2016 ANNUAL FINANCIAL REPORT

Portland State UNIVERSITY

Portland State University Executive Officers

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Provost and Vice President for Academic Affairs

William Boldt
PSU Foundation CEO and President

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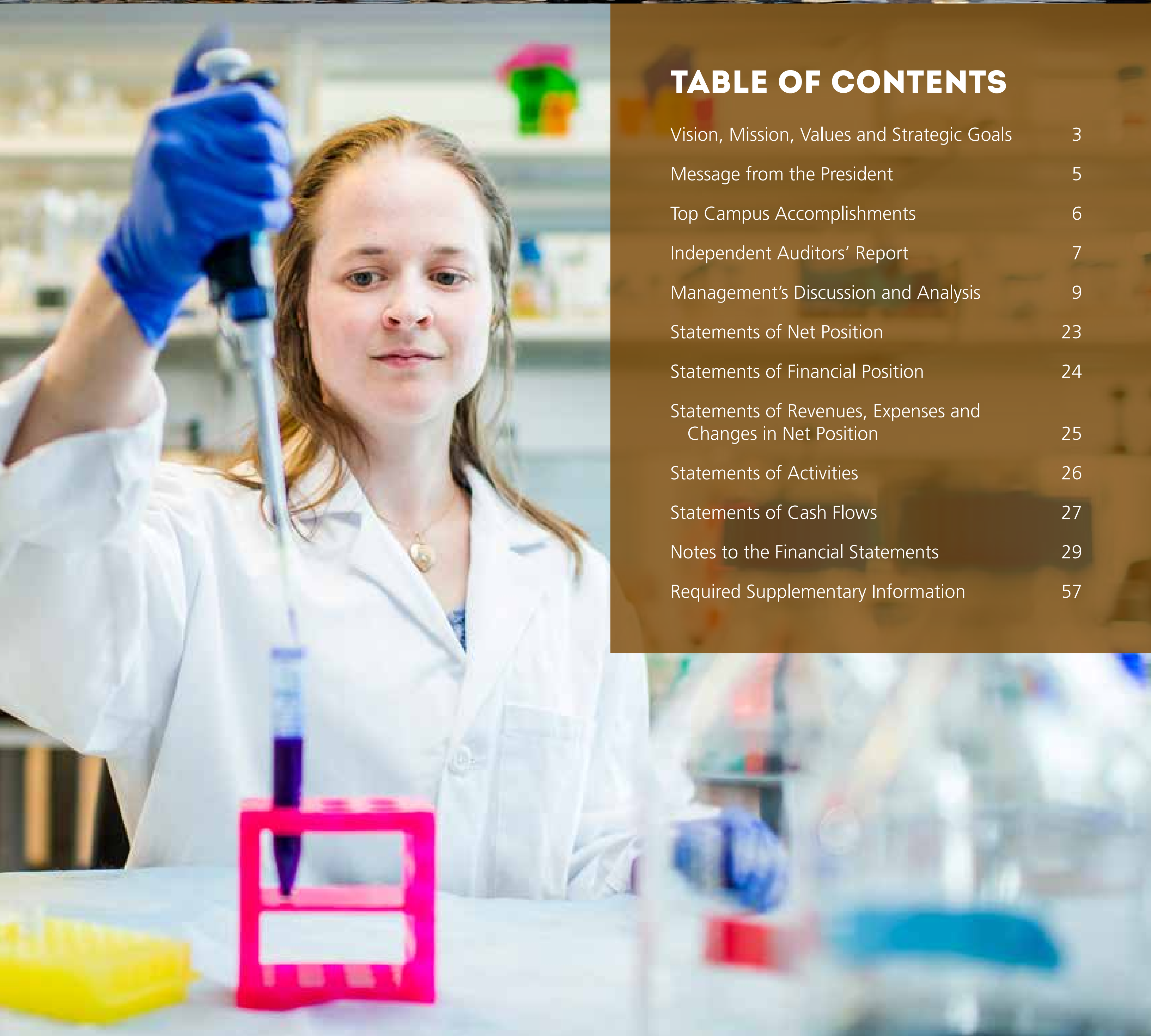
David Reese
General Counsel

Kevin Reynolds
Vice President for Finance and Administration and Interim Vice President for Research and Strategic Partnerships

Carmen Suarez
Vice President for Global Diversity and Inclusion



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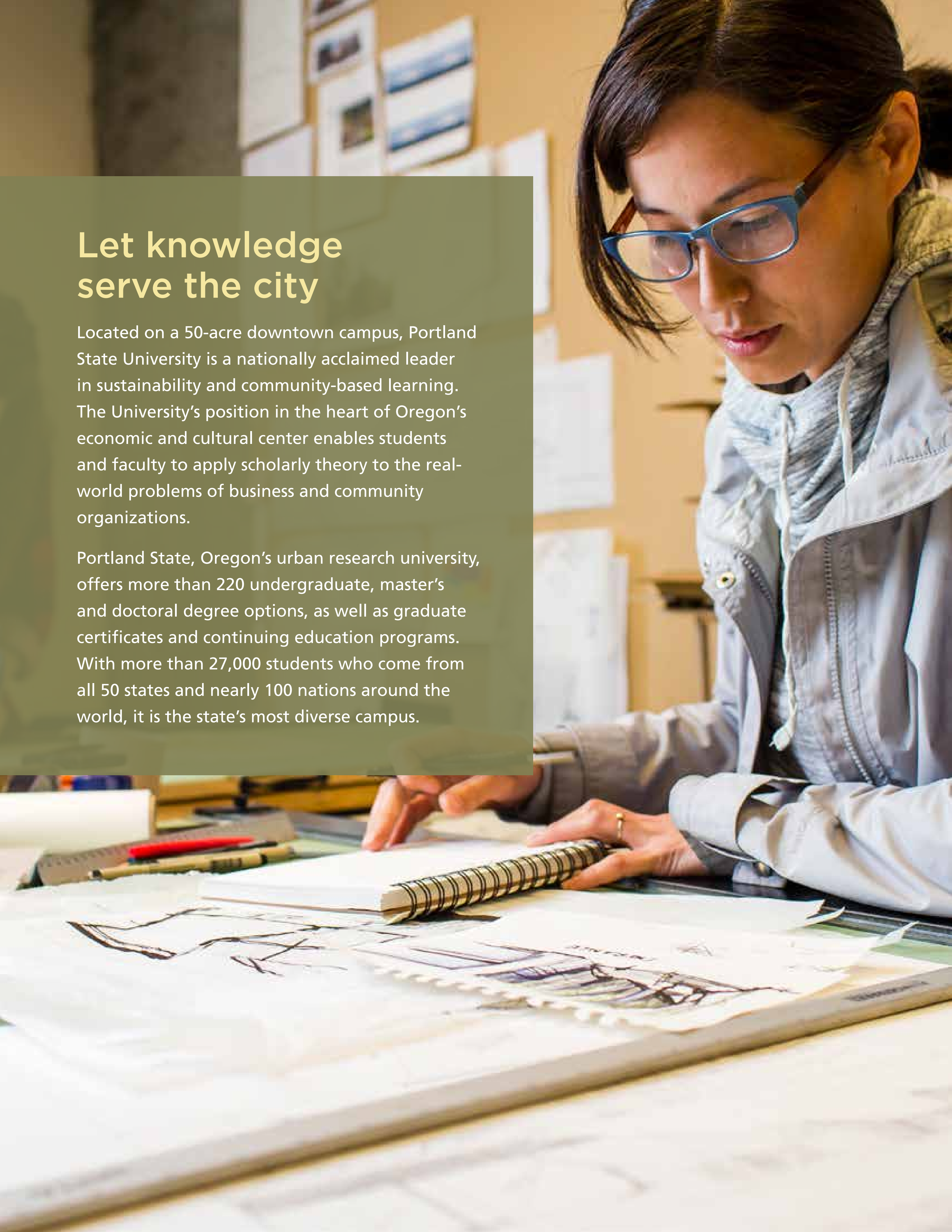

Let knowledge serve the city

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 more than 27,000 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 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 3: EXTEND OUR LEADERSHIP IN COMMUNITY ENGAGEMENT

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 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.

The new Karl Miller Center features a significant renovation and expansion of PSU's School of Business Administration.

MESSAGE FROM THE PRESIDENT

FISCAL YEAR 2016 was a year of strategic investments and planning as we positioned Portland State University to be responsive to changing times and demands. We strengthened our advising staff to help more students graduate on time and with less debt; we began rebuilding our reserves; and we settled contract negotiations with all our labor unions. We also began the implementation phase of our new five-year strategic plan, which calls for more resources devoted to student success, faculty excellence, community engagement, equity and inclusion and long-term stability.

I continue working closely with the six other public university presidents to make sure the Oregon Legislature, Gov. Kate Brown and the Higher Education Coordinating Commission are fully aware of not only our needs, but also of the return on their investments. Our ability as presidents to collaborate, rather than compete, has greatly benefitted PSU and Oregon higher education. We will once again present a united front at the 2017 legislative session to strengthen state investments in PSU and the other universities.

Portland State is engaged in a number of efforts to diversify and improve our revenue from sources other than tuition and state aid. Top among them is the formation of the College Affordability and Success Coalition. This partnership with regional business leaders is aimed at providing new local revenue to offer more need-based scholarships and boost student retention and graduation rates. Another initiative under way is a $300 million campaign by the PSU Foundation aimed at increasing philanthropic giving.

On a personal note, I plan to retire from the presidency at the end of this academic year. After a sabbatical I will join the faculty in the PSU College of Urban and Public Affairs. I do so with full confidence that Portland State is moving forward toward continued growth, financial stability and academic excellence in 2017 and beyond.

Wim Wiewel

Wim Wiewel
President, Portland State University

Top Campus **ACCOMPLISHMENTS**

- *US News & World Report* ranked Portland State among the nation's top 10 "most innovative" universities. We were slightly behind Stanford and MIT, and ahead of Cornell, Duke and Harvard.
- We announced our "4 Years Free" program that covers standard tuition and mandatory fees for low-income, high achieving Oregon high school graduates.
- We began significant renovation and expansion of our School of Business Administration, now called the Karl Miller Center, and the Stott Center, including the new Viking Pavilion. Plans are in the works for a similar overhaul of Neuberger Hall, and for a new building that will house our Graduate School of Education.
- We launched the Joint School of Public Health with Oregon Health & Science University. This new venture taps into the growing demand for degrees in the health profession and deepens our partnership with OHSU.
- We greatly expanded our online course and online degree offerings. Student can choose among 30 certificate and degree programs offered fully online.

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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), a component unit of the State of Oregon, as of and for the years ended June 30, 2016 and 2015, 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 2016 and 2015 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 the discretely presented component unit of the University as of June 30, 2016 and 2015, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 9 - 22, the schedule of the University contributions and schedule of the University's changes in net pension liability on page 52, and the schedule of funding status of Other Post Employment Benefits on page 53 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
November 9, 2016

Management's Discussion and Analysis
For the Years Ended June 30, 2016, 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, 2016, 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 (hereinafter referred to as the "University System Reorganization").

Annual Full Time Equivalent (FTE) Student Enrollment Summary

	2016	2015	2014	2013	2012	2011
Annual FTE	**21,206**	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 creditors; 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's financial statements and in Notes 1 and 19.

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

For the Years Ended June 30, 2016, 2015 and 2014 (dollars in millions)

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:

Condensed Statements of Net Position

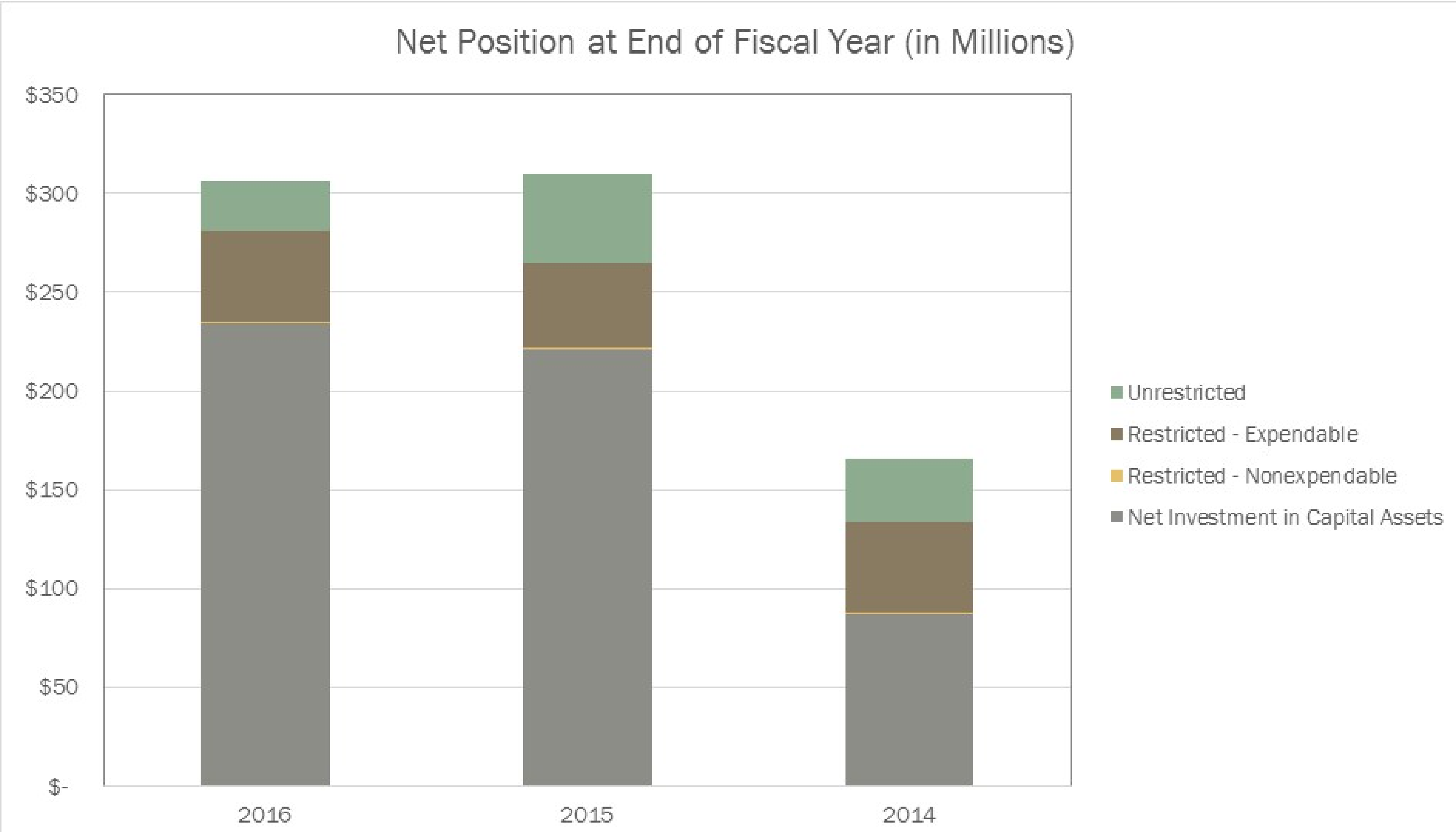
As of June 30,		**2016**		2015		2014
Current Assets	**$**	**123**	$	116	$	141
Noncurrent Assets, excluding Capital Assets, Net		**114**		113		37
Capital Assets, Net		**487**		450		463
Total Assets	**$**	**724**	$	679	$	641
Deferred Outflow s of Resources	**$**	**13**	$	14	$	8
Current Liabilities	**$**	**90**	$	84	$	89
Noncurrent Liabilities		**328**		259		394
Total Liabilities	**$**	**418**	$	343	$	483
Deferred Inflow s of Resources	**$**	**13**	$	40	$	-
Net Investment in Capital Assets	**$**	**234**	$	221	$	87
Restricted - Nonexpendable		**1**		1		1
Restricted - Expendable		**46**		43		46
Unrestricted		**25**		45		32
Total Net Position	**$**	**306**	$	310	$	166

Total Net Position

Total Net Position decreased $4 million to $306 million at June 30, 2016 mainly due to significant pension expense, partially offset by the benefit of cost reimbursable bond proceeds for capital projects under certain State of Oregon bond programs and higher appropriations from the State of Oregon. Total Net Position increased $144 million during the year ended June 30, 2015, which reflected one-time $145 million benefit resulting from the University System Reorganization, mainly due to PSU being absolved of $142 million of long-term debt.

Both the 2016 and 2015 results reflect the impacts 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), which was adopted in 2015. PSU's net pension asset under GASB No. 68 of $21 million at June 30, 2015 became a pension liability of $53 million at June 30, 2016 substantially as a result of the April 2015 Oregon Supreme Court ruling that deemed certain previously implemented pension benefit reductions unconstitutional. Of this change in position, $50 million was reflected as operating expense during 2016. Refer to Note 13 for additional information regarding GASB No. 68 and the Oregon Supreme Court ruling.

The following graph presents the composition of net position in 2016, 2015 and 2014.



- **Net Investment in Capital Assets** increased $13 million during 2016 due to net capital asset additions of $63 million, repayments of long-term debt of $11 million, the removal of certain legacy debt related balances of $4 million as described in Note 8, partially offset by depreciation expense of $26 million and newly issued debt of $39 million. Net investment in Capital Assets increased $134 million during 2015 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 in 2015 resulted 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** increased $3 million during 2016 and decreased $3 million during 2015.
  - The $3 million increase in 2016 was primarily due to a decrease in amounts restricted for capital projects as a result of PSU no longer receiving bond proceeds in advance as discussed in Note 8.
  - The $3 million decrease in 2015 was primarily due to:
    - Net position related to funds reserved for debt service decreased in 2015 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. Net position relating to the funding of capital projects increased $12 million in 2015 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.
    - Although PSU no longer has external restrictions for debt service funds, it had internally designated $21 million and $19 million for debt service at June 30, 2016 and 2015, respectively.

- **Net position restricted for Nonexpendable Endowments** was consistent from year to year.
- **Unrestricted Net Position** decreased $20 million primarily due to $41 million associated with pension expense under GASB No. 68, partially offset by higher Cash and Cash Equivalents and Investments. Unrestricted Net Position increased $13 million during 2015 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 $45 million, or 7%, and $38 million, or 6%, during the years ended June 30, 2016 and 2015, respectively. Total Liabilities increased $75 million, or 22%, during 2016 compared to a decrease of $140 million, or 29% during 2015. Current assets exceeded current liabilities at June 30, 2016, 2015 and 2014.

- **Current Assets** increased $7 million, or 6%, during 2016 compared to a decrease of $25 million, or 18%, during 2015. The increase during 2016 was primarily due to a $10 million increase in amounts Due from Primary Government as a result of cost reimbursable bond programs for capital projects and higher receivables associated with student tuition and fees and grants and contracts, partially offset by an $8 million decrease in cash and cash equivalents due to optimization of investment opportunities relative to amounts necessary to have readily available in cash and cash equivalents. During 2015, 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 in 2015 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 2015 in part due to implementation of a student payment plan.
- **Noncurrent Assets**, excluding Capital Assets, Net of Accumulated Depreciation, were relatively unchanged from 2015 to 2016 due to the $21 million decrease in PSU's Net Pension Asset being offset by a $21 million increase in investments due to optimization of mid- to long-term investment opportunities balanced with appropriate level of readily available cash and cash equivalents. The Net Pension Asset became a $53 million Net Pension Liability during 2016 substantially due to the April 2015 Oregon Supreme Court Ruling discussed in Note 13. Noncurrent Assets, excluding Capital Assets, Net of Accumulated Depreciation increased $76 million during 2015. Investments increased $56 million in 2015, 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 in 2015 due to the $21 million Net Pension Asset established as a result of the adoption of GASB No. 68.
- **Capital Assets, Net** increased $37 million during 2016 compared to a decrease of $13 million during 2015. See "Changes to Capital Assets" in this MD&A for additional information.
- **Deferred Outflows of Resources** decreased $1 million during 2016 due to the removal of $6 million of deferred outflows associated with long-term debt refundings that were included as a Special Item in the SRECNP, partially offset by a $5 million increase in deferred outflows associated with GASB No. 68 due to $1 million of higher pension contributions subsequent to the measurement date and deferred losses associated with actuarial experience and proportionate share allocations. Deferred Outflows of Resources increased $6 million during 2015 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.

- **Accounts Payable and Accrued Liabilities and the Current Portion of Long-Term Liabilities** increased $7 million, or 15%, during 2016 primarily due to higher accruals associated with capital projects and accrued interest, partially offset by timing of payments associated with services and supplies. Accounts Payable and Accrued Liabilities and the Current Portion of Long-Term Liabilities decreased $14 million, or 24%, during 2015 primarily due to a $5 million decrease in the current portion of Long-Term Liabilities and a $2 million decrease in Accrued Interest due to the University System Reorganization, as well as a $7 million decrease in Contract Retainage Payable due to completion of the Collaborative Life Sciences Building in early fiscal year 2015.

- **Unearned Revenue** increased $1 million during 2016 due to higher deferred summer tuition revenues, partially offset by lower unearned revenue associated with grants and contracts. Unearned Revenue increased $8 million during 2015 primarily due to contributions associated with the Peter Stott Center and Viking Pavilion renovation.

- **Deposits** were relatively consistent from 2015 to 2016 while they increased $6 million in 2015 due to timing of payments on agency funds.

- **Net Pension Liability** of $53 million was established at June 30, 2016 compared to a net pension asset of $21 million in the prior year substantially due to the impacts of the April 2015 Oregon Supreme Court Ruling discussed in Note 13.

- **Long-Term Liabilities** increased $17 million, or 7%, during 2016 due to $39 million of notes payable due to the State of Oregon arising from the state's issuance of XI-F(1) general obligation bonds to finance PSU's purchase of the Broadway Housing building from its discretely presented component unit (see Note 19), partially offset by repayments on long-term debt of $11 million and the removal of $10 million of net unamortized premiums on long-term debt discussed in Note 8. Long-term liabilities decreased $142 million, or 36%, during 2015 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** decreased $27 million during 2016 during 2016 due to GASB No. 68 mainly due to the impact investment experience losses. Deferred Inflows of Resources increased $40 million during 2015 due to investment experience gains established as a result of the adoption of GASB No. 68.

For the Years Ended June 30, 2016, 2015 and 2014 (dollars in millions)

Statements of Revenues, Expenses and Changes in Net Position

Due to the classification of certain revenues as nonoperating revenue, PSU shows a loss from operations. State government appropriations, financial aid grants and other 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:

Condensed Statements of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30,	**2016**	2015	2014
Operating Revenues	**$ 357**	$ 352	$ 344
Operating Expenses	**526**	450	465
Operating Loss	**(169)**	(98)	(121)
Nonoperating Revenues, Net of Nonoperating Expenses	**139**	115	94
Other Revenues	**26**	165	24
Increase (Decrease) in Net Position	**(4)**	182	(3)
Net Position, Beginning of Year	**310**	166	169
Adjustment to Beginning Net Position, GASB No. 68	**-**	(38)	-
Restated Net Position, Beginning of Year	**310**	128	169
Net Position, End of Year	**$ 306**	$ 310	$ 166

Changes in Net Position

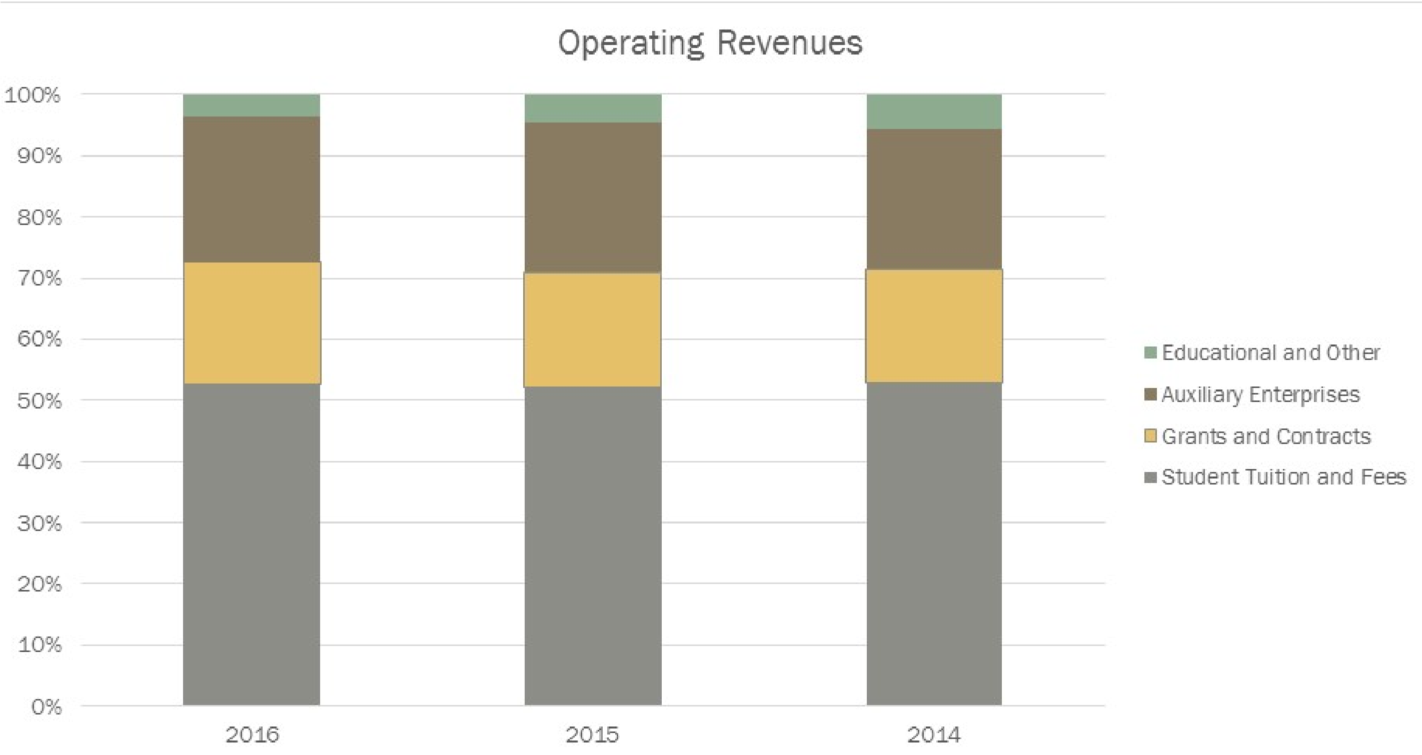
Net Position decreased $4 million during 2016 compared to an increase of $182 million in 2015 and a $3 million decrease in 2014. As previously described, net position was dramatically impacted by GASB No. 68 in both 2016 and 2015, with pension expense of $50 million in 2016 compared to a benefit of ($19 million) in 2015. The University System Reorganization also dramatically impacted net position during 2015 as a result of PSU being absolved of $142 million of long-term debt.

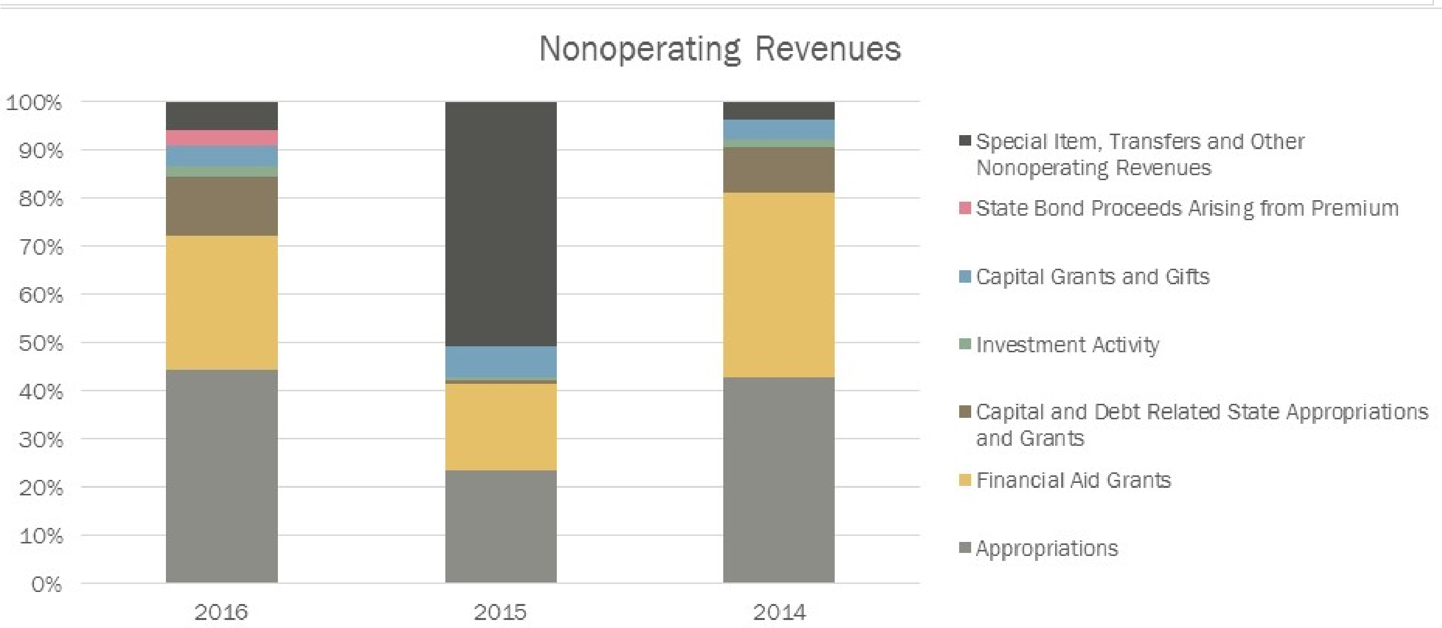
For the Years Ended June 30, 2016, 2015 and 2014 (dollars in millions)

Total Operating, Nonoperating and Other Revenues

For the Year Ended June 30,	**2016**	2015	2014
Student Tuition and Fees	**$ 188**	$ 183	$ 182
Grants and Contracts	**72**	67	64
Auxiliary Enterprises	**85**	86	79
Educational and Other	**12**	16	19
Total Operating Revenues	**357**	352	344
Appropriations	**83**	68	59
Financial Aid Grants	**52**	53	53
Capital and Debt Related State Appropriations and Grants	**23**	2	13
Investment Activity	**4**	2	2
Capital Grants and Gifts	**8**	18	6
State Bond Proceeds Arising from Premium	**6**	-	-
Special Item, Transfers and Other Nonoperating Revenues	**11**	148	5
Total Nonoperating and Other Revenues	**187**	291	138
Total Revenues	**$ 544**	$ 643	$ 482

Total Operating, Nonoperating and Other Revenues decreased $99 million in 2016 compared to 2015 and increased $161 million in 2015 compared to 2014, including the impact of the Special Item – Change Due to University System Reorganization, which was $145 million in 2015. The following graphs present the composition of operating and nonoperating revenues.


Operating Revenues
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2016
2015
2014
Educational and Other
Auxiliary Enterprises
Grants and Contracts
Student Tuition and Fees


Nonoperating Revenues
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2016
2015
2014
Special Item, Transfers and Other Nonoperating Revenues
State Bond Proceeds Arising from Premium
Capital Grants and Gifts
Investment Activity
Capital and Debt Related State Appropriations and Grants
Financial Aid Grants
Appropriations

Management's Discussion and Analysis
For the Years Ended June 30, 2016, 2015 and 2014 (dollars in millions)

Operating Revenues

Operating revenues increased $5 million, or 1%, to $357 million in 2016 compared to 2015 and increased $8 million in 2015, or 2%, to $352 million compared to 2014 as a result of the changes described below.

Student Tuition and Fees increased $5 million, or 3%, in 2016 compared to 2015 and $4 million, or 2%, in 2015 compared to 2014. The increase in 2016 was primarily due to an average increase in tuition rates of 3% for all students and a 1% increase in student fees. Although total student credit hours declined slightly in 2016 compared to 2015 at a decrease of just under 1%, non-resident student credit hours increased nearly 4% while resident student credit hours decreased 2% and graduate student credit hours remained relatively consistent with 2015. The increase in Student Tuition and Fees in 2015 was primarily due to an increase in non-resident student credit hours of over 6%, an increase in graduate student credit hours of nearly 2% 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 across all three periods.

Federal, State, Local and Nongovernmental Grants and Contracts increased $5 million, or 7%, in 2016 compared to 2015 and $2 million, or 54, in 2015 compared to 2014.

- Federal Grants and Contracts Revenues increased $3 million during 2016 in part due to higher grant revenue from the National Institutes of Health in support of an undergraduate research training program for under-represented students in the health sciences. Federal grant and contract revenues decreased $6 million in 2015 compared to 2014.
- State and Local Grants and Contracts Revenues were relatively consistent in 2016 compared to 2015. State and Local Grants and Contracts revenue increased $12 million in 2015 compared to 2014.
- Nongovernmental grant activity increased $2 million in 2016 and decreased $4 million in 2015.

Auxiliary Enterprises revenues decreased $1 million, or 1%, in 2016 compared to 2015 and increased $4 million, or 5%, in 2015 compared to 2014.

- Auxiliary Enterprises revenues decreased $1 million in 2016 due to lower incidental fees resulting from lower enrollment.
- 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 in 2015 compared to 2014 primarily due to game guarantees in 2015.

Educational and Other Operating revenues decreased $4 million, or 25%, during 2016 compared to 2015 primarily due to changes in activities with the PSU Foundation associated with the Broadway Housing building and decreased $3 million, or 16%, in 2015 compared to 2014 due to proceeds resulting from an asbestos settlement that occurred in 2014.

Nonoperating and Other Revenues

Nonoperating and Other Revenues decreased $104 million in 2016 compared to 2015 and increased $153 million in 2015 compared to 2014, including the $145 million Special Item – University System Reorganization in 2015.

Appropriations revenues increased $36 million in 2016 compared to 2015 and decreased $2 million, or 3%, in 2015 compared to 2014.

- **Government Appropriations** revenues increased $15 million and $8 million in 2016 and 2015, respectively, due to higher funding received from the State of Oregon.
- **Capital and Debt Related State Appropriations and Grants Revenues** increased $21 million in 2016 due to cost reimbursable bonds issued by the State of Oregon on behalf of PSU for capital projects. Refer to Note 8 for additional information regarding these grant agreements with the State of Oregon. Capital and Debt Related State Appropriations and Grants Revenues decreased $10 million in 2015 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.

For the Years Ended June 30, 2016, 2015 and 2014 (dollars in millions)

Financial Aid Grants revenues were relatively unchanged across 2016, 2015 and 2014.

Income from **Investment Activity** revenues increased $2 million during 2016 compared to 2015 due to higher realized investment earnings and unrealized appreciation on investments in part due to increase in longer term investments and were relatively unchanged in 2015 compared to 2014.

Capital Grants and Gifts revenues decreased $10 million in 2016 compared to 2015 due to lower gifts in the current year for the Peter Stott Center & Viking Pavilion renovation and School of Business Administration remodel. Capital Grants and Gifts revenues increased $12 million in 2015 primarily due to $14 million of gifts associated with these two capital projects.

State Bond Proceeds Arising from Premium of $6 million during 2016 represents the amount of premium on Article XI-F(1) bonds issued by the State of Oregon for PSU's acquisition of the Broadway Housing building from its DPCU. Refer to Note 8 regarding accounting for this premium.

Special Item, Transfers and Other Nonoperating revenues decreased $137 million in 2016 compared to 2015 and increased $143 million in 2015, including the $145 million resulting from the Special Item – University System Reorganization in 2015 that was driven by PSU being absolved of certain State of Oregon general obligation debt. In 2016, PSU reflected a net benefit of $4 million due to the removal of unamortized net bond premiums and deferred outflows from refundings as described in Note 8.

Expenses

Operating Expenses

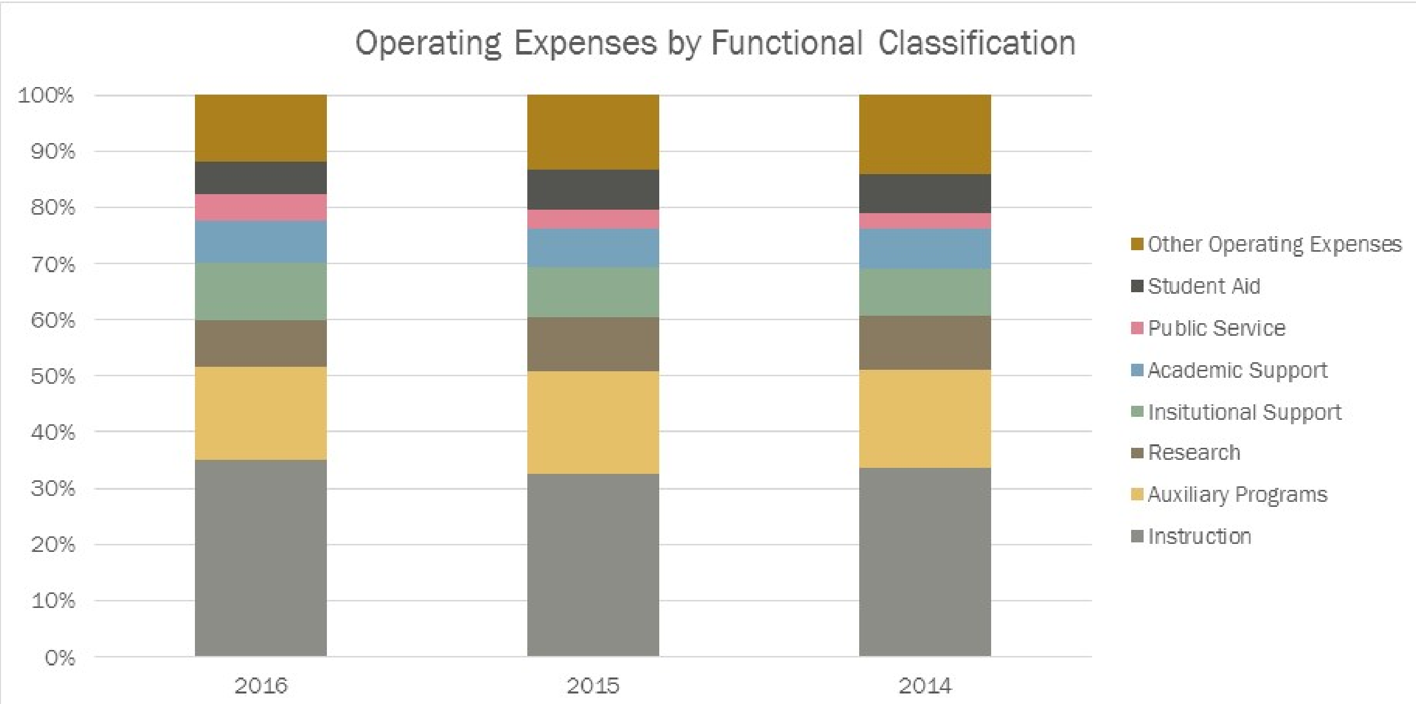
Operating expenses increased $76 million, or 17%, to $526 million during 2016 and decreased $15 million in 2015, or 3%, compared to 2014, to $450 million. In both 2016 and 2015, expense was dramatically impacted by pension expense under GASB No. 68 of $50 million in 2016 compared to a benefit of ($19) million in 2015. Excluding the impacts of GASB No. 68, operating expenses would have increased $7 million in 2016. 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. Thus, pension expense in 2014 was $7 million based on employer contributions to the plan.

The following summarizes operating expenses by functional classification.

Operating Expense by Function

For the Year Ended June 30,	**2016**	2015	2014
Instruction	**$ 184**	$ 146	$ 156
Auxiliary Programs	**87**	83	82
Research	**44**	43	44
Insitutional Support	**54**	40	39
Academic Support	**39**	31	33
Public Service	**25**	15	13
Student Aid	**31**	33	32
Other Operating Expenses	**62**	59	66
Total Operating Expenses	**$ 526**	$ 450	$ 465

For the Years Ended June 30, 2016, 2015 and 2014 (dollars in millions)



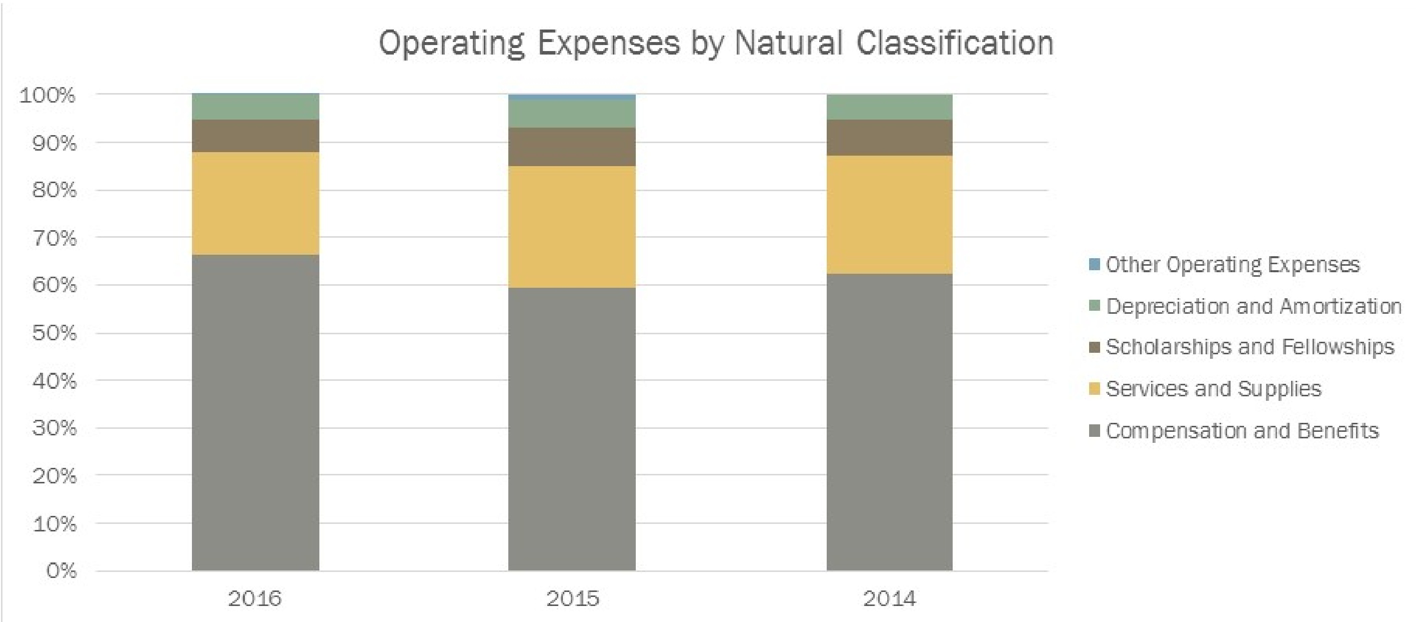
Due to the way in which expenses are incurred by PSU, variances are presented and explained by analyzing changes in the natural classification of expenses. Each natural classification analysis can be applied to many of the functional expense caption items.

The following summarizes operating expenses by natural classification:

Operating Expense by Natural Classification

For the Year Ended June 30,	**2016**	2015	2014
Compensation and Benefits	**$ 349**	$ 267	$ 291
Services and Supplies	**114**	116	115
Scholarships and Fellowships	**36**	36	35
Depreciation and Amortization	**26**	26	24
Other Operating Expenses	**1**	5	-
Total Operating Expenses	**$ 526**	$ 450	$ 465

Management's Discussion and Analysis
For the Years Ended June 30, 2016, 2015 and 2014 (dollars in millions)



Compensation and Benefits costs increased $82 million, or 31%, in 2016 compared to 2015 and decreased $24 million, or 8%, in 2015 compared to 2014 primarily due to:

- A $69 million increase in pension expense under GASB No. 68 substantially due to the impact of the April 2015 Oregon Supreme Court ruling described in Note 13 and including $1 million of higher cash contributions to the plan.
- 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.
- Other compensation and benefits costs increased $14 million during 2016 due to primarily to an increase in salaries and wages, including the impacts of collective bargaining agreements, and a $3 million increase in employer contributions to pension plans due to increased contribution rates and higher base payroll expense.
- Other compensation and benefits costs in 2015 were relatively consistent with 2014.

Services and Supplies expense decreased $2 million during 2016 and was relatively consistent from 2014 to 2015.

Scholarships and Fellowships expenses were relatively consistent across 2016, 2015 and 2014.

Depreciation and Amortization expense was consistent from 2015 to 2016 and increased $2 million during 2015 compared to 2014 primarily due to the Collaborative Life Sciences Building that was placed into service early in fiscal year 2015.

Other Operating Expenses decreased $4 million in 2016 and increased $5 million during 2015 primarily as a result of $4 million associated with City of Portland local improvement district assessments in 2015.

For the Years Ended June 30, 2016, 2015 and 2014 (dollars in millions)

Nonoperating Expenses

The loss on **Transaction with Discretely Presented Component Unit** of $10 million during 2016 results from the Broadway Housing purchase discussed in Note 19 and mainly resulted from the carrying value of the asset of $31 million being less than the $39 million note payable to the State of Oregon incurred to effectuate the purchase.

Interest Expense increased $1 million in 2016 primarily as a result of no longer amortizing net bond premiums (see Note 8). Interest expense decreased $8 million in 2015 compared to 2014 substantially due to the University System Reorganization.

Capital Assets and Related Financing Activities

Changes to Capital Assets

	2016	2015	2014
Capital Assets, Beginning of Year	**$ 792**	$ 780	$ 753
Add: Purchases/Construction	**73**	16	32
Less: Retirements/Disposals/Adjustments	**(2)**	(4)	(5)
Total Capital Assets, End of Year	**$ 863**	$ 792	$ 780
Accum. Depreciation, Beginning of Year	**(342)**	(317)	(296)
Add: Depreciation Expense	**(26)**	(26)	(24)
Less: Retirements/Disposals/Adjustments	**(8)**	1	3
Total Accum. Depreciation, End of Year	**$ (376)**	$ (342)	$ (317)
Total Capital Assets, Net, End of Year	**$ 487**	$ 450	$ 463

At June 30, 2016, PSU had $863 million in capital assets, less accumulated depreciation of $376 million, for net capital assets of $487 million. 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 2016, net capital assets increased $31 million as a result of the Broadway Housing purchase while construction in progress increased $26 million mainly due to the renovation of the Peter Stott Center & Viking Pavilion and the School of Business remodel. 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.

Accumulated depreciation increased $34 million during 2016 mainly due to $26 million of depreciation expense and $10 million of accumulated depreciation on the Broadway Housing building established upon acquisition due to the requirement to record the building at the DPCU's carrying value. 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.

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.

Capital Commitments

PSU has outstanding capital commitments on partially completed and planned construction projects of $164 million as of June 30, 2016. 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 Commission 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 although proceeds are provided on a cost reimbursable basis. Refer to Note 8 for additional information.

During 2016, the State of Oregon issued $44 million of XI-F(1) debt (including a premium) on behalf of PSU in conjunction with its acquisition of the Broadway Housing building. Also during 2016, PSU incurred eligible expenditures under the State's cost reimbursable Articles XI-G and XI-Q bond programs that gave rise to $21 million of capital related state appropriations revenue. Repayments of long-term debt were $11 million during 2016.

During 2015, the State of Oregon 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

Overall 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. While there have been modest declines in full time equivalent student enrollment and credit hour production over the last 5 years, the university has seen increased tuition revenues through rate increases. Recapturing the enrollment loss is a priority for PSU looking forward.

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 for the 2015-17 biennium. The latter resulted in a more than 35 percent increase in state appropriations for the 2015-17 biennium over the 2013-15 biennium. In May 2016 the State of Oregon estimated a $1.35 billion gap in funding for the 2017-19 biennium. While the newly adopted funding formula remains helpful to PSU, unless the gap in state funding is closed, PSU could see a decrease in its government appropriations for the 2017-19 biennium.

PSU is facing increasing costs, primarily 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. If revenues are insufficient to cover these costs, PSU will use cost containment to ensure a balanced budget. 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 2016	University 2015
	(in thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 45,545	$ 53,897
Collateral from Securities Lending	5,861	7,064
Due from Primary Government	12,431	1,980
Accounts Receivable, Net	54,806	49,047
Notes Receivable, Net	1,543	1,551
Inventories	691	613
Prepaid Expense	2,294	1,769
Total Current Assets	123,171	115,921
Noncurrent Assets		
Investments	108,033	86,555
Notes Receivable – Noncurrent, Net	5,984	5,900
Net Pension Asset	-	20,769
Capital Assets, Net of Accumulated Depreciation	487,340	450,313
Total Noncurrent Assets	601,357	563,537
Total ASSETS	$ 724,528	$ 679,458
DEFERRED OUTFLOWS OF RESOURCES	$ 12,752	$ 14,073
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities	$ 29,572	$ 23,153
Obligations Under Securities Lending	5,861	7,064
Deposits	8,706	9,274
Current Portion of Long-Term Liabilities	21,041	20,862
Unearned Revenues	25,092	24,037
Total Current Liabilities	90,272	84,390
Noncurrent Liabilities		
Unearned Revenues	$ 7,500	$ 7,500
Net Pension Liability	52,642	-
Long-Term Liabilities	268,203	251,632
Total Noncurrent Liabilities	328,345	259,132
Total Liabilities	$ 418,617	$ 343,522
DEFERRED INFLOWS OF RESOURCES	$ 12,817	$ 40,075
NET POSITION		
Net Investment in Capital Assets	$ 234,472	$ 220,546
Restricted for:		
Nonexpendable Endowments	1,285	1,285
Expendable:		
Gifts, Grants and Contracts	1,446	2,290
Student Loans	8,543	8,320
Capital Projects	35,385	32,278
Debt Service	-	1
Unrestricted	24,715	45,214
Total Net Position	$ 305,846	$ 309,934

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

Statements of Financial Position

As of June 30,	Component Unit 2016	Component Unit 2015
	(In thousands)	
ASSETS		
Cash and Cash Equivalents	$ 2,410	$ 1,839
Contributions, Pledges and Grants Receivable, Net	16,628	11,156
Investments (Note 2)	80,611	78,702
Prepaid Expenses and Other Assets	750	10,341
Property and Equipment, Net	3,206	34,171
Total Assets	$ 103,605	$ 136,209
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 1,023	$ 2,409
Accounts Payable to University	725	565
Notes Payable and Capital Lease Commitments	2,379	2,367
Obligations to Beneficiaries of Split-Interest Agreements	1,261	1,268
Deposits and Unearned Revenue	93	5,196
Endowments Held for University	2,384	2,635
Long-Term Liabilities	-	43,089
Total Liabilities	$ 7,865	$ 57,529
NET ASSETS		
Unrestricted	$ 3,421	$ (1,363)
Temporarily Restricted	41,645	35,283
Permanently Restricted	50,674	44,760
Total Net Assets	$ 95,740	$ 78,680

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 2016		University 2015
		(In thousands)		
OPERATING REVENUES				
Student Tuition and Fees (Net of Allowances)	$	187,830	$	182,652
Federal Grants and Contracts		41,948		39,019
State and Local Grants and Contracts		17,463		17,739
Nongovernmental Grants and Contracts		12,279		10,257
Educational Department Sales and Services		7,259		6,819
Auxiliary Enterprises Revenues (Net of Allowances)		85,404		86,602
Other Operating Revenues		5,179		8,704
Total Operating Revenues	$	357,362		351,792
OPERATING EXPENSES				
Instruction		184,426		145,932
Research		44,129		42,432
Public Service		24,783		14,874
Academic Support		39,096		31,367
Student Services		18,940		14,985
Auxiliary Programs		86,919		82,551
Institutional Support		53,559		40,114
Operation and Maintenance of Plant		20,649		18,573
Student Aid		31,092		33,368
Other Operating Expenses		22,176		25,711
Total Operating Expenses		525,769		449,907
Operating Income (Loss)		(168,407)		(98,115)
NONOPERATING REVENUES (EXPENSES)				
Government Appropriations		82,706		67,431
Financial Aid Grants		52,372		53,176
Investment Activity		4,443		2,291
Gain (Loss) on Sale of Assets, Net		(131)		(52)
Interest Expense		(12,972)		(11,629)
State Bond Proceeds Arising from Premium		5,630		-
Other Nonoperating Items		6,718		3,286
Total Nonoperating Revenues (Expenses)		138,766		114,503
Income (Loss) Before Other Expenses, Gains, Losses and Transfers		(29,641)		16,388
Capital and Debt Related State Appropriations and Grants		23,320		2,241
Capital Grants and Gifts		8,257		18,086
Transaction with Discretely Presented Component Unit		(10,064)		-
Special Item - Change Due to University System Reorganization		4,040		144,979
Total Income (Loss) Before Other Expenses, Gains, Losses and Transfers		25,553		165,306
Increase (Decrease) In Net Position		(4,088)		181,694
NET POSITION				
Beginning Balance		309,934		166,159
Prior Period Adjustment (see Note 9)		-		(37,919)
Beginning Balance, as Restated		309,934		128,240
Ending Balance	$	305,846	$	309,934

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

Statements of Activities

For The Year Ended June 30,		Component Unit 2016		Component Unit 2015
		(In thousands)		
REVENUES				
Grants, Bequests and Gifts	$	35,530	$	25,380
Investment Income (Loss), Net		(810)		1,160
Other Revenues		17,236		16,137
Total Revenues		51,956		42,677
EXPENSES				
University Support		26,043		37,314
General and Administrative		4,538		4,195
Other Expenses		4,315		4,438
Total Expenses		34,896		45,947
Increase (Decrease) In Net Assets		17,060		(3,270)
NET ASSETS				
Beginning Balance		78,680		81,950
Ending Balance	$	95,740	$	78,680

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

Statements of Cash Flows

For the Years Ended June 30,	University 2016	University 2015
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 188,229	$ 186,579
Grants and Contracts	66,235	63,562
Educational Department Sales and Services	7,259	6,819
Auxiliary Enterprises Operations	85,884	86,808
Payments to Employees for Compensation and Benefits	(307,686)	(293,839)
Payments to Suppliers	(119,782)	(117,502)
Student Financial Aid	(35,896)	(36,033)
Other Operating Receipts	4,975	21,172
Net Cash Provided (Used) by Operating Activities	(110,782)	(82,434)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	82,706	67,431
Financial Aid Grants	52,372	53,176
Other Gifts and Private Contracts	10,724	5,510
Net Agency Fund Receipts (Payments)	(568)	6,290
Transfers resulting from University System Reorganization	67	3,029
Net Cash Provided (Used) by Noncapital Financing Activities	145,301	135,436
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital and Debt Related State Appropriations and Grants	12,869	2,241
Capital Grants, Gifts and Contracts	8,001	24,925
Bond Proceeds from Capital Debt	-	-
Sales of Capital Assets	217	94
Purchases of Capital Assets	(24,401)	(22,023)
Interest Payments on Capital Debt	(11,845)	(10,503)
Principal Payments on Capital Debt	(10,677)	(9,143)
Net Cash Provided (Used) by Capital and Related Financing Activities	(25,836)	(14,409)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Sales (Purchases) of Investments	(20,434)	(55,717)
Interest on Investments and Cash Balances	3,399	2,242
Net Cash Provided (Used) by Investing Activities	(17,035)	(53,475)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,352)	(14,882)
CASH AND CASH EQUIVALENTS		
Beginning Balance	53,897	68,779
Ending Balance	$ 45,545	$ 53,897

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

Statements of Cash Flows - Continued

For the Years Ended June 30,	University 2016	University 2015
	(In thousands)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$ (168,407)	$ (98,115)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	25,884	26,256
Changes in Assets and Liabilities:		
Accounts Receivable	(5,759)	12,078
Notes Receivable	(76)	219
Inventories	(78)	(39)
Prepaid Expenses	(525)	386
Accounts Payable and Accrued Liabilities	(3,229)	573
Net Pension Asset Adjustments	41,088	(26,300)
Long-Term Liabilities	(735)	1,657
Unearned Revenue	1,055	851
NET CASH USED BY OPERATING ACTIVITIES	$ (110,782)	$ (82,434)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Capital Assets Acquired by Gifts in Kind	$ 256	$ 661
Broadway Housing Building Acquired with State Issued Debt	(30,648)	-
Note Payable to State Arising from Broadway Housing Building Acquisition	38,866	-
Increase in Fair Value of Investments Recognized as a Component of Investment Activity	1,044	49
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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Oregon State Board of Higher Education (Board), a citizen board appointed by the Governor with confirmation by the State Senate, governed the seven state-supported institutions of higher learning (institutions) in Oregon prior to 2014. 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).

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 (DPCU) 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 were 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.

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. GAAP 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 transactions and balances between university funds have been eliminated. Unless otherwise stated, dollars are presented in thousands.

Financial statements of the PSU Foundation are presented in accordance with GAAP prescribed by the Financial Accounting Standards Board.

NEWLY IMPLEMENTED 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. These levels are described below under "Investments." 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. PSU adopted GASB No. 72 in 2016. Due to PSU's participation in the State of Oregon's Public University Fund, the adoption of GASB No. 72 did not significantly impact PSU's financial statements or disclosures. Refer to Note 2 for additional information.

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 was effective for the fiscal year ended June 15, 2016 and did not significantly impact PSU's financial statements or disclosures.

UPCOMING ACCOUNTING STANDARDS

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 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.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14* (GASB No. 80). GASB No. 80 clarifies the financial statement presentation requirements for certain component units and amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity, as amended*, for the financial statement presentation of component units of all state and local governments. The additional criterion in GASB No. 80 requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of GASB No. 80 are effective for reporting periods beginning after June 15, 2016. PSU is currently evaluating the impact of GASB No. 80 on its financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB No. 82). The objective of GASB No. 82 is to address certain issues that have been raised with respect to GASB Statements No. 67, *Financial Reporting for Pension Plans*, GASB No. 68 and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, GASB No. 82 addresses issues regarding: (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statements No. 67 and 68 require presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. GASB No. 82 amends GASB Statements No. 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. GASB No. 82 clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statements No. 67, 68 or 73 for the selection of assumptions used in determining the total pension liability and related measures. GASB No. 82 also clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). The requirements of GASB No. 82 are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. PSU is currently evaluating the impact of GASB No. 82 on its 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, amounts held by the State in the Oregon Short-Term Fund (OSTF) and agency funds.

E. Investments

Investments are reported at fair value in accordance with GASB No. 72 and may include amounts restricted for endowments. Unrealized gains or losses on investments are reported as investment activity in the Statements of Revenues, Expenses and Changes in Net Position.

GASB No. 72 requires that investments be recorded at fair value using the three levels of the fair value hierarchy described below.

Level 1 inputs – This is the first and most reliable level, and is based on quoted prices for assets or liabilities in active markets that governments can access at a particular date.

Level 2 inputs – This level is based on inputs that are directly or indirectly observable but lack quoted prices in active markets.

Level 3 inputs – This is the lowest level of reliability and is based on prices that cannot be observed.

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 years ended 2016 and 2015.

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 10 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 position. At June 30, 2016, deferred outflows were comprised of $12,752 associated with defined benefit pension plans at June 30, 2016, including $8,566 of contributions made subsequent to the measurement date. At June 30, 2015, deferred outflows were $14,073 and included $7,687 of amounts associated with defined benefit pension plans, including $7,315 of contributions made subsequent to the measurement date, and losses on refundings of long-term debt of $6,386. Refer to Note 8 for additional information regarding the accounting for deferred outflows associated with refundings and 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 as there is no payout provision for unused sick leave.

K. Deferred Inflows of Resources

Deferred Inflows of Resources represent future increases in net position and included $12,817 and $40,075 of differences between projected and actual earnings on investments of the defined benefit pension plans at June 30, 2016 and 2015, respectively, as 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 $20,990 and $18,783 internally designated for debt service at June 30, 2016 and 2015, respectively.

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 2016 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, 2016 and 2015, 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.

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 $18,607 and $17,477 for the fiscal years ended 2016 and 2015, 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 were estimated to be $26,018 and $25,963 for the fiscal years ended 2016 and 2015, respectively. Bad debt expense is included as an allowance to operating revenues and was $2,403 and $2,463 for the fiscal years ended 2016 and 2015, respectively.

Q. Federal Student Loan Programs

PSU receives proceeds from the Federal Direct Student Loan Program. Since PSU transmits these grantor-supplied proceeds 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 $146,615 and $152,934 for the fiscal years ended 2016 and 2015, 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 the fiscal years ended June 30, 2016 and 2015, PSU had $26,213 and $24,556 of cash and cash equivalents and investments associated with matching funds unconditionally available for specified capital projects, as well as $20,990 and $18,783 of cash and cash equivalents and investments internally designated for debt service, respectively.

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, 2016 and 2015, PSU cash and cash equivalents on deposit at State Treasury were $45,380 and $53,712, 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, 2016 and 2015, PSU had vault and petty cash balances of $165 and $185, respectively.

B. Investments

As of June 30, 2016 and 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). In accordance with ORS, all investments are managed as would a prudent investor, 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.

Due to PSU's participation in the PUF, it is not required to provide detailed disclosures otherwise required under GASB No. 72 nor is its investment in the PUF required to be separately valued under GASB No. 72 as the PUF values all funds at fair value in accordance with GASB No. 72. Investments held by the PUF are predominately valued using Level 2 inputs.

Investments are all classified as noncurrent and include both restricted (if any) and unrestricted funds. At June 30, 2016, total investments of $108,033 included $2,384 of endowments, including nonexpendable corpus of $1,285. At June 30, 2015, total investments of $86,555 included $2,635 of endowments, including nonexpendable corpus of $1,285, and $1 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, 2016 and 2015.

The PSU Foundation monitors endowment investments to identify any accounts for which estimated fair value is less than historical value. As of June 30, 2016, PSU had no individually named permanent endowment funds with estimated fair values that, in total, were less than their permanently restricted or historical values. Investments held by the PSU Foundation are primarily valued used Level 1 inputs.

Of PSU's total investments invested through the PUF-PIA as of June 30, 2016, $66,800 were invested in an intermediate-term pool and $38,849 were invested in a long-term fixed income pool managed by State Treasury. At June 30, 2015, $52,253 was invested in an intermediate-term pool and $31,717 was invested in a long-term fixed income pool managed by State Treasury.

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, 2016, approximately 98.5 percent of investment in the PUF pools were 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 $305,760 at June 30, 2016. Corporate bonds that have not been evaluated by the rating agencies totaled $10,935 at June 30, 2016. The PUF Investment Pools totaled $321,409 at June 30, 2016, of which PSU owned $105,649, or 32.9 percent.

For the year ended, June 30, 2015, approximately 97.7 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 $280,630 at June 30, 2015. Corporate bonds that have not been evaluated by the rating agencies totaled $16,843 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.

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 years ended June 30, 2016 and 2015.

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. For the years ended June 30, 2016 and 2015, securities in the PUF Investment Pool held subject to interest rate risk totaling $316,695 and $297,743 with an average duration of 3.00 and 2.74 years, respectively. 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 years ended June 30, 2016 and 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, 2016, 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, 2016 and 2015 (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, were comprised of the following:

	June 30, 2016	June 30, 2015
Student Tuition and Fees	$ 33,798	$ 32,891
Auxiliary Enterprises and Other Operating Activities	7,952	8,432
Federal Grants and Contracts	10,122	7,604
Component Unit	566	565
State, Other Government, and Private Gifts, Grants and Contracts	10,910	9,093
Other	1,202	999
	64,550	59,584
Less: Allowance for Doubtful Accounts	(9,744)	(10,537)
Accounts Receivable, Net	$ 54,806	$ 49,047

4. NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2016 and 2015. 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, 2016			June 30, 2015		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Institutional and Other Student Loans	$ 197	$ -	$ 197	$ 229	$ -	$ 229
Federal Student Loans	1,494	6,651	8,145	1,519	6,788	8,307
	1,691	6,651	8,342	1,748	6,788	8,536
Less: Allow ance for Doubtful Accounts	(148)	(667)	(815)	(197)	(888)	(1,085)
Notes Receivable, Net	$ 1,543	$ 5,984	$ 7,527	$ 1,551	$ 5,900	$ 7,451

For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

5. CAPITAL ASSETS

The following schedule reflects the changes in capital assets:

	Balance June 30, 2014	Additions	Transfer Completed Assets	Retire. And Adjust.	Balance June 30, 2015	Additions	Transfer Completed Assets	Retire. And Adjust.	Balance June 30, 2016
Capital Assets,									
Non-depreciable/Non-amortizable:									
Land	$ 48,992	$ -	$ -	$ (41)	$ 48,951	$ 3,482	$ -	$ (164)	$ 52,269
Capitalized Collections	2,854	111	-	-	2,965	152	-	-	3,117
Construction in Progress	47,464	5,153	(44,746)	(2,183)	5,688	25,622	(1,054)	(115)	30,141
Total Capital Assets, Non-depreciable/Non-amortizable	99,310	5,264	(44,746)	(2,224)	57,604	29,256	(1,054)	(279)	85,527
Capital Assets, Depreciable/ Amortizable:									
Equipment	48,499	3,413	759	(1,487)	51,184	1,823	-	(1,457)	51,550
Library Materials	85,745	290	-	(176)	85,859	315	-	(363)	85,811
Buildings	495,999	6,559	43,903	(23)	546,438	41,406	1,054	(61)	588,837
Land Improvements	5,111	-	-	-	5,111	-	-	-	5,111
Improvements Other Than Buildings	5,299	84	84	-	5,467	-	-	-	5,467
Infrastructure	31,182	165	-	-	31,347	387	-	-	31,734
Intangible Assets	8,777	-	-	-	8,777	-	-	(289)	8,488
Total Capital Assets, Depreciable/Amortizable	680,612	10,511	44,746	(1,686)	734,183	43,931	1,054	(2,170)	776,998
Less Accumulated Depreciation/ Amortization for:									
Equipment	(35,321)	(4,180)	-	1,364	(38,137)	(3,914)	-	1,387	(40,664)
Library Materials	(76,603)	(2,396)	-	176	(78,823)	(2,042)	-	363	(80,502)
Buildings	(182,555)	(17,238)	-	-	(199,793)	(17,672)	-	(9,707)	(227,172)
Land Improvements	(2,980)	(178)	-	-	(3,158)	(178)	-	-	(3,336)
Improvements Other Than Buildings	(3,335)	(411)	-	-	(3,746)	(411)	-	-	(4,157)
Infrastructure	(8,868)	(1,435)	-	-	(10,303)	(1,459)	-	-	(11,762)
Intangible Assets	(7,096)	(418)	-	-	(7,514)	(208)	-	130	(7,592)
Total Accumulated Depreciation/ Amortization	(316,758)	(26,256)	-	1,540	(341,474)	(25,884)	-	(7,827)	(375,185)
Total Capital Assets, Net	$ 463,164	$ (10,481)	$ -	$ (2,370)	$ 450,313	$ 47,303	$ -	$ (10,276)	$ 487,340
Capital Assets Summary									
Capital Assets, Non-depreciable/ Non-amortizable	$ 99,310	$ 5,264	$ (44,746)	$ (2,224)	$ 57,604	$ 29,256	$ (1,054)	$ (279)	$ 85,527
Capital Assets, Depreciable/ Amortizable	680,612	10,511	44,746	(1,686)	734,183	43,931	1,054	(2,170)	776,998
Total Cost of Capital Assets	779,922	15,775	-	(3,910)	791,787	73,187	-	(2,449)	862,525
Less Accumulated Depreciation/ Amortization	(316,758)	(26,256)	-	1,540	(341,474)	(25,884)	-	(7,827)	(375,185)
Total Capital Assets, Net	$ 463,164	$ (10,481)	$ -	$ (2,370)	$ 450,313	$ 47,303	$ -	$ (10,276)	$ 487,340

Refer to Note 19 for discussion of PSU's purchase of the Broadway Housing building for which cost and accumulated depreciation were required to be recorded at the PSU Foundation's carrying value.

For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities were comprised of the following:

	June 30, 2016	June 30, 2015
Construction, Services and Supplies	$ 15,504	$ 11,914
Salaries and Wages	8,512	7,757
Contract Retainage Payable	1,020	184
Accrued Interest	4,266	2,795
Other	270	503
Total	$ 29,572	$ 23,153

7. OPERATING LEASE COMMITMENTS

PSU leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases and rents were $4,462 and $4,349 for the years ended June 30, 2016 and 2015, respectively.

Minimum future lease payments on operating leases at June 30, 2016 were:

For the year ending June 30,	
2017	$ 3,713
2018	3,435
2019	3,174
2020	2,879
2021	2,784
2022-2026	2,903
2027-2031	1,283
2032-2036	1,285
2037-2041	1,260
2042-2046	1,256
2047-2051	1,256
2052-2056	1,256
2057 and After	5,128
Total Minimum Operating Lease Payments	$ 31,612

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 and were reflected as PSU's debt. Historically, the State of Oregon provided debt service appropriations to service the XI-G and XI-Q debt while PSU revenues serviced the XI-F(1) debt. In addition, PSU also borrowed funds from the Oregon Department of Energy. While these State of Oregon bond programs are still available, the process has changed significantly.

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 XI-G and XI-Q debt, PSU no longer receives debt service appropriations from the State and has no responsibility to service the debt payments. Instead, PSU benefits from the proceeds of XI-G and XI-Q bonds issued on its behalf on a cost reimbursable basis under grant agreements with the State. As PSU incurs eligible capital expenditures to be reimbursed under these programs, capital and debt-related State appropriations revenue is recognized.

As PSU revenues continue to be utilized to service debt on XI-F(1) bonds, this debt remains PSU's obligation but in the form of a note payable to the State of Oregon. Under loan agreements with the State of Oregon, PSU receives XI-F(1) bond proceeds on a cost reimbursement basis. As PSU is a DPCU of the State and is not the issuer of the XI-F(1) bonds, any premiums or discounts flowed through to PSU are recognized as revenue or expense upon issuance.

For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

During the year ended June 30, 2016, PSU recognized revenue of $5,630 associated with the premium on the XI-F(1) bonds issued on its behalf for the purchase of the Broadway Housing building discussed in Note 19. Also as a result of PSU being a DPCU of the State and not the issuer of XI-F(1) bonds, a $4,040 net benefit was reflected in the SRECNP as a Special Item in 2016 as a result of $10,359 of net unamortized premiums on long-term debt and $6,386 of deferred outflows associated with refundings being removed from PSU's books.

Long-term liability activity was as follows for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Reductions Due to University System Reorganzation	Reductions	Balance June 30, 2016	Amount Due Within One Year	Long-Term Portion
Long-Term Debt							
Due to State:							
Note payable to State of Oregon (XI-F(1) G.O. Bonds)	$ 175,602	$ 39,440	$ (10,279)	$ (8,262)	**$ 196,501**	$ 8,735	$ 187,766
Certificates of Participation (COPs)	22,187	-	(80)	(961)	**21,146**	929	20,217
Oregon Department of Energy Loans (SELP)	41,042	-	-	(2,373)	**38,669**	2,328	36,341
Total Long-Term Debt	238,831	39,440	(10,359)	(11,596)	**256,316**	11,992	244,324
Other Noncurrent Liabilities							
PERS pre-SLGRP pooled Liability	17,440	-	-	(602)	**16,838**	602	16,236
Compensated Absences	8,885	460	-	-	**9,345**	8,184	1,161
Other Postemployment Benefits	3,744	-	-	(386)	**3,358**	-	3,358
Early Retirement Liability	10	-	-	(10)	**-**	-	-
Local Improvement District Obligations	3,584	56	-	(253)	**3,387**	263	3,124
Total Other Noncurrent Liabilities	33,663	516	-	(1,251)	**32,928**	9,049	23,879
Total Long-Term Liabilities	$ 272,494	$ 39,956	$ (10,359)	$ (12,847)	**$ 289,244**	$ 21,041	$ 268,203

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, 2016 and 2015 (dollars in thousands)

Future debt service is as follows at June 30, 2016:

For the Year Ending June 30,	Due to State XI-F(1)	SELP	COPs	LIDs	Total Payments	Principal	Interest
2017	$ 16,495	$ 4,232	$ 2,126	$ 397	$ 23,250	$ 10,761	$ 12,489
2018	17,331	4,186	2,125	398	24,040	12,196	11,844
2019	17,357	4,174	2,034	397	23,962	13,082	10,880
2020	16,619	3,911	1,906	346	22,782	12,416	10,366
2021	16,561	3,673	1,907	295	22,436	12,702	9,734
2022-2026	78,892	17,918	9,414	1,478	107,702	67,947	39,755
2027-2031	64,144	15,236	8,874	1,048	89,302	66,129	23,173
2032-2036	38,672	606	6,604	-	45,882	35,352	10,530
2037-2041	25,971	-	-	-	25,971	22,442	3,529
2042-2046	3,623	-	-	-	3,623	3,535	88
Accreted Interest						3,141	(3,141)
						$ 259,703	$ 129,247
Total Future Debt Service	**295,665**	**53,936**	**34,990**	**4,359**	**388,950**		
Less: Interest Component of Future Payments	(99,164)	(15,267)	(13,844)	(972)	(129,247)		
Principal Portion of Future Payments	**196,501**	**38,669**	**21,146**	**3,387**	**259,703**		
Total Long-Term Debt	**$ 196,501**	**$ 38,669**	**$ 21,146**	**$ 3,387**	**$ 259,703**		

Refer to Note 14 for additional information regarding other postemployment benefits.

A. General Obligation Bonds XI-F(1)

Amounts due to the State for Article XI-F(1) bonds, with effective yields ranging from 0.3 percent to 7.0 percent, are due serially through 2042.

In May 2016, the State of Oregon issued $44,495 of Article XI-F(1) bonds, including a premium of $5,630, to support PSU's purchase of the Broadway Housing building from the PSU Foundation's subsidiary, Broadway Housing, LLC. The bonds were issued as part of the 2016A (Tax-Exempt) and 2016B (Taxable) series at an effective interest rate of 3.26 percent due serially through June 2042. PSU entered into a loan agreement with the State of Oregon's Higher Education Coordinating Commission for the $38,866 par value of the bonds with an effective interest rate of 4.40 percent based on the State of Oregon's average coupon rate on the bonds.

During the fiscal year ended 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 the renovation of the Peter Stott Center and Viking Pavilion. This was part of the 2015N series with an effective interest rate of 2.7 percent due serially through 2025.

B. 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.

C. 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.

For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

D. 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, 2016, no refundings occurred that impacted PSU.

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.

E. 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.

F. 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 $1,183 and $1,218 for June 30, 2016 and 2015, respectively. Principal payments of $602 and $795 were applied to the liability for June 30, 2016 and 2015 respectively.

9. PRIOR PERIOD RESTATEMENTS AND RECLASSIFICATIONS

Certain reclassifications were made to the June 30, 2015 results in order to conform to the current year presentation.

Net position at July 1, 2014 was restated to reflect a $37,919 reduction resulting from the adoption of GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (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.

10. INVESTMENT ACTIVITY

Investment Activity detail is as follows:

	June 30, 2016	June 30, 2015
Investment Earnings	$ 2,273	$ 1,583
Royalties and Technology Transfer Income	1,073	561
Net Appreciation of Investments	1,044	49
Endowment Income	53	98
Total Investment Activity	$ 4,443	$ 2,291

11. OPERATING EXPENSES BY NATURAL CLASSIFICATION

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

	June 30, 2016	June 30, 2015
Compensation and Benefits	$ 348,991	$ 266,694
Services and Supplies	114,260	116,446
Scholarships and Fellowships	35,896	36,033
Depreciation and Amortization	25,884	26,256
Other Expenses	738	4,478
Total Operating Expenses	$ 525,769	$ 449,907

Compensation and Benefits expense was dramatically impacted by GASB No. 68 expense in 2016 and 2015 in that pension expense was $49,654 in 2016 compared to a benefit of ($18,984) in 2015. Refer to Note 13 for additional information, including the April 2015 Oregon Supreme Court ruling that deemed certain previous benefit reductions unconstitutional.

For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

12. GOVERNMENT APPROPRIATIONS

Government appropriations were comprised of the following:

	June 30, 2016				June 30, 2015		
	General Operations	Capital Projects Related	Debt Service	Total	General Operations	Debt Service	Total
State General Fund	$ 81,567	$ 21,079	$ 2,241	$ 104,887	$ 66,325	$ 2,241	$ 68,566
State Lottery Funding	1,139	-	-	1,139	1,106	-	1,106
Total Appropriations	$ 82,706	$ 21,079	$ 2,241	$ 106,026	$ 67,431	$ 2,241	$ 69,672

Refer to Note 8 for information regarding grant agreements with the State of Oregon for funding of capital projects on a cost reimbursable basis.

13. EMPLOYEE RETIREMENT PLANS

PSU offers various retirement plans to qualified employees as described below.

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. Effective July 1, 2015, PSU had a campus police office such that PERS benefits terms provided to police members became applicable to PSU prospectively.

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 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 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. Since 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 Tiers One and Two for the year ended June 30, 2016 were 13.28 percent for general service and 16.60 percent for police and fire service. For the year ended June 30, 2015, the general service contribution rate 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. Since July 1, 1979 with the exception of employees represented by the PSU AFT union, the employee's contribution rate of 6 percent has been paid by the employer. The PSU employer contribution rates for OPSRP for the year ended June 30, 2016 were 7.31 percent for general service and 11.42 percent for police and fire service. For the year ended June 30, 2015, the general service contribution rate 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 (the IAP) 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 for the defined benefit PERS plan and the defined benefit component of the OPSRP, including detailed disclosures required by GASB No. 68 and the impact on the plans of the April 2015 Oregon Supreme Court ruling regarding Senate Bills 822 and 861, are presented below under "Defined Benefit Plans."

For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

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 years ended June 30, 2016 and 2015 were $6,734 and $6,880, 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. The report may be obtained by writing to Fiscal Services Division, PERS, 11410 SW 68th Parkway, Tigard, OR 97223, or on the Internet at www.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).

OPSRP IAP

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. The IAP accounts fall under Internal Revenue Code Section 401(a).

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.

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.

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.

Through June 30, 2014, the ORP consisted 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 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:

	2016	2015
ORP Tiers 1 & 2	20.45%	16.50%
OPSRP Equivalent (general service)	7.94%	6.42%
OPSRP Equivalent (police and fire)	12.05%	n/a
ORP Tier 4	8.00%	8.00%

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

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

For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

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 has been maintained by the University of Oregon since the dissolution of OUS. As of June 30, 2016 and 2015, the plan was fully funded.

SUMMARY OF PENSION PAYMENTS

PSU total payroll for the year ended June 30, 2016 was $213,413, of which $173,717 was subject to retirement contributions. PSU total payroll for the year ended June 30, 2015 was $202,270, of which $165,306 was subject to retirement contributions. The following schedule lists payments made by PSU for the fiscal year:

	2016				2015			
	Employer	Percent of Covered Payroll	Employee Contribution	Percent of Covered Payroll	Employer	Percent of Covered Payroll	Employee Contribution	Percent of Covered Payroll
PERS/OPSRP	$ 8,566	4.93%	$ 6,547	3.78%	$ 7,315	4.43%	$ 6,216	3.76%
ORP	7,822	4.50%	3,744	2.16%	6,156	3.72%	3,570	2.16%
Tiaa-Cref	83	0.05%	83	0.05%	91	0.06%	91	0.06%
SRP	138	0.08%	-	0.00%	138	0.08%	-	0.00%
Total	$ 16,609	9.56%	$ 10,374	5.98%	$ 13,700	8.29%	$ 9,877	5.97%

Of the employee share, the employer paid $6,220 of PERS/OPSRP, $3,560 of ORP and $83 of TIAA-CREF during the fiscal year ended June 30, 2016. 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.

DEFINED BENEFIT PLANS

The disclosures and amounts presented below are based on the actuarial valuation performed as of December 31, 2013 rolled forward to the June 30, 2015 measurement date.

A. Name of pension plan:

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

B. Description of benefit terms:

Plan Benefits

All benefits of PERS are established by the Oregon legislature pursuant to ORS Chapters 238 and 238A.

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 and 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. The COLA for fiscal year 2015 was capped at 1.5 percent for all benefit recipients. As a result of the April 2015 Oregon Supreme Court ruling described under "Changes in Plan Provisions and Oregon Supreme Court Ruling" below, the cap on the COLA will be restored to 2.0 percent for fiscal years 2016 and beyond.

2. OPSRP Defined Benefit Pension Program (OPSRP DB)

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

This defined benefit 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:

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.

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.

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. The COLA for fiscal year 2015 was capped at 1.5 percent for all benefit recipients. As a result of the April 2015 Oregon Supreme Court ruling described under "Changes in Plan Provisions and Oregon Supreme Court Ruling" below, the cap on the COLA will be restored to 2.0 percent for fiscal years 2016 and beyond.

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.

Employer contribution rates during fiscal 2015were based on the December 31, 2011 actuarial valuation as subsequently modified by 2013 legislated changes in benefit provisions. Employer contributions during fiscal 2016 were based on the December 31, 2013 actuarial valuation. The current contribution rates are based on a percentage of payroll and first became effective July 1, 2015. 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 years ended June 30, 2016 and 2015 were $8,566 and $7,315, respectively, 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/docs/financial_reports/2015_cafr.pdf

E. Actuarial Valuations:

Employer contribution rates 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, 2016 and 2015 (dollars in thousands)

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

Valuation Date	December 31, 2013 rolled forward to June 30, 2015 measurement date.
Experience Study Report	2014, published September 2015
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
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, 2015 PERS CAFR; p. 57, 87, 88 and 94)

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study, which reviewed experience for the four-year period ending on December 31, 2014.

Discount Rate

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

(Source: June 30, 2015 PERS CAFR; p. 56)

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.

(Source: June 30, 2015 PERS CAFR; p. 58)

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 (presented below under Investments). 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.

(Source: June 30, 2015 PERS CAFR; p. 57)

For the Years Ended June 30, 2016 and 2015 (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 Market Equities	5.49	7.40
Private Equity	20.00	8.26
Hedge Funds/Absolute Return	5.00	6.01
Real Estate (Property)	13.75	6.51
Real Estate (REITS)	2.50	6.76
Commodities	1.25	6.07
Assumed Inflation – Mean		2.75

G. Sensitivity Analysis:

Sensitivity of Net Pension Liability to Changes in the Discount Rate	June 30, 2016			June 30, 2015		
	1% Decrease	Current Discount Rate	1% Increase	1% Decrease	Current Discount Rate	1% Increase
	6.75%	7.75%	8.75%	6.75%	7.75%	8.75%
PSU's Proportionate Share Net Pension Liability (Asset)	$127,049	$ 52,642	$ (10,064)	$ 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 and enterprise funds.

Basis of Accounting

The accrual basis of accounting is used. Revenues are recognized when earned. Contributions are recognized when due, pursuant to legal (or statutory) requirements. Expenses are recognized when incurred. Benefits are recognized in the month they are 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. The asset allocation policy approved by the OIC for fiscal years beginning in 2014 is as follows:

For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

Assumed Asset Allocation: Asset Class/Strategy	Low Range	High Range	OIC Target
Cash	0.0%	3.0%	0.0%
Debt Securities	15.0%	25.0%	20.0%
Public Equity	32.5%	42.5%	37.5%
Private Equity	16.0%	24.0%	20.0%
Real Estate	9.5%	15.5%	12.5%
Alternative Equity	0.0%	10.0%	10.0%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			100.0%

(Source: June 30, 2015 PERS CAFR, p. 35)

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. Refer to June 30, 2015 PERS CAFR p. 34 for information regarding the valuation of the various investments.

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 the June 30, 2015 measurement date, 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 and Oregon Supreme Court Ruling:

On April 30, 2015, the Oregon Supreme Court declared Senate Bills 822 and 861 unconstitutional in so far as they affect retirement benefits earned before May 6, 2013. 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 cost-of-living adjustment (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. The Oregon Supreme Court's decision reversed a significant portion of benefit reductions made under Senate Bills 822 and 861. As a result, the decision increased the present value of projected state-wide benefits to be paid by the plan by an estimated $5.1 billion and is reflected in the June 30, 2015 measurement of the collective pension liability. The decision also negated a large portion of the cost savings for PERS employers that were factored into contribution rates for the 2015-2017 biennium. PERS has executed a project to restore COLA payments to benefit recipients and enhance its system to implement the new COLA allocation going forward.

Under 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. As a result, the impact of the Oregon Supreme Court decision was first reflected in the Total Pension Liability measured at June 30, 2015, resulting in the $5.1 billion increase in the state-wide obligation described above. PSU's proportionate share of this increase is reflected in its net pension liability at June 30, 2016.

J. Deferred Items:

- Deferred items are calculated at the system-wide level and are allocated to employers based on their proportionate share. For the measurement period ending June 30, 2015, deferred items arose due to the following:
- A difference between expected and actual experience, which is being amortized over 5.4 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 the measurement period covering the fiscal year ended June 30, 2016.
- Changes in employer proportion since the prior measurement date, which is being amortized over 5.4 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 the measurement period covering the fiscal year ended June 30, 2016.
- 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 the measurement period covering the fiscal year ended June 30, 2016.
- Contributions subsequent to the measurement date of June 30, 2015. This amount will be fully recognized as a reduction of the net pension liability during the year ended June 30, 2017.

(Source: Deferred Items in PERS GASB 68 report prepared by Macias Gini & O'Connell LLP.)

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

	June 30, 2016		June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in employers' proportion and differences between the employer's contributions and employer's proportionate share of contributions	$ 1,347	$ (1,782)	$ 371	$ -
Differences between expected and actual experience	2,839		-	-
Differences between expected and actual earnings on pension plan investments	-	(11,035)	-	(40,075)
Employer's contributions subsequent to measurement date	8,566	-	7,315	0
	$ 12,752	$ (12,817)	$ 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, 2016:

Net deferred inflows to be recognized over next five years and thereafter:	
2017	$ (4,705)
2018	(4,705)
2019	(4,705)
2020	5,290
2021	194
Thereafter	-
Total future expense	$ (8,631)
Amount of deferred outflows resulting from contributions subsequent to the measurement date to be included as a future decrease in net pension liability during fiscal year ended June 30, 2017	$ 8,566

K. Independent Auditors Report:

The independent auditors report on the Schedule of Allocations (Proportionate Shares) and Schedule of Pension Amounts is published on the PERS employer website at

https://www.oregon.gov/pers/EMP/Pages/section/er_general_information/gasb-68.aspx.

For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

L. Employer Contributions:

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. 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.

M. 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. As of the December 31, 2014 actuarial valuation, PERS has a funded ratio of 84 percent for the defined benefit plan it administers, including employer side accounts, and 76 percent excluding employer side accounts.

PSU's share of the system-wide pension obligation was in an asset position at June 30, 2015. PSU's share of system-wide GASB 68 pension cost was a benefit to PSU for the year ended June 30, 2015. Substantially due to the impact of the April 2015 Oregon Supreme Court decision, PSU's share of the system-wide pension obligation was in a liability position at June 30, 2016 and its share of pension cost was an expense for the year ended June 30, 2016.

	June 30, 2016	June 30, 2015
Employer's proportionate share of collective net pension asset (liability)	$ (52,642)	$ 20,769
Employer's proportionate % share of collective net pension asset or liability	0.9%	0.9%
Employer's pension expense (benefit)	$ 49,654	$ (18,984)

N. Changes in Plan Provisions Subsequent to Measurement Date:

At its July 31, 2015 meeting, the PERS Board lowered the "assumed rate" of investment return to 7.5% effective January 1, 2016. The assumed rate is the rate of investment return (including inflation) that PERS Fund's plans are expected to earn over the long term and is reviewed and adopted by the PERS Board every two years as part of the system's Experience Study. The current assumed rate is 7.75% and has been in effect since January 1, 2014. The assumed rate also is used to discount system liabilities when setting employer contribution rates. With the earnings assumption being lowered, the amount that must be contributed by employers will increase to cover the reduced earnings projection. Due to the assumed rate changing, employer contribution rates will change to reflect the different future earnings assumption. Employer contribution rate changes will become effective with the next rate setting valuation (e.g., the 2017-19 biennium).

14. OTHER POSTEMPLOYMENT BENEFITS

During the years ended June 30, 2016 and 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 of the total PEBB plan costs attributable to the State of Oregon at June 30, 2016 and 2015. This allocation was based on health insurance premiums paid by state agencies during fiscal year 2016 and 2015.

Funding Policy. PSU's current policy is to pay the implicit rate subsidy on a pay-as-you-go basis. For fiscal years 2016 and 2015, healthcare insurance premiums were $33,764 and $35,911, respectively. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be $221 and $280 for the fiscal years ended 2016 and 2015, 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.

For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

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

	June 30, 2016	June 30, 2015
Annual Required Contribution	$ 3,690	$ 613
Interest on Net OPEB Obligation	135	127
Adjustment to Annual Required Contribution	(3,990)	(242)
Annual OPEB Cost	(165)	498
Contributions Made	(221)	(280)
Increase in Net OPEB Obligation	(386)	218
Net OPEB Obligation - Beginning of Year	3,744	3,526
Net OPEB Obligation - End of Year	$ 3,358	$ 3,744

The PSU annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended June 30, 2016 and 2015 was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	$ (165)	-5%	$ 3,358
2015	498	13%	3,744
2014	305	9%	3,526

Funding Status and Funding Progress. The funded status of the PSU OPEB plan for June 30, 2016 and 2015 was as follows:

	June 30, 2016	June 30, 2015
Actuarial Accrued Liabilities	$ 3,385	$ 4,832
Actuarial Value of Plan Assets	-	-
Unfunded Actuarial Accrued Liability	$ 3,385	$ 4,832
Funded Ratio	0%	0%
Covered Payroll (active plan members)	$ 173,717	$ 165,306
Unfunded Actuarial Accrued Liability as a		
Percentage of Covered Payroll	1.95%	2.92%

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, 2016 and 2015 (dollars in thousands)

Significant methods and assumptions were as follows:

	June 30, 2016	June 30, 2015
Actuarial Valuation Date	7/1/2015	7/1/2013
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar	Level Percentage
Amortization Period	1 year (open)	15 Years (open)
Investment Rate of Return	3.5%	3.5%
Projected Salary Increases	3.5%	3.5%
Initial Healthcare Inflation Rates	5.1% (medical), 2.3% (dental)	3.6% (medical), 2.2% (dental)
Ultimate Healthcare Inflation Rates	5.0% (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, 2016 and 2015 was $- and $1, respectively.

16. RISK FINANCING

PSU participates in the Public University Risk Management and Insurance Trust (PURMIT). PURMIT is a separate legal entity that operates for the benefit of the participating universities. Prior to July 1, 2014, PSU participated in the OUS Risk Management Fund. All assets and liabilities of the previously established OUS Risk Management Fund were transferred to PURMIT on July 1, 2014.

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, 2016 and 2015 (dollars in thousands)

17. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed and planned construction projects totaled approximately $164,072 at June 30, 2016. These commitments will be primarily funded from gifts, grants and bond proceeds and are summarized as follows as of June 30, 2016:

	Total Commitment	Completed to Date	Outstanding Commitment
Capital Repair	$ 21,725	$ 14,161	$ 7,564
Peter W. Stott Center/Viking Pavillion	50,097	6,036	44,061
School of Business Administration Remodel	63,130	25,770	37,360
Neuberger Hall Renovation	70,430	55	70,375
Projects with < $500 thousand			
remaining to be spent	14,176	9,464	4,712
	$ 219,558	$ 55,486	$ 164,072

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, 2016, such amounts are not expected to be material.

Refer also to Note 19 for commitments associated with the PSU Foundation.

18. SUBSEQUENT EVENTS

No events have occurred subsequent to June 30, 2016 and through the date of these financial statements that would require adjustment to, or disclosure in, the financial statements.

19. UNIVERSITY FOUNDATION

The PSU Foundation was established to provide assistance in fund raising, public outreach and other support for the mission of PSU and is a legally separate, tax-exempt entity with an independent governing board.

In May 2016, PSU acquired the Broadway Housing building from Broadway Housing, LLC, a consolidated subsidiary of the PSU Foundation. Since project inception, the building has been utilized by PSU primarily as a student dormitory with a small portion used for academic and retail space and will continue to be utilized in the same manner. Although the building was valued at $78,350 by an independent appraisal firm, PSU recorded the asset at the PSU Foundation's carrying value due to the purchase being with PSU's DPCU. The difference between the carrying value of $30,648 and the $44,496 of debt issued to purchase the building was recognized as a loss on transaction with DPCU in the SRECNP during 2016 and was partially offset by $3,383 of cash reserves transferred to PSU by the DPCU and other transaction costs. The acquisition was funded by bonds issued by the State under Article XI-F(1) at a premium of $5,630. PSU has a note payable to the State for the par value of bonds of $38,866 and recognized the $5,630 premium as revenue during 2016 as described in Note 8.

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, 2016 and 2015, PSU transferred $6,760 and $7,333, respectively, to the PSU Foundation to support its operations. PSU's financial support to the PSU Foundation is expected to be $6,964 during the year ended June 30, 2017. In addition, PSU has agreed to reimburse the PSU Foundation for up to $750 for system conversion costs to be paid in three increments through July 1, 2019.

During the years ended June 30, 2016 and 2015, gifts of $17,278 and $23,875, respectively, were transferred from the PSU Foundation to PSU. Included in the gifts received from the PSU Foundation during the years ended June 30, 2016 and 2015 were $6,145 and $4,091 of cash contributed by certain members of the PSU Board of Trustees and their affiliates.

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, 2016 and 2015. 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)

Required Supplementary Information
(dollars in thousands)

Defined Benefit Pension Plans*

	Year Ended June 30, 2016	2015	2014
Employer's proportionate % share of collective net pension asset or liability	0.9%	0.9%	0.9%
Employer's proportionate share of collective net pension asset (liability)	$ (52,642)	$ 20,769	$ (46,757)
Covered employee payroll	$ 173,717	$ 165,306	$ 166,914
Employer's share of net pension asset (liability) as a percentage of covered payroll	-30%	13%	-28%
Plan fiduciary net position as a percentage of the total pension liability	91.9%	103.6%	not avail.
Statutorily required employer contributions	$ 8,566	$ 7,315	$ 7,586
Employer contributions recognized	$ 8,566	$ 7,315	$ 7,586
Contribution Excess (Deficiency)	$ -	$ -	$ -
Employer contributions recognized as a percentage of covered payroll	4.9%	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%
6/30/2016	-	3,385	3,385	0.0%	173,717	1.9%

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

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