2017 ANNUAL FINANCIAL REPORT

Portland State UNIVERSITY

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Let knowledge serve the city

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

Portland State, Oregon's urban research university, offers more than 220 undergraduate, master's and doctoral degree options, as well as graduate certificates and continuing education programs. With 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.

Business students enjoy the new Karl Miller Center, a significant renovation and expansion of PSU's School of Business.

MESSAGE FROM THE PRESIDENT

AS THE NEW PRESIDENT of Portland State University, my goal is to build upon the success of my predecessors and our campus community to help make PSU a top-tier urban university.

I am pleased to report that our fall enrollment is up over last fall for both entering freshmen and transfer students. Our new "Four Years Free" program has drawn nearly 500 Oregon eligible high school seniors as entering PSU freshmen with grants that cover their tuition beyond federal and state aid. Many of those students are the first in their family to attend college, and we have made strategic investments in recruitment, advising and support aimed at helping all of our students be successful in their path towards graduation.

I am grateful to Wim Wiewel for his leadership the past nine years, and I thank legislators and Gov. Brown for their support of public higher education. State support this fiscal year enabled us to lower an increase in tuition for Oregon undergraduates. That support also approved state bonds for the next major construction project on campus: a new $100 million building at 4th Avenue and Montgomery Street that will house the Graduate School of Education, the OHSU-PSU School of Public Health, Portland Community College's dental clinic and a bureau for the city of Portland.

This fall, we opened the new home for our growing School of Business, the Karl Miller Center, and in the spring we will open Viking Pavilion at the Peter W. Stott Center that will host sports and community events. Also in 2018, we will announce a major campaign to raise private support for students and strengthen our academic programs.

My goals for PSU include expanding our research portfolio, growing our partnerships and engagement with business and others throughout the region and beyond, strengthening our alumni outreach and developing innovation initiatives. I envision launching centers of excellence that will enable PSU to expand high-quality programs, attract top students and faculty and build our reputation and national rankings.

I look forward to both the opportunities and challenges ahead.

Rahmat Shoureshi
President, Portland State University

Top Campus ACCOMPLISHMENTS

- For the third year in a row, *U.S. News & World Report* ranked Portland State among the nation's top 10 "Most Innovative" universities in the United States.

- The $64 million Karl Miller Center opened in the fall as the gleaming new home of the School of Business (see photo on page 4). The 143,000 square foot building nearly triples the size of the business school. In April 2018, the Viking Pavilion will open at the newly renovated Peter W. Stott Center on the South Park Blocks, hosting athletic and a wide array of community events and conferences.

- Construction begins this fall on a $70 million project to renovate Neuberger Hall. The project includes a $5 million gift from Portland philanthropist Jordan Schnitzer for a campus and public art museum on the first floor. Philanthropist and PSU alumnus Fariborz Maseeh also is donating $5 million to the renovation project. In addition, plans are underway to erect a jointly owned 7 to 10 story new campus building at 4th Avenue and Montgomery Street that will house the PSU Graduate School of Education, OHSU-PSU School of Public Health, Portland Community College dental clinic and city of Portland offices.

- Nearly 500 incoming freshmen this fall have enrolled in the first year of the "Four Years Free" program that covers tuition and mandatory fees for low-income, high-achieving Oregon high school seniors who are federal Pell Grant recipients.

- External research and awards from federal and other sources totaled $64 million. Philanthropy also has remained relatively steady, with the PSU Foundation's annual fund-raising totaling approximately $34 million.

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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, 2017 and 2016, 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 2017 and 2016 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.

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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, 2017 and 2016, 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, the schedule of Defined Benefit Pension Plans, and the schedule of funding status of Other Post Employment Benefits, as shown in the table of contents, 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 8, 2017

Management's Discussion and Analysis
For the Years Ended June 30, 2017, 2016 and 2015 (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, 2017, 2016 and 2015.

Annual Full Time Equivalent (FTE) Student Enrollment Summary

	2017	2016	2015	2014	2013
Annual FTE	**20,995**	21,206	21,389	21,546	21,763

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's assets, deferred outflows, liabilities, deferred inflows and net position under the accrual basis of accounting at the end of 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 (SRECNP) presents PSU's revenues and expenses categorized between operating, nonoperating and other related activities. The SRECNP 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 with related disclosures 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.

All references to pension expense in the MD&A are associated with defined benefit pension obligations accounted for under 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 at the beginning of fiscal year 2015. Pension expense under GASB No. 68 is actuarially determined while PSU operations are generally based on cash contributions to the plan.

For the Years Ended June 30, 2017, 2016 and 2015 (dollars in millions)

Statements of Net Position

The term "Net Position" refers to the difference between (a) total assets and deferred outflows of resources and (b) total 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

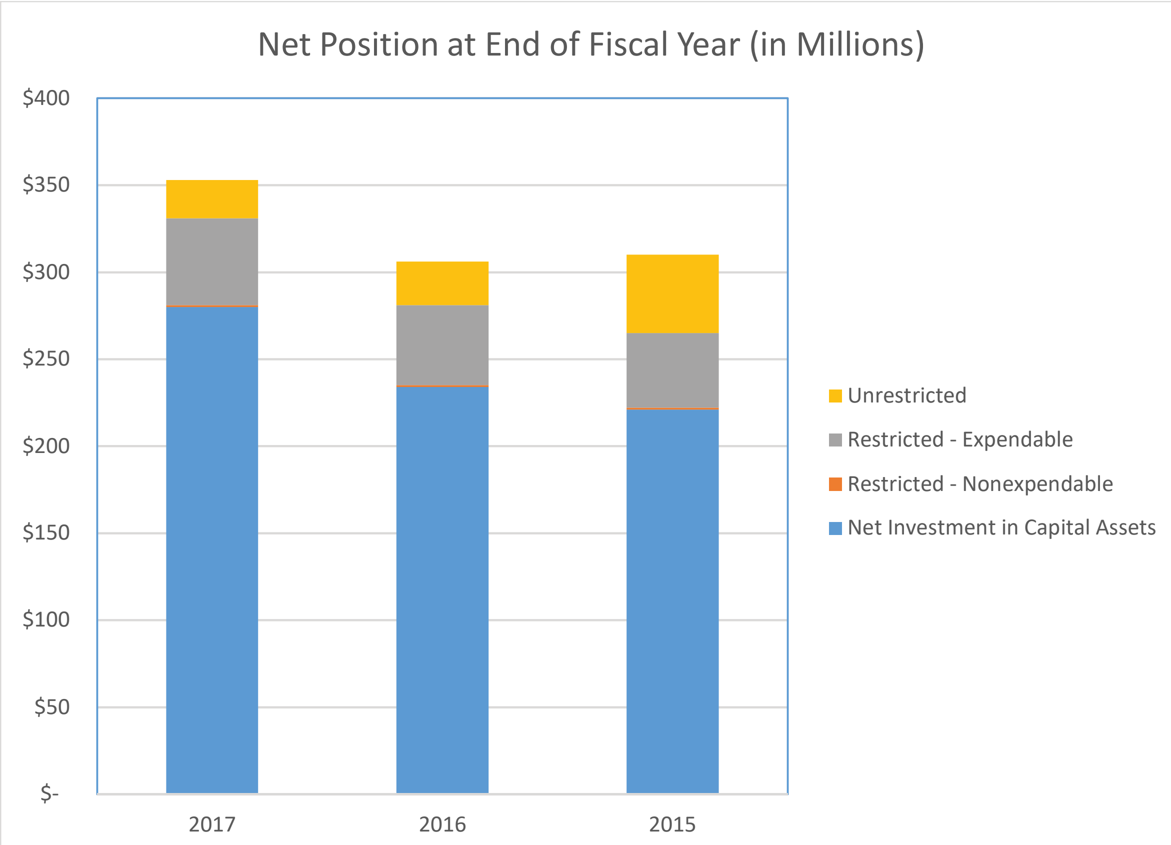
As of June 30,		**2017**		2016		2015
Current Assets	**$**	**143**	$	123	$	116
Noncurrent Assets, excluding Capital Assets, Net		**117**		114		113
Capital Assets, Net		**520**		487		450
Total Assets	**$**	**780**	$	724	$	679
Deferred Outflow s of Resources	**$**	**76**	$	13	$	14
Current Liabilities	**$**	**96**	$	90	$	84
Noncurrent Liabilities		**405**		328		259
Total Liabilities	**$**	**501**	$	418	$	343
Deferred Inflow s of Resources	**$**	**2**	$	13	$	40
Net Investment in Capital Assets	**$**	**280**	$	234	$	221
Restricted - Nonexpendable		**1**		1		1
Restricted - Expendable		**50**		46		43
Unrestricted		**22**		25		45
Total Net Position	**$**	**353**	$	306	$	310

Total Net Position

Total Net Position increased $47 million to $353 million at June 30, 2017 primarily due to costs associated with the Karl Miller Center (PSU's School of Business renovation and expansion) and the Viking Pavilion & Peter Stott Center renovation that were heavily funded by capital grant revenue from the State of Oregon; increases in higher appropriations from the State of Oregon; partially offset by pension expense. 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.

Management's Discussion and Analysis
For the Years Ended June 30, 2017, 2016 and 2015 (dollars in millions)

The following graph presents the composition of net position at June 30, 2017, 2016 and 2015.



- Net Investment in Capital Assets increased $46 million during 2017 due to net capital asset additions of $59 million and reductions in long-term debt of $13 million, partially offset by $26 million of depreciation expense. Net investment in Capital Assets increased $13 million during 2016 due to net capital asset additions of $63 million, reductions in 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 Position Restricted for Nonexpendable Endowments was consistent from year to year.
- Restricted Expendable Net Position increased $4 million during 2017 primarily due to funds restricted for PSU's upcoming Neuberger Hall renovation project. Restricted Expendable Net Position increased $3 million during 2016 primarily due to an increase in amounts restricted for the Karl Miller Center project.
- Unrestricted Net Position decreased $3 million during 2017 primarily due to an $18 million incremental impact to pension expense under GASB No. 68, partially offset by increases in Cash and Cash Equivalents and Investments mainly due to PSU's efforts to control costs and increase cash reserves. Unrestricted Net Position decreased $20 million during 2016 primarily due to $41 million of incremental pension expense under GASB No. 68, partially offset by higher Cash and Cash Equivalents and Investments.

Total Assets and Liabilities

Total Assets increased $51 million, or 7%, and $45 million, or 7%, during the years ended June 30, 2017 and 2016, respectively. Total Liabilities increased $78 million, or 19%, and $75 million, or 22%, during 2017 and 2016, respectively. Current Assets exceeded Current Liabilities at June 30, 2017 and 2016.

- Current Assets increased $20 million, or 14%, and $7 million, or 6%, during 2017 and 2016, respectively. The increase during 2017 was primarily due to a $15 million increase in Cash and Cash Equivalents mainly due to PSU's efforts to control costs and increase cash reserves and an $11 million increase in amounts Due from Primary Government as a result of cost reimbursable bond programs for capital projects. These increases were partially offset by a $6 million decrease in Accounts Receivable, Net mainly due to lower grants and contracts receivables. 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.
- Noncurrent Assets, excluding Capital Assets, Net of Accumulated Depreciation, increased nearly $3 million during 2017 primarily due to an increase in Investments. Noncurrent Assets, excluding Capital Assets, Net of Accumulated Depreciation were relatively unchanged during 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.
- Capital Assets, Net increased $33 million and $37 million during 2017 and 2016, respectively. See "Changes to Capital Assets" in this MD&A for additional information.
- Deferred Outflows of Resources increased $63 million during 2017 compared to a decrease of $1 million during 2016. The increase in 2017 results from pension obligations, primarily due to deferred losses associated with changes in assumptions and less-than-projected investment returns. The decrease in 2016 was 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 defined benefit pension obligations due to $1 million of higher pension contributions subsequent to the measurement date and deferred losses associated with actuarial experience and proportionate share allocations.
- Accounts Payable and Accrued Liabilities at June 30, 2017 were relatively consistent with those outstanding at June 30, 2016. Accounts Payable and Accrued Liabilities increased $6 million, or 3%, 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.
- Deposits increased $1 million during 2017 due to timing of transactions. Deposits were relatively consistent from 2015 to 2016.
- Current Portion of Long-Term Liabilities increased nearly $2 million during 2017 due to increases in amounts coming due for notes payable to the State of Oregon for Article XI-F(1) General Obligation Bonds while the balance was relatively unchanged during 2016.
- Unearned Revenue increased $4 million during 2017 primarily due to tuition and fees as a result of the timing of summer term and $1 million of sponsorship fees for the Viking Pavilion & Peter Stott Center Renovation. 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.
- Net Pension Liability increased $92 million during 2017 primarily due to deferred losses associated with changes in assumptions, lower-than-expected asset returns and $28 million of pension expense. A Net Pension Liability of $53 million was established at June 30, 2016 after being in a net pension asset position of $21 million in the prior year substantially due to the impacts of the April 2015 Oregon Supreme Court Ruling discussed in Note 13.

For the Years Ended June 30, 2017, 2016 and 2015 (dollars in millions)

- **Long-Term Liabilities** decreased $16 million, or 6%, during 2017 primarily due to $11 million of payments on long-term debt and other obligations and a $2 million reduction in notes payable to the State of Oregon for Article XI-F(1) General Obligation Bonds as a result of the State refunding certain bonds. 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 18), 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.
- **Deferred Inflows of Resources** decreased $11 million and $27 million during 2017 and 2016, respectively, due to pension related deferrals.

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 Statement No. 35, *Basic Financial Statements – And Management's Discussion and Analysis – For Public Colleges and Universities – An Amendment of GASB Statement No. 34* (GASB No. 35), and reflected accordingly in the nonoperating section of the SRECNP, 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,	**2017**	2016	2015
Operating Revenues	**$ 353**	$ 352	$ 347
Operating Expenses	**504**	526	450
Operating Loss	**(151)**	(174)	(103)
Nonoperating Revenues, Net of Nonoperating Expenses	**141**	144	120
Other Revenues and Special Items, Net of Other Expenses	**57**	26	165
Increase (Decrease) in Net Position	**47**	(4)	182
Net Position, Beginning of Year	**306**	310	166
Adjustment to Beginning Net Position, GASB No. 68	**-**	-	(38)
Restated Net Position, Beginning of Year	**306**	310	128
Net Position, End of Year	**$ 353**	$ 306	$ 310

Changes in Net Position

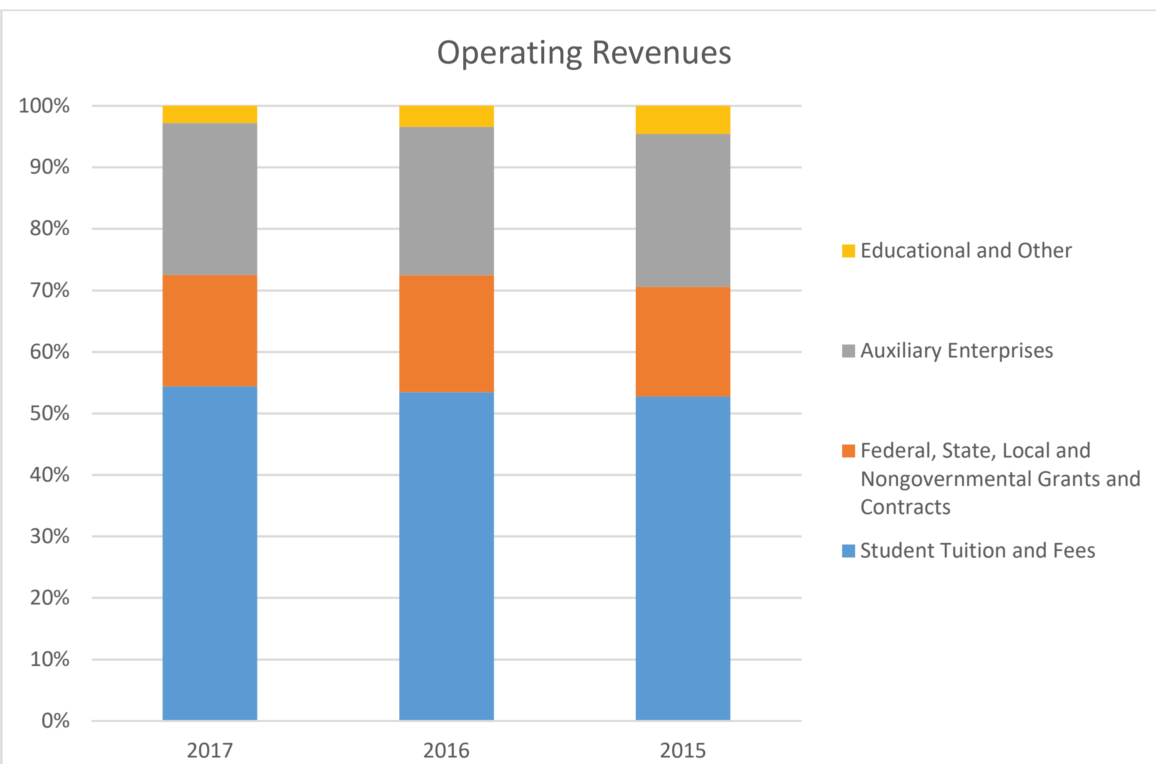
Net Position increased $47 million during 2017, decreased $4 million during 2016 and increased $182 million in 2015. The increase in Net Position during 2017 was primarily due to costs associated with capital projects that included the Karl Miller Center and the Viking Pavilion & Peter Stott Center renovation, each of which were heavily funded by capital grant revenues from the State of Oregon. Net Position was dramatically impacted by new pension accounting guidance in 2017, 2016 and 2015 with pension expense of $28 million and $50 million in 2017 and 2016, respectively, and 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.

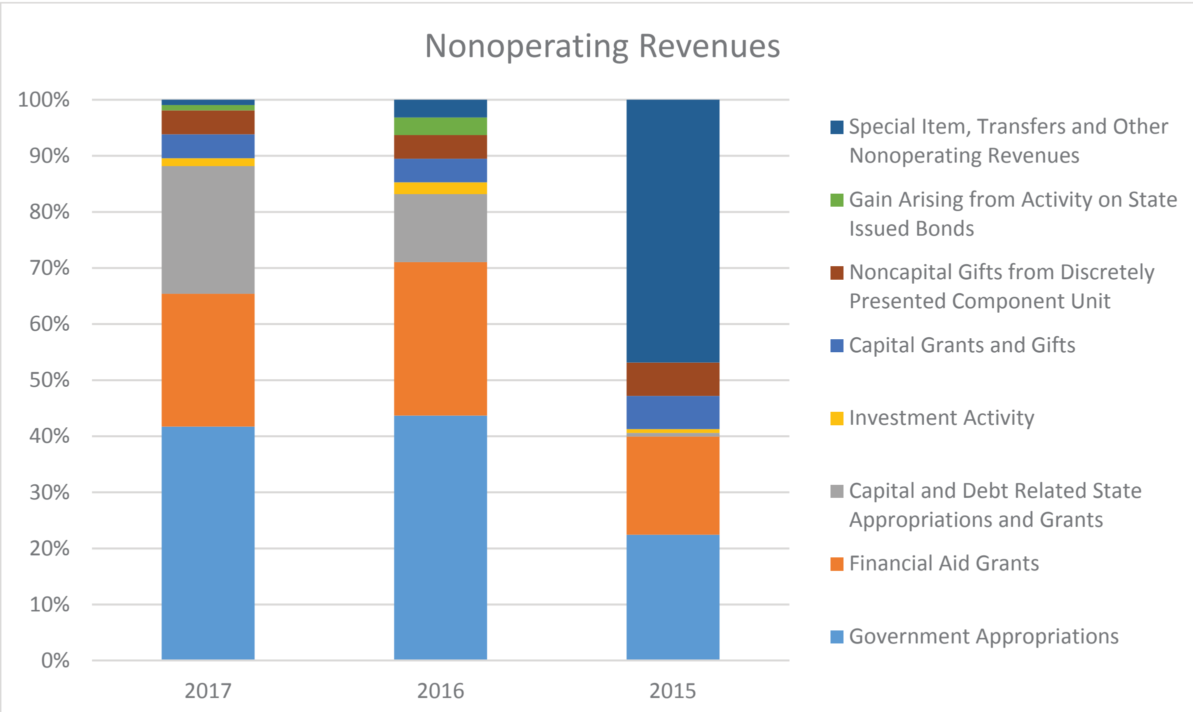
For the Years Ended June 30, 2017, 2016 and 2015 (dollars in millions)

Total Operating, Nonoperating and Other Revenues

For the Year Ended June 30,	**2017**	2016	2015
Student Tuition and Fees	**$ 192**	$ 188	$ 183
Federal, State, Local and Nongovernmental Grants and Contracts	**64**	67	62
Auxiliary Enterprises	**87**	85	86
Educational and Other	**10**	12	16
Total Operating Revenues	**353**	352	347
Government Appropriations	**88**	83	68
Financial Aid Grants	**50**	52	53
Capital and Debt Related State Appropriations and Grants	**48**	23	2
Investment Activity	**3**	4	2
Capital Grants and Gifts	**9**	8	18
Noncapital Gifts from Discretely Presented Component Unit	**10**	10	11
Gain Arising from Activity on State Issued Bonds	**2**	6	-
Special Item, Transfers and Other Nonoperating Revenues	**2**	6	142
Total Nonoperating and Other Revenues	**212**	192	296
Total Revenues	**$ 565**	$ 544	$ 643

Total Operating, Nonoperating and Other Revenues increased $21 million in 2017 compared to 2016 while they decreased $99 million in 2016 compared to 2015, 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 Revenues and Nonoperating and Other Revenues.





Operating Revenues

Operating Revenues increased $1 million, or less than 1%, to $353 million in 2017 compared to 2016 and increased $5 million, or 1%, to $352 million in 2016 compared to 2015 as a result of the changes described below.

Student Tuition and Fees Revenues increased $4 million, or 2%, in 2017 compared to 2016. The increase was primarily due to tuition rate increases of 3.6% for nonresident graduate and undergraduate students, 4% for resident undergraduate students and 3.4% for resident graduate students, partially offset by a $2 million increase in remissions. Mandatory student fees increased 2.6%. Overall, student credit hours declined 1.1% reflecting a 5.4% increase in nonresident student credit hours and a 3.2% decrease in resident student credit hours.

Student Tuition and Fees increased $5 million, or 3%, in 2016 compared to 2015. 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.

Federal, State, Local and Nongovernmental Grants and Contracts Revenues decreased $3 million, or 4%, in 2017 compared to 2016, and increased $5 million, or 8%, in 2016 compared to 2015.

- Federal Grants and Contracts Revenues were relatively consistent in 2017 compared to 2016 but included nearly $2 million of 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, partially offset by changes in other federal grant and contracts activity. Federal Grants and Contracts Revenue increased $3 million during 2016 in part due to higher grant revenue from the same National Institutes of Health undergraduate research training program.

- State and Local Grants and Contracts Revenues decreased over $2 million in 2017 compared to 2016 due to lower grant revenue from the State of Oregon for certain programs associated with K-12 education. State and Local Grants and Contracts Revenue were relatively consistent in 2016 compared to 2015.

- Nongovernmental Grants and Contracts Revenues decreased $1 million in 2017 compared to 2016 primarily due to lower revenues from commercial businesses. Nongovernmental Grants and Contracts Revenues increased over $1 million in 2016 compared to 2015.

Management's Discussion and Analysis
For the Years Ended June 30, 2017, 2016 and 2015 (dollars in millions)

Auxiliary Enterprises Revenues increased $2 million, or 2%, in 2017 compared to 2016 and decreased $1 million, or 1%, in 2016 compared to 2015. The increase in 2017 included the impacts of higher parking revenues, higher athletics-related revenues and increases in incidental fees. The decrease in 2016 was due to lower incidental fees resulting from lower enrollment.

Educational and Other Operating Revenues decreased $2 million, or 17%, in 2017 compared to 2016, and decreased $4 million, or 25%, in 2016 compared to 2015. The decrease in 2017 was driven by changes in various activities, including slightly lower revenue from noncredit workshops, lower interest income on student accounts due to lower overdue balances and lower foreign government grants and contracts revenue. The decrease in 2016 was primarily due to changes in activities with the PSU Foundation associated with the Broadway Housing building.

Nonoperating and Other Revenues increased $20 million, or 10%, in 2017 compared to 2016 and decreased $104 million, or 35%, in 2016 compared to 2015.

Appropriations Revenues increased $30 million, or 28%, in 2017 compared to 2016 and increased $36 million, or 51%, in 2016 compared to 2015.

- **Government Appropriations Revenues** increased $5 million and $15 million in 2017 and 2016, respectively, due to higher funding received from the State of Oregon. The increase in 2017 included the impacts of being in the second year of the State's biennium and funding formula changes.
- **Capital and Debt Related State Appropriations and Grants Revenues** increased $25 million in 2017 and $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.

Financial Aid Grants Revenues decreased $2 million in 2017 compared to 2016 due to an 8% decline in the number of Pell recipients. Financial Aid Grants Revenues were relatively unchanged from 2015 to 2016.

Income from **Investment Activity** decreased $1 million during 2017 compared to 2016 mainly due to unrealized losses on longer-term investments. Income from investment activity 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, which include capital gifts from the PSU Foundation, were relatively flat in 2017 compared to 2016 while they decreased $10 million in 2016 compared to 2015 due to lower gifts in 2016 for the Peter Stott Center & Viking Pavilion renovation and Karl Miller Center.

Noncapital Gifts from Discretely Presented Component Unit were relatively flat across 2017, 2016 and 2015.

Gain Arising from Activity on State Issued Bonds during 2017 resulted from a $2 million gain on the State of Oregon's refunding of Article XI-F(1) bonds for which PSU has a note payable to the State. The $6 million gain in 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 the PSU Foundation. Refer to Note 8 for more information regarding accounting for these activities.

Special Item, Transfers and Other Nonoperating revenues decreased $4 million in 2017 compared to 2016 and decreased $136 million in 2016 compared to 2015. The decrease in 2017 was due to a net benefit of $4 million in 2016 resulting from the removal of unamortized net bond premiums and deferred outflows from refundings as described in Note 8. The decrease in 2016 was driven the $145 million Special Item – University System Reorganization in 2015 that resulted from PSU being absolved of certain State of Oregon general obligation debt.

Management's Discussion and Analysis
For the Years Ended June 30, 2017, 2016 and 2015 (dollars in millions)

Expenses

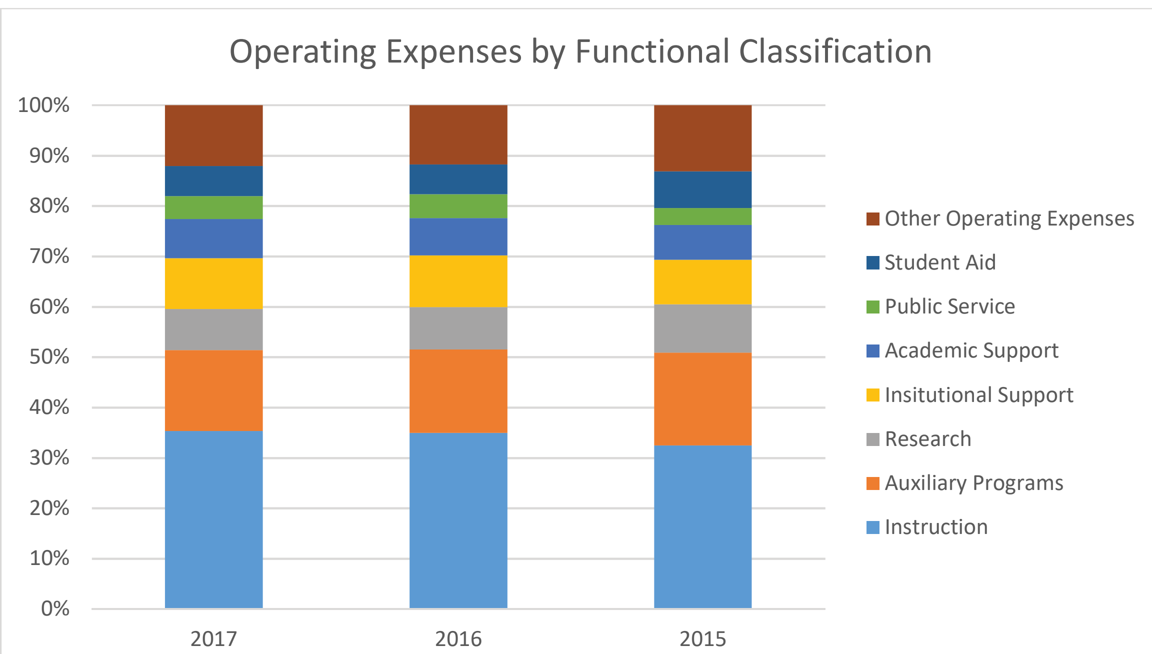
Operating Expenses

Operating expenses decreased $22 million, or 4%, to $504 million during 2017 compared to 2016 and increased $76 million, or 17%, to $526 million during 2016 compared to 2015. The volatility was driven by pension expense (benefit) of $28 million, $50 million and ($19) million in 2017, 2016 and 2015, respectively. Pension expense decreased $22 million in 2017 compared to 2016 due to the impacts of the April 2015 Oregon Supreme Court ruling described in Note 13 being reflected in the 2016 expense. The ruling was also the key driver of the increase in 2015 pension expense.

The following summarizes operating expenses by functional classification.

Operating Expense by Function

For the Year Ended June 30,	**2017**	2016	2015
Instruction	**$ 178**	$ 184	$ 146
Auxiliary Programs	**81**	87	83
Research	**41**	44	43
Insitutional Support	**51**	54	40
Academic Support	**39**	39	31
Public Service	**23**	25	15
Student Aid	**30**	31	33
Other Operating Expenses	**61**	62	59
Total Operating Expenses	**$ 504**	$ 526	$ 450



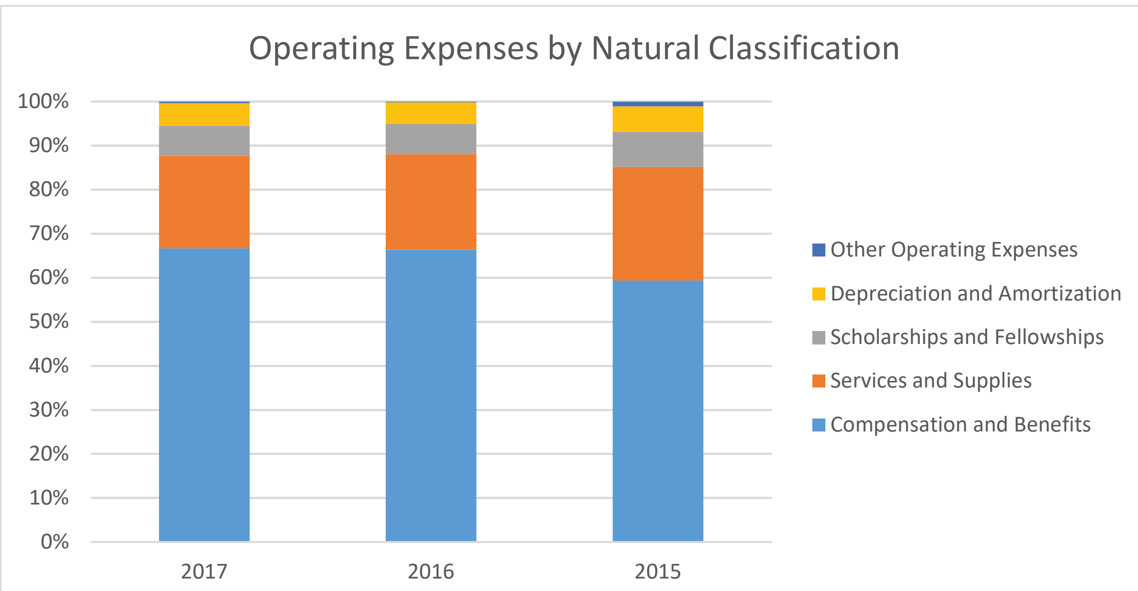
Due to the way in which expenses are incurred by PSU, variances are presented and explained by analyzing changes in the natural classification of expenses. Each natural classification analysis can be applied to many of the functional expense caption items.

For the Years Ended June 30, 2017, 2016 and 2015 (dollars in millions)

The following summarizes operating expenses by natural classification:

Operating Expense by Natural Classification

For the Year Ended June 30,	**2017**	2016	2015
Compensation and Benefits	**$ 336**	$ 349	$ 267
Services and Supplies	**106**	114	116
Scholarships and Fellow ships	**34**	36	36
Depreciation and Amortization	**26**	26	26
Other Operating Expenses	**2**	1	5
Total Operating Expenses	**$ 504**	$ 526	$ 450



Compensation and Benefits costs decreased $13 million, or 4%, in 2017 compared to 2016 and increased $82 million, or 31%, in 2016 compared to 2015 primarily due to:

- A $22 million decrease in pension expense in 2017 compared to 2016 and a $69 million increase in pension expense in 2016 compared to 2015 substantially due to the impact of the April 2015 Oregon Supreme Court ruling described in Note 13 that was reflected in 2016 pension expense.
- Compensation and benefits costs other than pension expense increased $10 million during 2017 and $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 certain defined contribution plans in 2016 due to increased contribution rates set for a two-year period and higher base payroll expense.

Services and Supplies expense decreased nearly $8 million during 2017 and decreased $2 million during 2016. The decrease in 2017 was primarily due to the cessation of payments to the PSU Foundation associated with the Broadway Housing building that was acquired in 2016 as described in Note 18.

Scholarships and Fellowships expenses decreased $2 million in 2017 due to a 6% decline in the number of recipients of Pell grants, partially offset by increases in other awards. Scholarships and Fellowships expenses were relatively consistent from 2015 to 2016.

Depreciation and Amortization expense was relatively consistent across 2017, 2016 and 2015.

For the Years Ended June 30, 2017, 2016 and 2015 (dollars in millions)

Other Operating Expenses increased nearly $1 million during 2017 as a result of defaulting Perkins loans assigned to the U.S. Department of Education in anticipation of closing out the program as discussed in Note 4 and decreased $4 million in 2016 as a result of $4 million associated with City of Portland local improvement district assessments in 2015.

Nonoperating Expenses

The loss on **Transaction with Discretely Presented Component Unit** of $10 million during 2016 resulted from the Broadway Housing purchase discussed in Note 18 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 decreased $1 million in 2017. Interest Expense increased $1 million in 2016 primarily as a result of no longer amortizing net bond premiums (see Note 8).

Capital Assets and Related Financing Activities

Changes to Capital Assets

	2017	2016	2015
Capital Assets, Beginning of Year	$ 863	$ 792	$ 780
Add: Purchases/Construction	60	73	16
Less: Retirements/Disposals/Adjustments	(6)	(2)	(4)
Total Capital Assets, End of Year	$ 917	$ 863	$ 792
Accum. Depreciation, Beginning of Year	(376)	(342)	(317)
Add: Depreciation Expense	(26)	(26)	(26)
Less: Retirements/Disposals/Adjustments	5	(8)	1
Total Accum. Depreciation, End of Year	$ (397)	$ (376)	$ (342)
Total Capital Assets, Net, End of Year	$ 520	$ 487	$ 450

During 2017, capital asset additions totaled $60 million and were mainly due to the Karl Miller Center and renovation of the Peter Stott Center & Viking Pavilion. During 2016, capital asset additions totaled $73 million mainly due to the Broadway Housing purchase described in Note 18, as well as construction progress associated with the renovation of the Peter Stott Center & Viking Pavilion and the Karl Miller Center.

Accumulated depreciation increased $21 million during 2017 mainly due to $26 million of depreciation expense, partially offset by disposals related to the Peter Stott Center & Viking Pavilion renovation and Karl Miller Center that resulted in a $1 million loss. 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 PSU Foundation's carrying value.

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 $120 million at June 30, 2017, including $67 million for the upcoming Neuberger Hall renovation. See Note 16 for additional information relating to capital construction commitments.

Debt Administration

As described in Note 8, the State of Oregon issues general obligation bonds on behalf of PSU to support is capital renewal and construction projects. Bonds issued on behalf of PSU under Oregon Constitution Article XI-(F)(1) are repaid with PSU revenue streams and thus give rise to a note payable to the State. Bonds issued under Articles XI-G and XI-Q are repaid by the State and thus are recorded as capital grants revenue from the State.

During 2017, no new Article XI-(F)(1) bonds were issued by the State of Oregon on behalf of PSU. However, the State of Oregon refunded certain Article XI-(F)(1) debt resulting in a $2 million gain that was recognized in 2017 as described in Note 8. Also during 2017, PSU incurred eligible expenditures under the State's cost reimbursable Articles XI-G and XI-Q bond programs that gave rise to $45 million of capital state grants revenue. Repayments of long-term debt due to the State were $10 million during 2017.

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, resulting in a note payable to the State of Oregon of $39 million. 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 state grants revenue. Repayments of long-term debt were $11 million during 2016.

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. While there have been modest declines in full time equivalent student enrollment and student credit hour production over the last 5 years, PSU has seen increased tuition revenues through rate increases.

For the near future (2017-2019), PSU is predicting a continuing modest enrollment decline, but anticipates an ability to continue to increase overall tuition revenue through further rate increases (resident undergraduate tuition is the second lowest among the seven Oregon public universities). In July 2017, the State of Oregon signed into law Senate Bill 5524, which appropriated an additional $70 million to the 2017-2019 Public University Support Fund, which serves all seven of Oregon's public universities. This increase follows a more than 35 percent increase in State appropriations for the 2015-2017 biennium over the 2013-2015 biennium. The anticipated additional State appropriations and increased tuition revenue are expected to enable PSU to meet anticipated increases in expenditures.

On the longer term (2019-2021), PSU is facing increasing costs, primarily associated with labor expenditures embodied in collective bargaining agreements and benefits costs arising from Public Employees Retirement System pension obligations. PSU will need to increase tuition revenue through both additional rate increases and a reversal of enrollment declines, a priority for the institution. There is also volatility in the level of State support. The State revenue plan that helped close Oregon's projected funding gap of $1.3 billion and permitted current biennial funding is being challenged. If the current revenue plan is repealed, absent an alternative, PSU could see a decrease in its State appropriations for the 2019-2021 biennium. If revenues are insufficient to cover the anticipated cost increases, 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 PSU to carry out its core mission.

Statements of Net Position

As of June 30,		University 2017		University 2016
		(in thousands)		
ASSETS				
Current Assets				
Cash and Cash Equivalents	**$**	**61,008**	$	45,545
Collateral from Securities Lending		**4,846**		5,861
Due from Primary Government		**23,528**		12,431
Accounts Receivable, Net		**48,910**		54,806
Notes Receivable, Net		**1,356**		1,543
Inventories		**678**		691
Prepaid Expense		**2,418**		2,294
Total Current Assets		**142,744**		123,171
Noncurrent Assets				
Investments		**111,057**		108,033
Notes Receivable – Noncurrent, Net		**5,479**		5,984
Capital Assets, Net of Accumulated Depreciation		**520,243**		487,340
Total Noncurrent Assets		**636,779**		601,357
TOTAL ASSETS	**$**	**779,523**	$	724,528
DEFERRED OUTFLOWS OF RESOURCES	**$**	**76,388**	$	12,752
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Liabilities	**$**	**29,157**	$	29,572
Obligations Under Securities Lending		**4,846**		5,861
Deposits		**10,005**		8,706
Current Portion of Long-Term Liabilities		**22,825**		21,041
Unearned Revenues		**28,107**		25,092
Total Current Liabilities		**94,940**		90,272
Noncurrent Liabilities				
Unearned Revenues	**$**	**8,350**	$	7,500
Net Pension Liability		**144,817**		52,642
Long-Term Liabilities		**251,977**		268,203
Total Noncurrent Liabilities		**405,144**		328,345
TOTAL LIABILITIES	**$**	**500,084**	$	418,617
DEFERRED INFLOWS OF RESOURCES	**$**	**2,578**	$	12,817
NET POSITION				
Net Investment in Capital Assets	**$**	**279,782**	$	234,472
Restricted for:				
Nonexpendable Endowments		**1,285**		1,285
Expendable:				
Gifts, Grants and Contracts		**989**		1,446
Capital Projects		**40,696**		35,385
Student Loans		**8,376**		8,543
Debt Service		**-**		-
Unrestricted		**22,121**		24,715
TOTAL NET POSITION	**$**	**353,249**	$	305,846

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

Statements of Financial Position

As of June 30,		Component Unit 2017		Component Unit 2016
		(In thousands)		
ASSETS				
Cash and Cash Equivalents	**$**	**6,527**	$	2,410
Contributions, Pledges and Grants Receivable, Net		**16,603**		16,628
Investments (Note 2)		**97,420**		80,611
Prepaid Expenses and Other Assets		**862**		750
Property and Equipment, Net		**4,116**		3,206
Total Assets	**$**	**125,528**	$	103,605
LIABILITIES				
Accounts Payable and Accrued Liabilities	**$**	**1,006**	$	1,023
Accounts Payable to University		**895**		725
Notes Payable and Capital Lease Commitments		**3,155**		2,379
Obligations to Beneficiaries of Split-Interest Agreements		**1,489**		1,261
Deposits and Unearned Revenue		**128**		93
Endowments Held for University		**2,531**		2,384
Total Liabilities	**$**	**9,204**	$	7,865
NET ASSETS				
Unrestricted	**$**	**4,411**	$	3,421
Temporarily Restricted		**55,958**		41,645
Permanently Restricted		**55,955**		50,674
Total Net Assets	**$**	**116,324**	$	95,740

Statements of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30,	University 2017	University 2016
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Allowances)	$ 191,937	$ 187,830
Federal Grants and Contracts	42,880	41,948
State and Local Grants and Contracts	15,074	17,463
Nongovernmental Grants and Contracts	5,637	6,848
Educational Department Sales and Services	6,289	7,259
Auxiliary Enterprises Revenues (Net of Allowances)	87,148	85,404
Other Operating Revenues	4,139	5,179
Total Operating Revenues	353,104	351,931
OPERATING EXPENSES		
Instruction	177,668	184,426
Research	40,802	44,129
Public Service	23,424	24,783
Academic Support	39,284	39,096
Student Services	19,920	18,940
Auxiliary Programs	81,386	86,919
Institutional Support	50,592	53,559
Operation and Maintenance of Plant	19,467	20,649
Student Aid	30,400	31,092
Other Operating Expenses	21,352	22,176
Total Operating Expenses	504,295	525,769
Operating Loss	(151,191)	(173,838)
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations	87,734	82,706
Financial Aid Grants	49,803	52,372
Investment Activity	3,015	4,443
Gain (Loss) on Sale of Assets, Net	(1,176)	(131)
Interest Expense	(11,672)	(12,972)
Gain Arising from Activity on State Issued Bonds	2,168	5,630
Noncapital Gifts from Discretely Presented Component Unit	9,913	10,348
Other Nonoperating Items	1,962	1,801
Total Nonoperating Revenues (Expenses)	141,747	144,197
Loss Before Other Expenses, Gains, Losses and Transfers	(9,444)	(29,641)
Capital and Debt Related State Appropriations and Grants	47,791	23,320
Capital Grants and Gifts	9,056	8,257
Transaction with Discretely Presented Component Unit	-	(10,064)
Special Item - Change Due to University System Reorganization	-	4,040
Total Other (Expenses), Gains, (Losses) and Transfers	56,847	25,553
Increase (Decrease) In Net Position	47,403	(4,088)
NET POSITION		
Beginning Balance	305,846	309,934
Increase (Decrease) In Net Position	47,403	(4,088)
Ending Balance	$ 353,249	$ 305,846

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

Statements of Activities

For The Year Ended June 30,	Component Unit 2017	Component Unit 2016
	(In thousands)	
REVENUES		
Grants, Bequests and Gifts	**$ 33,282**	$ 35,530
Investment Income (Loss), Net	**6,875**	(810)
Other Revenues	**8,300**	17,236
Total Operating Revenues	**48,457**	51,956
EXPENSES		
University Support	**18,799**	26,043
General and Administrative	**4,254**	4,538
Other Expenses	**4,820**	4,315
Total Expenses	**27,873**	34,896
Increase (Decrease) In Net Assets	**20,584**	**17,060**
NET ASSETS		
Beginning Balance	**95,740**	78,680
Ending Balance	**$ 116,324**	$ 95,740

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

Statements of Cash Flows

For the Years Ended June 30,		University 2017		University 2016
		(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and Fees	$	**194,501**	$	188,229
Grants and Contracts		**71,001**		60,804
Educational Department Sales and Services		**6,289**		7,259
Auxiliary Enterprises Operations		**88,380**		85,884
Payments to Employees for Compensation and Benefits		**(317,227)**		(307,686)
Payments to Suppliers		**(109,278)**		(119,782)
Student Financial Aid		**(33,752)**		(35,896)
Other Operating Receipts		**3,790**		4,975
Net Cash Provided Used by Operating Activities		**(96,296)**		(116,213)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Government Appropriations		**87,734**		82,706
Financial Aid Grants		**49,803**		52,372
Other Gifts and Private Contracts		**2,091**		5,807
Noncapital Gifts from Discretely Presented Component Unit		**9,509**		10,348
Net Agency Fund Receipts (Payments)		**1,299**		(568)
Transfers resulting from University System Reorganization		**-**		67
Net Cash Provided by Noncapital Financing Activities		**150,436**		150,732
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital and Debt Related State Appropriations and Grants		**36,694**		12,869
Capital Grants and Gifts		**8,832**		8,001
Proceeds from Sales of Capital Assets		**-**		217
Purchases of Capital Assets		**(60,306)**		(24,401)
Interest Payments on Capital Debt		**(13,454)**		(11,845)
Principal Payments on Capital Debt		**(10,434)**		(10,677)
Net Cash Used by Capital and Related Financing Activities		**(38,668)**		(25,836)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net Sales (Purchases) of Investments		**(5,166)**		(20,434)
Interest and Earnings on Investments and Cash Balances		**5,157**		3,399
Net Cash Used by Investing Activities		**(9)**		(17,035)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**15,463**		(8,352)
CASH AND CASH EQUIVALENTS				
Beginning Balance		**45,545**		53,897
Ending Balance	**$**	**61,008**	$	45,545

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

Statements of Cash Flows - Continued

For the Years Ended June 30,	University 2017	University 2016
	(In thousands)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	**$ (151,191)**	$ (173,838)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	**26,063**	25,884
Changes in Assets and Liabilities:		
Accounts Receivable	**6,300**	(5,759)
Notes Receivable	**692**	(76)
Inventories	**13**	(78)
Prepaid Expenses	**(124)**	(525)
Accounts Payable and Accrued Liabilities	**284**	(3,229)
Net Pension Asset Adjustments	**18,300**	41,088
Long-Term Liabilities	**(498)**	(735)
Unearned Revenue	**3,865**	1,055
NET CASH USED BY OPERATING ACTIVITIES	**$ (96,296)**	$ (116,213)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Capital Assets Acquired by Gifts in Kind	**$ 227**	$ 256
Gain arising from State's Refunding of State Issued Debt	**2,168**	-
Broadw ay Housing Building Acquired w ith State Issued Debt	**-**	(30,648)
Note Payable to State Arising from Broadw ay Housing Building Acquisition	**-**	38,866
Increase (Decrease) in Fair Value of Investments Recognized as a Component of Investment Activity	**(2,142)**	1,044

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

Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The PSU financial reporting entity is reported under the heading of University on the Basic Financial Statements. The PSU reporting entity also includes the PSU Foundation which is reported as a discretely presented component unit (DPCU) in the PSU financial statements. See "Note 18 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 PSU Foundation are reported as a discretely presented component unit in the Comprehensive Annual Financial Report issued by the State of Oregon (State) as a result of PSU becoming an independent body with its own board of trustees under Oregon Senate Bill 270. Prior to this, PSU was part of the now-dissolved Oregon University System (OUS) and included in its 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 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 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 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 was effective in the financial reports of applicable OPEB plans for fiscal years beginning after June 15, 2016 and did not directly impact PSU's financial statements.

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 was effective for the fiscal year ended June 30, 2017 and did not 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 were effective for reporting periods beginning after June 15, 2016. The adoption of GASB No. 80 had no impact on PSU's financial statements.

Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27* and GASB 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 were 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. 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. The adoption of the effective portion of GASB No. 82 did not impact PSU’s financial statements.

UPCOMING ACCOUNTING STANDARDS

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. 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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, (GASB No. 83), which will require entities to recognize liabilities and corresponding deferred outflows of resources when legal obligations to perform future asset retirement activities for a tangible capital assets are present. GASB No. 83 is effective for reporting periods beginning after June 15, 2018. PSU is currently evaluating the impact of adopting GASB No. 83 on its financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (GASB No. 84), which establishes criteria for identifying fiduciary activities and requires certain reporting requirements. In determining whether a fiduciary activity exists, GASB No. 84 focuses on whether the entity is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. GASB No. 84 is effective for reporting periods beginning after December 15, 2018. PSU is currently evaluating the impact of adopting GASB No. 84 on its financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017* (GASB No. 85). GASB No. 85 addresses issues identified during the implementation and application of certain GASB statements, including those related to blending component units, fair value measurement and application, postemployment benefits and goodwill. GASB No. 85 is effective for reporting periods beginning after June 15, 2017. PSU is currently evaluating the impact of adopting GASB No. 85 on its financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, (GASB No. 87). The objective of GASB No. 87 is to improve the accounting and financial reporting for leases by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. GASB No. 87 establishes a single model for lease accounting based on the principle that leases are financings of the right to use an asset. GASB No. 87 is effective for reporting periods beginning after December 15, 2019. PSU is currently evaluating the impact of adopting GASB No. 87 on its financial statements and disclosures.

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, *Fair Value Measurement and Application (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 (SRECNP).

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 $25 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 that are partially or fully funded by XI-F(1) debt. Total interest costs of $11,720 and $12,972 were incurred on debt, of which $48 and $0 was capitalized for fiscal years ended 2017 and 2016, respectively.

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, 2017, deferred outflows were comprised of $76,388 associated with defined benefit pension plans, including $9,345 of contributions made subsequent to the measurement date. At June 30, 2016, deferred outflows were comprised of $12,752 associated with defined benefit pension plans, including $8,566 of contributions made subsequent to the measurement date. Refer to Note 13 for additional information regarding deferred outflows associated with the defined benefit pension plans.

I. Unearned Revenues

Unearned revenues include amounts received for tuition and fees, grants and contracts, lease income and auxiliary enterprises activities, including long-term sponsorships 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. At June 30, 2017, deferred inflows were comprised of $2,578 associated with defined benefit pension plans as a result of changes in proportionate share. At June 30, 2016, deferred inflows were comprised of $12,817 associated with the defined benefit pension plans substantially due to differences between projected and actual earnings on investments. Refer to Note 13 for additional information.

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 that 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 internally designated certain amounts for debt service as described in Note 2.

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 2017 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, 2017 and 2016, respectively, represent the original corpus of true endowment funds and does not include the accumulated gains on 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 quarterly estimated payments are made during the year for the insignificant amount of unrelated business income tax generated.

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 $20,531 and $18,607 for the fiscal years ended 2017 and 2016, respectively. Revenues from financial aid programs (e.g., Pell Grants, Supplemental Educational Opportunity Grants and Oregon Opportunity Grants) and scholarships used for paying student tuition and fees and campus housing were estimated to be $26,261 and $26,018 for the fiscal years ended 2017 and 2016, respectively. Bad debt expense is included as an allowance to operating revenues and was $2,921 and $2,403 for the fiscal years ended 2017 and 2016, 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 in the SRECNP were $140,871 and $146,615 for the fiscal years ended 2017 and 2016, 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, 2017 and 2016, PSU had $37,037 and $26,213 of cash and cash equivalents and investments associated with matching funds unconditionally available for specified capital projects, as well as $21,236 and $20,990 of cash and cash equivalents and investments internally designated for debt service, respectively.

Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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, 2017 and 2016, PSU cash and cash equivalents on deposit at State Treasury were $59,808 and $45,380, 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

PSU has certain cash balances that are not on deposit at State Treasury. At June 30, 2017, PSU had cash on deposit of $1,097 covered by FDIC insurance up to $250 with amounts in excess of $250 collateralized with securities held by the pledging financial institution. At June 30, 2017 and 2016, PSU had vault and petty cash balances of $103 and $165, respectively.

B. INVESTMENTS

As of June 30, 2017 and 2016, 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 Oregon Revised Statutes (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, 2017, total investments of $111,057 included $2,531 of endowments, including nonexpendable corpus of $1,285. At June 30, 2016, total investments of $108,033 included $2,384 of endowments, including nonexpendable corpus of $1,285.

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, 2017 and 2016.

The PSU Foundation monitors endowment investments to identify any accounts for which estimated fair value is less than historical value. As of June 30, 2017, 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, 2017, $108,527 were invested in the core bond fund managed by State Treasury. At June 30, 2016, $66,800 was invested in an intermediate-term pool and $38,849 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 investment policy requires the following minimum credit standards at the time of purchase: (a) for investments in non-U.S. government securities, a minimum rating of Aa2, AA or AA by Moody's Investors Services, Standard & Poor's or Fitch, respectively; (b) for municipal debt securities, a minimum rating of A3, A- or A- by Moody's Investors Services, Standard & Poor's or Fitch, respectively; (c) for corporate debt securities, a minimum investment rating by at least one of the noted rating agencies; and (d) for both asset-based securities and commercial mortgage-backed securities, a AAA rating.

Based on these parameters, as of June 30, 2017, approximately 99 percent of investment in the PUF pools were subject to credit risk reporting. Fixed income securities 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 $272,151 at June 30, 2017. Fixed income securities that have not been evaluated by the rating agencies totaled $37,721 at June 30, 2017. The PUF Investment Pools totaled $312,900 at June 30, 2017, of which PSU owned $108,527, or 34.7 percent.

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. Fixed income securities 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. Fixed income securities 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.

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, 2017 and 2016.

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, 2017 and 2016, securities in the PUF Investment Pool held subject to interest rate risk totaling $309,872 and $316,695 with an average duration of 3.91 and 3.00 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 PSU's proportionate share of and OSTF's securities, held in the PUF, 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 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, 2017 and 2016. 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 the PUF's securities on loan in the OSTF. At June 30, 2017, 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.

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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.

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, 2017	June 30, 2016
Student Tuition and Fees	$ 31,935	$ 33,798
Auxiliary Enterprises and Other Operating Activities	7,206	7,952
Federal Grants and Contracts	8,299	10,122
Component Unit	970	566
State, Other Government, and Private Gifts, Grants and Contracts	7,119	10,910
Other	1,551	1,202
	57,080	64,550
Less: Allowance for Doubtful Accounts	(8,170)	(9,744)
Accounts Receivable, Net	$ 48,910	$ 54,806

4. NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2017 and 2016. 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, 2017			June 30, 2016		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Institutional and Other Student Loans	$ 151	$ -	$ 151	$ 197	$ -	$ 197
Auxiliary	-	78	78	-	-	-
Federal Student Loans	1,312	5,883	7,195	1,494	6,651	8,145
	1,463	5,961	7,424	1,691	6,651	8,342
Less: Allowance for Doubtful Accounts	(107)	(482)	(589)	(148)	(667)	(815)
Notes Receivable, Net	$ 1,356	$ 5,479	$ 6,835	$ 1,543	$ 5,984	$ 7,527

In July 2017, the U.S. Department of Education acknowledged PSU's request to liquidate and terminate its Perkins loan program. PSU is working with the U.S. Department of Education to provide the required documentation and expects to complete the process before the end of fiscal 2018.

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

5. CAPITAL ASSETS

The following schedule reflects the changes in capital assets:

	Balance June 30, 2015	Additions	Transfer Completed Assets	Retire. and Adjust.	Balance June 30, 2016	Additions	Transfer Completed Assets	Retire. and Adjust.	Balance June 30, 2017
Capital Assets,									
Non-depreciable/Non-amortizable:									
Land	$ 48,951	$ 3,482	$ -	$ (164)	$ 52,269	$ -	$ -	$ -	$ 52,269
Capitalized Collections	2,965	152	-	-	3,117	45	-	-	3,162
Construction in Progress	5,688	25,622	(1,054)	(115)	30,141	53,134	(387)	(68)	82,820
Total Capital Assets, Non-depreciable/Non-amortizable	57,604	29,256	(1,054)	(279)	85,527	53,179	(387)	(68)	138,251
Capital Assets, Depreciable/ Amortizable:									
Equipment	51,184	1,823	-	(1,457)	51,550	3,137	(60)	(846)	53,781
Library Materials	85,859	315	-	(363)	85,811	271	-	(10)	86,072
Buildings	546,438	41,406	1,054	(61)	588,837	3,248	447	(5,139)	587,393
Land Improvements	5,111	-	-	-	5,111	439	-	-	5,550
Improvements Other Than Buildings	5,467	-	-	-	5,467	-	-	(164)	5,303
Infrastructure	31,347	387	-	-	31,734	-	-	-	31,734
Intangible Assets	8,777	-	-	(289)	8,488	-	-	-	8,488
Total Capital Assets, Depreciable/Amortizable	734,183	43,931	1,054	(2,170)	776,998	7,095	387	(6,159)	778,321
Less Accumulated Depreciation/ Amortization for:									
Equipment	(38,137)	(3,914)	-	1,387	(40,664)	(3,680)	-	698	(43,646)
Library Materials	(78,823)	(2,042)	-	363	(80,502)	(1,713)	-	10	(82,205)
Buildings	(199,793)	(17,672)	-	(9,707)	(227,172)	(18,492)	-	4,047	(241,617)
Land Improvements	(3,158)	(178)	-	-	(3,336)	(207)	-	-	(3,543)
Improvements Other Than Buildings	(3,746)	(411)	-	-	(4,157)	(379)	-	164	(4,372)
Infrastructure	(10,303)	(1,459)	-	-	(11,762)	(1,387)	-	-	(13,149)
Intangible Assets	(7,514)	(208)	-	130	(7,592)	(205)	-	-	(7,797)
Total Accumulated Depreciation/ Amortization	(341,474)	(25,884)	-	(7,827)	(375,185)	(26,063)	-	4,919	(396,329)
Total Capital Assets, Net	$ 450,313	$ 47,303	$ -	$ (10,276)	$ 487,340	$ 34,211	$ -	$ (1,308)	$ 520,243
Capital Assets Summary									
Capital Assets, Non-depreciable/ Non-amortizable	$ 57,604	$ 29,256	$ (1,054)	$ (279)	$ 85,527	$ 53,179	$ (387)	$ (68)	$ 138,251
Capital Assets, Depreciable/ Amortizable	734,183	43,931	1,054	(2,170)	776,998	7,095	387	(6,159)	778,321
Total Cost of Capital Assets	791,787	73,187	-	(2,449)	862,525	60,274	-	(6,227)	916,572
Less Accumulated Depreciation/ Amortization	(341,474)	(25,884)	-	(7,827)	(375,185)	(26,063)	-	4,919	(396,329)
Total Capital Assets, Net	$ 450,313	$ 47,303	$ -	$ (10,276)	$ 487,340	$ 34,211	$ -	$ (1,308)	$ 520,243

Refer to Note 18 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 in 2016.

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities were comprised of the following:

	June 30, 2017	June 30, 2016
Construction, Services and Supplies	$ 11,862	$ 15,504
Salaries and Wages	9,627	8,512
Contract Retainage Payable	3,220	1,020
Accrued Interest	3,826	4,266
Other	622	270
Total	$ 29,157	$ 29,572

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 $4,049 and $4,462 for the years ended June 30, 2017 and 2016, respectively.

Minimum future lease payments on operating leases at June 30, 2017 were:

For the year ending June 30,	
2018	3,707
2019	3,324
2020	2,828
2021	2,169
2022	1,473
2023-2027	2,147
2028-2032	1,261
2033-2037	1,261
2038-2042	1,259
2043-2047	1,256
2048-2052	1,256
2053-2057	1,256
2058 and After	4,877
Total Minimum Operating Lease Payments	$ 28,074

8. LONG-TERM LIABILITIES

The State of Oregon issues various debt instruments to support PSU capital projects. Under grant agreements with the State, PSU benefits from the proceeds of State of Oregon Articles XI-G and XI-Q General Obligation Bonds issued on its behalf on a cost reimbursable basis. As PSU incurs eligible capital expenditures to be reimbursed under these programs, capital State grants revenue is recognized.

The State of Oregon also issues Article XI-F(1) debt to support PSU capital projects. As PSU revenues are utilized to service debt on XI-F(1) bonds yet the State of Oregon is the issuer of the bonds, this debt is reflected as PSU's obligation 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 discretely presented component unit 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 income or expense upon issuance and any gains or losses resulting from refundings are also immediately recognized as income or expense.

Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

Long-term liability activity was as follows for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	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)	$ 196,501	$ 152	$ (10,905)	**$ 185,748**	$ 9,478	$ 176,270
Certificates of Participation (COPs)	21,146	-	(929)	**20,217**	966	19,251
Oregon Department of Energy Loans (SELP)	38,669	-	(2,264)	**36,405**	2,454	33,951
Local Improvement District Obligations	3,387	-	(263)	**3,124**	273	2,851
Total Long-Term Debt	259,703	152	(14,361)	**245,494**	13,171	232,323
Other Noncurrent Liabilities						
PERS pre-SLGRP pooled Liability	16,838	-	(783)	**16,055**	783	15,272
Compensated Absences	9,345	437	-	**9,782**	8,871	911
Other Postemployment Benefits	3,358	113	-	**3,471**	-	3,471
Total Other Noncurrent Liabilities	29,541	550	(783)	**29,308**	9,654	19,654
Total Long-Term Liabilities	$ 289,244	$ 702	$ (15,144)	**$ 274,802**	$ 22,825	$ 251,977

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
Local Improvement District Obligations	3,584	56	-	(253)	**3,387**	263	3,124
Total Long-Term Debt	242,415	39,496	(10,359)	(11,849)	**259,703**	12,255	247,448
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)	**-**	-	-
Total Other Noncurrent Liabilities	30,079	460	-	(998)	**29,541**	8,786	20,755
Total Long-Term Liabilities	$ 272,494	$ 39,956	$ (10,359)	$ (12,847)	**$ 289,244**	$ 21,041	$ 268,203

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

Future debt service is as follows at June 30, 2017:

For the Year Ending June 30,	Due to State XI-F(1)	SELP	COPs	LIDs	Total Payments	Principal	Interest
2018	$ 16,958	$ 4,084	$ 2,125	$ 397	$ 23,564	$ 12,247	$ 11,317
2019	17,198	4,073	2,034	397	23,702	13,046	10,656
2020	16,489	3,811	1,906	346	22,552	12,373	10,179
2021	16,414	3,571	1,907	295	22,187	12,643	9,544
2022	16,166	3,482	1,909	296	21,853	12,689	9,164
2023-2027	76,537	17,410	9,330	1,479	104,756	69,180	35,576
2028-2032	58,306	12,145	8,747	752	79,950	60,269	19,681
2033-2037	33,841	-	4,906	-	38,747	30,060	8,687
2038-2042	23,621	-	-	-	23,621	21,189	2,432
Accreted Interest						1,798	(1,798)
						$ 245,494	$ 115,438
Total Future Debt Service	**275,530**	**48,576**	**32,864**	**3,962**	**360,932**		
Less: Interest Component of Future Payments	(89,782)	(12,171)	(12,647)	(838)	(115,438)		
Principal Portion of Future Payments	**185,748**	**36,405**	**20,217**	**3,124**	**245,494**		
Total Long-Term Debt	**$ 185,748**	**$ 36,405**	**$ 20,217**	**$ 3,124**	**$ 245,494**		

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

A. Notes Payable for 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.

During 2017, the State of Oregon refunded certain Article XI-F(1) bonds resulting in a $2,168 decrease in the associated notes payable. As a result, PSU recognized a $2,168 gain presented in Gain Arising from Activity on State Issued Bonds in the SRECNP. During the year ended June 30, 2016, no refundings occurred that impacted PSU.

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. Refer to Note 18 for additional information regarding the Broadway Housing building acquisition.

During the year ended June 30, 2016, PSU recognized as Gain Arising from Activity on State Issued Bonds in the SRECNP the $5,630 premium on the XI-F(1) bonds issued on its behalf for the purchase of the Broadway Housing building.

In 2016, a net benefit was reflected in the SRECNP as a Special Item 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 as a result of the accounting requirements described above.

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 PSU or the former OUS since fiscal year 2010.

D. 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.

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

E. 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. 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 $1,192 and $1,183 for June 30, 2017 and 2016, respectively. Principal payments of $783 and $602 were applied to the liability for June 30, 2017 and 2016 respectively.

9. RECLASSIFICATIONS

Certain reclassifications were made to the June 30, 2016 results in order to conform to the current year presentation.

10. INVESTMENT ACTIVITY

Investment Activity detail is as follows:

	June 30, 2017	June 30, 2016
Investment Earnings	$ 4,249	$ 2,273
Royalties and Technology Transfer Income	848	1,073
Endowment Income	60	53
Net Appreciation (Depreciation) of Investments	(2,142)	1,044
Total Investment Activity	$ 3,015	$ 4,443

11. OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses are reported in the SRECNP by their functional classification. The following displays operating expenses by natural classification:

	June 30, 2017	June 30, 2016
Compensation and Benefits	$ 336,407	$ 348,991
Services and Supplies	106,538	114,260
Scholarships and Fellowships	33,752	35,896
Depreciation and Amortization	26,063	25,884
Other Expenses	1,535	738
Total Operating Expenses	$ 504,295	$ 525,769

12. GOVERNMENT APPROPRIATIONS

Government appropriations, including capital grants and debt related appropriations, were comprised of the following:

	June 30, 2017				June 30, 2016			
	General Operations	Capital Projects Related	Debt Service	Total	General Operations	Capital Projects Related	Debt Service	Total
State General Fund	$ 86,595	$ 45,550	$ 2,241	$ 134,386	$ 81,567	$ 21,079	$ 2,241	$ 104,887
State Lottery Funding	1,139	-	-	1,139	1,139	-	-	1,139
Total Appropriations	$ 87,734	$ 45,550	$ 2,241	$ 135,525	$ 82,706	$ 21,079	$ 2,241	$ 106,026

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 a second tier 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 238A creating the Oregon Public Service Retirement Plan (OPSRP), which covers employees hired into eligible positions on or after August 29, 2003. 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. For the years ended June 30, 2017 and 2016, the Tiers One and Two general service contribution rate was 13.28 percent and was 16.60 percent for police service.

OPSRP contribution requirements are established by ORS and may be amended by an act of the Oregon Legislature. OPSRP collects contributions from both employers and employees for the purpose of funding retirement benefits. 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 years ended June 30, 2017 and 2016 were 7.31 percent for general service and 11.42 percent for police service.

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."

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 6.0 percent. Payroll assessments for the fiscal years ended June 30, 2017 and 2016 were $6,742 and $6,734, 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 http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx or by calling 1-888-320-7377 or 1-503-598-7377 (in Portland Metro area).

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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

	2017	2016
ORP Tiers 1 & 2	20.45%	20.45%
OPSRP Equivalent (general service)	7.94%	7.94%
OPSRP Equivalent (police)	12.05%	12.05%
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.

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. As of June 30, 2017 and 2016, the plan was fully funded and is currently being terminated.

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

SUMMARY OF PENSION PAYMENTS

PSU total payroll for the year ended June 30, 2017 was $219,982, of which $179,682 was subject to retirement contributions. PSU total payroll for the year ended June 30, 2016 was $213,413, of which $173,717 was subject to retirement contributions. The following schedule lists payments made by PSU for the fiscal year:

	2017				2016			
	Employer	Percent of Covered Payroll	Employee Contribution	Percent of Covered Payroll	Employer	Percent of Covered Payroll	Employee Contribution	Percent of Covered Payroll
PERS/OPSRP	$ 9,345	5.20%	$ 6,786	3.79%	$ 8,566	4.93%	$ 6,547	3.78%
ORP	7,851	4.37%	3,859	2.15%	7,822	4.50%	3,744	2.16%
Tiaa-Cref	80	0.04%	80	0.04%	83	0.05%	83	0.05%
SRP	138	0.08%	-	0.00%	138	0.08%	-	0.00%
Total	$ 17,414	9.69%	$ 10,725	5.98%	$ 16,609	9.56%	$ 10,374	5.99%

Of the employee share, the employer paid $6,454 of PERS/OPSRP, $3,561 of ORP and $80 of TIAA-CREF during the fiscal year ended June 30, 2017. 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.

DEFINED BENEFIT PLANS

The disclosures and amounts presented below are based on the actuarial valuation performed as of December 31, 2014 rolled forward to the June 30, 2016 measurement date. Pension expense for the defined benefit plans was $27,644 and $49,654 for the years ended June 30, 2017 and 2016, respectively.

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 (1.67 percent for general service employees and 2.0 percent for police employees) is multiplied by the number of years of creditable 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 members). General service employees may retire after reaching age 55. Police 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 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.

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 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 is capped at 2.0 percent consistent with the April 2015 Oregon Supreme Court ruling described under "Changes in Plan Provisions and Oregon Supreme Court Ruling" below.

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

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 of 6.0% during fiscal years 2017 and 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, 2017 and 2016 were $9,345 and $8,566, 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/Pages/Financials/Actuarial-Financial-Information.aspx

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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

Valuation date	December 31, 2014 rolled forward to June 30, 2016 measurement date and 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	2.50 percent (reduced from 2.75%)
Investment rate of return	7.50 percent (reduced from 7.75%)
Discount rate	7.50 percent (reduced from 7.75%)
Projected salary increases	3.50 percent (reduced from 3.75%)
Mortality	*Healthy retirees and beneficiaries:* RP-2000 sex-distinct, generational per Scale BB, 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 (70% for males, 95% for females) of the RP-2000 sex-distinct generational per Scale BB disabled mortality table.

(Source: June 30, 2016 PERS CAFR; p. 68, 97, 98, 106)

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 December 31, 2014.

Discount Rate

The discount rate used to measure the total pension liability reported at June 30, 2017 was 7.50 percent compared to 7.75 percent at June 30, 2016. 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, 2016 PERS CAFR; p. 63)

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

Long-Term Expected Rate of Return:

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by 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, 2016 PERS CAFR; p. 66)

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00	3.61
Bank/Leveraged Loans	3.00	5.42
High Yield Bonds	1.00	6.20
Large/Mid Cap US Equities	15.75	6.70
Small Cap US Equities	1.31	6.99
Micro Cap US Equities	1.31	7.01
Developed Foreign Equities	13.13	6.73
Emerging Market Equities	4.12	7.25
Non-US Small Cap Equities	1.88	7.22
Private Equity	17.50	7.97
Real Estate (Property)	10.00	5.84
Real Estate (REITS)	2.50	6.69
Hedge Fund of Funds - Diversified	2.50	4.64
Hedge Fund - Event-driven	0.63	6.72
Timber	1.88	5.85
Farmland	1.88	6.37
Infrastructure	3.75	7.13
Commodities	1.88	4.58
Assumed Inflation – Mean		2.50%

F. Sensitivity Analysis:

	June 30, 2017			June 30, 2016		
Sensitivity of Net Pension Liability to Changes in the Discount Rate	**1% Decrease**	**Current Discount Rate**	**1% Increase**	**1% Decrease**	**Current Discount Rate**	**1% Increase**
	6.50%	7.50%	8.50%	6.75%	7.75%	8.75%
PSU's Proportionate Share Net Pension Liability	$233,831	$ 144,817	$ 70,417	$127,049	$ 52,642	$ (10,064)

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 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*.

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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:

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%
Real Estate	9.5%	15.5%	12.5%
Private Equity	13.5%	21.5%	17.5%
Alternative Equity	0.0%	12.5%	12.5%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			100.0%

(Source: June 30, 2016 PERS CAFR, p. 86)

Investments are recognized at fair value, the amount that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Refer to June 30, 2016 PERS CAFR p. 39 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 PERS 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, 2016 measurement date, PERS did not hold investments in any one organization that represent 5 percent of more of PERS' fiduciary net position or total investments.

Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

G. Changes in Plan Provisions and Oregon Supreme Court Ruling:

On April 30, 2015, the Oregon Supreme Court declared Senate Bills 822 and 861 unconstitutional insofar 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. This impact was reflected in the June 30, 2015 measurement of the collective pension liability and consequently, in PSU's net pension liability beginning June 30, 2016. 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.

H. 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, 2016, deferred items were due to the following:

- A difference between expected and actual experience
- Changes in assumptions
- Changes in employer proportion since the prior measurement date
- Difference between employer's contributions and employer's proportionate share of contributions
- Difference between projected and actual earnings
- Contributions subsequent to the measurement date of June 30, 2016

Experience gains and losses, changes in assumptions, changes in employer's proportionate share of contributions and changes in employer proportion since the measurement date are amortized over the remaining service lives of all plan participants, including retirees, with one year's amortization included in pension expense in the year in which the deferred item arose. The average remaining services lives were 5.3 years at the June 30, 2016 measurement date.

Differences between projected and actual earnings are amortized over a closed five-year period with one year's amortization recognized in the year in which the difference arose.

Contributions subsequent to the measurement date will be fully recognized as a reduction of net pension liability in the subsequent year.

(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, 2017		June 30, 2016	
	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	$ 2,756	$ (2,578)	$ 1,347	$ (1,782)
Changes in assumptions	30,886	-		
Differences between expected and actual earnings on pension plan investments	28,610	-	-	(11,035)
Differences between expected and actual experience	4,791	-	2,839	
Employer's contributions subsequent to measurement date	9,345	-	8,566	0
	$ 76,388	$ (2,578)	$ 12,752	$ (12,817)

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

PSU net deferred inflows to be recognized over the next five years and thereafter is as follows as of June 30, 2017:

Net deferred outflows to be recognized over next five years and thereafter:		
2018	$	15,402
2019		15,402
2020		15,376
2021		15,665
2022		2,620
Thereafter		-
Total future expense	$	64,465
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, 2018	$	9,345

I. 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:

http://www.oregon.gov/pers/EMP/Pages/GASB.aspx

J. Net Pension Liability:

Net pension liabilities are calculated at the system-wide level and are allocated to employers based on their proportionate share using the methodology described in the PERS GASB No. 68 independent auditors' report that can be found at the link provided above. As of the December 31, 2015 actuarial valuation, PERS has a funded ratio of 78.7 percent for the defined benefit plan it administers, including employer side accounts, and 71.3 percent excluding employer side accounts. PSU's system-wide share of the defined benefit pension obligation was as follows:

	June 30, 2017	June 30, 2016
Employer's proportionate share of collective net pension liability	$ 144,817	$ 52,642
Employer's proportionate % share of collective net pension liability	0.96%	0.92%
Employer's pension expense	$ 27,644	$ 49,654

L. Changes in Plan Provisions Subsequent to Measurement Date:

Effective January 1, 2016, the assumed investment rate of return was reduced to 7.50% from 7.75%. 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 investment rate of return 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, 2017 and 2016, 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, 2017 and 2016. This allocation was based on health insurance premiums paid by state agencies during fiscal year 2017 and 2016.

Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

Funding Policy. PSU's current policy is to pay the implicit rate subsidy on a pay-as-you-go basis. For fiscal years 2017 and 2016, healthcare insurance premiums were $38,614 and $36,888, respectively. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be $196 and $221 for the fiscal years ended 2017 and 2016, 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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

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

	June 30, 2017	June 30, 2016
Annual Required Contribution	$ 3,742	$ 3,690
Interest on Net OPEB Obligation	120	135
Adjustment to Annual Required Contribution	(3,553)	(3,990)
Annual OPEB Cost	309	(165)
Contributions Made	(196)	(221)
Increase in Net OPEB Obligation	113	(386)
Net OPEB Obligation - Beginning of Year	3,358	3,744
Net OPEB Obligation - End of Year	$ 3,471	$ 3,358

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, 2017 and 2016 was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	$ 309	9%	$ 3,471
2016	(165)	-5%	3,358
2015	498	13%	3,744

Funding Status and Funding Progress. The funded status of the PSU OPEB plan for June 30, 2017 and 2016 was as follows:

	June 30, 2017	June 30, 2016
Actuarial Accrued Liabilities	$ 3,356	$ 3,385
Actuarial Value of Plan Assets	-	-
Unfunded Actuarial Accrued Liability	$ 3,356	$ 3,385
Funded Ratio	0%	0%
Covered Payroll (active plan members)	$ 179,682	$ 173,717
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	1.87%	1.95%

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, 2017 and 2016 (dollars in thousands)

Significant methods and assumptions were as follows:

	June 30, 2017	June 30, 2016
Actuarial Valuation Date	7/1/2015	7/1/2015
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar	Level Dollar
Amortization Period	1 year (open)	1 year (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)	5.1% (medical), 2.3% (dental)
Ultimate Healthcare Inflation Rates	5.0% (medical), 5.0% (dental)	5.0% (medical), 5.0% (dental)

15. 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.

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 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 PURMIT 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 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 per occurrence for real property liability before excess coverage applied.

PURMIT covers up to $250 per occurrence for licensed professional liability and up to $250 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. PSU has not incurred losses above covered amounts.

16. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed and planned construction projects totaled approximately $119,778 at June 30, 2017, including portions of the projects that may not ultimately be capitalized as property, plant and equipment. These commitments will be primarily funded from gifts, grants and bond proceeds and are summarized as follows as of June 30, 2017:

	Total Commitment	Completed to Date	Outstanding Commitment
Neuberger Hall Renovation	$ 70,003	$ 2,958	$ 67,045
Capital Repair	34,232	18,112	16,120
Peter W. Stott Center & Viking Pavillion renovation	51,786	26,489	25,297
Karl Miller Center (School of Business renovation and expansion)	63,583	54,906	8,677
Projects w ith <$500 thousand remaining to be spent	8,890	6,251	2,639
	$ 228,494	$ 108,716	$ 119,778

On July 19, 2017, the Governor of Oregon signed into law funding authorization for what is referred to as PSU's Graduate School of Education project to be newly constructed at 4th Avenue and Montgomery Street in Portland. The facility will be a seven to ten story mixed use building with approximately 205,000 gross square feet of space. The project includes the design and construction of a new building, including equipment and furnishings. The project involves partnership commitments from Portland Community College, City of Portland and Oregon Health and Science University. The State of Oregon authorized issuance of a mix of Article XI-G, XI-Q, XI-(F)(1) General Obligation Bonds totaling $51 million for which PSU will be obligated to match $9 million. The Fourth and Montgomery building is expected to be ready for use by September 2020.

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, 2017, such amounts are not expected to be material.

Refer also to Note 18 for commitments associated with the PSU Foundation.

17. SUBSEQUENT EVENTS

No events have occurred subsequent to June 30, 2017 and through the date of these financial statements that would require adjustment to, or disclosure in, the financial statements. Refer to Note 4 for information regarding PSU's termination of the Perkins loan program and to Note 16 regarding PSU's 4th Avenue and Montgomery Street project.

18. 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.

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, 2017 and 2016, PSU transferred $6,964 and $6,760, respectively, to the PSU Foundation to support its operations. PSU's financial support to the PSU Foundation is expected to be $7,202 during the year ended June 30, 2018. This includes the impact of PSU's agreement 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, 2017 and 2016, gifts of $15,369 and $17,278, respectively, were transferred from the PSU Foundation to PSU. Included in the gifts received from the PSU Foundation during the years ended June 30, 2017 and 2016 were $3,582 and $6,145 of cash contributed by certain members of the PSU Board of Trustees and their affiliates.

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 has continued 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 income during 2016 as described in Note 8.

Although PSU does not control the timing or amount of receipts from the PSU 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 Statements of Financial Position and Statements of Activities for the PSU component unit financial statements. The PSU affiliated foundation is audited annually and received an unqualified audit opinion on both fiscal years presented. Complete financial statements for the PSU Foundation may be obtained by writing to the following: Portland State University Foundation, 2125 SW Fourth Avenue, Suite 510, Portland, OR 97201.

Required Supplementary information (dollars in thousands)

Defined Benefit Pension Plans*

	2017	2016	2015	2014
Employer's proportionate % share of collective net pension asset or liability	0.96%	0.92%	0.92%	0.92%
Employer's proportionate share of collective net pension asset (liability)	$ (144,817)	$ (52,642)	$ 20,769	$ (46,757)
Covered employee payroll	$ 179,682	$ 173,717	$ 165,306	$ 166,914
Employer's share of net pension asset (liability) as a percentage of covered payroll	-81%	-30%	13%	-28%
Plan fiduciary net position as a percentage of the total pension liability	80.5%	91.9%	103.6%	not avail.
Statutorily required employer contributions	$ 9,345	$ 8,566	$ 7,315	$ 7,586
Employer contributions recognized	$ 9,345	$ 8,566	$ 7,315	$ 7,586
Contribution Excess (Deficiency)	$ -	$ -	$ -	$ -
Employer contributions recognized as a percentage of covered payroll	5.2%	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%
6/30/2017	-	3,356	3,356	0.0%	179,682	1.9%

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

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Portland State
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