2018 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.

Teaming with Portland businesses, PSU CO-OP is a new and optional track for our students to gain paid work experiences through a formal, university-wide cooperative education program.

MESSAGE FROM THE PRESIDENT

DURING MY FIRST YEAR AS PRESIDENT of Portland State University, I have been truly fascinated and enlightened by listening to the many diverse voices in our unique community. Seeing PSU through their eyes lent me valuable insight into our greatest successes and our most critical challenges here. In response, I have determined that my first priority, and the focus of my second year in office, must be to develop our **Pathway to Student Success** program.

We say that PSU is **Oregon's access university**, because we are the state leader in providing educational opportunities to all students, notably first-generation, non-traditional, low-income, and historically under-represented students. Research tells us the support most needed by these students falls into four categories: financial support, engagement, mentorships, and advising. The Pathway to Student Success program is designed specifically to deliver these services to our students.

These aforementioned elements of student success will be supplied through several of our new initiatives, two of them we just launched: **PSU CO-OP**, and **Presidential Research Centers of Excellence**.

- In partnership with a variety of Portland businesses, PSU CO-OP is a new, optional track that allows our students to gain paid work experiences through a university-wide cooperative education program.
- Two new Presidential Research Centers of Excellence—the Homelessness Research and Action Collaborative, and the Digital City Testbed Center—began their work this October with seed funding from the university, creating opportunities for PSU students to engage in projects of great importance to our city, and beyond.

Together, these new programs will help relieve financial pressures on students, connect them with mentors, engage them in beneficial career-related work, and provide advisors and research opportunities to accelerate their experiential learning.

Investing in deserving students always yields results, and our recent investments in PSU's bright students have already begun to show returns. In 2017, we debuted the Four Years Free Program, which covers tuition and fees for high-performing first-time freshmen who qualify for federal or state funding. The retention rate for that first class of Four Years Free freshmen—81.5 percent—is nearly 10 percent higher than the overall rate for freshmen. This year, we welcome our first class of Transfers Finish Free students, with an impressive 1,171 transfers enrolled in the new program.

These are the highlights of our student success projects, and there are too many others to name here. Central to the viability of these programs is the effort of PSU innovative faculty and staff, and our work with the dedicated staff of the PSU Foundation, in launching the public phase of our first Comprehensive Campaign in October. This philanthropic support will be critical in enabling us to provide more of the services we know help students successfully complete their studies, having also gained invaluable real-world experience.

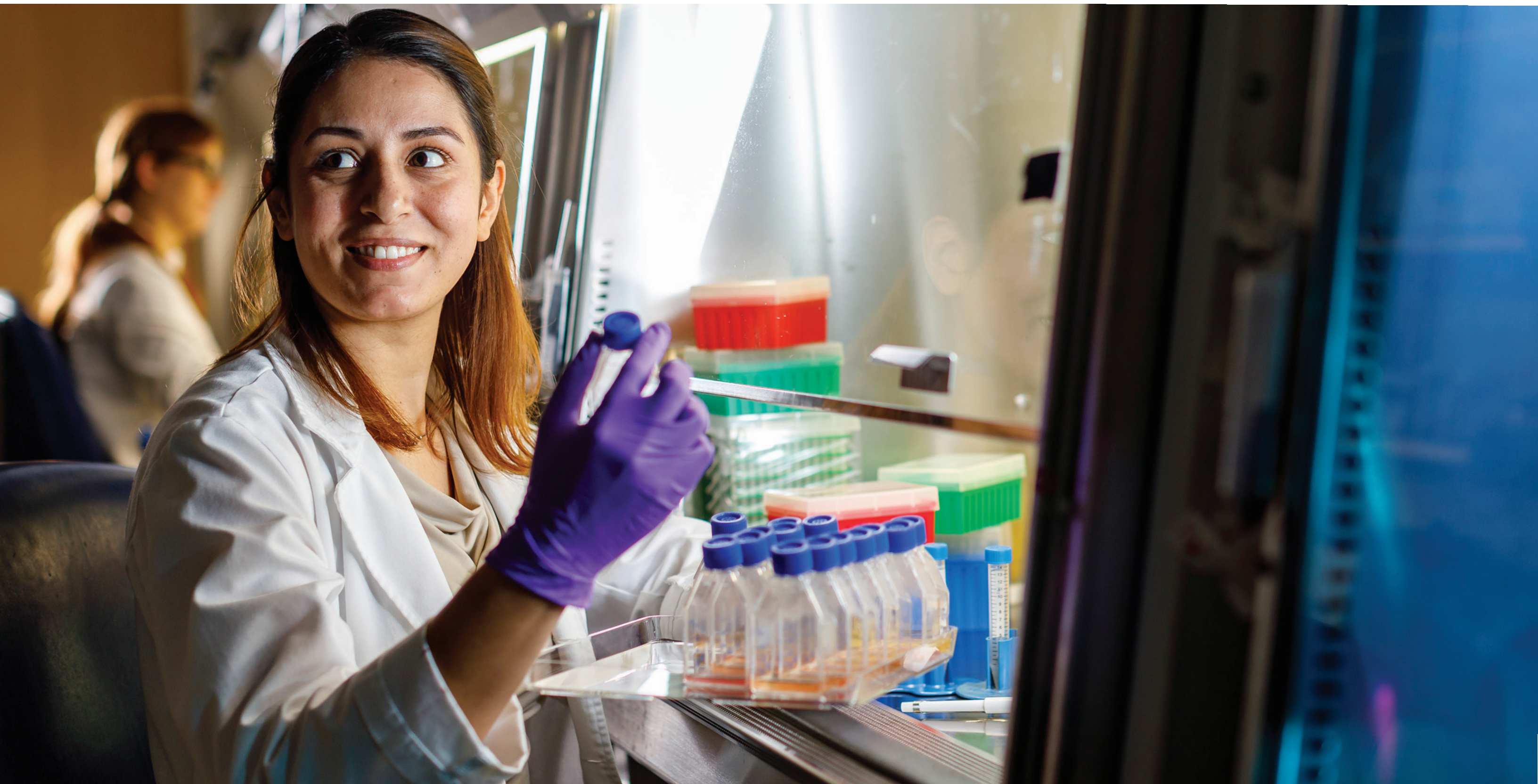
We are continuing to promote an evolving campus environment that effectively supports student success. Last year, we improved our physical infrastructure with the opening of the Karl Miller Center and the Viking Pavilion at the Peter W. Stott Center. This year, we look forward to additional state and philanthropic support for two new building projects: construction of a multi-use building at 4th and Montgomery, and a complete, much-needed restoration of our largest academic facility.

As I embark on my second year of presidency at PSU, I look forward to the great pleasure of listening to, learning from, and working with our entire extended university community, to meet our challenges and expand our horizons as we continue our quest to Let Knowledge Serve the City and the Global Community.

Rahmat Shoureshi
President, Portland State University

2018 Campus **HIGHLIGHTS**

- The recently launched **PSU CO-OP** is a cooperative education program where college students work in paid jobs related to their major and combine classroom education with career experiences at Portland-area businesses. Students alternate periods of academic study with full- or part-time employment in paid positions that are related to their career interests. Co-op positions can last six months to a year or longer.
- Portland State announced two new **university research centers** focused on solving some of Portland's biggest challenges.
  - The **Homelessness Research & Action Collaborative** harnesses the power of faculty expertise and research to find solutions to reduce homelessness, understand its root causes, and use evidence-based science to empower community leaders, elected officials, frontline-service providers, and advocates to make informed decisions.
  - The **Digital City Testbed Center** explores how technology can make cities more safe, accessible, economically viable, healthy, and climate-friendly, while also addressing concerns about privacy, security, and equity.
- The new **Transfers Finish Free** program offers free tuition to low-income Oregon college students transferring to PSU. They must be eligible for the federal Pell Grant and enroll full-time upon transferring. The program comes on the heels of **Four Years Free**, a similar offering for low-income Oregon freshmen students introduced in fall 2016, which enrolled more than 500 eligible students in fall 2017.
- In fiscal year 2018, donors committed **$42.6 million** to support PSU students, faculty, programs and facilities, exceeding the $38 million PSU Foundation fundraising goal. This represents a 16 percent increase over the previous year. $38.5 million was raised in cash—outright gifts and payments on pledges and deferred gift commitments. This is the largest cash year in PSU Foundation history.
- Three new **student success initiatives** were rolled out to relieve some of the stress students feel around going to college and getting their degree. Using the redesigned **myPSU app** for mobile devices, students can plan their courses better and keep track of tasks and deadlines. A new model for undergraduate advising called **Advising Pathways** allows students to get an adviser either by major or by one of seven exploratory pathways that are grouped by related majors. And using the new **Interactive Degree Maps**, students can compare different majors and academic pathways by time and cost to make choices and decisions about what to study.



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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, 2018 and 2017, 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 2018 and 2017 financial statements of the discretely presented component unit, the Portland State University Foundation (the Foundation). Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended June 30, 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of this standard, the University reported a restatement for the change in accounting principle (see Note 9 to the financial statements). As of July 1, 2017, the University's net position was restated to reflect the impact of this adoption. Fiscal year 2017 was not restated for this change in accounting principle due to the fact that information was not available to the University to restate net position as of July 1, 2016. Our auditors' opinion was not modified with respect to the restatement

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the Schedule of University Defined Benefit Pension Employer Contributions, the Schedule of University PERS Defined Benefit Pension Proportionate Share of Net Pension Liability, the Schedule of University PERS RHIA OPEB Employer Contributions, the Schedule of University's Proportionate Share of the Net PERS RHIA OPEB Asset, the Schedule of University PERS RHIPA OPEB Employer Contribution, the Schedule of University's Proportionate Share of the Net PERS RHIPA OPEB Liability, and the Schedule of University's Proportionate Share of the Total PEBB OPEB Liability, collectively referred to as required supplementary information, 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 15, 2018

Management's Discussion and Analysis
For the Years Ended June 30, 2018, 2017 and 2016 (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, 2018, 2017 and 2016.

Annual Full Time Equivalent Student Enrollment Summary

	2018	2017	2016	2015	2014
Annual FTE	**20,653**	20,995	21,206	21,389	21,546

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 18.

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. All references to other postemployment benefits (OPEB) are associated with postemployment benefits other than pensions accounted for under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB No. 75), which was adopted at the beginning of fiscal year 2018. Pension and OPEB expense under GASB Nos. 68 and 75 are actuarially determined while PSU tuition setting and State appropriations are generally based on cash contributions to the plans.

Financial Net Position Summary

Net Position decreased $5 million in 2018 compared to a $47 million increase in 2017. The decrease in 2018 was primarily due to pension expense, the closeout of the Federal Perkins Loan Program and a prior period adjustment resulting from the adoption of GASB No. 75 for OPEB, partially offset by capital grant revenues from the State of Oregon and higher State of Oregon appropriations.

Net Position increased $47 million during 2017 primarily due to capital grant revenues from the State of Oregon associated with the Karl Miller Center and the Peter Stott Center & Viking Pavilion renovation.

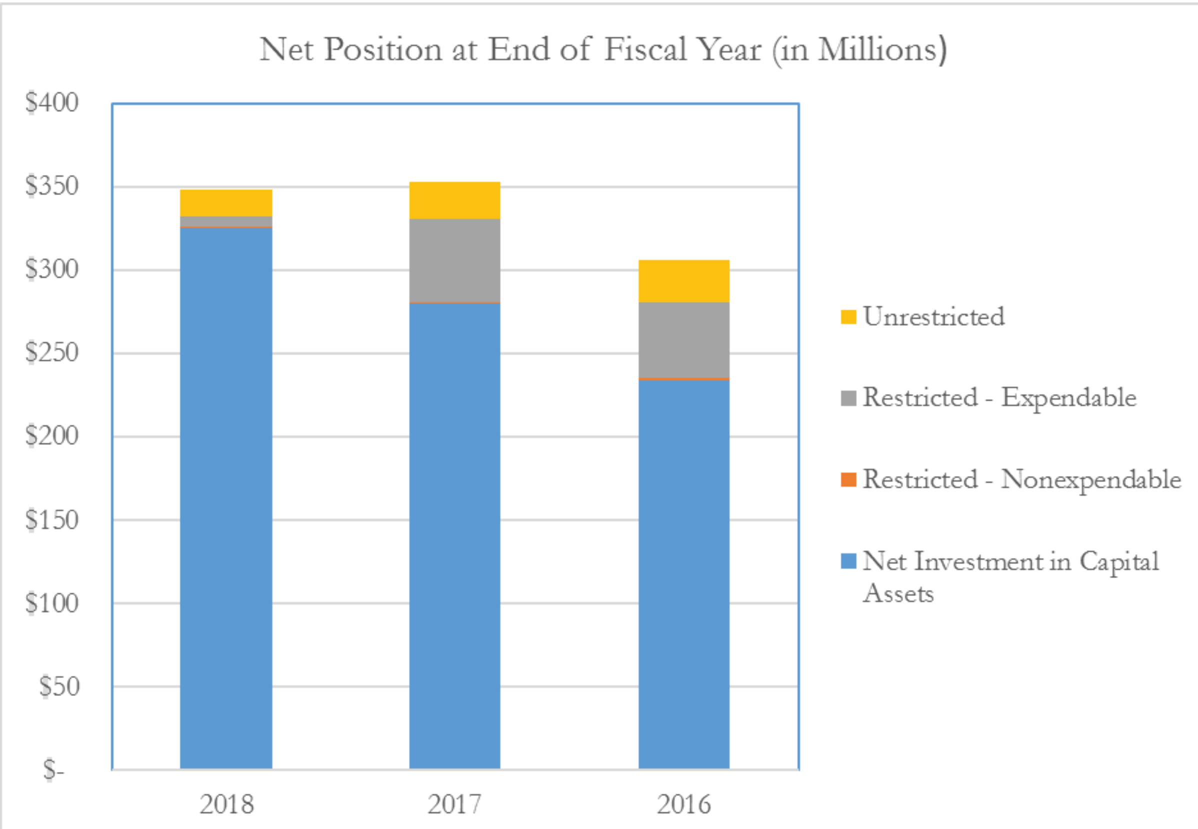
Statements of Net Position

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 (in millions)

As of June 30,	**2018**	2017	2016
Current Assets	**$ 140**	$ 143	$ 123
Noncurrent Assets, excluding Capital Assets, Net	**112**	117	114
Capital Assets, Net	**553**	520	487
Total Assets	**$ 805**	$ 780	$ 724
Deferred Outflows of Resources	**$ 54**	$ 76	$ 13
Current Liabilities	**$ 105**	$ 96	$ 90
Noncurrent Liabilities	**403**	405	328
Total Liabilities	**$ 508**	$ 501	$ 418
Deferred Inflows of Resources	**$ 3**	$ 2	$ 13
Net Investment in Capital Assets	**$ 325**	$ 280	$ 234
Restricted - Nonexpendable	**1**	1	1
Restricted - Expendable	**6**	50	46
Unrestricted	**16**	22	25
Total Net Position	**$ 348**	$ 353	$ 306

The following graph presents the composition of net position at June 30, 2018, 2017 and 2016.



Total Net Position

Total Net Position decreased $5 million to $348 million at June 30, 2018, including a $4 million prior period adjustment resulting from the adoption of GASB No. 75. Total Net position increased $47 million to $353 million at June 30, 2017. The components of Total Net Position changed as follows:

- **Net Investment in Capital Assets** increased $45 million during 2018 to $325 million due to net capital asset additions of $61 million and repayments of long-term debt of $12 million, partially offset by $27 million of depreciation expense and $1 million in retirements. Net investment in Capital Assets increased $46 million during 2017 to $280 million due to net capital asset additions of $60 million and reductions in long-term debt of $13 million, partially offset by $26 million of depreciation expense and $1 million of retirements.
- **Net Position Restricted for Nonexpendable Endowments** was consistent from year to year.
- **Restricted Expendable Net Position** decreased $44 million during 2018 to $6 million primarily due to spend down of gift, sponsorship and other funds for the Peter Stott Center & Viking Pavilion renovation, the Karl Miller Center (PSU's School of Business renovation and expansion) and the Neuberger Hall renovation, as well as due to the closeout of the Federal Perkins Loan Program discussed at Note 4. Restricted Expendable Net Position increased $4 million during 2017 to $50 million primarily due to funds restricted for PSU's Neuberger Hall renovation project.

- **Unrestricted Net Position** decreased $6 milling during 2018 to $16 million primarily due to pension expense under GASB No. 68 and a $4 million prior period adjustment from the adoption of GASB No. 75, partially offset by increased Cash and Cash Equivalents and Investments not associated with amounts restricted for capital projects in part due to a $6 million increase in State of Oregon appropriations. Unrestricted Net Position decreased $3 million during 2017 to $22 million primarily due 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.

Total Assets and Liabilities

Total Assets increased $25 million, or 3%, and $56 million, or 8%, during the years ended June 30, 2018 and 2017, respectively. Total Liabilities increased $7 million, or 1%, and $83 million, or 20%, during 2018 and 2017, respectively. Current Assets exceeded Current Liabilities at both June 30, 2018 and 2017.

- **Current Assets** decreased $3 million, or 2%, and increased $20 million, or 16%, during 2018 and 2017, respectively. The decrease during 2018 was primarily due to an $11 million decrease in amounts Due from Primary Government mainly due to the winding down of the Peter Stott Center & Viking Pavilion and Karl Miller Center projects, partially offset by an increase due to ramping up of the Neuberger Hall renovation. This net increase was partially offset by a $7 million increase in Cash and Cash Equivalents. 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.
- **Noncurrent Assets**, excluding Capital Assets, Net of Accumulated Depreciation, decreased $5 million during 2018 due to the closeout of the Federal Perkins loan Program. Noncurrent Assets, excluding Capital Assets, Net of Accumulated Depreciation increased $3million during 2017 primarily due to an increase in Investments.
- **Capital Assets, Net** increased $33 million during both 2018 and 2017. See "Changes to Capital Assets" in this MD&A for additional information.
- **Deferred Outflows of Resources** decreased $22 million during 2018 compared to an increase of $63 million during 2017. The decrease in 2018 was primarily due to actual plan investment earnings exceeding projections, partially offset by higher post measurement date pension contributions. Deferred outflows at June 30, 2018 also include $1 million as a result of the adoption of GASB No. 75. The increase in 2017 was primarily due to deferred losses associated with changes in assumptions and less-than-projected investment returns associated with PSU's pension obligations.
- **Current Liabilities** increased $9 million in 2018 and $6 million in 2017.
  - **Accounts Payable and Accrued Liabilities** increased $6 million at June 30, 2018 while those outstanding at June 30, 2017 were relatively consistent with June 30, 2016. The increase in 2018 was mainly due to timing of payments and $1 million owed to the U.S. Department of Education as a result of the closeout of the Federal Perkins Loan Program.
  - **Deposits** were relatively consistent from 2017 to 2018 and increased $1 million during 2017 compared to 2016 due to timing of transactions.
  - **Current Portion of Long-Term Liabilities** increased nearly $1 million and $2 million during 2018 and 2017, respectively, due to increases in amounts coming due for notes payable to the State of Oregon for Article XI-F(1) General Obligation Bonds each year.

- The current portion of **Unearned Revenue** increased $1 million during 2018 primarily due to sponsorship fees. The current portion of Unearned Revenue increased $3 million during 2017 primarily due to tuition and fees as a result of the timing of summer term and sponsorship fees.

- **Noncurrent Liabilities** decreased $2 million in 2018 and increased $77 million in 2017.
    - **Net Pension Liability** decreased $4 million during 2018 primarily due to the significant decrease in Deferred Outflows, partially offset by $31 million of pension expense. Net pension liability increased $92 million during 2017 primarily due to deferred losses associated with changes in assumptions, lower-than-expected investment returns and $28 million of pension expense.
    - The **Net Other Postemployment Liability** of $8 million is due to the adoption of GASB No. 75 for OPEB discussed at Notes 1 and 14.
    - **Long-Term Liabilities** decreased $18 million, or 7%, during 2018 primarily due to $13 million of payments on long-term debt and other obligations and $3 million due to the adoption of GASB No. 75, replacing the previous accounting for certain of PSU's other postemployment benefits. 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.
    - The long-term portion of **Unearned Revenue** increased $11 million during 2018 due to over $9 million of grants from Prosper Portland to help fund PSU's Fourth & Montgomery Building project and an anticipated land purchase associated with a future construction project, as well as an additional $2 million of sponsorships. The long-term portion of Unearned Revenue increased $1 million during 2017 primarily due to sponsorship fees.

- **Deferred Inflows of Resources** increased $1 million in 2018 due to changes in pension related deferrals and the adoption of GASB No. 75 for OPEB. Deferred Inflows of Resources decreased $11 million during 2017 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 (in millions)

For the Year Ended June 30,	**2018**	2017	2016
Operating Revenues	**$ 355**	$ 353	$ 352
Operating Expenses	**526**	504	526
Operating Loss	**(171)**	(151)	(174)
Nonoperating Revenues, Net of Nonoperating Expenses	**143**	141	144
Other Expenses, Gains, Losses and Transfers	**27**	57	26
Increase (Decrease) in Net Position	**(1)**	47	(4)
Net Position, Beginning of Year	**353**	306	310
Adjustment to Beginning Net Position, GASB No. 75	**(4)**	-	-
Restated Net Position, Beginning of Year	**349**	306	310
Net Position, End of Year	**$ 348**	$ 353	$ 306

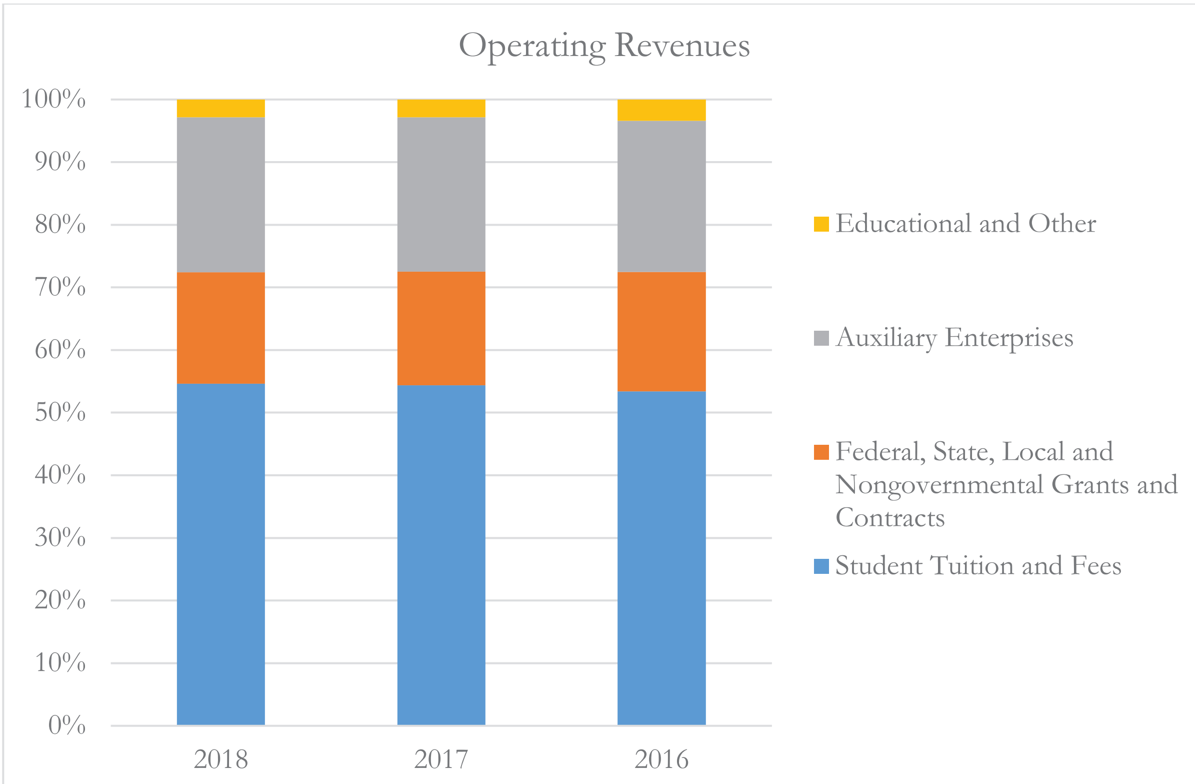
Changes in Net Position

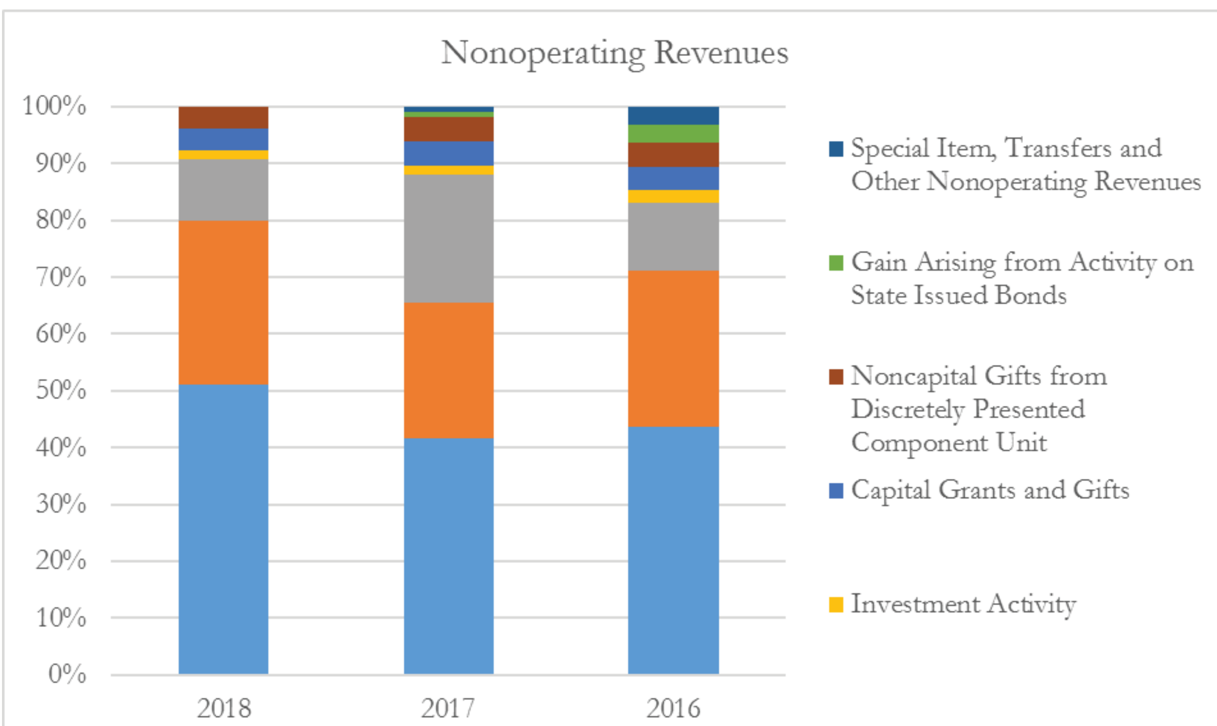
Net Position decreased $5 million during 2018 (including the prior period adjustment related to GASB No. 75), increased $47 million during 2017 and decreased $4 million during 2016. Refer to changes in the components of Net Position under Total Net Position above.

Total Operating, Nonoperating and Other Revenues (in millions)

For the Year Ended June 30,	**2018**	2017	2016
Student Tuition and Fees	**$ 194**	$ 192	$ 188
Federal, State, Local and Nongovernmental Grants and Contracts	**63**	64	67
Auxiliary Enterprises	**88**	87	85
Educational and Other	**10**	10	12
Total Operating Revenues	**355**	353	352
Government Appropriations	**94**	88	83
Financial Aid Grants	**53**	50	52
Investment Activity	**3**	3	4
Gain Arising from Activity on State Issued Bonds	**-**	2	6
Noncapital Gifts from Discretely Presented Component Unit	**12**	10	10
Capital and Debt Related State Appropriations and Grants	**20**	48	23
Capital Grants and Gifts	**7**	9	8
Special Item, Transfers and Other Nonoperating Revenues	**-**	2	6
Total Nonoperating and Other Revenues	**189**	212	192
Total Revenues	**$ 544**	$ 565	$ 544

Total Revenues decreased $21 million, or 4%, in 2018 compared to 2017 and increased $21 million, or 4%, in 2017 compared to 2016. The following graphs present the composition of Operating Revenues and Nonoperating and Other Revenues.


Operating Revenues
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2018
2017
2016
Educational and Other
Auxiliary Enterprises
Federal, State, Local and Nongovernmental Grants and Contracts
Student Tuition and Fees


Nonoperating Revenues
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2018
2017
2016
Special Item, Transfers and Other Nonoperating Revenues
Gain Arising from Activity on State Issued Bonds
Noncapital Gifts from Discretely Presented Component Unit
Capital Grants and Gifts
Investment Activity

Operating Revenues

Operating Revenues increased $2 million, or nearly 1%, to $355 million in 2018 compared to 2017 and increased $1 million, or less than 1%, to $353 million in 2017 compared to 2016 as a result of the changes described below.

Student Tuition and Fees Revenues increased $2 million, or 1%, in 2018 compared to 2017. The increase was primarily due to tuition rate increases of 5.4% and 5.2% for resident and nonresident undergraduate students; tuition rate increases of 9.0% and 5.0% for resident and nonresident graduate students; and a 4.8% in mandatory fees for all students; partially offset by a $2 million increase in remissions. The increase in tuition and fees revenues were further offset by an overall 1.6% decline in student credit hours, including a 2.9% decrease in non-resident student credit hours and a 1.2% decrease in resident student credit hours. Overall annual full time equivalent student enrollment decreased slightly to 20,653 in 2018 from 20,995 in 2017.

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.

Federal, State, Local and Nongovernmental Grants and Contracts Revenues decreased $1 million, or 2%, in 2018 compared to 2017 and $3 million, or 4%, in 2017 compared to 2016.

- Federal Grants and Contracts Revenues decreased $1 million in 2018 compared to 2017 due to changes across a variety awards, including lower revenues from the National Science Foundation. Federal Grants and Contracts Revenue 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.
- State and Local Grants and Contracts Revenues were relatively consistent in 2018 compared to 2017. 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.
- Nongovernmental Grants and Contracts Revenues were relatively consistent in 2018 compared to 2017. Nongovernmental Grants and Contracts Revenues decreased $1 million in 2017 compared to 2016 primarily due to lower revenues from commercial businesses.

Auxiliary Enterprises Revenues increased $1 million, or 1%, in 2018 compared to 2017 primarily due to increases in incidental fees and parking revenues. Auxiliary Enterprises Revenues increased $2 million, or 2%, in 2017 compared to 2016 primarily due to higher parking revenues, higher athletics-related revenues and increases in incidental fees.

Educational and Other Operating Revenues were relatively consistent in 2018 compared to 2017 and decreased $2 million, or 17%, in 2017 compared to 2016. 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.

Nonoperating and Other Revenues decreased $23 million, or 11%, in 2018 compared to 2017 and increased $20 million, or 10%, in 2017 compared to 2016.

- **Government Appropriations Revenues** increased $6 million and $5 million in 2018 and 2017, respectively, due to higher funding received from the State of Oregon, partially offset by being in the first year of the State's biennium in 2018. 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** decreased $28 million in 2018 and increased $25 million in 2017. Activity in both 2018 and 2017 was driven by cost reimbursements from bonds issued by the State of Oregon on behalf of PSU for capital projects. The decrease in 2018 was due to the winding down of the Viking Pavilion & Peter Stott Center and Karl Miller Center projects, partially offset by the ramping up of the Neuberger Hall project. Refer to Note 8 for additional information regarding these grant agreements with the State of Oregon.
- **Financial Aid Grants Revenues** increased $3 million 2018 compared to 2017 primarily due to changes in regulations allowing Pell grants to be used for summer term. Financial Aid Grants Revenues decreased $2 million in 2017 compared to 2016 due to an 8% decline in the number of Pell recipients.
- **Investment Activity** in 2018 was consistent with 2017. Investment Activity decreased $1 million during 2017 compared to 2016 mainly due to unrealized losses on longer-term investments.
- **Capital Grants and Gifts Revenues**, which include capital gifts from the PSU Foundation, decreased $2 million in 2018 compared to 2017 primarily due to lower gifts for the Viking Pavilion & Peter Stott Center and Karl Miller Center projects, partially offset by gifts for the Neuberger Hall renovation. Capital Grants and Gifts Revenues were relatively flat in 2017 compared to 2016.
- **Noncapital Gifts from Discretely Presented Component Unit** increased $2 million in 2018 compared to 2017 and were relatively flat in 2017 compared to 2016.
- **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 of Oregon. 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. No bonds were issued or refunded on behalf of PSU in 2018.
- **Special Item, Transfers and Other Nonoperating** revenues were a net expense in 2018 due to close out of the Federal Perkins Loan Program as described below under Other Nonoperating expense. Special Item, Transfers and Other Nonoperating revenues decreased $4 million in 2017 compared to 2016 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.

Expenses

Operating Expenses

Operating expenses increased $22 million, or 4%, to $526 million during 2018 compared to 2017 primarily due to increases in salaries, wages and employee benefits, including the impact of collective bargaining agreements and the State of Oregon mandated increase to minimum wage. Operating expenses decreased $22 million, or 4%, to $504 million during 2017 compared to 2016. This decrease was due to a $22 million decrease in pension expense in 2017 compared to 2016 as a result of an April 2015 Oregon Supreme Court ruling that significantly increased expense in 2016.

The following summarizes operating expenses by functional classification.

Operating Expense by Function (in millions)

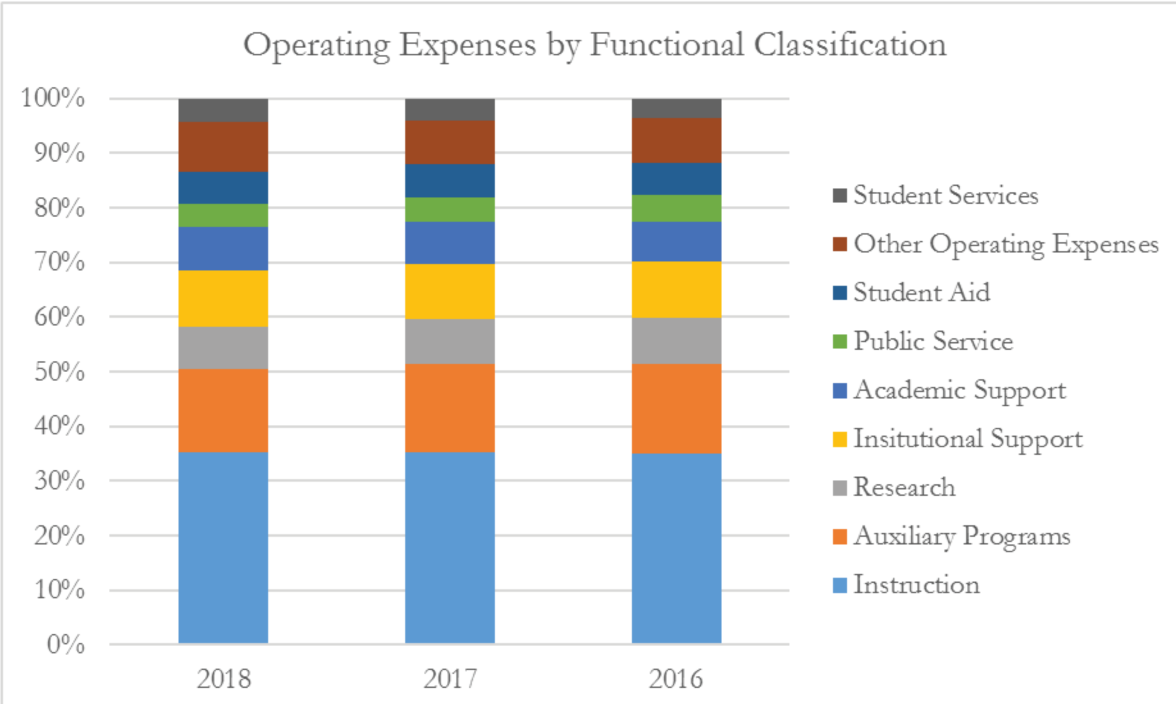
For the Year Ended June 30,	**2018**	2017	2016
Instruction	**$ 185**	$ 178	$ 184
Auxiliary Programs	**81**	81	87
Research	**40**	41	44
Insitutional Support	**55**	51	54
Academic Support	**41**	39	39
Student Aid	**31**	30	31
Public Service	**23**	23	25
Student Services	**23**	20	19
Other Operating Expenses	**47**	41	43
Total Operating Expenses	**$ 526**	$ 504	$ 526

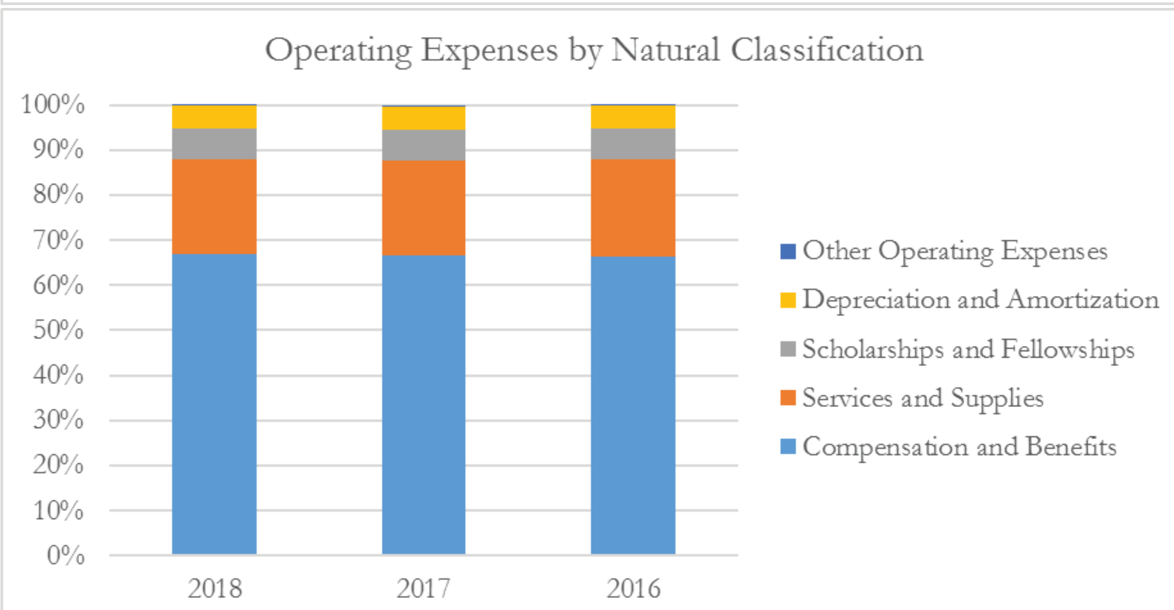
Due to the way in which expenses are incurred by PSU, variances are presented and explained by analyzing changes in the natural classification of expenses. Each natural classification analysis can be applied to many of the functional expense caption items.

The following summarizes operating expenses by natural classification:

Operating Expense by Natural Classification (in millions)

For the Year Ended June 30,	**2018**	2017	2016
Compensation and Benefits	**$ 352**	$ 336	$ 349
Services and Supplies	**112**	106	114
Scholarships and Fellowships	**34**	34	36
Depreciation and Amortization	**27**	26	26
Other Operating Expenses	**1**	2	1
Total Operating Expenses	**$ 526**	$ 504	$ 526


Operating Expenses by Functional Classification
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2018
2017
2016
Student Services
Other Operating Expenses
Student Aid
Public Service
Academic Support
Insitutional Support
Research
Auxiliary Programs
Instruction


Operating Expenses by Natural Classification
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2018
2017
2016
Other Operating Expenses
Depreciation and Amortization
Scholarships and Fellowships
Services and Supplies
Compensation and Benefits

For the Years Ended June 30, 2018, 2017 and 2016 (dollars in millions)

Compensation and Benefits costs increased $16 million, or 5%, in 2018 compared to 2017 and decreased $13 million, or 4%, in 2017 compared to 2016 primarily due to:

- A $3 million increase in pension expense in 2018 and a $22 million decrease in pension expense in 2017 compared to 2016 substantially due to the impact of an April 2015 Oregon Supreme Court ruling that was reflected in 2016 pension expense.
- Compensation and benefits costs other than pension expense increased $12 million during 2018 and $10 million during 2017 primarily to an increase in salaries and wages, including the impacts of collective bargaining agreements in both years, as well as an increase in minimum wage mandated by the State of Oregon in 2018.

Services and Supplies expense increased $6 million during 2018 and decreased nearly $8 million during 2017. The 2018 increase was primarily due to abatement and temporary relocation costs associated with the Neuberger Hall renovation. The decrease in 2017 was primarily due to the cessation of payments to the PSU Foundation associated with PSU's purchase of the Broadway Housing building from the PSU Foundation in 2016.

Scholarships and Fellowships expenses were relatively consistent in 2018 compared to 2017. Scholarships and Fellowships decreased $2 million in 2017 due to an 8% decline in the number of recipients of Pell grants, partially offset by increases in other awards.

Depreciation and Amortization expense increased $1 million during 2018 primarily due to the Karl Miller Center being place into service in September 2017. Depreciation and Amortization expense was relatively consistent in 2017 compared to 2016.

Other Operating Expenses were relatively consistent across 2018, 2017 and 2016.

Nonoperating Expenses

For the Year Ended June 30,	**2018**	2017	2016
Interest Expense	**$ (12)**	$ (12)	$ (13)
Other Nonoperating Expense	**(6)**	-	-
Loss on Disposals of Assets, Net	**(1)**	(1)	-
Transaction with Dicretely Presented Component Unit	**-**	-	(10)
Total Nonoperating Expenses	**$ (19)**	$ (13)	$ (23)

Net **Other Nonoperating** expense of $6 million in 2018 was driven by the assignment of loans to the U.S. Department of Education as a result of the closeout of the Federal Perkins Loan Program described at Note 4.

Interest Expense was relatively consistent in 2018 compared to 2017 and decreased $1 million in 2017 compared to 2016.

Loss on Disposal of Assets, Net was $1 million in each 2018 and 2017 due to asset retirements associated with the Neuberger Hall renovation in 2018 and the Viking Pavilion & Peter Stott Center and Karl Miller Center renovations in 2017.

In 2016, PSU experienced a $10 million loss on **Transaction with Discretely Presented Component Unit** due to the Broadway Housing purchase. The loss 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.

Capital Assets and Related Financing Activities

Changes to Capital Assets (in millions)

	2018	2017	2016
Capital Assets, Beginning of Year	**$ 917**	$ 863	$ 792
Add: Purchases/Construction	**61**	60	73
Less: Retirements/Disposals/Adjustments	**(8)**	(6)	(2)
Total Capital Assets, End of Year	**$ 970**	$ 917	$ 863
Accum. Depreciation, Beginning of Year	**(397)**	(376)	(342)
Add: Depreciation Expense	**(27)**	(26)	(26)
Less: Retirements/Disposals/Adjustments	**7**	5	(8)
Total Accum. Depreciation, End of Year	**$ (417)**	$ (397)	$ (376)
Total Capital Assets, Net, End of Year	**$ 553**	$ 520	$ 487

During 2018, capital asset additions totaled $61 million and were mainly due to the Peter Stott Center & Viking Pavilion, Neuberger Hall, Karl Miller Center and Fourth & Montgomery projects. The Fourth & Montgomery additions included the purchase of the land for the project for which new construction is expected to begin in late 2018 or early 2019. 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, as well as construction progress associated with the renovation of the Peter Stott Center & Viking Pavilion and the Karl Miller Center.

Accumulated depreciation increased $20 million during 2018 due to $27 million of depreciation expense, partially offset by asset retirements, including disposals related to the Neuberger Hall renovation that resulted in a $1 million loss. 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.

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 had outstanding capital commitments on partially completed and planned construction projects of $175 million at June 30, 2018, including $101 million for the Fourth & Montgomery project and $50 million for the Neuberger Hall renovation. The Neuberger Hall renovation is currently underway while PSU is in the early stages of the collaborative Fourth & Montgomery new construction project for which the other owners are committed for their share of project costs. 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 its 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 of Oregon. 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 of Oregon.

No new Article XI-(F)(1) bonds were issued by the State of Oregon on behalf of PSU in either 2018 or 2017. However, the State of Oregon refunded certain Article XI-(F)(1) debt in 2017 resulting in a $2 million gain that was recognized as described in Note 8. Repayments of long-term debt due to the State of Oregon were $12 million and $10 million during 2018 and 2017, respectively.

During 2018 and 2017, PSU incurred eligible expenditures under the State's cost reimbursable Articles XI-G and XI-Q bond programs that gave rise to $18 million and $45 million, respectively, of capital state grants revenue.

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 modest growth in tuition revenues through rate increases.

For the near future (2019-2021), PSU is predicting slight enrollment growth and anticipates an ability to continue to increase overall tuition revenue through further rate increases, partially offset by additional discounting. Since the 2015-2017 biennium, the State of Oregon has appropriated an additional $214 million to the Public University Support Fund, which serves all seven of Oregon's public universities. These increases along with the adoption of the Higher Education Coordinating Commission's Student Success and Completion funding model have result in significant increases in PSU's State appropriations. Additional increases in State appropriations, but of a lesser magnitude, are expected for the 2019-2021 biennium.

On the longer term (2021-2023), PSU will continue to face 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 enhanced enrollment growth, a priority for the institution. Continued significant increases in the level of State support are uncertain. If tuition and State appropriation 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 PSU to carry out its core mission.

Statements of Net Position

As of June 30,		University 2018		University 2017
		(in thousands)		
ASSETS				
Current Assets				
Cash and Cash Equivalents	$	68,451	$	61,008
Collateral from Securities Lending		7,576		4,846
Due from Primary Government		12,179		23,528
Accounts Receivable, Net		49,021		48,910
Notes Receivable, Net		129		1,356
Inventories		634		678
Prepaid Expense		2,255		2,418
Total Current Assets		140,245		142,744
Noncurrent Assets				
Investments		110,536		111,057
Notes Receivable – Noncurrent, Net		114		5,479
Net Other Postemployment Benefits Asset		491		
Other Noncurrent Assets		250		
Capital Assets, Net of Accumulated Depreciation		553,426		520,243
Total Noncurrent Assets		664,817		636,779
TOTAL ASSETS	$	805,062	$	779,523
DEFERRED OUTFLOWS OF RESOURCES	$	54,215	$	76,388
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Liabilities	$	34,747	$	29,157
Obligations Under Securities Lending		7,576		4,846
Deposits		10,025		10,005
Current Portion of Long-Term Liabilities		23,666		22,825
Unearned Revenues		29,578		28,107
Total Current Liabilities		105,592		94,940
Noncurrent Liabilities				
Unearned Revenues	$	19,604	$	8,350
Net Pension Liability		140,322		144,817
Net Other Postemployment Benefits Liability		8,326		-
Long-Term Liabilities		234,427		251,977
Total Noncurrent Liabilities		402,679		405,144
TOTAL LIABILITIES	$	508,271	$	500,084
DEFERRED INFLOWS OF RESOURCES	$	3,595	$	2,578
NET POSITION				
Net Investment in Capital Assets	$	324,864	$	279,782
Restricted for:				
Nonexpendable Endowments		1,285		1,285
Expendable:				
Gifts, Grants and Contracts		1,049		989
Capital Projects		3,490		40,696
Student Loans		511		8,376
Other Postemployment Benefits Asset		491		-
Unrestricted		15,721		22,121
TOTAL NET POSITION	$	347,411	$	353,249

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

Statements of Financial Position

As of June 30,		Component Unit 2018		2017
		(In thousands)		
ASSETS				
Cash and Cash Equivalents	**$**	**9,035**	$	6,527
Contributions, Pledges and Grants Receivable, Net		**14,066**		16,603
Investments		**107,367**		97,420
Prepaid Expenses and Other Assets		**4,876**		862
Property and Equipment, Net		**3,643**		4,116
Total Assets	**$**	**138,987**	$	125,528
LIABILITIES				
Accounts Payable and Accrued Liabilities	**$**	**1,016**	$	1,006
Accounts Payable to University		**912**		895
Notes Payable and Capital Lease Commitments		**2,692**		3,155
Obligations to Beneficiaries of Split-Interest Agreements		**1,599**		1,489
Deposits and Unearned Revenue		**75**		128
Endowments Held for University		**2,549**		2,531
Total Liabilities	**$**	**8,843**	$	9,204
NET ASSETS				
Unrestricted	**$**	**4,737**	$	4,410
Temporarily Restricted		**63,467**		55,958
Permanently Restricted		**61,940**		55,956
Total Net Assets		**130,144**		116,324
TOTAL LIABILITIES AND NET ASSETS	**$**	**138,987**	$	125,528

Statements of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30,	University 2018	University 2017
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Allowances)	$ **194,144**	$ **191,937**
Federal Grants and Contracts	**41,828**	42,880
State and Local Grants and Contracts	**15,326**	15,074
Nongovernmental Grants and Contracts	**5,408**	5,637
Educational Department Sales and Services	**6,263**	6,289
Auxiliary Enterprises Revenues (Net of Allowances)	**88,050**	87,148
Other Operating Revenues	**4,260**	4,139
Total Operating Revenues	**355,279**	353,104
OPERATING EXPENSES		
Instruction	**185,025**	177,668
Research	**40,016**	40,802
Public Service	**22,944**	23,424
Academic Support	**40,815**	39,284
Student Services	**23,076**	19,920
Auxiliary Programs	**81,372**	81,386
Institutional Support	**54,609**	50,592
Operation and Maintenance of Plant	**20,502**	19,467
Student Aid	**30,507**	30,400
Other Operating Expenses	**27,549**	21,352
Total Operating Expenses	**526,415**	504,295
Operating Loss	**(171,136)**	(151,191)
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations	**94,344**	87,734
Financial Aid Grants	**52,539**	49,803
Investment Activity	**2,608**	3,015
Gain (Loss) on Disposal of Assets, Net	**(1,226)**	(1,176)
Interest Expense	**(11,656)**	(11,672)
Gain Arising from Activity on State Issued Bonds	**-**	2,168
Noncapital Gifts from Discretely Presented Component Unit	**11,661**	9,913
Other Nonoperating Items	**(5,661)**	1,962
Total Nonoperating Revenues (Expenses)	**142,609**	141,747
Loss Before Other Expenses, Gains, Losses and Transfers	**(28,527)**	(9,444)
Capital and Debt Related State Appropriations and Grants	**20,329**	47,791
Capital Grants and Gifts	**6,797**	9,056
Total Other (Expenses), Gains, (Losses) and Transfers	**27,126**	56,847
Increase (Decrease) In Net Position	**(1,401)**	47,403
NET POSITION		
Beginning Balance	**353,249**	305,846
Adjustment to Beginning Net Position, GASB No. 75 (Note 1)	**(4,437)**	**-**
Beginning Balance, as Restated	**348,812**	**305,846**
Ending Balance	$ **347,411**	$ **353,249**

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

Statements of Activities

For The Year Ended June 30,	Component Unit 2018	2017
	(In thousands)	
REVENUES		
Grants, Bequests and Gifts	**$ 1,613**	$ 1,121
Special Events	**687**	111
Portland State University Contract Revenue	**7,489**	6,964
Investment Income (Loss), Net	**123**	181
Rental Income	**462**	462
Net Assets Released From Restrictions and Other Transfers	**20,321**	20,021
Other Revenues	**73**	1
Total Revenues, Gains, and Other Support	**30,768**	28,861
EXPENSES		
University Support	**20,221**	18,059
General and Administrative	**4,572**	4,254
Other Expenses	**5,648**	5,559
Total Expenses	**30,441**	27,872
Increase (Decrease) In Unrestricted Net Assets	**327**	989
Beginning Balance, Unrestricted Net Assets	**4,410**	3,421
Ending Balance, Unrestricted Net Assets	**$ 4,737**	$ 4,410
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
REVENUES		
Grants, Bequests and Gifts	**$ 23,172**	$ 26,862
Special Events	**712**	538
Investment Income (Loss), Net	**3,731**	6,694
Net Assets Released From Restrictions and Other Transfers	**(20,378)**	(19,954)
Other Revenues	**272**	173
Increase in Temporarily Restricted Net Assets	**7,509**	14,313
Beginning Balance, Temporarily Restricted Net Assets	**55,958**	41,645
Ending Balance, Temporarily Restricted Net Assets	**$ 63,467**	$ 55,958
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
REVENUES		
Grants, Bequests and Gifts	**$ 5,893**	$ 5,297
Net Assets Released From Restrictions and Other Transfers	**58**	(66)
Other Revenues	**33**	51
Increase in Permanently Restricted Net Assets	**5,984**	5,282
Beginning Balance, Permanently Restricted Net Assets	**55,956**	50,674
Ending Balance, Permanently Restricted Net Assets	**$ 61,940**	$ 55,956
Beginning Balance	**$ 116,324**	$ 95,740
Increase in Total Net Assets	**13,820**	20,584
Ending Balance	**$ 130,144**	$ 116,324

Statements of Cash Flows

For the Years Ended June 30,	University 2018	University 2017
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 196,815	$ 194,501
Grants and Contracts	61,331	71,001
Educational Department Sales and Services	6,263	6,289
Auxiliary Enterprises Operations	89,976	88,380
Payments to Employees for Compensation and Benefits	(332,653)	(317,227)
Payments to Suppliers	(111,408)	(109,278)
Student Financial Aid	(34,534)	(33,752)
Other Operating Receipts	3,952	3,790
Net Cash Provided Used by Operating Activities	(120,258)	(96,296)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	94,344	87,734
Financial Aid Grants	52,539	49,803
Other Gifts and Private Contracts	2,310	2,091
Noncapital Gifts from Discretely Presented Component Unit	12,705	9,509
Net Agency Fund Receipts (Payments)	20	1,299
Net Cash Provided by Noncapital Financing Activities	161,918	150,436
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital and Debt Related State Appropriations and Grants	31,678	36,694
Capital Grants and Gifts	15,945	8,832
Proceeds from Sales of Capital Assets	-	-
Purchases of Capital Assets	(60,846)	(60,306)
Interest Payments on Capital Debt	(12,110)	(13,454)
Principal Payments on Capital Debt	(12,013)	(10,434)
Net Cash Used by Capital and Related Financing Activities	(37,346)	(38,668)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Sales (Purchases) of Investments	(1,673)	(5,166)
Interest and Earnings on Investments and Cash Balances	4,802	5,157
Net Cash Provided (Used) by Investing Activities	3,129	(9)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,443	15,463
CASH AND CASH EQUIVALENTS		
Beginning Balance	61,008	45,545
Ending Balance	$ 68,451	$ 61,008

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

Statements of Cash Flows - Continued

For the Years Ended June 30,		University 2018		University 2017
		(In thousands)		
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating Loss	$	(171,136)	$	(151,191)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization Expense		26,898		26,063
Changes in Assets and Liabilities:				
Accounts Receivable		(205)		6,300
Notes Receivable		29		692
Inventories		44		13
Prepaid Expenses		163		(124)
Other Non Current Assets		(250)		-
Accounts Payable and Accrued Liabilities		2,722		284
Net Other Postemployment Benefits and Pension Adjustments		22,093		18,300
Long-Term Liabilities		(3,851)		(498)
Unearned Revenue		3,235		3,865
NET CASH USED BY OPERATING ACTIVITIES	$	(120,258)	$	(96,296)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS				
Capital Assets Acquired by Gifts in Kind	$	342	$	227
Gain arising from State's Refunding of State Issued Debt		-		2,168
Federal Perkins Loan Program Notes Receivable Assigned to U.S. Department of Education		(6,962)		-
Increase (Decrease) in Fair Value of Investments Recognized as a a Component of Investment Activity		(2,194)		(2,142)

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

Notes to the Financial Statements
For the Years Ended June 30, 2018 and 2017 (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.

PSU and the PSU Foundation are reported as a discretely presented component unit in the Comprehensive Annual Financial Report (CAFR) issued by the State of Oregon (State). These financial statements present only PSU and its discretely presented component unit and are not intended to present the financial position, changes in financial position or the cash flows of the State as a whole.

B. Financial Statement Presentation

PSU financial accounting records are maintained in accordance with accounting principles generally accepted in the United States of America (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. Financial statements of the PSU Foundation are presented in accordance with GAAP prescribed by the Financial Accounting Standards Board.

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

NEWLY IMPLEMENTED ACCOUNTING STANDARDS

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75). PSU adopted GASB No. 75 effective July 1, 2017, replacing the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requiring liabilities to be established for defined benefit postemployment plans other than pensions, including plans administered through trusts. Due to PSU's participation in three state-wide plans and lack of information specific to PSU, PSU was unable to retroactively adopt GASB No. 75 to the earliest period presented. As a result and as disclosed in Note 9, PSU recorded a $4,437 reduction in net position at July 1, 2017, representing the net effect of the adoption of GASB No. 75 as of that date. PSU established a $491 Net Other Postemployment Benefits Asset and a net $8,326 Net Other Postemployment Benefits Liability at June 30, 2018 with total deferred outflows of $1,116 and total deferred inflows of $681. Other postemployment benefits (OPEB) expense under GASB No. 75 was $809 during the year ended June 30, 2018. Refer to Note 14 for additional information. Under GASB No. 45, PSU reported a liability related to the actuarially determined annual required contribution related to the implicit rate subsidy provided to retirees who were allowed to purchase health insurance under PSU's PEBB health care plans. Under GASB No. 75, PSU reports its proportionate share of the net PERS RHIA OPEB asset, net PERS RHIPA OPEB liability and the total PEBB OPEB liability along with the associate deferred outflows of resources and deferred inflows of resources. Historically, the OPEB liability was included in the noncurrent portion of long-term liabilities. With the implementation of GASB No. 75, the net OPEB asset and net OPEB liabilities are now reported on separate lines in the Statement of Net Position. See Note 14 for a detailed description of each plan and the proportionate share methodology for each plan.

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

The change from GASB No. 45 to GASB No. 75 had the following impact on PSU's reported OPEB liability (asset):

GASB No. 45 liability at June 30, 2017	$	3,471
Reversal of prior liability		(3,471)
GASB No. 75 Total PEBB OPEB Liability		6,551
GASB No. 75 Net PERS RHIPA OPEB Liability		1,775
Ending GASB No. 75 OPEB Liability at June 30, 2018	$	8,326
Ending GASB No. 75 Net PERS RHIA OPEB (Asset) at June 30, 2018	$	(491)

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. PSU GASB No. 85 was effective July 1, 2017 and did not have a material impact on PSU's financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB No. 89), requiring interest cost incurred prior to the end of a construction period be recognized as an expense in the period in which incurred. PSU early adopted GASB No. 89 effective July 1, 2017. Refer to G. Capital Assets for additional information.

UPCOMING ACCOUNTING STANDARDS

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB No. 88). GASB No. 88 requires additional debt-related disclosures be included in the notes to the financial statements, including related to unused lines of credit; assets pledged as collateral; events of default and termination events that would trigger finance-related consequences; and significant subjective acceleration clauses. GASB No. 88 is effective for reporting periods beginning after June 15, 2018 and is not expected to have a material impact on PSU's disclosures.

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.

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 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.

C. Basis of Accounting

For financial reporting purposes, PSU is considered a special-purpose governmental entity 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 Statement 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 $50 to $100, depending on the type of real property. Intangible assets valued in excess of $100 are capitalized. Expenditures below the capitalization threshold and repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Effective July 1, 2017, PSU adopted GASB No. 89 requiring that interest costs no longer be capitalized. Prior to the adoption of GASB No. 89, PSU capitalized interest expense on construction projects that were partially or fully funded by XI-F(1) debt. Total interest costs of $11,720 were incurred on XI-(F) debt during the fiscal year ended 2017, of which $48 was capitalized.

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, 2018, deferred outflows were $54,215, comprised of $53,099 related to defined benefit pension plans and $1,116 million related to defined benefit OPEB plans. Included in these amounts were $12,033 and $997 of contributions made subsequent to the measurement date for the pension and OPEB plans, respectively. 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. Refer to Notes 13 and 14 for additional information.

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 subsequent fiscal years.

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, 2018, deferred inflows were $3,595, comprised of $2,914 associated with defined benefit pension plans and $681 associated with defined benefit OPEB plans primarily due to changes in proportionate share. 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. Refer to Notes 13 and 14 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 up to 4.5% of the endowment fund's average fair value over the prior 12 quarters through March 31 of the prior fiscal year.

Nonexpendable Endowments on the Statements of Net Position of $1,285 at June 30, 2018 and 2017, 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. PSU continues to evaluate the impacts of the Tax Cuts and Jobs Act of 2017.

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 remissions, provided directly by PSU, amounted to $22,738 and $20,531 for the fiscal years ended 2018 and 2017, 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 $27,961 and $26,261 for the fiscal years ended 2018 and 2017, respectively. Bad debt expense is included as an allowance to operating revenues and was $1,994 and $2,921 for the fiscal years ended 2018 and 2017, respectively.

Q. Direct 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 $132,443 and $140,871 for the fiscal years ended 2018 and 2017, 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 investment pools at the Oregon State Treasury (State Treasury), which commingle the invested assets of all member universities, including PSU, in the OSTF and fixed income investments in the PUF's Core Bond Fund. Each investment pool has a board approved investment policy and set of objectives identifying risk and return parameters for each investment pool.

In general, deposits and investment securities as described below are exposed to various risks such as credit, concentration of credit, custodial credit, interest rate and foreign currency. Although the objective of each investment pool is to preserve capital within defined risk parameters, it is likely that the value of the investment securities will fluctuate during short periods of time, and possible that such changes could materially affect the amounts reported in the financial statements.

At June 30, 2018 and 2017, PSU had $10,380 and $37,037 of cash and cash equivalents and investments associated with matching funds unconditionally available for specified capital projects, respectively. Additionally, at June 30, 2018 and 2017, PSU had $21,707 and $21,236 of cash and cash equivalents and investments internally designated for debt service, respectively.

A. Cash and Cash Equivalents

DEPOSITS WITH STATE TREASURY

PSU maintains the majority of its cash balances on deposit with the State Treasury. These deposits at the State Treasury are held, on a pooled basis as described above, in the OSTF. The OSTF is a cash and investment pool for use by all state agencies. The State Treasury invests these deposits in high-grade short-term investment securities. At June 30, 2018 and 2017, PSU cash and cash equivalents on deposit in the OSTF at State Treasury were $66,677 and $59,808, 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, 2018, PSU had cash on deposit of $1,731 that was 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, 2018 and 2017, PSU had vault and petty cash balances of $43 and $103, respectively.

B. Investments

At June 30, 2018, PSU's investments included $107,987 held in the PUF's core bond fund managed by State Treasury and $2,549 of endowments held at the PSU Foundation with a nonexpendable corpus of $1,285. At June 30, 2017, PSU's investments included $108,526 held in the PUF's core bond fund and $2,531 of endowments held at the PSU Foundation with a nonexpendable corpus of $1,285.

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. The PUF core bond fund 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.

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.

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 the PUF's 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, 2018 and 2017.

The PSU Foundation monitors endowment investments to identify any accounts for which estimated fair value is less than historical value. As of June 30, 2018, 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 and Level 2 inputs.

Investments are all classified as noncurrent and include both restricted (if any) and unrestricted funds. Earnings on investments from restricted fund sources are spent in accordance with the restrictions on the funding source.

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, 2018, approximately 92 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 $269,463 at June 30, 2018. Fixed income securities that have not been evaluated by the rating agencies totaled $76,122 at June 30, 2018. The PUF Investment Pools totaled $375,496 at June 30, 2018, of which PSU owned $107,987, or 28.8 percent.

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 $108,526, or 34.7 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, 2018 and 2017.

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, 2018 and 2017, securities in the PUF Investment Pool held subject to interest rate risk totaling $345,585 and $309,872 with an average duration of 3.73 and 3.91 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 Treasury 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 securities, held in the PUF, pursuant to a form of loan agreement, in accordance with OSTF and Core Bond Fund 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, 2018 and 2017. 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. 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's name. The cash collateral of PUF 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's name.

The State Treasury 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.

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

3. ACCOUNTS RECEIVABLE

Accounts Receivable, including amounts due from component unit, were comprised of the following:

	June 30, 2018	June 30, 2017
Student Tuition and Fees	$ 31,473	$ 31,935
Auxiliary Enterprises and Other Operating Activities	7,444	7,206
Federal Grants and Contracts	9,824	8,299
PSU Foundation	876	970
State, Other Government, and Private Gifts, Grants and Contracts	6,313	7,119
Other	1,858	1,551
	57,788	57,080
Less: Allowance for Doubtful Accounts	(8,767)	(8,170)
Accounts Receivable, Net	$ 49,021	$ 48,910

Amounts Due from Primary Government of $12,179 and $23,528 at June 30, 2018 and 2017, respectively, were attributable to cost reimbursable State bond proceeds for capital projects.

4. NOTES RECEIVABLE

During 2018, PSU made substantial progress towards the closeout of the Federal Perkins Loan Program resulting in notes receivable at June 30, 2018 of $43 with additional amounts subsequently assigned. During 2018, PSU recognized a loss of $6,962 as a result of loans assigned to the U.S. Department of Education during the year. In conjunction with the assignments, allowance for doubtful accounts associated with Perkins notes receivable was reduced by $1,085, partially offsetting the loss. PSU also incurred a loss of $1,183 during 2018 based on amounts anticipated to be returned to the U.S. Department of Education for its Federal capital contribution to PSU's Perkins loan program. The net impact of these Perkins closeout activities are included in Other Nonoperating Items in the SRECNP.

Notes Receivable were comprised of the following:

	June 30, 2018			June 30, 2017		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Institutional and Other Student Loans	$ 127	$ -	$ 127	$ 151	$ -	$ 151
Auxiliary	-	73	73	-	78	78
Federal Student Loans	2	41	43	1,312	5,883	7,195
	129	114	243	1,463	5,961	7,424
Less: Allowance for Doubtful Accounts	-	-	-	(107)	(482)	(589)
Notes Receivable, Net	$ 129	$ 114	$ 243	$ 1,356	$ 5,479	$ 6,835

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

5. CAPITAL ASSETS

The following schedule reflects the changes in capital assets:

	Balance June 30, 2016	Additions	Transfer Completed Assets	Retire. and Adjust.	Balance June 30, 2017	Additions	Transfer Completed Assets	Retire. and Adjust.	Balance June 30, 2018
Capital Assets, amortizable:									
Land	$ 52,269	$ -	$ -	$ -	$ 52,269	$ 7,490	$ -	$ -	$ 59,759
Capitalized Collections	3,117	45	-	-	3,162	41	-	-	3,203
Construction in Progress	30,141	53,134	(387)	(68)	82,820	16,184	(78,924)	(159)	19,921
Intangible Assets	-				-				-
Total Capital Assets, Non-depreciable/Non-amortizable	85,527	53,179	(387)	(68)	138,251	23,715	(78,924)	(159)	82,883
Capital Assets, Depreciable/ Amortizable:									
Equipment	51,550	3,137	(60)	(846)	53,781	2,515	11	(1,443)	54,864
Library Materials	85,811	271	-	(10)	86,072	252	-	(625)	85,699
Buildings	588,837	3,248	447	(5,139)	587,393	34,857	78,913	(6,385)	694,778
Land Improvements	5,111	439	-	-	5,550	-	-	-	5,550
Improvements Other Than Buildings	5,467	-	-	(164)	5,303	-	-	-	5,303
Infrastructure	31,734	-	-	-	31,734	193	-	12	31,939
Intangible Assets	8,488	-	-	-	8,488	-	-	-	8,488
Total Capital Assets, Depreciable/Amortizable	776,998	7,095	387	(6,159)	778,321	37,817	78,924	(8,441)	886,621
Less Accumulated Depreciation/ Amortization for:									
Equipment	(40,664)	(3,680)	-	698	(43,646)	(3,281)	-	1,306	(45,621)
Library Materials	(80,502)	(1,713)	-	10	(82,205)	(1,361)	-	625	(82,941)
Buildings	(227,172)	(18,492)	-	4,047	(241,617)	(20,215)	-	5,218	(256,614)
Land Improvements	(3,336)	(207)	-	-	(3,543)	(207)	-	-	(3,750)
Improvements Other Than Buildings	(4,157)	(379)	-	164	(4,372)	(294)	-	-	(4,666)
Infrastructure	(11,762)	(1,387)	-	-	(13,149)	(1,363)	-	-	(14,512)
Intangible Assets	(7,592)	(205)	-	-	(7,797)	(177)	-	-	(7,974)
Depreciation/ Amortization	(375,185)	(26,063)	-	4,919	(396,329)	(26,898)	-	7,149	(416,078)
Total Capital Assets, Net	$ 487,340	$ 34,211	$ -	$ (1,308)	$ 520,243	$ 34,634	$ -	$ (1,451)	$ 553,426
Capital Assets Summary									
Capital Assets, Non-depreciable/ Non-amortizable	$ 85,527	$ 53,179	$ (387)	$ (68)	$ 138,251	$ 23,715	$ (78,924)	$ (159)	$ 82,883
Capital Assets, Depreciable/ Amortizable	776,998	7,095	387	(6,159)	778,321	37,817	78,924	(8,441)	886,621
Total Cost of Capital Assets	862,525	60,274	-	(6,227)	916,572	61,532	-	(8,600)	969,504
Less Accumulated Depreciation/ Amortization	(375,185)	(26,063)	-	4,919	(396,329)	(26,898)	-	7,149	(416,078)
Total Capital Assets, Net	$ 487,340	$ 34,211	$ -	$ (1,308)	$ 520,243	$ 34,634	$ -	$ (1,451)	$ 553,426

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities were comprised of the following:

	June 30, 2018	June 30, 2017
Construction, Services and Supplies	14,002	11,862
Salaries and Wages	10,149	9,627
Accrued Interest	4,217	3,826
Contract Retainage Payable	2,827	3,220
Perkins Loan Program Payable	1,183	-
PSU Foundation	950	-
Other	1,419	622
Total	$ 34,747	$ 29,157

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 $3,960 and $4,049 for the years ended June 30, 2018 and 2017, respectively, including $462 each year of rents to the PSU Foundation for the lease of the Corbett Building described in Note 18.

Minimum future lease payments on operating leases at June 30, 2018 were:

For the year ending June 30,	
2019	$ 3,714
2020	2,955
2021	2,268
2022	1,490
2023	1,005
2024-2028	1,394
2029-2033	1,261
2034-2038	1,261
2039-2043	1,258
2044-2048	1,256
2049-2053	1,256
2054-2058	1,256
2059 and After	4,375
Total Minimum Operating Lease Payments	$ 24,749

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

8. LONG-TERM LIABILITIES

The State issues various debt instruments to support PSU capital projects. Under grant agreements with the State, PSU benefits from the proceeds of State 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 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 is the issuer of the bonds, this debt is reflected as PSU's obligation in the form of a note payable to the State. Under loan agreements with the State, 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.

Long-term liability activity was as follows for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	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)	$ 185,748	$ 79	$ (9,479)	**$ 176,348**	$ 9,643	$ 166,705
Certificates of Participation (COPs)	20,217	-	(966)	**19,251**	916	18,335
Oregon Department of Energy Loans (SELP)	36,405	-	(2,492)	**33,913**	2,561	31,352
Local Improvement District Obligations	3,124	-	(273)	**2,851**	284	2,567
Total Long-Term Debt	245,494	79	(13,210)	**232,363**	13,404	218,959
Other Noncurrent Liabilities						
PERS pre-SLGRP pooled Liability	16,055	-	(946)	**15,109**	946	14,163
Compensated Absences	9,782	839	-	**10,621**	9,316	1,305
Other Postemployment Benefits (See Notes 1 and 14)	3,471	-	(3,471)	**-**	-	-
Total Other Noncurrent Liabilities	29,308	839	(4,417)	**25,730**	10,262	15,468
Total Long-Term Liabilities	$ 274,802	$ 918	$ (17,627)	**$ 258,093**	$ 23,666	$ 234,427

For the Years Ended June 30, 2018 and 2017 (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

Future debt service is as follows at June 30, 2018:

For the Year Ending June 30,	General XI-F(1)	SELP	COPs	LIDs	Total Payments	Principal	Interest
2019	$ 17,198	$ 4,072	$ 2,034	$ 397	$ 23,701	$ 13,046	$ 10,655
2020	16,488	3,810	1,906	346	22,550	12,374	10,176
2021	16,414	3,571	1,907	295	22,187	12,645	9,542
2022	16,166	3,482	1,909	$ 296	21,853	12,691	9,162
2023	15,785	3,482	1,902	296	21,465	13,122	8,343
2024-2028	73,949	17,409	9,230	1,478	102,066	69,707	32,359
2029-2033	53,658	8,598	8,609	457	71,322	54,330	16,992
2034-2038	31,188	-	3,242	-	34,430	27,255	7,175
2039-2043	17,724	-	-	-	17,724	16,238	1,486
Accreted Interest						955	(955)
						$ 232,363	$ 104,935
Total Future Debt Service	**258,570**	**44,424**	**30,739**	**3,565**	**337,298**		
Less: Interest Component of Future Payments	(82,222)	(10,511)	(11,488)	(714)	(104,935)		
Total Long-Term Debt, Principal Portion of Future Payments	**$ 176,348**	**$ 33,913**	**$ 19,251**	**$ 2,851**	**$ 232,363**		

Refer to Notes 1 and 14 for additional information regarding OPEB benefits and information regarding the adoption of GASB No. 75.

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 2018, no refundings occurred that impacted PSU. During 2017, the State 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.

B. Oregon Department of Energy Loans

PSU has entered into loan agreements with the 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 Oregon University System since fiscal year 2010.

D. Financial Guarantees

As a university with a governing board, PSU is not considered a state agency. As a result, the State has no responsibility for PSU's financial obligations other than those related to State general obligation debt.

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, based on salaries and wages, to all proprietary funds and the government-wide reporting fund in the State CAFR. Interest expense was paid in the amount of $1,035 and $1,192 for June 30, 2018 and 2017, respectively. Principal payments of $946 and $783 were applied to the liability for June 30, 2018 and 2017, respectively.

9. PRIOR PERIOD RESTATEMENTS AND RECLASSIFICATIONS

Net position at July 1, 2017 was restated to reflect a $4,437 reduction resulting from the adoption of GASB No. 75 with $3,184, $(249) and $1,502 pertaining to the PEBB, RHIA and RHIPA plans, respectively. As a result, net position at July 1, 2017 decreased to $348,812 from $353,249 previously presented at June 30, 2017.

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

10. INVESTMENT ACTIVITY

Investment Activity detail is as follows:

	June 30, 2018	June 30, 2017
Investment Earnings	$ 3,991	$ 4,249
Royalties and Technology Transfer Income	765	848
Endowment Income	46	60
Net Appreciation (Depreciation) of Investments	(2,194)	(2,142)
Total Investment Activity	$ 2,608	$ 3,015

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, 2018	June 30, 2017
Compensation and Benefits	$ 351,691	$ 336,407
Services and Supplies	112,165	106,538
Scholarships and Fellowships	34,534	33,752
Depreciation and Amortization	26,898	26,063
Other Expenses	1,127	1,535
Total Operating Expenses	$ 526,415	$ 504,295

12. GOVERNMENT APPROPRIATIONS

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

	June 30, 2018				June 30, 2017			
	General Operation	Capital Projects Related	Debt Service	Total	General Operation	Capital Projects Related	Debt Service	Total
State General Fund	$ 93,205	$ 18,147	$ 2,182	$ 113,534	$ 86,595	$ 45,550	$ 2,241	$ 134,386
State Lottery Funding	1,139	-	-	1,139	1,139	-	-	1,139
Total Appropriations	$ 94,344	$ 18,147	$ 2,182	$ 114,673	$ 87,734	$ 45,550	$ 2,241	$ 135,525

Refer to Note 8 for information regarding grant agreements with the State 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, as well as offers postemployment healthcare assistance as described in Note 14.

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM/OREGON PUBLIC SERVICE RETIREMENT PLAN

The following provides an overview of PSU's participation in both the defined benefit and defined contribution plans in which it participates.

The 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 PERS trust also administers other postemployment benefits as described in Note 14. The PERS defined benefit retirement 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.

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 year ended June 30, 2018, the Tiers One and Two general service contribution rate was 17.84 percent and was 22.83 percent for police service. For the year ended June 30, 2017, 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 year ended June 30, 2018 were 10.78 percent for general service and 15.55 percent for police service. The PSU employer contribution rates for OPSRP for the year ended June 30, 2017 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, is presented below under "Defined Benefit Plans."

The Retirement Bond Debt Service Assessment was authorized by the 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 (DAS) 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 6.2 percent. Payroll assessments for the fiscal years ended June 30, 2018 and 2017 were $7,057 and $6,742, 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 PERS, Fiscal Services Division, PO Box 23700, Tigard, OR 97281-3700 or online at http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx.

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 Oregon University System 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.

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

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 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:

	2018	2017
ORP Tiers 1 & 2	23.68%	20.45%
OPSRP Equivalent (general service)	9.29%	7.94%
OPSRP Equivalent (police)	14.74%	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)

Through June 2018, the University of Oregon maintained an IRC Section 414(d) cash balance deferred compensation plan to provide a specific benefit value to certain university presidents upon separation, including PSU's. The SRP was fully funded prior to termination.

SUMMARY OF PENSION PAYMENTS

PSU total payroll for the year ended June 30, 2018 was $227,246, of which $185,493 was subject to retirement contributions. PSU total payroll for the year ended June 30, 2017 was $219,982, of which $179,682 was subject to retirement contributions. The following summarizes payments made by PSU for the fiscal year:

	2018				2017			
	Employer	Percent of Covered Payroll	Employee Contribution	Percent of Covered Payroll	Employer	Percent of Covered Payroll	Employee Contribution	Percent of Covered Payroll
PERS/OPSRP	$ 12,033	6.49%	$ 6,959	3.75%	$ 9,345	5.20%	$ 6,786	3.79%
ORP	9,280	5.00%	4,129	2.23%	7,851	4.37%	3,859	2.15%
Tiaa-Cref	52	0.03%	52	0.03%	80	0.04%	80	0.04%
SRP	-	0.00%	-	0.00%	138	0.08%	-	0.00%
Total	$ 21,365	11.52%	$ 11,140	6.01%	$ 17,414	9.69%	$ 10,725	5.98%

Of the employee share, the employer paid $6,633 of PERS/OPSRP, $3,671 of ORP and $52 of TIAA-CREF during the fiscal year ended June 30, 2018. 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.

DEFINED BENEFIT PLANS

The disclosures and amounts presented below are based on the actuarial valuation performed as of December 31, 2015 rolled forward to the June 30, 2017 measurement date.

A. Name of pension plan:

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

B. Description of benefit terms:

Plan Benefits

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

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

Pension Benefits

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (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.

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.

The employer contribution rate was 6.0% during fiscal years 2018 and 2017 based on the December 31, 2015 and 2013 actuarial valuations, respectively. The current contribution rates are based on a percentage of payroll and first became effective July 1, 2015. The State 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 during the years ended June 30, 2018 and 2017 were $12,033 and $9,345, respectively, excluding amounts to fund employer specific liabilities.

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

D. Pension Plan CAFR:

As described above, PERS produces an independently audited CAFR which can be found online at http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx.

Valuation date	December 31, 2015 rolled forward to June 30, 2017 measurement date and December 31, 2014 rolled forward to June 30, 2016 measurement date.
Experience study report	2014, published September 2015
Actuarial cost method	Entry Age Normal
Amortization method	Tiers 1 and 2 and OPSRP amortized as a level percentage of project combined payroll as layered amortization bases over a closed 20-year period for Tiers 1 and 2 and over a closed 16-year period for OPSRP.
Asset valuation method	Market value of assets
Inflation rate	2.50 percent
Investment rate of return	7.50 percent
Discount rate	7.50 percent
Projected salary increases	3.50 percent
Cost of living adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with the *Moro* decision; blend based on service.
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, 2017 PERS GASB No. 68 Report and p. 105, 106 and 114 of PERS CAFR)

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, 2018 and 2017 was 7.50 percent. 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, 2017 PERS CAFR; p. 64)

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, 2017 PERS CAFR; p. 65 and 66)

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

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%

(Source: June 30, 2017 PERS CAFR; p. 69)

F. Sensitivity Analysis:

	June 30, 2018		
Sensitivity of Net Pension Liability to Changes in the Discount Rate	**1% Decrease**	**Current Discount Rate**	**1% Increase**
	6.50%	7.50%	8.50%
PSU's Proportionate Share of Net Pension Liability	$ 239,134	$ 140,322	$ 57,696

G. 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's CAFR.

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.

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

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 as of June 30, 2017 is as follows:

Asset Allocation Policy	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	14.0%	21.0%	17.5%
Alternative Equity	0.0%	12.5%	12.5%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			100.0%

(Source: June 30, 2017 PERS CAFR; p. 92)

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, 2017 PERS CAFR for information regarding the valuation of the various investments and investment related disclosures.

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 Oregon Public Employees Retirement Fund (OPERF): Short-Term Investments, Fixed Income, Real Estate, Public and Private Equities, and Alternative Investments. In addition, the OPERF 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, 2017 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.

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

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, 2017, deferred items were due to the following:

- Differences between expected and actual experience
- Changes in assumptions
- Net difference between projected and actual earnings on investments
- Changes in proportion and differences between fund contributions and proportionate share of contributions
- Contributions subsequent to the measurement date of June 30, 2017

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, 2017 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: June 30, 2017 PERS GASB No. 68 report)

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

	June 30, 2018		June 30, 2017	
	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	$ 7,256	$ (2,914)	$ 2,756	$ (2,578)
Changes in assumptions	25,578	-	30,886	-
Differences between expected and actual earnings on pension plan investments	1,446	-	28,610	-
Differences between expected and actual experience	6,786	-	4,791	-
Employer's contributions subsequent to measurement date	12,033	-	9,345	-
	$ 53,099	$ (2,914)	$ 76,388	$ (2,578)

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

PSU net deferred outflows to be recognized over the next five years and thereafter are as follows as of June 30, 2018:

Net deferred outflows to be recognized over next five years and thereafter:		
2019	$	7,574
2020		18,930
2021		13,375
2022		(2,221)
2023		495
Thereafter		-
Total future expense	$	38,152

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, 2019	$	12,033

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 and Pension Expense:

As of the December 31, 2016 actuarial valuation, PERS had a funded ratio of 75.4 percent for the defined benefit plan it administers, including employer side accounts, and 68.8 percent excluding employer side accounts. 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. PERS does not provide PSU an audited proportionate share as a separate employer; rather, PSU is allocated a proportionate share of PERS employer State agencies. DAS calculated PSU's proportionate share of all State agencies internally based on actual contributions by PSU as compared to the total for employer State agencies. The Oregon Audits Division reviewed this internal calculation. PSU's system-wide proportionate share of the defined benefit pension obligation was as follows:

	June 30,			
		2018		2017
Employer's proportionate share of collective net pension liability	$	140,322	$	144,817
Employer's proportionate % share of collective net pension liability		1.04%		0.96%
Employer's pension expense	$	31,163	$	27,644

L. Changes in Plan Provisions Subsequent to Measurement Date:

The PERS Board reviews the discount rate in odd-numbered years as part of the Board's adoption of actuarial methods and assumptions. The discount rate is then adopted in an administrative rule at the time the Board sets the new rate. On July 28, 2017, the PERS Board adopted a 7.20% assumed rate. The rule specifies that the adopted assumed rate will be effective for PERS transactions with an effective date of January 1, 2018.

14. OTHER POSTEMPLOYMENT BENEFITS

During the years ended June 30, 2018 and 2017, PSU was as a participant in the State's defined benefit postemployment health care plan administered by the Public Employees Benefit Board (PEBB), as well as the Retirement Health Insurance Account (RHIA) and Retiree Health Insurance Premium Account (RHIPA) postemployment health care plans administered by PERS. As described in Note 1, PSU adopted GASB No. 75 effective July 1, 2017 requiring liabilities to be reported for these defined benefit plans net of any applicable trust assets on the Statement of Net Position. Prior to the adoption of GASB No. 75, PSU accounted for its obligations associated with the PEBB plan under GASB No. 45.

A. PERS (RHIA and RHIPA)

Plan Descriptions

The PERS Board contracts for health insurance coverage on behalf of eligible PERS members. Eligible retirees pay their own age-adjusted premiums. To help retirees defray the cost of these premiums, PERS administers two separate defined benefit OPEB plans: the RHIA and the RHIPA. Only Tier One and Tier Two PERS members are eligible to participate in the RHIA and RHIPA plans. Refer to Note 13 for details concerning Tier One and Tier Two membership in PERS.

The RHIA is a cost-sharing multiple-employer defined benefit OPEB plan for financial reporting purposes. Established under ORS 238.420, the plan provides a payment of up to $60 toward the monthly cost of health insurance for eligible PERS members. To be eligible to receive the RHIA subsidy, the member must (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991. The Oregon Legislature has sole authority to amend the benefit provisions and employer obligations for the RHIA plan.

Established under ORS 238.415, the RHIPA is also a cost-sharing multiple-employer defined benefit OPEB plan for financial reporting purposes. The plan provides payment of the average difference between the health insurance premiums paid by retired State employees under contracts entered into by the PERS Board and health insurance premiums paid by State employees who are not retired. PERS members are qualified to receive the RHIPA subsidy if they have eight or more years of qualifying service in PERS at the time of retirement or receive a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage. A surviving spouse or dependent of a deceased retired State employee is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired on or after September 29, 1991. The Oregon Legislature has sole authority to amend the benefit provisions and employer obligations of the RHIPA plan.

Both RHIA and RHIPA are closed to employees hired on or after August 29, 2003 who had not established membership prior to that date.

OPEB Plans Report

The RHIA and RHIPA defined benefit OPEB plans are reported separately under Other Employee Benefit Trust Funds in the fiduciary funds combining statements and as part of the Pension and Other Employee Benefit Trust in the State's CAFR. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. The report may be obtained by writing to PERS, Fiscal Services Division, P.O. Box 23700, Tigard, OR 97281-3700 and has been used as the basis for the disclosures herein. The report may also be accessed online at: http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx

Basis of Accounting

The financial statements for the PERS OPEB plans are prepared using the accrual basis of accounting. Employer contributions to PERS are calculated based on creditable compensation for active members reported by employers. Employer contributions are accrued when due pursuant to legal requirements. Benefits are recognized in the month they are due and payable.

Investments

Investments are recognized at fair value. Refer to Note 13. G. for additional information.

Proportionate Share Allocation Methodology of the Plan

The basis for the employer's proportion is determined by comparing the employer's actual, legally required contributions made during the fiscal year to the Plan with the total actual contributions made in the fiscal year of all employers.

Measurement Date

The measurement date for the PERS plans is one year prior to the fiscal year end date. All references to balances at June 30, 2018 are based upon a June 30, 2017 measurement date.

State's Total OPEB Plan (Asset)/Liability

The components of the State's total net OPEB liability (asset) for the State's OPEB plans are as follows (in millions):

Net OPEB - RHIA (Asset)	**June 30, 2018**
Total OPEB - RHIA Liability	$ 470.0
Plan Fiduciary Net Position	511.8
Plan Net OPEB - RHIA (Asset)	**$ (41.8)**
Plan net position as % of Total OPEB Liability	108.9%

Net OPEB - RHIPA Liability	**June 30, 2018**
Total OPEB - RHIPA Liability	$ 70.9
Plan Fiduciary Net Position	24.3
Plan Net OPEB - RHIA Liability	**$ 46.6**
	34.3%

Contributions

Both of the OPEB plans administered by PERS are funded through actuarially determined employer contributions.

For the fiscal year ended June 30, 2018, PSU contributed 0.07 percent of PERS-covered payroll for Tier Ones and Two plan members to fund the normal cost portion of RHIA benefits. In addition, PSU contributed 0.43 percent of all PERS-covered payroll to amortize the unfunded actuarial accrued liability over a fixed period with new unfunded actuarial accrued liabilities amortized over 20 years. The required employer contribution was approximately $520 for the year ended June 30, 2018 for the RHIA plan. The actual contribution equaled the annual required contribution for the fiscal year.

For the fiscal year ended June 30, 2018, PSU contributed 0.11 percent of PERS-covered payroll for Tiers One and Two plan members to fund the normal cost portion of RHIPA benefits. In addition, PSU contributed 0.38 percent of all PERS-covered payroll to amortize the unfunded actuarial accrued liability over a fixed period with new unfunded actuarial accrued liabilities amortized over 20 years. The required employer contribution was approximately $477 for the year ended June 30, 2018. The actual contribution equaled the annual required contribution for the fiscal year for the RHIPA plan.

Net OPEB Asset/Liability

a. RHIA

At June 30, 2018, PSU reported an asset of $491 for its proportionate share of the RHIA net OPEB asset. The net OPEB asset as of June 30, 2018 was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2015. The PERS system does not provide PSU an audited proportionate share as a separate employer; rather, PSU is allocated a proportionate share of PERS employer state agencies. DAS calculated PSU's proportionate share of all state agencies internally based on actual contributions by PSU as compared to the total for employer state agencies. The Oregon Audits Division reviewed this internal calculation. At June 30, 2018, PSU's proportion was 1.18 percent of the statewide OPEB plan.

For the year ended June 30, 2018, PSU recorded total OPEB benefit of $2 due to the change in the net RHIA OPEB asset, changes to deferred outflows and inflows and amortization of deferred amounts.

b. RHIPA

At June 30, 2018, PSU reported a liability of $1,775 for its proportionate share of the RHIPA net OPEB liability. The net OPEB liability as of June 30, 2018 was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2015. The PERS system does not provide PSU an audited proportionate share as a separate employer; the university is allocated a proportionate share of PERS employer state agencies. DAS calculated PSU's proportionate share of all state agencies internally based on actual contributions by PSU as compared to the total for employer state agencies. The Oregon Audits Division reviewed this internal calculation. At June 30, 2018, PSU's proportion was 3.80 percent of the statewide OPEB plan.

For the year ended June 30, 2018, PSU recorded total OPEB expense of $216 due to the changes to the net RHIPA OPEB liability, deferred outflows and inflows and amortization of deferred amounts.

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

Deferred Items

A. RHIA

Deferred inflows of resources and deferred outflows of resources are calculated at the system-wide level and are allocated to employers based on their proportionate share. For the measurement period ended June 30, 2017, there were:

- No differences between expected and actual experience
- No differences due to changes in assumptions
- Changes in employer proportion since the prior measurement date
- Differences between employer contributions and proportionate share of contributions
- Differences between projected and actual earnings
- Contributions subsequent to the measurement date of June 30, 2017

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 average remaining service lives of all plan participants, including retirees, with one year's amortization included in OPEB expense in the year in which the deferred item arose. Employers are required to recognize OPEB expense based on the balance of the closed period "layers" attributable to each measurement period. The average remaining service lives determined as of the beginning of the measurement period ended June 30, 2017 was 3.7 years.

The difference between projected and actual OPEB plan investment earnings attributable to each measurement period is amortized over a closed five-year period with one year's amortization recognized in the year in which the difference arose.

At June 30, 2018, PSU reported deferred outflows of resources and deferred inflows of resources related to RHIA OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	$ -	$ (227)
Change in Proportion	23	-
Difference Between Fund Contributions and Proportionate Share of Contributions	-	(35)
Employer contributions Subsequent to the Measurement Date	520	
	$ 543	$ (262)

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

PSU net deferred outflows related to the RHIA plan to be recognized over the next five years and thereafter are as follows as of June 30, 2018:

Net deferred (inflows) to be recognized over next five years and thereafter:		
2019	$	(61)
2020		(61)
2021		(60)
2022		(57)
	$	(239)

Amount of deferred outflows resulting from contributions subsequent to the measurement date to be included as a future decrease in net OPEB asset during fiscal year ended June 30, 2019	$	520

B. RHIPA

Deferred inflows of resources and deferred outflows of resources are calculated at the system-wide level and are allocated to employers based on their proportionate share. For the measurement period ended June 30, 2017, there were:

- No differences due to changes in assumptions
- No differences between expected and actual experience
- Changes in employer proportion since the prior measurement date
- Differences between employer contributions and proportionate share of contributions
- Net differences between projected and actual OPEB plan investment earnings
- Contributions subsequent to the measurement date of June 30, 2017

Experience gains and losses, changes in assumptions, changes in employer's proportionate share of contributions and change sin employer proportion are amortized over the average remaining service lives of all plan participants, including retirees, with one year's amortization included in OPEB expense in the year in which the deferred item arose. Employers are required to recognize OPEB expense based on the balance of the closed period "layers" attributable to each measurement period. The average remaining service lives determined as of the beginning of the measurement period ended June 30, 2017 was 7.2 years.

The difference between projected and actual OPEB plan investment earnings attributable to each measurement period is amortized over a closed five-year period with one year's amortization recognized in the year in which the difference arose.

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

At June 30, 2018, PSU reported deferred outflows of resources and deferred inflows of resources related to RHIPA OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	$ -	$ (19)
Change in Proportion	-	(20)
Difference Between Fund Contributions and Proportionate Share of Contributions	96	-
Employer contributions Subsequent to the Measurement Date	477	-
	$ 573	$ (39)

PSU net deferred outflows related to the RHIPA plan to be recognized over the next five years and thereafter are as follows as of June 30, 2018:

Net deferred outflows to be recognized over next five years and thereafter:	
2019	$ 8
2020	8
2021	7
2022	7
2023	12
Thereafter	15
	$ 57

Amount of deferred outflows resulting from contributions subsequent to the measurement date to be included as a future decrease in net OPEB liability during fiscal year ended June 30, 2019	$ 477

Actuarial Methods and Assumptions

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 below are based on the 2014 Experience Study, which reviewed experience for the four-year period ended on December 31, 2014.

Notes to the Financial Statements
For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

Actuarial Methods and Assumptions:

	RHIA	RHIPA
Valuation Date	December 31, 2015	
Measurement Date	June 30, 2017	
Experience Study Report	2014, published September 2015	
Actuarial Cost Method	Entry Age Normal	
Inflation Rate	2.50 percent	
Long-Term Expected Rate of Return	7.50 percent	
Discount Rate	7.50 percent	
Projected Salary Increases	3.50 percent	
Retiree Healthcare Participation	Healthy retirees: 38%; Disabled retirees: 20%	Varies by service at decrement, increasing from 10% at eight years of service to 38% at 30 years of service
Healthcare Cost Trend Rate	Not applicable	Applied at beginning of plan year, starting with 6.3% for 2016, decreasing to 5.3% for 2019, increasing to 6.5% for 2029, and decreasing to an ultimate rate of 4.4% for 2094 and beyond.
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: 2017 PERS CAFR; table 31, page 68)

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the OPEB plans' 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 OPEB plan investments for the OPEB Plans was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity Analysis

The sensitivity analysis below shows the sensitivity of PSU's proportionate share of the net OPEB liability/(asset) calculated using the discount rate of 7.50 percent, as well as what the net OPEB liability/(asset) would be if it were calculated using a discount rate that is one percent lower or one percent higher than the current rate:

Discount Rate	**June 30, 2018**	
	RHIA	**RHIPA**
1% Decrease to 6.5%	$68	$1,961
Current Discount Rate 7.5%	(491)	1,775
1% Increase to 8.5%	(966)	1,603

The sensitivity analysis below shows the sensitivity of the PSU's proportionate share of the net OPEB liability/(asset) calculated using the current healthcare cost trend rates, as well as what the net OPEB liability/(asset) would be if it were calculated using healthcare trend rates that are one percentage point lower or one percentage point higher than the current rates:

Healthcare Cost Rate	**June 30, 2018**	
	RHIA	**RHIPA**
1% Decrease	($491)	$1,532
Current Trend Rate	(491)	1,775
1% Increase	(491)	2,051

Assumed Asset Allocation

Asset Class/ Strategy	**Low Range**	**High Range**	**OIC Target**
Cash	0.00 %	3.00 %	0.00 %
Debt Securities	15.00	25.00	20.00
Public Equity	32.50	42.50	37.50
Private Equity	14.00	21.00	17.50
Real Estate	9.50	15.50	12.50
Alternative Equity	0.00	12.50	12.50
Opportunity Portfolio	0.00	3.00	0.00
Total			100 %

(Source: 2017 PERS CAFR; p. 92)

For the Years Ended June 30, 2018 and 2017 (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 investment advisors. Each asset 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. The table below shows a summary of long-term expected rate of return by asset class. For more information on the Plan's portfolio, assumed asset allocation, and the long-term expected rate of return for each major asset class, calculated using both arithmetic and geometric means, see PERS' audited financial statements at: https://www.oregon.gov/pers/Documents/Financials/CAFR/2017-CAFR.pdf

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00	3.61
Intermediate-Term Bonds	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%

Depletion Date Projection

GASB No. 75 generally requires that a blended discount rate be used to measure the Total OPEB Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB No. 75 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB No. 75 does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

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

- Oregon PERS has a formal written policy to calculate an actuarially determined contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100 percent funded position by the end of the amortization period if future experience follows assumption.
- GASB No. 75 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience that might impact the plan's funded position.

Based on these circumstances, it is the independent actuary's opinion that the detailed depletion date projections outlined in GASB No. 75 would clearly indicate that the fiduciary net position is always projected to be sufficient to cover benefit payments and administrative expenses.

Changes Subsequent to the Measurement Date

The PERS Board reviews the discount rate in odd-numbered years as part of the Board's adoption of actuarial methods and assumptions. The discount rate is then adopted in an administrative rule at the time the Board sets the new rate. On July 28, 2017, the PERS Board adopted a 7.20% assumed rate. The rule specifies that the adopted assumed rate will be effective for PERS transactions with an effective date of January 1, 2018.

B. Public Employees' Benefit Board (PEBB)

Plan Description

The PEBB plan offers healthcare assistance to eligible retired state employees and their beneficiaries. Chapter 243 of the ORS gives PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. The PEBB Plan is considered a cost-sharing multiple-employer plan for financial reporting purposes and has no assets accumulated in a trust that meets the criteria in GASB No. 75. PEBB does not issue a separate, publicly available financial report.

The PEBB Plan allows qualifying retired employees to continue their "active" health insurance coverage on a self-pay basis until they are eligible for Medicare. Participating retirees pay their own monthly premiums. However, the premium amount is based on a blended rate that is determined by pooling the qualifying retirees with active employees, thus, creating an "implicit rate subsidy."

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

State's Total OPEB Plan Liability

The State's total OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions and was then projected forward to the measurement date.

Changes in State's Total OPEB Liability	Increase (Decrease) Total OPEB Liability
Balance as of June 30, 2017	$ 144,795
Changes for the year:	
Service cost	9,294
Interest on total OPEB liability	5,388
Effect of assumptions changes or inputs	(3,689)
Benefit payments	(7,225)
Balance as of June 30, 2018	$ 148,563

(Source: PEBB Actuarial Report 2018; p. 9)

Proportionate Share Allocation Methodology

The basis for the employer's proportion is determined by comparing the employer's actual contributions made during the fiscal year with the total actual contributions made in the fiscal year of all employers.

Total OPEB Liability

At June 30, 2018, PSU reported a liability of $6,551 for its proportionate share of the total OPEB liability for the PEBB plan. The total OPEB liability as of June 30, 2018 was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017. PEBB does not provide PSU an audited proportionate share as a separate employer; the university is allocated a proportionate share of PEBB participating employers. DAS calculated PSU's proportionate share of all participating employers internally based on actual contributions by PSU as compared to the total for participating employers. The Oregon Audits Division reviewed this internal calculation. At June 30, 2018, PSU's proportion was 4.41 percent of participating employers.

For the year ended June 30, 2018, PSU recorded total OPEB expense of $595 due to the changes to the total OPEB liability, deferred inflows and amortization of deferred amounts.

Deferred Items

Deferred inflows and outflows of resources are calculated at the system-wide level and are allocated to employers based on their proportionate share. For the measurement period ended June 30, 2018, there were:

- Changes in assumptions
- Changes in employer proportion since the prior measurement date
- No differences between expected and actual experience

Changes in assumptions and changes in proportion are amortized over the closed period equal to the average expected remaining service lives of all covered active and inactive participants with one year's amortization recognized in the year in which the deferred item arose. Employers are required to recognize OPEB expense based on the balance of the closed period "layers" attributable to each measurement period. The weighted average expected remaining service lives, assuming zero years for all retirees, determined as of the beginning of the measurement period ended June 30, 2018 was 8.2 years.

At June 30, 2018, PSU reported deferred outflows and inflows of resources related to OPEB for the PEBB plan from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in Assumptions	$ -	$ (143)
Change in Proportion	-	(237)
Total	$ -	$ (380)

PSU net deferred inflows related to the PEBB plan to be recognized over the next five years and thereafter are as follows as of June 30, 2018:

Net deferred inflows to be recognized over next five years and thereafter:	
2019	$ (53)
2020	(53)
2021	(53)
2022	(53)
2023	(53)
Thereafter	(115)
	$ (380)

Actuarial Methods and Assumptions

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.

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

Actuarial Methods and Assumptions:

Valuation Date	July 1, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.50 percent
Discount Rate	3.87 percent
Projected Salary Increases	3.50 percent
Withdrawal, retirement, and mortality rates	December 31, 2016 Oregon PERS valuation
Healthcare Cost Trend Rate	*Medical and vision cost increases:* 0.80% in the first year; 5.10% in the second year; 5.30% in the third year; varying from 6.20% to 4.20% over the remainder of the projection period *Dental cost changes:* decrease 1.10% in the first year; increase 3.10% in the second year; increase 4.00% per year thereafter
Election and lapse rates	30% of eligible employees 60% spouse coverage for males, 35% for females 7% annual lapse rate

(Source: PEBB Actuarial Report 2018)

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

Discount Rate

Unfunded plans must use a discount rate that reflects a 20-year tax-exempt municipal bond yield or index rate. The Bond Buyer 20-Year General Obligation Bond Index was used to determine the discount rate for the OPEB liability. The discount rate in effect for the June 30, 2018 reporting date was 3.87 percent.

Sensitivity Analysis

The sensitivity analysis below shows the sensitivity of PSU's proportionate share of the total OPEB liability calculated using the discount rate of 3.87 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher than the current rate:

Discount Rate	June 30, 2018
1% Decrease to 2.87%	$7,129
Current Discount Rate at 3.87%	6,551
1% Increase to 4.87%	6,021

The sensitivity analysis below shows the sensitivity of PSU's proportionate share of the total OPEB liability calculated using the current healthcare cost trend rates, as well as what the net OPEB liability would be if it were calculated using healthcare trend rates that are one percentage point lower, or one percentage point higher than the current rates:

Healthcare Cost Trend Rate	June 30, 2018
1% Decrease	$5,772
Current Trend Rate	6,551
1% Increase	7,481

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 2017, PURMIT covers up to $250 per occurrence for real property damages. PURMIT covers up to $500 per occurrence for general liability damages. Excess third party commercial insurance covers up to $500,000 per occurrence with aggregate sub-limits for flood and earth movement of $250,000 and $100,000, respectively.

For the Years Ended June 30, 2018 and 2017 (dollars in thousands)

PURMIT covers up to $250 per occurrence for licensed professional liability and up to $500 per occurrence for educators' legal, auto and general liability, which covers employer's liability. Excess third party commercial insurance covers up to an aggregate $50,000 for these losses, including international incidents. PSU trustees are provided with directors and officers insurance under the educators' legal coverage.

PURMIT charges each participating 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 did not incur losses above covered amounts for the last three fiscal years.

16. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed and planned construction projects totaled approximately $175,905 at June 30, 2018, 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, 2018:

	Total Commitment	Completed to Date	Outstanding Commitment
Collaborative Fourth & Montgomery Building (1)	$ 111,495	$ 10,487	$ 101,008
Neuberger Hall Renovation	70,535	20,294	50,241
Peter W. Stott Center & Viking Pavillion renovation	52,765	48,565	4,200
Capital Repair	38,698	22,182	16,516
Projects with <$500 thousand remaining to be spent	9,374	6,434	2,940
	$ 282,867	$ 107,962	$ 174,905

(1) 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 story mixed use building with approximately 175,500 gross square feet of space. The project includes the design and construction of a new building, including furniture, fixtures and equipment, as well as the purchase of land. The project involves partnership commitments from Portland Community College, City of Portland and Oregon Health and Science University for their respective shares of the project. The State 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 $36 million. The Fourth and Montgomery building is expected to be ready for use by November 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, 2018, 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, 2018 and through the date of these financial statements that would require adjustment to, or disclosure in, the financial statements.

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.

Under an amended and restated recognition and support agreement, PSU has financially supports the PSU Foundation's operating costs. During the years ended June 30, 2018 and 2017, PSU transferred $7,452 and $6,964, respectively, to the PSU Foundation under this agreement. PSU's financial support to the PSU Foundation is expected to be $7,725 during the year ended June 30, 2019. 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, as well as $750 of supplemental funding in 2019 to support the PSU Foundation's comprehensive funding raising campaign initiative.

During the years ended June 30, 2018 and 2017, gifts of $17,389 and $15,369, respectively, were transferred from the PSU Foundation to PSU. Gifts received from the PSU Foundation include amounts contributed by certain members of the PSU Board of Trustees and their affiliates. During the years ended June 30, 2018 and 2017, the PSU Foundation recognized $4,823 and $3,582 of revenues associated with donations and pledges from members of the PSU Board of Trustees and their affiliates.

PSU leases a building from the PSU Foundation (the Corbett Building) that will expire on December 31, 2019 unless renewed. Annual base rent is $462. The lease contains a fair market value purchase option.

Although PSU does not control the timing or amount of receipts from the PSU Foundation, the majority of resources, or income thereon that the PSU Foundation holds and invests are restricted to the activities of PSU by the donors. As these restricted resources held by the PSU Foundation can only be used by, or for the benefit of, PSU, the PSU Foundation is considered a component unit of PSU and is discretely presented in the financial statements. Refer to the Statements of Financial Position and Statements of Activities for the PSU component unit financial statements. The PSU 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)

SCHEDULE OF UNIVERSITY PERS DEFINED BENEFIT PENSION EMPLOYER CONTRIBUTIONS

Defined Benefit Pension Plans*	Year Ended June 30, 2018	2017	2016	2015	2014
Statutorily required employer contributions	$ 12,033	$ 9,345	$ 8,566	$ 7,315	$ 7,586
Employer contributions recognized	$ 12,033	$ 9,345	$ 8,566	$ 7,315	$ 7,586
Contribution Excess (Deficiency)	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 115,380	$ 112,635	$ 108,245	$ 103,588	$ 103,961
Employer contributions recognized as a percentage of covered payroll	10.4%	8.3%	7.9%	7.1%	7.3%

SCHEDULE OF UNIVERSITY PERS DEFINED BENEFIT PENSION PROPORTIONATE SHARE OF NET PENSION LIABILITY

Defined Benefit Pension Plans*	Year Ended June 30, 2018	2017	2016	2015	2014
Employer's proportionate % share of collective net pension asset or liability**	1.04%	0.96%	0.92%	0.92%	0.92%
Employer's proportionate share of collective net pension (asset) liability**	$ 140,322	$ 144,817	$ 52,642	$ (20,769)	$ 46,757
Covered employee payroll**	$ 112,635	$ 108,245	$ 103,588	$ 103,961	$ 98,057
Employer's share of net pension (asset) liability as a percentage of covered payroll**	125%	134%	51%	-20%	48%
Plan fiduciary net position as a percentage of the total pension liability**	83.1%	80.5%	91.9%	103.6%	not avail.

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

**Based on measurement date one year prior to the fiscal year end.

Required Supplementary Information (dollars in thousands)

SCHEDULE OF UNIVERSITY PERS RHIA OPEB EMPLOYER CONTRIBUTION

	Year Ended June 30,								
	2018	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Actuarially Determined Contributions[1]	$ 520	$ 537	$ 519	$ 549	$ 555	$ 533	$ 510	$ 187	$ 177
Contributions in Relation to the Actuarially Determined Contributions	520	537	519	549	555	533	510	187	177
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 115,380	$ 112,635	$ 108,245	$ 103,588	$ 103,961	$ 98,057	$ 93,153	$ 77,200	$ 71,805
Contributions as a Percentage of Covered Payroll	0.45%	0.48%	0.48%	0.53%	0.53%	0.54%	0.55%	0.24%	0.25%

[1]For Actuarial Assumptions and Methods, see table in Note 14

SCHEDULE OF UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PERS RHIA OPEB LIABILITY/(ASSET)*

	Year Ended June 30,	
	2018	**2017**
University's Allocation of the Net RHIA OPEB Liability/(Asset)	1.18%	1.18%
University's Proportionate Share of the Net RHIA OPEB Liability/(Asset)	$ (491)	$ 288
University's Covered Payroll	112,635	108,245
University's Proportionate Share of the Net RHIA OPEB Liability/(Asset) as a Percentage of Covered Payroll	0.44%	0.27%
Plan Fiduciary Net Position as a Percentage of the Total RHIA OPEB Liability/(Asset)	94.15%	108.88%

*Based on measurement date one year prior to the fiscal year end. 10-year trend information specific to PSU is not available for earlier years.

Required Supplementary Information (dollars in thousands)

SCHEDULE OF UNIVERSITY PERS RHIPA OPEB EMPLOYER CONTRIBUTION

	Year Ended June 30,								
	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially Determined Contributions[1]	$ 477	$ 428	$ 414	$ 236	$ 240	$ 132	$ 127	$ 40	$ 39
Contributions in Relation to the Actuarially Determined Contributions	477	428	414	236	240	132	127	40	39
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 115,380	$ 112,635	$ 108,245	$ 103,588	$ 103,961	$ 98,057	$ 93,153	$ 77,200	$ 71,805
Contributions as a Percentage of Covered Payroll	0.41%	0.38%	0.38%	0.23%	0.23%	0.13%	0.14%	0.05%	0.05%

[1]For Actuarial Assumptions and Methods, see table in Note 14

SCHEDULE OF UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PERS RHIPA OPEB LIABILITY/(ASSET)*

	Year Ended June 30,	
	2018	2017
University's Allocation of the Net RHIPA OPEB Liability/(Asset)	3.81%	3.60%
University's Proportionate Share of the Net RHIPA OPEB Liability/(Asset)	$ 1,775	$ 1,930
University's Covered Payroll	112,635	108,245
University's Proportionate Share of the Net RHIPA OPEB Liability/(Asset) as a Percentage of Covered Payroll	1.58%	1.78%
Plan Fiduciary Net Position as a Percentage of the Total RHIPA OPEB Liability/(Asset)	21.87%	34.25%

*Based on measurement date one year prior to the fiscal year end. 10-year trend information specific to PSU is not available for earlier years.

Required Supplementary Information (dollars in thousands)

SCHEDULE OF UNIVERSITY'S PROPORTIONATE SHARE OF THE TOTAL PEBB OPEB LIABILITY*

	Year Ended June 30, 2018	2017
University's Allocation of the Total OPEB Liability	4.41%	4.60%
University's Proportionate Share of the Total OPEB Liability	$ 6,551	$ 6,655
University's Covered Payroll	$ 167,815	$ 163,311
University's Proportionate Share of the Total OPEB Liability as a Percentage of Covered Payroll	3.90%	4.08%
Total OPEB Liability as a % of Total Covered Payroll	4.42%	4.45%

*10-year trend information specific to PSU is not available for earlier years.

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

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Portland State
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