificates of Participation (COPs)	39,258	-	(15,798)	(1,273)	22,187	1,003	21,184
Lottery Bonds	20,872	-	(20,872)	-	-	-	-
Oregon Department of Energy Loans (SELP)	43,114	-	-	(2,072)	41,042	2,242	38,800
Total Long-Term Debt	389,233	17,782	(141,983)	(26,201)	238,831	12,116	226,715
Other Noncurrent Liabilities							
PERS pre-SLGRP pooled Liability	18,235	-	-	(795)	17,440	702	16,738
Compensated Absences	8,896	-	-	(11)	8,885	7,784	1,101
Other Postemployment Benefits	3,526	218	-	-	3,744	-	3,744
Early Retirement Liability	131	-	-	(121)	10	10	-
Local Improvement District Obligations	-	3,584	-	-	3,584	250	3,334
Total Other Noncurrent Liabilities	30,788	3,802	-	(927)	33,663	8,746	24,917
Total Long-Term Liabilities	$ 420,021	$ 21,584	$ (141,983)	$ (27,128)	$ 272,494	$ 20,862	$ 251,632

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

Long-term debt activity was as follows for the year ended June 30, 2014:

	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

For the Year Ending June 30,	General Obligation Bonds XI-F(1)	SELP	COPs	Total Payments	Principal	Interest
2016	$ 14,976	$ 4,269	$ 2,197	$ 21,442	$ 10,494	$ 10,948
2017	15,081	4,235	2,126	21,442	10,439	11,003
2018	14,772	4,186	2,125	21,083	10,875	10,208
2019	14,796	4,175	2,034	21,005	11,736	9,269
2020	14,059	3,959	1,907	19,925	11,147	8,778
2021-2025	67,282	18,029	9,470	94,781	59,310	35,471
2026-2030	56,226	17,360	9,002	82,588	61,710	20,878
2031-2035	30,330	3,581	8,326	42,237	33,845	8,392
2036-2040	15,568	-	-	15,568	13,409	2,159
2041-2045	2,122	-	-	2,122	2,020	102
Accreted Interest					3,487	(3,487)
					$ 228,472	$ 113,721
Total Future Debt Service	245,212	59,794	37,187	342,193		
Less: Interest Component of Future Payments	(79,889)	(18,752)	(15,080)	(113,721)		
Principal Portion of Future Payments	165,323	41,042	22,107	228,472		
Adjusted by:						
Unamortized Bond Premiums	10,279	-	80	10,359		
Total Long-Term Debt	$ 175,602	$ 41,042	$ 22,187	$ 238,831		

A. General Obligation Bonds XI-F(1)

XI-F(1) bonds, with effective yields ranging from 0.3 percent to 7.0 percent, are due serially through 2042. During the fiscal year ended June 30, 2015, the State of Oregon issued bonded indebtedness as follows:

- In June 2015, PSU entered into a loan agreement with the State of Oregon's Department of Administrative Services for $2,000 of XI-F(1) bonds to be utilized on a cost reimbursable basis for a specified capital project. This was part of the 2015N series with an effective interest rate of 2.7 percent due serially through 2025.

During the fiscal year ended June 30, 2014, the OUS Board issued XI-F(1) Taxable and Tax Exempt Bond Series 2013 NO with effective yields ranging from 0.14 percent to 7.0 percent, due serially through 2044 for which PSU's portion of the par value was $984 at an effective rate of 4.3 percent for purposes of funding Student Building Fee Projects.

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 Senate Bill 270 (see Note 1) the internal bank was closed, effective July 1, 2014, 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. 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 5.95 percent, are due through 2031.

D. 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.

E. Defeased Debt

From time to time and when fiscally appropriate, the State Treasury will sell bonds and use the proceeds to defease other debt.

During the year ended June 30, 2015, XI-F(1) bonds with a par value of $12,915 were issued at a premium and with an average interest rate of 4.68 percent to defease existing debt with a par value of $13,736 at an average interest rate of 4.76 percent. The defeasance reduces future debt service payments by $1,702 and resulted in a $1,343 economic gain.

During the year ended June 30, 2014, no XI-G, XI-Q or Lottery Bonds were issued in order to be used to defease previously issued debt.

F. Financial Guarantees

As a university with a governing board, PSU is no longer considered a state agency. As a result, the State of Oregon has no responsibility for PSU's financial obligations other than those related to State general obligation debt. Prior to this change and through June 30, 2014, PSU was part of OUS, a governmental agency of the State of Oregon. Therefore, the State of Oregon was previously ultimately responsible for OUS' financial obligations. Through June 30, 2014, no amounts were paid by the State of Oregon for OUS' financial obligations.

G. 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 $1,218 and $1,181 for June 30, 2015 and 2014, respectively. Principal payments of $795 and $481 were applied to the liability for June 30, 2015 and 2014 respectively.

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

9. PRIOR PERIOD RESTATEMENTS AND RECLASSIFICATIONS

Net position at July 1, 2014 was restated to reflect a $37,919 reduction resulting from the adoption of GASB No. 68. As a result, net position at July 1, 2014 decreased to $128,240 from $166,159 previously presented at June 30, 2014. Due to lack of information, PSU is unable to retroactively adopt GASB No. 68 to the earliest period presented in these financial statements.

Certain reclassifications were made to the June 30, 2014 results in order to conform to the current year presentation.

10. INVESTMENT ACTIVITY

Investment Activity detail is as follows:

	June 30, 2015	June 30, 2014
Investment Earnings	$ 1,583	$ 1,384
Royalties and Technology Transfer Income	561	636
Net Appreciation of Investments	49	355
Endowment Income	98	83
Total Investment Activity	$ 2,291	$ 2,458

11. OPERATING EXPENSES BY NATURAL CLASSIFICATION

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

	June 30, 2015	June 30, 2014
Compensation and Benefits	$ 266,694	$ 291,432
Services and Supplies	116,446	114,778
Scholarships and Fellowships	36,033	34,858
Depreciation and Amortization	26,256	24,442
Other Expenses	4,478	71
Total Operating Expenses	$ 449,907	$ 465,581

As described in Notes 1 and 13, Compensation and Benefits expense decreased due to ($18,984) of pension costs in 2015 under GASB No. 68. Refer to Note 18 regarding estimated impact of an Oregon Supreme Court Ruling that is expected to increase the cost of the plans.

12. GOVERNMENT APPROPRIATIONS

Government appropriations comprised the following:

	June 30, 2015			June 30, 2014		
	General Operations	Debt Service	Total	General Operations	Debt Service	Total
State General Fund	$ 66,325	$ 2,241	$ 68,566	$ 58,265	$ 10,879	$ 69,144
State Lottery Funding	1,106	-	1,106	1,106	1,779	2,885
Total Appropriations	$ 67,431	$ 2,241	$ 69,672	$ 59,371	$ 12,658	$ 72,029

13. EMPLOYEE RETIREMENT PLANS

PSU offers various retirement plans to qualified employees as described below. As described in Note 1, PSU adopted GASB Statements No. 68 and 71 on July 1, 2014, which modified the accounting and disclosure requirements for the defined benefit plans in which PSU participates.

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM/ OREGON PUBLIC SERVICE RETIREMENT PLAN

The State of Oregon Public Employees Retirement System (PERS) holds assets in a pension trust and 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. The following provides an overview of PSU's participation in both the defined benefit and defined contribution plans in which it participates.

PERS is a single cost-sharing multiple-employer defined benefit 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. The 2003 Oregon Legislature enacted ORS 238.025 creating the Oregon Public Service Retirement Plan (OPSRP). Employees hired into eligible positions on or after August 29, 2003 are enrolled. The OPSRP is comprised of a defined benefit pension program and an individual account program (IAP). The OPSRP defined benefit component is part of the single cost-sharing multiple-employer defined benefit plan administered by PERS. IAP within the OPSRP is considered a defined contribution plan for financial reporting purposes.

PERS employee contributions requirements are established by ORS 238A.330 and are credited to an employee's account in the IAP 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 with the exception of employees represented by the PSU American Federation of Teachers (AFT) union, the employee's contribution rate of 6 percent has been paid by the employer. The PSU employer contribution rates for Tier One and Two for the years ended June 30, 2015 and 2014 was 9.86 percent.

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 with the exception of employees represented by the PSU American Federation of Teachers (AFT) union, the employee's contribution rate of 6 percent has been paid by the employer. The PSU employer contribution rate for OPSRP for the years ended June 30, 2015 and 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.

Further information, including detailed disclosures required by GASB No. 68, for the defined benefit PERS plan and the defined benefit component of the OPSRP are presented below under "Defined Benefit Plans."

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 24-year debt repayment schedule. The payroll assessment for the pension obligation bond began May 2004 and is currently at a rate of 6.70 percent. Payroll assessments for the fiscal year ended June 30, 2015 and 2014 were $6,880 and $6,780, respectively.

PERS issues a separate, publicly available financial report that contains audited financial statements and RSI. The report includes 10-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 on the Internet at oregon.gov/pers/Pages/section/financial_reports/financials.aspx 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. As a result of the dissolution of OUS, the ORP is being administered by the University of Oregon.

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

Through June 30, 2014, 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 and is also referred to as the OPSRP Equivalent. Under the ORP Tier One, Tier Two and OPSRP Equivalent, the employee's contribution rate is 6 percent and, with the exception of employees represented by the PSU American Federation of Teachers (AFT) union, is paid by the employer. Effective July 1, 2014, the Oregon State Legislature adopted a fourth ORP tier, which includes an employer contribution, as well as an employer matching contribution on employee contributions to the Oregon Public University tax-deferred investment 403(b) plan of up to 4 percent. The employer contribution rates for the ORP are as follows:

	2015	2014
ORP Tier One	16.50%	16.50%
ORP Tier Two	16.50%	16.50%
OPSRP Equivalent	6.42%	6.42%
ORP Tier 4	8.00%	n/a

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.

SUPPLEMENTAL RETIREMENT PLAN (SRP)

The University of Oregon maintains an IRC Section 414(d) cash balance defined benefit plan to provide a specific benefit value to certain university presidents upon separation, including PSU's. The 414(d) plan is qualified under IRC Section 401(a) as a governmental plan and was previously maintained by OUS. As of June 30, 2015 and 2014, the plan was fully funded.

SUMMARY OF PENSION PAYMENTS

PSU total payroll for the year ended June 30, 2015 was $202,270, of which $165,306 was subject to retirement contributions. 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:

	2015				2014			
	Employer	Percent of Covered Payroll	Employee Contribution	Percent of Covered Payroll	Employer	Percent of covered payroll	Employee contribution	Percent of covered payroll
PERS/OPSRP	$ 7,315	4.43%	$ 6,216	3.76%	$ 7,586	4.54%	$ 6,241	3.74%
ORP	6,156	3.72%	3,570	2.16%	6,200	3.71%	3,581	2.15%
Tiaa-Cref	91	0.06%	91	0.06%	89	0.05%	89	0.05%
SRP	138	0.08%	-	0.00%	138	0.08%	-	0.00%
Total	$ 13,700	8.29%	$ 9,877	5.97%	$ 14,013	8.40%	$ 9,911	5.94%

Of the employee share, the employer paid $5,885 of PERS/OPSRP, $3,525 of ORP and $91 of TIAA-CREF during the fiscal year ended June 30, 2015. 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.

DEFINED BENEFIT PLANS

The disclosures and amounts presented below are based on the actuarial valuation performed as of December 31, 2012 rolled forward to the June 30, 2014 measurement date.

A. Name of pension plan:

PERS consists of a single cost-sharing multiple employer defined benefit pension plan.

B. Description of benefit terms:

Plan Benefits

All benefits of PERS are established by the legislature pursuant to ORS Chapters 238 and 238A. Effective July 1, 2015, PSU has a campus police office. Thus, PERS benefits terms provided to police members will be applicable to PSU prospectively.

1. Tier One/Tier Two Retirement Benefit Chapter 238). Tier One/Tier Two Retirement Benefit plan is closed to new members hired on or after August 29, 2003.

Pension Benefits

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance 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 with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- the member was employed by a PERS employer at the time of death,
- the member died within 120 days after termination of PERS-covered employment,
- the member died as a result of injury sustained while employed in a PERS-covered job, or
- the member was on an official leave of absence from a PERS-covered job at the time of death.

Disability Benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

Benefit Changes After Retirement

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first $60 of annual benefit and 0.15 percent on annual benefits above $60.

2. OPSRP Pension Program (OPSRP DB)

Pension Benefits. The Pension Program (ORS Chapter 238A) provides benefits to members hired on or after August 29, 2003.

This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

Police and fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP Pension Program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

Death Benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member’s salary determined as of the last full month of employment before the disability occurred.

Benefit Changes After Retirement

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first $60 of annual benefit and 0.15 percent on annual benefits above $60.

C. Contributions:

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013. The state of Oregon and certain schools, community colleges, and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced.

Employer contributions for the year ended June 30, 2015 were $7,315, excluding amounts to fund employer specific liabilities.

D. Pension Plan CAFR:

Oregon PERS produces an independently audited CAFR which can be found at:

http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx

E. Actuarial Valuations:

The employer contribution rates effective July 1, 2013, through June 30, 2015, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

F. Actuarial Methods and Assumptions Used in Developing Total Pension Liability:

Valuation Date	December 31, 2012 rolled forward to June 30, 2014.
Experience Study Report	2012, published September 18, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years.
Asset valuation method	Market value of assets
Inflation rate	2.75 percent
Investment rate of return	7.75 percent
Projected salary increases	3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service
Mortality	Healthy retirees and beneficiaries:
	RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.
	Active members:
	Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.
	Disabled retirees:
	Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

(Source: June 30, 2014 PERS CAFR; p. 54)

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2012 Experience Study which reviewed experien for the four-year period ending on December 31, 2012.

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projectio of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to periods of projected benefit payments to determine the total pension liability.

(Source: June 30, 2014 PERS CAFR; p. 54)

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

Depletion Date Projection

GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25* (GASB No. 67) generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB No. 67 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB No. 67 (paragraph 43) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for Oregon PERS:

- Oregon PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.

- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.

- GASB No. 67 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, it is our independent actuary's opinion that the detailed depletion date projections outlined in GASB No. 67 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

Assumed Asset Allocation: Asset Class/Strategy	Low Range	High Range	OIC Target
Cash	0.0%	3.0%	0%
Debt Securities	15.0%	25.0%	20%
Public Equity	32.5%	42.5%	38%
Private Equity	16.0%	24.0%	20%
Real Estate	9.5%	15.5%	13%
Alternative Equity	0.0%	10.0%	10%
Opportunity Portfolio	0.0%	3.0%	0%
Total			100%

Long-Term Expected Rate of Return:

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the OIC's investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	7.20%	4.50%
Short-Term Bonds	8.00	3.70
Intermediate-Term Bonds	3.00	4.10
High Yield Bonds	1.80	6.66
Large Cap US Equities	11.65	7.20
Mid Cap US Equities	3.88	7.30
Small Cap US Equities	2.27	7.45
Developed Foreign Equities	14.21	6.90
Emerging Foreign Equities	5.49	7.40
Private Equity	20.00	8.26
Opportunity Funds/Absolute Return	5.00	6.01
Real Estate (Property)	13.75	6.51
Real Estate (REITS)	2.50	6.76
Commodities	7.71	6.07
Assumed Inflation – Mean	2.75	

G. Sensitivity Analysis:

Sensitivity Analysis	**1% Decrease**	**Current Discount Rate**	**1% Increase**
	6.75%	7.75%	8.75%
PSU's Proportionate Share Net Pension Liability (Asset)	$ 43,982	$ (20,769)	$ (75,533)

H. Summary of Significant Accounting Policies for PERS/OPSRP:

Reporting Entity

PERS' financial statements are prepared on the basis of a fiscal year ended June 30. The Oregon State Treasurer has statutory responsibility for custody and investment of PERS assets. As a result of this fiduciary responsibility, PERS is included as part of the primary government in the *State of Oregon Comprehensive Annual Financial Report*.

Basis of Presentation

The PERS' financial statements are prepared in accordance with GASB Statements and GAAP that apply to governmental accounting for fiduciary funds.

Basis of Accounting

The accrual basis of accounting is used. Revenues are recognized when earned. Contributions are recognized when due, pursuant to formal commitments, as well as statutory and Board requirements. Expenses are recognized when incurred. Benefits are recognized when currently due and payable. Withdrawals are recognized in the month they are due and payable.

Investments

ORS 293.706 established OIC, which consists of five voting members. Four members of the council, who are qualified by training and experience in the field of investment or finance, are appointed by the governor subject to state Senate confirmation. The state treasurer serves as the council's remaining voting member. In addition, the director of the PERS serves as a non-voting OIC member.

OIC ensures moneys in the investment funds are invested and reinvested to achieve the investment objective of making the moneys as productive as possible. Furthermore, the investments of those funds are managed as a prudent investor would do under the prevailing circumstances and in light of the purposes, terms, distribution requirements, and laws governing each investment fund. This standard requires the exercise of reasonable care, skill, and caution and is applied to investments not in isolation, but in the context of each fund's portfolio as part of an overall investment strategy. The strategy should incorporate risk and return objectives reasonably suitable to the particular investment fund.

When implementing investment decisions, OIC has a duty to diversify the investments of the investment funds unless, under the circumstances, it is not prudent to do so. In addition, OIC must act with prudence when selecting agents and delegating authority.

Investments are recognized at fair value, the amount at which financial instruments could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale.

The fair value of publicly traded debt and equity securities in active markets is determined by the custodian's pricing agent using nationally recognized pricing services. The custodian's pricing agent values equity securities traded on a national or international exchange at the last reported sales price, and generally values debt securities by using evaluated bid prices. For securities that do not have an active market, such as private placements or commingled investment vehicles, a market price is calculated by either the custodian's pricing agent or the investment manager. For example, a similar benchmark security may be used to derive the fair value. The benchmark will typically have a coupon rate and maturity date comparable to the debt security being valued, and its market risk will be similar, considering current market conditions. The fair value of real estate investment trust (REIT) securities is determined by the custodian's pricing agent using recognized pricing services.

Investments in private equities are recorded at fair value, as of June 30, 2015, as determined by management based on valuation information provided by the general partner. Investments in private equities representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner determines fair value based on the best information available and by reference to information including, but not limited to, the following: projected sales, net earnings, earnings before interest, taxes, depreciation and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include: (1) the market approach (whereby fair value is derived by reference to observable valuation measures for comparable companies or assets) and (2) the income approach (e.g., the discounted cash flow method).

Investments in real estate, with the exception of publicly traded REITS, for which observable market prices in active markets do not exist, are reported at fair value as of June 30, 2014, as determined by management based on valuation information provided in good faith by the general partner. Direct investments in real estate are appraised every two to three years, and between appraisals, investment managers adjust values to reflect current and projected operating performance and financial transactions. In the absence of observable market prices, general partners determine the fair value of real estate partnerships using valuation methods considered most appropriate. A variety of factors are considered, including the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment.

Investments in the opportunity and alternatives portfolios are recorded at fair value as of June 30, 2015 by the respective general partner or account manager. Investments in the opportunity and alternatives portfolios representing publicly traded securities are stated at quoted market price. Where observable market inputs are not available, valuation models are applied. The general partner or account manager determines fair value based on the best information available and by reference to information including, but not limited to, the following: projected sales, net earnings, earnings before interest, taxes, depreciation, and amortization, balance sheets, public and private transactions, valuations for publicly traded comparable companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and the general partner's own assumptions regarding the investment. The methods used to determine the fair value of these investments typically include: (1) the market approach (whereby fair value is derived by reference to observable valuation measures for comparable companies or assets); (2) the income approach (e.g. the discounted cash flow method).

Due to the inherent uncertainty and the degree of judgment involved in determining private equity, opportunity, alternatives, and real estate portfolio investment valuations, the fair values reflected in the accompanying financial statements may differ significantly from values that would have been used had a readily determinable market value for the investments existed and the difference could be material. In addition, these investments are generally considered to be illiquid long-term investments, and the recorded fair values may materially differ from the amounts that eventually may be realized from the sale or other disposition of these investments.

OIC has approved the following asset classes for the Public Employees Retirement Fund (PERF): Short-Term Investing, Fixed Income, Real Estate, Public and Private Equities, and Alternative Investments. In addition, PERF invests in the Opportunity Portfolio which may be populated with investment approaches across a wide range of investment opportunities with no limitation as to asset classes or strategies. OIC must approve, in advance, the purchase of investments in a new asset class not described above.

As of June 30, 2015, PERS did not hold investments in any one organization that represent 5 percent of more of PERS' fiduciary net position.

I. Changes in Plan Provisions:

Senate Bill 822, signed into law in May 2013, eliminated the SB 656/HB 3349 tax remedy payments for benefit recipients who are not subject to Oregon income tax because they do not reside in Oregon, and limited the 2013 post-retirement COLA to 1.5% of annual benefit.

Senate Bill 861, signed into law in October 2013, limited the post-retirement COLA for years beyond 2013 to 1.25% on the first $60 of annual benefit and 0.15% on annual benefits above $60.

Senate Bill 862, signed into law in October 2013, makes targeted changes such as allowing garnishment of PERS benefits for convicted felons. These changes do not significantly affect PERS liabilities and were not reflected in the valuation.

For GASB Nos. 67 and 68, the Total Pension Liability must be calculated based on the benefit terms legally in effect as of the relevant fiscal year-end for the plan. Due to the timing of the benefit changes, this means only Senate Bill 822 is reflected in the June 30, 2013 Total Pension Liability, but that the combined effects of Senate Bills 822 and 861 are reflected in the June 30, 2014 Total Pension Liability. The decrease in the Total Pension Liability resulting from Senate Bill 861, measured as of June 30, 2014, created a ($2,423.6) million reduction in Plan pension liabilities.

(Source: December 31, 2012 Actuarial Valuation p. 98; Schedule of Changes in Net Pension (Asset)/Liability; PERS June 30, 2014 CAFR p. 57)

J. Changes in Assumptions:

Changes in Actuarial Methods and Allocation Procedures

Actuarial Cost Method

The Actuarial Cost Method was changed from the Projected Unit Credit (PUC) Cost Method to the Entry Age Normal (EAN) Cost Method. This change will allow PERS to use the same cost method for contribution rate calculations as required for financial reporting under GASB Nos. 67 and 68.

Tier 1/Tier 2 UAL Amortization

In combination with the change in cost method, the Board chose to re-amortize the outstanding Tier 1/Tier 2 UAL as of December 31, 2013 over a closed period of 20 years as a level percentage of projected payroll. Gains and losses between subsequent rate-setting valuations will be amortized over a closed 20 year period from the valuation in which they are first recognized.

Contribution Rate Stabilization Method

The "grade-in range" over which the rate collar gradually doubles was modified so that the collar doubles as funded status (excluding side accounts) decreases from 70% to 60% or increases from 130% to 140%. Previously the ranges had been 80% to 70% and 120% to 130%. The modification to the grade-in range was made in combination with the change to actuarial cost method, as discussed at the July 2013 PERS Board public meeting.

Allocation of Liability for Service Segments

For purposes of allocating Tier 1/Tier 2 member's actuarial accrued liability among multiple employers, the valuation uses a weighted average of the Money Match methodology and the Full Formula methodology used by PERS when the member retires. The weights are determined based on the prevalence of each formula among the current Tier 1/Tier 2 population. For the December 31, 2010 and December 31, 2011 valuations, the Money Match was weighted 40 percent for General Service members and 10 percent for Police & Fire members. For the December 31, 2012 and December 31, 2013 valuations, this weighting has been adjusted to 30 percent for General Service members and 5 percent for Police & Fire members, based on a projection of the proportion of liability attributable to Money Match benefits at those valuation dates.

Changes in Economic Assumptions

Investment Return and Interest Crediting

The assumed investment return and interest crediting to both regular and variable account balances was reduced to 7.75%. Previously, the assumed investment return and interest crediting to regular account balances was 8.00% and the assumed interest crediting to variable account balances was 8.25%.

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

OPSRP Administrative Expenses

Assumed administrative expenses for the OPSRP System were reduced from $6.6 million per year to $5.5 million per year.

Changes in Demographic Assumptions

Healthy Mortality

The healthy mortality assumption is based on the RP2000 generational mortality tables with group-specific class and setback adjustments. The group-specific adjustments have been updated to more closely match recently observed system experience.

Disabled Mortality

The disabled mortality assumption base was changed from the RP2000 healthy tables to the RP2000 disabled tables. Gender-specific adjustments were applied to align the assumption with recently observed system experience.

Disability, Retirement from Active Status, and Termination

Rates for disability, retirement from active status, and termination were adjusted. Termination rates were changed from being indexed upon age to being indexed upon duration from hire date.

Changes in Salary Increase Assumptions

Merit Increases, Unused Sick Leave, and Vacation Pay

Assumed merit increases were lowered for School District members. Unused Sick Leave and Vacation Pay rates were adjusted.

Plan fiduciary net position as a percentage of total pension liability

See Schedule of Changes in Net Pension (Asset)/Liability on page 57 of the PERS June 30, 2014 CAFR.

Covered Payroll for Employers

See Schedule of Proportionate Shares which can be found at http://www.oregon.gov/pers/EMP/pages/index.aspx.

Mortality

Healthy Retired Members

The following healthy retired mortality tables were first adopted in the December 31, 2010 valuation, except for the School District male and Police and Fire male table, which was adopted in the December 31, 2012 valuation.

Basic Table	**RP 2000, Generational Combined Active/Healthy Annuitant, Sex Distinct**
School District male	No collar, set back 24 months
Other General Service male (including male beneficiary)	Blended 25 percent blue collar/75 percent white collar, set back 12 months
Police and Fire male	Blended 25 percent blue collar/75 percent white collar, set back 12 months
School District female	White collar, set back 24 months
Other female (including female beneficiary)	White collar, no set back

Disabled Retired Members

The following disabled retiree mortality rates were first adopted for the December 31, 2012 actuarial valuation.

Basic Table	**RP 2000, Static, Combined, Disabled, No Collar, Sex Distinct**
Male	65 percent of Disabled table
Female	90 percent of Disabled table

Non-Annuitant Members

The following mortality rates were first adopted for non-annuitant members for the December 31, 2012 actuarial valuation, except for the Other General Service male and School District female rates which were adopted in the December 31, 2010 valuation.

Basic Table	Percent of Healthy Retired Mortality Tables
School District male	70%
Other General Service male	85
Police and Fire male	95
School District female	60
Other female	55

(Source: June 30, 2014 PERS CAFR p. 85)

Ad Hoc Postemployment Benefit Changes

See changes in plan provisions.

Change in Proportionate Share:

There was no change in proportionate share for fiscal years ending June 30, 2013 and June 30, 2014. Because the proportionate share is actuarially determined, it was calculated as of the December 31, 2012 valuation date used to develop results for both the June 30, 2013 and June 30, 2014 Measurement Dates. In future measurement periods, there will be changes in proportionate shares from the beginning of the period to the end.

Deferred Items

Deferred items are calculated at the system-wide level and are allocated to employers based on their proportionate share. For fiscal year ending June 30, 2014, there was:

No difference between expected and actual experience.

No difference due to changes of assumptions.

A Net difference between projected and actual earnings which is being amortized over a closed five-year period. One year's amortization is being recognized in the employer's total pension expense for fiscal year 2015.

No changes in proportionate share.

A difference between employer contributions and proportionate share of contributions, which is being amortized over 5.6 years, the remaining service lives of all plan participants, including retirees. One year of this amortization is included in the employer's total pension expense for fiscal year 2015.

The amortization schedule on the employer specific actuarial schedule shows the remaining 4 years amortization for the difference in investment returns and 4.6 years for the difference between proportionate share and actual contributions.

(Source: Schedule of Pension Amounts Under GASB 68 prepared by Milliman.)

The composition of PSU's deferred outflows (inflows) related to the defined benefit plans were as follows as of June 30, 2015 (dollars in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual earnings on pension plan investments	$ -	$ (40,075)
Changes in employers' proportion and differences between the employer's contributions and employer's proportionate share of contributions	371	0
Employer's contributions subsequent to measurement date	7,315	0
	$ 7,686	$ (40,075)

PSU net deferred inflows to be recognized over the next five years and thereafter is as follows as of June 30, 2015:

Net deferred inflow s to be recognized over next five years and thereafter:		
2016	$	(9,938)
2017		(9,938)
2018		(9,938)
2019		(9,938)
2020		48
Thereafter		-
Total future expense	$	(39,704)
Amount of deferred outflow s to be included as a future increase in net pension asset	$	7,315

Independent Auditors Report

The independent auditors report on the Schedule of Allocations (Proportionate Shares) and Schedule of Pension Amounts will be published on the PERS employer website. http://www.oregon.gov/pers/EMP/pages/index.aspx

K. Employer Contributions:

PERS includes accrued contributions when due pursuant to legal requirements as of June 30 in its Statement of Changes in Fiduciary Net Position. These are normally included in the employer statements cut off as of the fifth of the following month. PERS does not try to accrue contributions based on paydate.

Beginning with fiscal year 2015, PERS will be able to report cash contributions and UAL side account amortization by employer, and will publish this information on the PERS Website. Prior to fiscal year 2015, contributions to the OPSRP Defined Benefit plan were not accounted for by employer, as all employers were pooled for actuarial purposes.

L. Net Pension Liability:

Net pension liabilities are calculated at the system-wide level and are allocated to employers based on their proportionate share. UAL Side Accounts are included as assets in this calculation. The rate setting actuarial valuation will continue to allocate the UAL Side Account, transitional or pre-SLGRP liabilities or surpluses as adjustments to the respective employers.

PSU’s share of the system-wide pension obligation was in an asset position at June 30, 2015. PSU’s share of system-wide pension costs were a benefit to PSU for the year ended June 30, 2015 (dollars in thousands).

Employer's proportionate share of collective net pension asset	$	20,769
Employer's proportionate % share of collective net pension asset		0.9%
Employer's pension expense	$	(18,984)

M. IAP Plan Description:

OPSRP Individual Account Program (OPSRP IAP)

Pension Benefits

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a two hundred dollar minimum distribution limit.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

N. Changes in Plan Provisions Subsequent to Measurement Date:

The Oregon Supreme Court on April 30, 2015, ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. We will make restoration payments to those benefit recipients.

PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

This is a change in benefit terms subsequent to the measurement date of June 30, 2014, and was not be included in the net pension liability (asset) proportionate shares provided to employers in June 2015. Refer to Note 18 for additional information.

14. OTHER POSTEMPLOYMENT BENEFITS

During the year ended June 30, 2015, PSU was as a participant in the State of Oregon's 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 4.6 percent and 4.8 percent of the total PEBB plan costs attributable to the State of Oregon at June 30, 2015 and 2014, respectively. This allocation was based on health insurance premiums paid by state agencies during fiscal year 2015 and 2014.

Funding Policy. PSU's current policy is to pay the implicit rate subsidy on a pay-as-you-go basis. For fiscal year 2015 and 2014, healthcare insurance premiums were $35,911 and $36,759, respectively. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be $319 for the fiscal year ended 2015 and 2014, respectively.

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:

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

	June 30, 2015	June 30, 2014
Annual Required Contribution	$ 613	$ 617
Interest on Net OPEB Obligation	127	126
Adjustment to Annual Required Contribution	(242)	(241)
Prior Period Adjustment	-	(197)
Annual OPEB Cost	498	305
Contributions Made	(280)	(319)
Increase in Net OPEB Obligation	218	(14)
Net OPEB Obligation - Beginning of Year	3,526	3,540
Net OPEB Obligation - End of Year	$ 3,744	$ 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, 2015, 2014, 2013 was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	$ 498	13%	$ 3,744
2014	305	9%	3,526
2013	1,008	28%	3,540

Funding Status and Funding Progress. The funded status of the PSU OPEB plan for June 30, 2015 and 2014 was as follows:

	June 30, 2015	June 30, 2014
Actuarial Accrued Liabilities	$ 4,832	$ 5,052
Actuarial Value of Plan Assets	-	-
Unfunded Actuarial Accrued Liability	$ 4,832	$ 5,052
Funded Ratio	0%	0%
Covered Payroll (active plan members)	$ 165,306	$ 166,914
Unfunded Actuarial Accrued Liability as a		
Percentage of Covered Payroll	2.92%	3.03%

Actuarial valuations, prepared biannually, 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.

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.

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

Significant methods and assumptions were as follows:

	June 30, 2015	June 30, 2014
Actuarial Valuation Date	7/1/2013	7/1/2013
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percentage	Level Percentage
Amortization Period	15 Years (open)	15 Years (open)
Investment Rate of Return	3.5%	3.5%
Projected Salary Increases	3.5%	3.5%
Initial Healthcare Inflation Rates	3.6% (medical), 2.2% (dental)	3.6% (medical), 2.2% (dental)
Ultimate Healthcare Inflation Rates	5.4% (medical), 5.0% (dental)	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, 2015 and 2014 was $1 and $46, respectively.

16. RISK FINANCING

Through June 30, 2014, PSU participated in the OUS Risk Management Fund managed by the OUS Office of Risk Management. Effective July 1, 2014, the OUS Risk Management Fund was transferred to the Public University Risk Management and Insurance Trust (PURMIT). PURMIT is a separate legal entity which operates for the benefit of the participating universities. All assets and liabilities of the previously established OUS Risk Management Fund were transferred to PURMIT on the effective date. The following risks are managed through PURMIT:

- Real property loss for university owned buildings, equipment, automobiles and other types of property
- Tort liability claims brought against university officers, employees or agents
- Workers' compensation and employer's liability
- Criminal and fiduciary liability
- Certain specialty lines of business, including fine art, non-owned aviation and other liability coverage.

PSU retains the first $100 thousand of loss per occurrence on property loss and tort liability claims while the pooled risk covered by PURMIT varies depending on the type of occurrence. Pooled risk covered by PURMT and excess third party commercial insurance coverage is described below and applies to the participating universities in aggregate.

Effective October 2015, PURMIT covers up to $250 thousand per occurrence for real property liability. Excess third party commercial insurance covers up to $500 million per occurrence with aggregate sub-limits for flood and earth movement of $250 million and $100 million, respectively. Prior to October 2015, PURMIT covered up to $500 thousand per occurrence for real property liability before excess coverage applied.

PURMIT covers up to $250 thousand per occurrence for licensed professional liability and up to $1 million per occurrence for educators' legal, auto and general liability, which covers employer's liability. Excess third party commercial insurance covers up to an aggregate $50 million for these losses, including international incidents. PSU trustees are provided with directors and officers insurance under the educators' legal coverage.

PURMIT charges each university for an allocation of commercial insurance premiums and PURMIT's overhead and direct costs, as well as an actuarially determined allocation of costs associated with the self-insured risk layer retained by PURMIT. Based on an independent actuarial analysis, PURMIT has sufficient funds to pay anticipated claims.

For the Years Ended June 30, 2015 and 2014 (dollars in thousands)

17. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed and planned construction projects totaled approximately $121,763 at June 30, 2015. These commitments will be primarily funded from gifts and grants, bond proceeds, and other PSU funds and are summarized as follows as of June 30, 2015:

	Total Commitment	Completed to Date	Outstanding Commitment
Academic and Student Recreation Center	$ 1,397	$ 419	$ 978
Campus Moves	4,164	3,299	865
Capital Repair	31,551	16,000	15,551
Collaborative Life Science Building	47,451	47,204	247
Peter W. Stott Center/Viking Pavillion	45,000	749	44,251
School of Business Administration Expansion	63,203	6,311	56,892
Projects with < $500 thousand remaining to be spent	14,230	13,222	1,008
Projects Budgets <$1 million	2,962	991	1,971
	$ 209,958	$ 88,195	$ 121,763

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 these matters will not have a material effect on the financial statements.

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 657. PSU reimburses the Oregon Employment Division on a quarterly basis for actual benefits paid. Although the amount of future benefit payments to claimants and the resulting liability to PSU cannot be reasonably determined at June 30, 2015, such amounts are not expected to be material.

18. SUBSEQUENT EVENTS

As described in Note 4, PSU made student loans through Federal Perkins Loan Program. This loan program expired after fiscal year-end. Total federal student loans as of June 30, 2015 and 2014 were $8,307 and $8,290, respectively. The U.S. Congress had until September 30, 2015 to legislate continuation of the 50-year-old, low-interest student loan program, but it let the deadline pass without action. As such, PSU is currently awaiting the U.S. Department of Education’s release of an official communication on closeout deadlines and expectations that will need to be considered in exiting the program.

As described in Note 13, PSU’s net pension asset at June 30, 2015 does not reflect the impacts of the April 2015 Oregon Supreme Court ruling that is expected to increase PSU’s GASB No. 68 pension obligation. Based on currently available information and the June 30, 2014 measurement date, it is estimated that PSU’s net pension asset of $20,769 would have been a net pension liability of $24,281 had the ruling been reflected. The final impacts of the ruling will not be known until the next actuarial valuation.

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.

On July 1, 2014, PSU advancement staff were terminated and hired by the PSU Foundation. Accordingly, PSU and the PSU Foundation entered into a memorandum of understanding under which PSU agreed to financially support the PSU Foundation’s operating costs through at least June 30, 2018. During the years ended June 30, 2015 and 2014, PSU transferred $7,333 and $150, respectively, to the university foundation to support its operations. Also during the years ended June 30, 2015 and 2014, gifts of $23,875 and $10,096, respectively, were transferred from the university foundation to PSU. Included in the gifts received from the

PSU Foundation during the year ended June 30, 2015 was $4,091 of cash contributed by certain members of the PSU Board of Trustees and their affiliates.

PSU has authorization from the Oregon State Legislature to purchase the Broadway Housing building from Broadway Housing, LLC, a consolidated subsidiary of the PSU Foundation, with bonds to be issued by the State under Article XI-F(1). The building is currently utilized by PSU primarily as a student dormitory with a small portion used for academic and retail space under the Housing Services and Facilities Agreement between PSU and Broadway Housing, LLC. In consideration for PSU's utilization of the building, PSU is obligated to use available funds, as defined by the agreement, and revenues generated by building operations to pay for costs associated with the building. These costs include both operating and debt service costs. This Broadway Housing, LLC debt will be repaid with the proceeds from the anticipated sale of the building to PSU. PSU's purchase of the building and bond issuance are expected to occur in 2016.

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. Please see the financial statements for the PSU component unit on pages 20 and 22 of this publication. The financial activity is reported for the years ended June 30, 2015 and 2014. The PSU affiliated foundation is audited annually and received an unqualified audit opinion. Complete financial statements for the foundation 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)

Defined Benefit Pension Plans*

	Year Ended June 30, 2015	2014
Employer's proportionate % share of collective net pension asset	0.9%	0.9%
Employer's proportionate share of collective net pension asset (liability)	$ 20,769	$ (46,757)
Covered employee payroll	$ 165,306	$ 166,914
Employer's share of net pension asset (liability) as a percentage of covered payr	13%	-28%
Plan fiduciary net position as a percentage of the total pension liability	103.6%	not avail.
Statutorily required employer contributions	$ 7,315	$ 7,586
Employer contributions recognized	$ 7,315	$ 7,586
Contribution Excess (Deficiency)	$ -	$ -
Employer contributions recognized as a percentage of covered payroll	4.4%	4.5%

*10-year trend information specific to PSU is not available prior to the year ended June 30, 2014.

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%
6/30/2015	-	4,832	4,832	0.0%	165,306	2.9%

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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