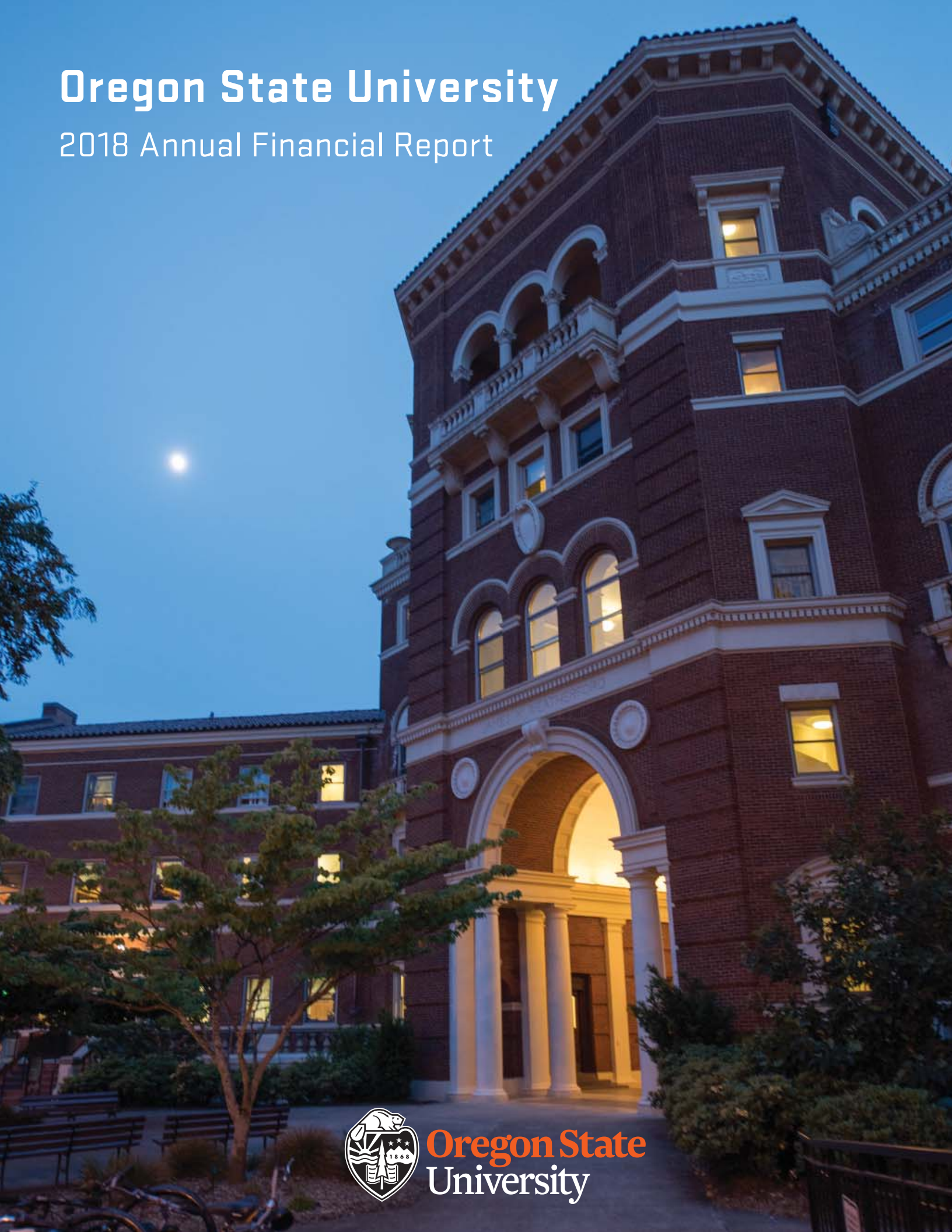


Oregon State University

2018 Annual Financial Report



Oregon State
University



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(effective as of June 30, 2018)

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Edward J. Ray (ex-officio, non-voting)	Corvallis, OR
Debbie Colbert, Secretary	Corvallis, OR

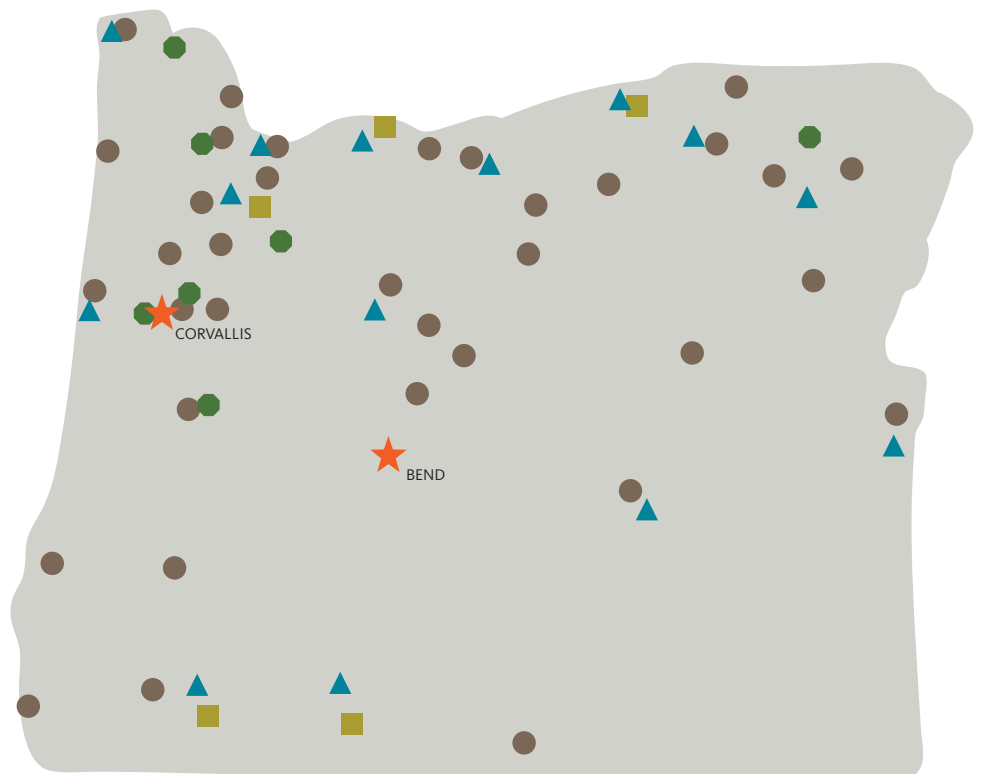
Executive Officers
(effective as of June 30, 2018)

Edward J. Ray <i>President</i>
Edward Feser <i>Provost/Executive Vice President</i>
Charlene Alexander <i>Vice President and Chief Diversity Officer</i>
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Cynthia Sagers <i>Vice President for Research</i>
Steven Clark <i>Vice President for University Relations and Marketing</i>
Becky Johnson <i>Vice President for OSU - Cascades</i>
Scott Barnes <i>Vice President and Director of Intercollegiate Athletics</i>
Rebecca Gose <i>General Counsel</i>
Patricia Snopkowski <i>Chief Audit Executive</i>



OREGON'S STATEWIDE UNIVERSITY

Oregon State University is a comprehensive, internationally recognized public research university. OSU serves as the state of Oregon's land-, sea-, space- and sun-grant university and is one of only two universities in the nation with all such designations. Oregon State University programs and faculty are located in every county in Oregon and are dedicated to providing solutions for the state and world's greatest challenges. OSU considers the entire state of Oregon as its campus and works in partnership with many school districts, all of Oregon's 17 community colleges and numerous public and private universities and colleges to provide access to high-quality educational programs. Meanwhile, strong collaborations with industry, as well as state and federal agencies, help contribute to the success of the university's research enterprise.



- OSU Extension Service Locations (35)
- OSU Research and Extension Centers (5)
- ★ OSU Campuses (2)
- ▲ Oregon Agricultural Experiment Station Sites (14)
- Forest Research Laboratory Sites (7)



MISSION

As a land grant institution committed to teaching, research, and outreach and engagement, Oregon State University promotes economic, social, cultural and environmental progress for the people of Oregon, the nation and the world.

This mission is achieved by producing graduates competitive in the global economy, supporting a continuous search for new knowledge and solutions, and maintaining a rigorous focus on academic excellence, particularly in three Signature Areas: Advancing the Science of Sustainable Earth Ecosystems; Improving Human Health and Wellness; and Promoting Economic Growth and Social Progress.

VISION

To best serve its mission, Oregon State University will be among the Top 10 land grant institutions in America and will be recognized as a premier international public research university.

GOALS

Strategic Plan 3.0 expands Oregon State's strategic goals to focus on:

- Success that transforms our learners and our world.
- Leadership that integrates scholarship, creativity and collaboration throughout learning and discovery.
- Expansion of the university's diversity, reach and service across Oregon, throughout the nation and around the world.

View OSU's Strategic Plan at:

oregonstate.edu/leadership/strategicplan

Message from President Edward J. Ray



As Oregon State University celebrates its 150th anniversary, the institution continues to demonstrate far-reaching contributions in Oregon, across the nation and around the world. I also am pleased to report again this year that the institution's financial foundation remains very strong.

OSU is Oregon's leading comprehensive university and is an internationally recognized public research university that is at the forefront of excellence, leadership and innovation.

The university achieved many major accomplishments this past year. Our College of Forestry is ranked No. 2 in the world and our oceanography program No. 3 globally. Meanwhile, U.S. News and World Report ranked Oregon State's Ecampus online bachelor's programs No. 6 in the country. Our research enterprise continued to excel, garnering \$381.6 million in research funding. University researchers address some of the world's most pressing problems — from climate change to cancer.

The OSU Foundation celebrated a record year in 2018 with gifts totaling \$151.93 million. Donor support continues to make a significant difference across the university. More than 4,000 students at Oregon State received donor-funded scholarships and fellowships last year, helping recruit more high-achieving and diverse students to our campuses. The university celebrated a \$50 million gift in 2018 – its largest ever – which resulted in OSU's first named college: the Carlson College of Veterinary Medicine. Donors are supporting the university's priorities for academic excellence, transformative learning experiences and pioneering research discovery through the university's Student Success Initiative. Meanwhile, this year, we created more than 19 new donor-supported faculty positions.

For the fourth consecutive year, OSU was the largest university in the state with more than 31,900 students. True to our land grant mission, enrollment of Oregon residents remains strong, and the growth in the number of Oregon students at OSU accounted for nearly all of the growth of resident Oregonian students within the state's public universities last year. With regard to enrollment management, we are following a plan that calls for 28,000 students to be enrolled at our Corvallis campus by 2025; 3,000 students at our OSU-Cascades

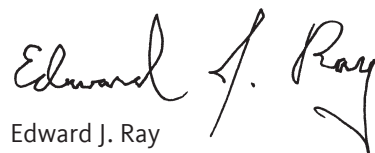
campus in Bend; up to 500 students annually engaged in marine studies at our Hatfield Marine Sciences Center in Newport; and 7,000 or more degree-seeking students enrolled entirely online. OSU continued to develop four-year degree programs at OSU-Cascades, which is preparing for construction of its second academic building and plan for an expanded campus footprint. This campus serves students who want to remain in Central Oregon and attend a four-year college. It also provides other resident Oregonian, out-of-state and international students with a high-quality OSU education in a unique small-campus setting. Additionally, OSU will begin offering classes and programs to Portland-area residents and will open a new academic and program center in downtown Portland in fall 2018.

The university is following a 10-year plan to address building renewals and improvements on the Corvallis campus and within the university's 14 experiment stations located throughout Oregon. Through a combination of university operational funds, OSU bonds, state bonds and donor contributions, this strategy will result in a reduction of the university's backlog of deferred maintenance costs by 25 percent over the next decade.

College affordability remains a top priority for our Board of Trustees, OSU administrators, students and their families. Until the 2015 Oregon legislative session, Oregon's public universities have had to weather a decade or more of declining state support for higher education. As part of our Student Success Initiative, we are working aggressively to ensure that an OSU degree is an affordable reality for all qualified Oregonians.

Oregon State is deeply committed to sound financial management, and utilizes a 10-year business plan, composed of a 10-year capital forecast and a 10-year operational forecast, to help guide the university.

As Oregon State University begins its next 150 years of service as Oregon's statewide university, we will work to achieve even more for our students and all those we serve.


Edward J. Ray

POINTS of Pride

TOP 10 ONLINE DEGREE

Oregon State's Ecampus, with more than 40 undergraduate and graduate degrees and over 1,200 courses, continues to earn top rankings in nationwide surveys. (U.S. News & World Report)

TOP 3 IN THE WORLD FOR FORESTRY AND OCEANOGRAPHY

Oregon State faculty are among the most frequently published in top-tier scientific journals, earning a global reputation for groundbreaking research that impacts the environment and the economy. (Center for World University Rankings)

No. 1 MID-CAREER SALARY OF ALL PUBLIC SCHOOLS IN OREGON

Oregon State graduates earn a median salary of \$98,700 at mid-career, the most of any public university in the state. (Pay Scale)

No. 13 GREENEST UNIVERSITY

Oregon State is nationally recognized for its top-ranked programs in sustainability fields, including forestry, wildlife management, zoology, conservation biology, agricultural sciences and nuclear engineering. (BestColleges.com)

No. 2 FRIENDLIEST COLLEGE TOWN IN AMERICA

No. 21 SMARTEST COLLEGE TOWNS IN AMERICA

Corvallis consistently ranks among the nation's top college towns in multiple surveys, cited for innovation, sustainability, entertainment and livability. (Great College Deals)

BICYCLE GOLD

One of just 20 universities in the nation to earn a gold ranking, Oregon State is known for bike-friendly amenities and encouraging bicycling as an easy, healthy transportation option. (League of American Bicyclists)



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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Members of the Board of Trustees
Oregon State University
Corvallis, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Oregon 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 University'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 aggregate discretely presented component units, the Oregon State University Foundation and the Agricultural Research Foundation, which represent 100 percent of the assets, net assets, and revenues of the aggregate discretely presented component units. 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 Oregon State University Foundation and the Agricultural Research Foundation is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 reports 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 aggregate discretely presented component units of Oregon State 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 these standards, the University reported a restatement for the change in accounting principle (see Note 1 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 the management's discussion and analysis, schedules of the University's contributions to pension and Other Postemployment Benefit (OPEB) plans, and schedules of the University's proportionate share of pension and OPEB plans as listed in the table of contents (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 and other auditors 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 the Oregon 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

Denver, Colorado
November 9, 2018



Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Oregon State University (OSU) for the years ended June 30, 2018, 2017, and 2016. OSU is comprised of a main campus in Corvallis and a branch campus in Bend, along with the Hatfield Marine Science Center in Newport, Ecampus, and Extension Service, Agricultural Experiment Stations and Forest Research Laboratories throughout the state.

Annual Full-Time Equivalent (FTE) Student Enrollment Summary

	2018	2017	2016	2015	2014
Corvallis	21,182	21,608	21,658	21,939	21,844
Cascades	767	709	650	600	541
Ecampus	6,271	5,513	4,731	4,089	3,684
Total	28,220	27,830	27,039	26,628	26,069

Understanding the Financial Statements

The MD&A focuses on OSU as a whole and is intended to foster a greater understanding of OSU's financial activities. Since this presentation includes summarized formats, it should be read in conjunction with the financial statements that have the following six components:

Independent Auditors' Report presents an unmodified opinion rendered by CliftonLarsonAllen LLP, an independent certified public accounting firm, on the fairness in presentation of the financial statements.

Statement of Net Position (SNP) presents a snapshot of OSU's assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 OSU owes to vendors and bondholders, and OSU's net position, delineated based upon availability for future expenditures.

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

Statement of Cash Flows (SCF) provides information about OSU's sources and uses of cash during the fiscal year. The SCF classifies sources and uses of cash into four categories of cash either provided or used by: operating activities, noncapital financing activities, capital and related financing activities and investing activities.

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

Component Units, comprised of two supporting foundations, are combined and reported separately in the OSU financial statements and in Note 2 Cash and Investments and Note 20 University Foundations.

The MD&A provides an objective analysis of OSU's financial activities based on currently known facts, decisions, and conditions. The analysis is about OSU as a whole and is not broken out by individual campuses, schools, colleges or divisions. The MD&A discusses the current and prior year results in comparison to the respective year's prior year. Due to rounding and presentation, summary numbers in the MD&A may differ slightly from those in the financial statement schedules. Unless otherwise stated, all years refer to the fiscal year ended June 30.

Financial Summary

OSU's financial condition and operating performance remained solid during fiscal year 2018.

Total assets increased by \$173 million, or 11 percent, at the year's end due to increases in all asset categories except inventory. This increase was driven mostly by \$63 million and \$56 million increases in investments and net capital assets, respectively. Total assets were also buoyed by an increase in Cash and Cash Equivalents of \$32 million, and a net aggregate increase of \$22 million in the remaining asset categories.

Deferred outflows decreased by \$60 million, due mostly to a decrease in deferred outflows related to the net pension liability.

Total liabilities increased by \$135 million, or 14 percent, during 2018 primarily due to the issuance of \$73 million in Revenue Bonds, a \$47 million increase in the university's line of credit liability, a new \$22 million Perkins loan program liability, a \$16 million increase in accounts payable and accrued liabilities, and a \$12 million increase in net OPEB liability associated with the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. These increases were primarily offset by a \$29 million decrease in the net pension liability, as well as several minor decreases in other liabilities.

Total net position decreased by \$26 million during fiscal year 2018 primarily due to an \$17 million decrease in restricted expendable net position and a \$15 million decrease in unrestricted net position. Net investment in capital assets increased by \$5 million, and restricted-nonexpendable net position increased by \$1 million, which slightly offset the larger decreases.

Beginning net position for 2018 was restated and reduced by \$11 million due to the cumulative effect of implementing GASB Statement No. 75 on the prior year.

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

Total revenues increased by \$65 million, or 6 percent, in 2018 over 2017. This increase was widely distributed among most income categories and was led by increases in government appropriations of \$23 million, grants and contracts of \$20 million, and tuition and fees of \$17 million with the remaining categories accounting for an additional net increase of \$5 million.

Operating expenses increased by \$70 million in 2018, or 6 percent, over 2017. This increase was spread among most categories and was led by increases in public service of \$23 million, instruction of \$16 million, auxiliary programs of \$13 million, and research of \$8 million.

Nonoperating expenses increased by \$23 million due primarily to the Perkins loan program termination of \$22 million.

Statement of Net Position

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

The following chart summarizes OSU's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (in millions):

Condensed Statement of Net Position

As of June 30,	2018	2017	2016
Current Assets	\$ 231	\$ 196	\$ 200
Noncurrent Assets	312	230	204
Capital Assets, Net	1,183	1,127	1,072
Total Assets	\$ 1,726	\$ 1,553	\$ 1,476
Deferred Outflows of Resources	\$ 111	\$ 171	\$ 28
Current Liabilities	\$ 213	\$ 180	\$ 186
Noncurrent Liabilities	889	787	549
Total Liabilities	\$ 1,102	\$ 967	\$ 735
Deferred Inflows of Resources	\$ 7	\$ 3	\$ 28
Net Investment in Capital Assets	\$ 711	\$ 706	\$ 678
Restricted - Nonexpendable	6	5	5
Restricted - Expendable	69	86	83
Unrestricted	(58)	(43)	(25)
Total Net Position	\$ 728	\$ 754	\$ 741

Total Assets and Deferred Outflows of Resources

Total assets increased by \$173 million, or 11 percent, during the year ended 2018 due to increases in all categories of assets except for a slight decrease in inventory. Total assets increased by \$77 million, or 5 percent, during the year ended 2017 due to increases in net capital assets, cash and

cash equivalents, investments and notes receivable. These increases were offset by decreases in accounts receivable and prepaid expense.

Comparison of fiscal year 2018 to fiscal year 2017

Current Assets increased by \$35 million, or 18 percent, primarily due to:

- Current cash and cash equivalents increased by \$15 million. Overall, higher cash balances in operating funds were offset by a slight increase in the proportion of cash that was transferred to investments in 2018, resulting in a net higher cash balance at year end.
- Accounts receivable increased by \$9 million. Increases in receivables related to federal grants and contracts, capital construction and auxiliary operations were only somewhat offset by decreases in receivables from the component units and other receivables. See Note 3 Accounts Receivable for additional information.
- Prepaid expenses increased by \$3 million due primarily to capital construction costs related to the OSU Portland Center remodel of the Meier and Frank building. OSU provided up-front funding for tenant improvements on the Meier and Frank building in downtown Portland, which it is leasing for expansion of the OSU Portland Center.

Noncurrent (Noncapital) Assets increased by \$82 million, or 36 percent.

- Noncurrent cash and cash equivalents increased by \$17 million due primarily to increased revenue bond cash held for construction at year end. Revenue bond cash from previous years' sales was transferred to construction projects prior to year end, but has not been spent down.
- Investments increased by \$63 million. Increased cash balances available for investment resulted in increased investments at year end.
- Noncurrent notes receivable increased by \$2 million primarily as the result of an increase in Perkins loans receivable and associated allowance for doubtful accounts. See Note 4 Notes Receivable for additional information.

Capital Assets, Net increased by \$56 million, or 5 percent. See detailed information on Capital Assets in this MD&A for additional information on this change.

Deferred Outflows of Resources decreased by \$60 million, or 35 percent.

- Deferred outflows related to the net pension liability decreased by \$62 million.
- The implementation of GASB Statement No. 75 added \$2 million in deferred outflows related to the OPEB asset and liabilities.
- See Note 6 Deferred Outflows and Inflows of Resources for additional information.

Comparison of fiscal year 2017 to fiscal year 2016

Current Assets decreased by \$4 million, or 2 percent.

- Current cash and cash equivalents increased by \$15 million. Overall, lower cash balances in operating funds were offset by a decrease in the proportion of cash that was transferred to investments in 2017, resulting in a net higher cash balance at year end.
- Accounts receivable decreased by \$17 million. Decreases in receivables related to federal grants and contracts and capital construction were only somewhat offset by increases in receivables related to student tuition and fees and auxiliary operations. See Note 3 for additional information.
- Current notes receivable was relatively unchanged. See Note 4 for additional information.
- Prepaid expenses decreased by \$2 million due to expensing large prepaid amounts recorded at June 30, 2016, which were related to research equipment.

Noncurrent (Noncapital) Assets increased by \$26 million, or 13 percent.

- Noncurrent cash and cash equivalents increased by \$19 million due primarily to increased cash held for construction as match for XI-G bond sales by the state. Increased cash balances were somewhat offset by an increase in the amount of cash transferred to investments in 2017.
- Investments increased by \$7 million.
- Noncurrent notes receivable increased by less than \$1 million. See Note 4 for additional information.

Capital Assets, Net increased by \$55 million, or 5 percent. See detailed information on Capital Assets in this MD&A for additional information on this change.

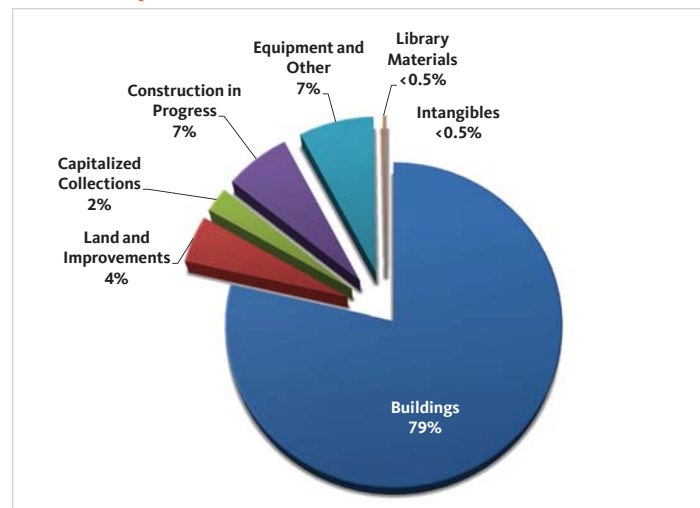
Deferred Outflows of Resources increased by \$143 million, or 511 percent. See Note 6 for detailed information on this change.

Capital Assets and Related Financing Activities

Capital Assets

At June 30, 2018, OSU had \$2.0 billion in capital assets, less accumulated depreciation of \$821 million, for net capital assets of \$1.2 billion. At June 30, 2017, OSU had \$1.9 billion in capital assets, less accumulated depreciation of \$773 million, for net capital assets of \$1.1 billion. OSU is committed to a comprehensive program of capital investment and facility maintenance that includes addressing current maintenance needs and minimizing OSU's deferred maintenance backlog. State, federal, private, debt, and internal funding were all used to accomplish OSU's capital objectives.

2018 Capital Assets, Net \$1,183 Million



Changes to Capital Assets

(in millions)

As of June 30,	2018	2017	2016
Capital Assets, Beginning of Year	\$ 1,900	\$ 1,802	\$ 1,673
Add: Purchases/Construction	113	111	146
Less: Retirements/Adjustments	(9)	(13)	(17)
Total Capital Assets, End of Year	2,004	1,900	1,802
Accum. Depreciation, Beginning of Year	(773)	(730)	(695)
Add: Depreciation Expense	(56)	(55)	(50)
Less: Retirements/Adjustments	8	12	15
Total Accum. Depreciation, End of Year	(821)	(773)	(730)
Total Capital Assets, Net, End of Year	\$ 1,183	\$ 1,127	\$ 1,072

Capital additions totaled \$113 million for 2018, \$111 million for 2017, and \$146 million for 2016.

During 2018, capital asset additions included \$72 million for construction in progress (CIP) related to buildings, equipment, land improvements and infrastructure; \$14 million for equipment; \$21 million for buildings; and \$3 million for infrastructure. During 2017, capital asset additions included \$83 million for construction in progress (CIP) for buildings, equipment, land improvements and infrastructure; \$20 million for equipment; \$3 million for buildings; and \$2 million for land improvements. During 2016, capital asset additions included \$113 million for CIP for buildings, equipment, land improvements and infrastructure; \$8 million for land; \$16 million for equipment; and \$6 million for buildings.

Key projects still in progress at the end of 2018 include the Oregon Forestry Science Complex, Hatfield Marine Science Center Marine Studies Building, Newport Student Housing, and the Upper Level Undergraduate and Graduate Student Housing building in Corvallis. Key projects completed in 2018 include the Steam Tunnel Utility System improvement and Agricultural Systems Center.

See Note 5 Capital Assets for additional information.

Debt Administration

During 2018, long-term debt held by OSU increased by \$55 million, or 13 percent, from \$438 million to \$493 million.

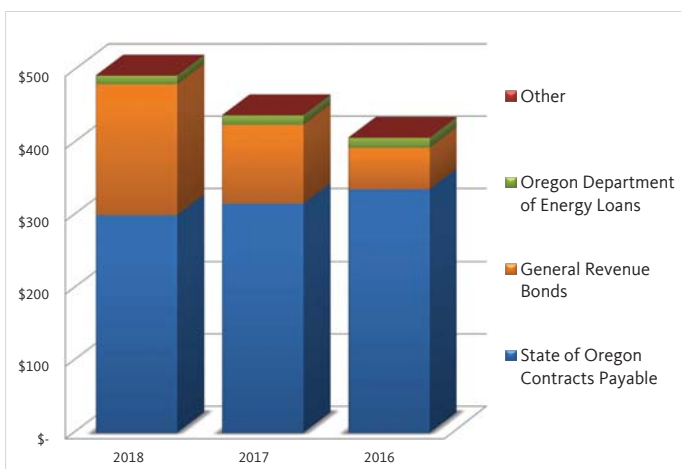
- OSU issued an additional \$73 million (par value) of new Revenue Bonds earmarked for construction. The bonds were sold at par.
- OSU made debt service principal payments totalling \$16 million on outstanding long-term debt.
- OSU’s remaining obligation for accreted interest and premiums on outstanding debt decreased by a net \$2 million.

During 2017, long-term debt held by OSU increased by \$32 million, or 8 percent, from \$406 million to \$438 million.

- OSU issued an additional \$47 million (par value) of new Revenue Bonds earmarked for construction. The bonds were sold at a premium of \$5 million, which will be amortized over the life of the bonds.
- The state refunded previously issued XI-F(1) debt, resulting in a net decrease to OSU’s contracts payable of \$4 million.
- OSU made debt service principal payments totalling \$14 million on outstanding long-term debt.
- OSU’s remaining obligation for accreted interest and premiums on outstanding debt decreased by a net \$2 million.
- See Note 9 Long-Term Liabilities for additional information.

Long-term Debt

(in millions)



Total Liabilities and Deferred Inflows of Resources

Total liabilities increased by \$135 million, or 14 percent, during 2018 primarily due to an increase in long-term liabilities due to the issuance of Revenue Bonds during 2018, a \$47 million increase in the line of credit liability, and the

recording of a \$22 million Perkins loan program liability. During 2017, total liabilities increased by \$232 million, or 32 percent, primarily due to a \$208 million increase in the net pension liability along with a \$52 million increase in long-term liabilities due to the issuance of revenue bonds.

Comparison of fiscal year 2018 to fiscal year 2017

Current Liabilities increased by \$33 million, or 18 percent, primarily due to:

- Accounts payable and accrued liabilities increased by \$16 million. Increased services and supplies payable associated with capital construction projects, grants, and general operations as well as increased payroll withholdings payable were offset by a decrease in capital construction contract retainage payable.
- Unearned revenues increased by \$6 million. Increases in unearned revenue associated with summer session tuition and fees, grants and contracts, and other operations were offset by a decrease in unearned revenue associated with auxiliaries.
- The current portion of long-term liabilities increased by \$5 million due mainly to the accrual of the Perkins loan program liability. With the termination of the federal Perkins program, OSU was required to reclassify the federal capital contribution from net position to a long-term liability since those funds are now required to be paid back to the federal government. See Note 1 Organization and Summary of Accounting Policies, Section W Perkins Loan Program Termination and Note 9 for additional information.

Noncurrent Liabilities increased by \$102 million, or 13 percent.

- The noncurrent portion of long-term liabilities increased by \$119 million due primarily to the issuance of Revenue Bonds during 2018, an increase in the line of credit liability, and the accrual of the Perkins loan program liability. See discussion of Debt Administration earlier in this MD&A and Note 9 for additional information.
- Net pension liability decreased by \$29 million. See Note 15 Employee Retirement Plans for additional information.
- The implementation of GASB Statement No. 75 added \$12 million in OPEB liability. See Note 16 Other Post-employment Benefits (OPEB) for additional information.

Deferred Inflows of Resources increased by \$4 million or 133 percent.

- Deferred inflows related to the net pension liability increased by \$3 million.
- The implementation of GASB Statement No. 75 added \$1 million in deferred inflows related to the OPEB asset and liabilities.
- See Note 6 Deferred Outflows and Inflows of Resources for detailed information on this change.

Comparison of fiscal year 2017 to fiscal year 2016

Current Liabilities decreased by \$6 million, or 3 percent.

- Accounts payable and accrued liabilities decreased by \$10 million mainly due to a decrease in services and supplies payable associated with capital construction projects.
- Unearned revenues increased by \$4 million. Increases in unearned revenue associated with summer session tuition and fees, auxiliaries and other operations were offset by a decrease in unearned revenue associated with grants and contracts.
- The current portion of long-term liabilities increased by less than \$1 million due mainly to previously issued debt coming due in the next year.

Noncurrent Liabilities increased by \$238 million, or 43 percent.

- The noncurrent portion of long-term liabilities increased by \$30 million. See discussion of Debt Administration earlier in this MD&A for detailed information on this change. See Note 9 for additional information.
- Net pension liability increased by \$208 million. See Note 15 for additional information.

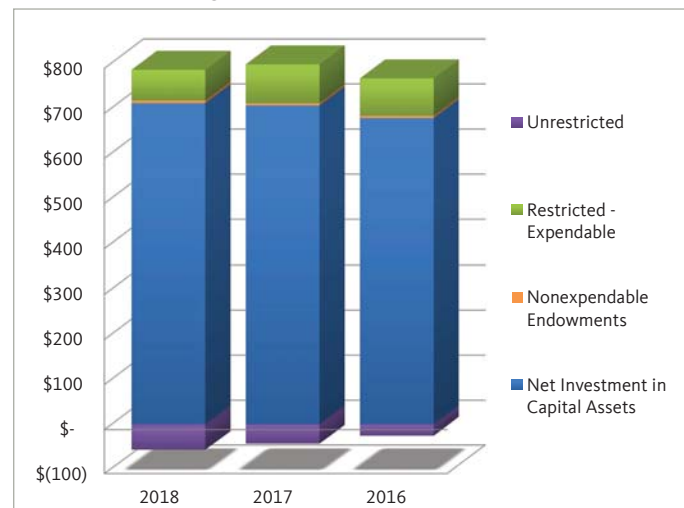
Deferred Inflows of Resources decreased by \$25 million or 89 percent. See Note 6 for detailed information on this change.

Total Net Position

Total net position (TNP) decreased by \$26 million, or 3 percent, during 2018. TNP benefited from a \$5 million increase in net investment in capital assets, as well as an increase in nonexpendable net position of \$1 million, but was negatively impacted by a reduction in unrestricted net position of \$15 million and a reduction of restricted expendable net position of \$17 million.

TNP increased by \$13 million, or 2 percent, during 2017. TNP benefited from a \$28 million increase in net investment in capital assets, as well as an increase in restricted expendable net position of \$3 million, but was negatively impacted by a reduction in unrestricted net position of \$18 million. Unrestricted net position was positively impacted by a \$22 million increase due to unrestricted operations, which includes education, auxiliary and general business type activities. That increase was offset by a decrease in unrestricted net position of \$40 million due to an increase in the net pension liability and associated deferred inflows and outflows.

The graph below illustrates how the composition of net position has changed since 2016. (in millions)



Comparison of fiscal year 2018 to fiscal year 2017

Net Investment in Capital Assets increased by \$5 million, or 1 percent.

- Capitalized acquisitions net of disposals added \$104 million, which was offset by a \$48 million increase to accumulated depreciation. Additionally, there was a net increase of \$51 million in long-term debt outstanding attributable to the capital assets as a result of a revenue bond sale during fiscal year 2018. See Note 5 Capital Assets and Note 9 for additional information.

Restricted Expendable Net Position decreased by \$17 million, or 20 percent.

- Net position restricted for gifts, grants and contracts increased by \$4 million due primarily to an increase in the market value of endowment funds managed by the OSU Foundation.
- Net position restricted for student loans decreased \$22 million due to the termination of the Perkins loan program and the establishment of a liability for the amount of federal capital contribution due to the federal government. See Note 1 Organization and Summary of Accounting Policies, Section W Perkins Loan Program Termination for additional details.
- Net positions restricted for capital projects and debt service were relatively unchanged.
- The implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, resulted in the creation of a new restricted expendable net position for the OPEB asset. The restricted expendable OPEB asset is equal to the Net OPEB Asset of \$1 million reported in noncurrent assets.

Unrestricted Net Position decreased by \$15 million, or 35 percent.

- Improved unrestricted operating performance, which includes education, auxiliary and general business type activities, increased unrestricted net position by \$30 million.
- Changes associated with the PERS net pension liability decreased unrestricted net position by \$36 million, due primarily to a significant decrease in the deferred outflows of resources associated with the net pension liability. See Note 6 and Note 15 for additional information.
- The implementation of GASB Statement No. 75 and the reporting of net OPEB liabilities, coupled with the associated deferred outflows and inflows for those liabilities and the OPEB asset, resulted in a net decrease of \$11 million.
- Decreases associated with year-end liability accruals for the PERS state and local government rate pool (SLGRP) and compensated absences increased unrestricted net position by \$2 million.
- See Note 10 Unrestricted Net Position for additional information.

Comparison of fiscal year 2017 to fiscal year 2016

Net Investment in Capital Assets increased by \$28 million, or 4 percent.

- Capitalized acquisitions net of disposals added \$98 million, which was offset by a \$43 million increase to accumulated depreciation. Additionally, there was a net increase of \$27 million in long-term debt outstanding attributable to the capital assets as a result of a revenue bond sale during fiscal year 2017. See Note 5 Capital Assets and Note 9 for additional information.

Restricted Expendable Net Position increased by \$3 million, or 4 percent.

- Net position restricted for gifts, grants and contracts increased by \$4 million due primarily to an increase in the market value of endowment funds managed by the OSU Foundation.
- Net positions restricted for student loans, capital projects and debt service were relatively unchanged.

Unrestricted Net Position decreased by \$18 million, or 72 percent.

- Improved unrestricted operating performance increased unrestricted net position by \$22 million.
- Changes associated with the PERS net pension liability decreased unrestricted net position by \$40 million.
- See Note 10 for additional information.

Statement of Revenues, Expenses and Changes in Net Position

Due to the classification of certain key revenues as nonoperating revenue, OSU normally shows a loss from operations. State general fund appropriations, nonexchange grants and noncapital 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*, and reflected accordingly in the nonoperating section of the SRE, are used solely for operating purposes.

The following summarizes the revenues and expenses of OSU (in millions):

Condensed Statement of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,	2018	2017	2016
Operating Revenues	\$ 809	\$ 768	\$ 721
Operating Expenses	1,170	1,100	1,093
Operating Loss	(361)	(332)	(372)
Nonoperating Revenues, Net of Expenses	294	295	286
Other Revenues, Net of Expenses	52	50	68
Increase (Decrease) in Net Position Prior to Special/Extraordinary	(15)	13	(18)
Special and Extraordinary Items	-	-	21
Increase (Decrease) in Net Position After Special/Extraordinary Items	(15)	13	3
Net Position, Beginning of Year	754	741	738
Change in Accounting Principle	(11)	-	-
Net Position, Beginning of Year, Restated	743	741	738
Net Position, End of Year	\$ 728	\$ 754	\$ 741

Revenues and Special Items

Total revenues increased by \$65 million, or 6 percent, in 2018 over 2017. This increase was due to an increase in almost all categories of revenue, with only slight decreases in investment activity and nonoperating and other items.

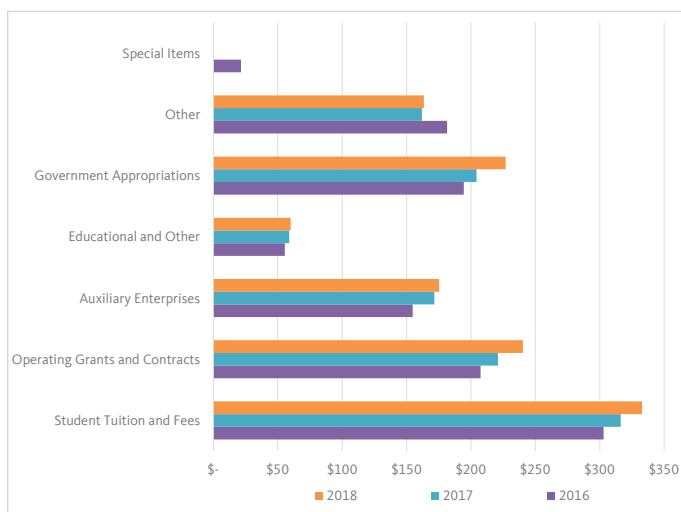
Total Operating, Nonoperating, Other Revenues and Special Items

(in millions)

For the Years Ended June 30,	2018	2017	2016
Student Tuition and Fees	\$ 333	\$ 316	\$ 303
Grants and Contracts	241	221	208
Auxiliary Enterprises	175	172	155
Educational and Other	60	59	55
Total Operating Revenues	809	768	721
Government Appropriations	227	204	194
Financial Aid Grants	43	43	47
Gifts	56	53	54
Investment Activity	12	13	12
Capital Grants and Gifts	50	49	68
Nonoperating and Other Items	2	4	1
Total Nonoperating and Other Revenues	390	366	376
Special/Extraordinary Items	-	-	21
Total Revenues	\$ 1,199	\$ 1,134	\$ 1,118

Total Operating, Nonoperating, Other Revenues and Special Items

(in millions)



Operating Revenues

Operating revenues increased by \$41 million in 2018, or 5 percent, over 2017, to \$809 million. Operating revenues increased by \$47 million in 2017, or 7 percent, over 2016, to \$768 million. The increases in 2018 and 2017 were due to increases in all categories of operating revenue.

Comparison of fiscal year 2018 to fiscal year 2017

Net Student Tuition and Fees increased by \$17 million, or 5 percent.

- Higher tuition and fee rates accounted for \$13 million of the increase.
- A 1.4 percent FTE student enrollment increase added \$6 million in tuition and fees.
- Fee remissions, scholarship allowances and bad debt allowances reduced tuition and fees by \$2 million more than in the prior year.

Federal, State and Nongovernmental Grants and Contracts increased by \$20 million, or 9 percent.

- Federal grant and contract revenues increased by \$19 million primarily due to continued increases in cooperative agreements.
- State and local grant and contract revenues decreased by \$3 million due primarily to decreases in state grants, contracts and cooperative agreements.
- Nongovernmental grant and contract revenues increased by \$4 million due mainly to an increase in grants and contracts from the Agricultural Research Foundation.

Auxiliary Enterprise revenues increased by \$3 million, or 2 percent.

- Housing and dining revenues increased by \$3 million due to increased room and board and miscellaneous meal plan revenue.
- Athletics revenues decreased by \$5 million primarily as the result of decreased ticket sales and a one-time spike in revenue in 2017 associated with the departure of the Athletic Director and the buy-out of his contract.
- Health services revenues increased by \$2 million due mainly to increased income from medical supply sales, pharmacy sales and non-employee insurance premiums.
- Other auxiliary revenues increased by \$3 million due mainly to student incidental fee revenue and decreased refunds.

Educational and Other revenues increased by \$1 million, or 2 percent.

- Educational department sales and services revenues increased by \$1 million due mainly to increased services, fees, surplus sales and conference and workshop revenues, offset by a decrease in lease income.

Comparison of fiscal year 2017 to fiscal year 2016

Net Student Tuition and Fees increased by \$13 million, or 4 percent.

- Higher tuition and fee rates accounted for \$4 million of the increase.

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

- A 2.9 percent FTE student enrollment increase added \$11 million in tuition and fees.
- Fee remissions, scholarship allowances and bad debt allowances reduced tuition and fees by \$2 million more than in the prior year.

Federal, State and Nongovernmental Grants and Contracts increased by \$13 million, or 6 percent.

- Federal grant and contract revenues increased by \$9 million due to continued increases in grants and cooperative agreements.
- State grant and contract revenues increased by \$4 million due to increases in grants and cooperative agreements.
- Nongovernmental grant and contract revenues were relatively unchanged.

Auxiliary Enterprise revenues increased by \$17 million, or 11 percent.

- Housing and dining revenues increased by \$5 million due to increased room and board and miscellaneous meal plan revenue.
- Athletics revenues increased by \$9 million primarily as the result of the athletic director contract buy-out, increased ticket sales revenue, conference television revenue and sponsorship revenue.
- Health services revenues increased by \$1 million due to increased services revenue.
- Other auxiliary revenues increased by \$2 million due mainly to increased conference revenue and student incidental fee revenue.

Educational and Other revenues increased by \$4 million, or 7 percent.

- Educational department sales and services revenues increased by \$3 million due mainly to increased sales, conference and workshop revenues.
- Other operating revenues increased by less than \$1 million.

Nonoperating and Other Revenues

Total nonoperating and other revenues increased by \$24 million during 2018 primarily due to increases in government appropriations and gifts. The decrease in total nonoperating and other revenues of \$10 million during 2017 resulted mainly from a decrease in capital grants and gifts which was only modestly offset by an increase in government appropriations.

Comparison of fiscal year 2018 to fiscal year 2017

Government Appropriations increased by \$23 million, or 11 percent.

- State appropriations increased by \$9 million due to increased funding received in support of the operations of the university and statewide public services.

- OSU received \$12 million in state lottery appropriations in support of outdoor school for middle school students, which cooperative extension services administers on behalf of the state.
- Federal and county appropriations in support of the statewide public services increased by \$2 million.
- Debt service appropriations from the state were unchanged.
- See Note 14 Government Appropriations for additional information relating to changes in appropriations.

Financial Aid Grants were relatively unchanged. Decreases in federal work study assistance, state need grants and Ford Family Foundation scholarships were offset by increases in federal Pell grants.

Gifts increased by \$3 million, or 6 percent due mainly to increased gifts from the OSU Foundation, other foundations and gifts in-kind from various sources.

Investment Activity revenues decreased by \$1 million, or 8 percent. See Note 12 Investment Activity for additional information relating to these changes.

Capital Grants and Gifts increased by \$1 million, or 2 percent. Increased XI-G and XI-Q capital grant revenue from the state was offset by decreased gift revenue from the OSU Foundation, other foundations and associations, and federal grants and contracts for capital construction.

Nonoperating and Other Items decreased by \$2 million, or 50 percent, due mainly to the prior year state refunding previously held XI-F(1) General Obligation Bonds. The refunding resulted in a net reduction in long-term contracts payable by OSU to the state. The decrease was offset by a slight increase in permanent endowments.

Comparison of fiscal year 2017 to fiscal year 2016

Government Appropriations increased by \$10 million, or 5 percent.

- State appropriations increased by \$8 million due to increased funding received in support of the operations of the university and statewide public services.
- Federal and county appropriations in support of the statewide public services increased by \$2 million.
- Debt service appropriations from the state were unchanged.
- See Note 14 for additional information relating to changes in appropriations.

Financial Aid Grants decreased by \$4 million or 9 percent due mainly to decreases in federal Pell and Oregon Opportunity grants.

Gifts decreased by \$1 million, or 2 percent. Decreased gifts from commercial, non-affiliated foundations and the OSU Foundation were slightly offset by increased gifts in-kind from various sources.

Investment Activity revenues increased by \$1 million, or 8 percent. See Note 12 for additional information relating to these changes.

Capital Grants and Gifts decreased by \$19 million or 28 percent, due mainly to decreased XI-G and XI-Q capital grant revenue from the state, offset slightly by increased gift revenue for capital construction from the OSU Foundation.

Nonoperating and Other Items increased by \$3 million due mainly to the state refunding previously held XI-F(1) General Obligation Bonds. The refunding resulted in a net reduction in long-term contracts payable by OSU to the state. See Note 9 Long-Term Liabilities for additional information.

Special and Extraordinary Items

Comparison of fiscal year 2017 to fiscal year 2016

Special and Extraordinary Items decreased to zero. The dissolution of the Oregon University System has been fully realized by the university.



Expenses

Operating Expenses

Operating expenses increased by \$70 million in 2018, or 6 percent, over 2017, to \$1,170 million. Increases were seen in all categories of operating expenses except other operating expenses which decreased slightly and student aid which was unchanged from the prior year.

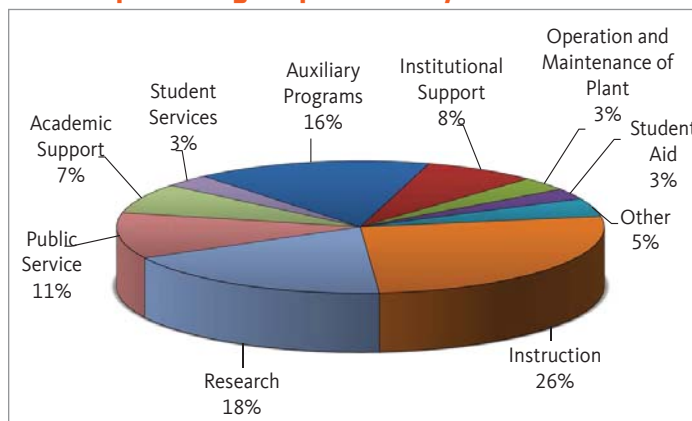
Operating expenses increased by \$7 million in 2017, or 1 percent, over 2016, to \$1,100 million. Increases in auxiliary programs, public service, institutional support, operations and maintenance of plant, and other operating expenses were largely offset by declines in instruction, research, academic support and student aid.

The following table and chart summarize operating expenses by functional classification (in millions):

Operating Expenses by Function

For the Years Ended June 30,	2018	2017	2016
Instruction	\$ 307	\$ 291	\$ 298
Research	216	208	209
Public Service	131	108	106
Academic Support	86	80	82
Student Services	36	34	32
Auxiliary Programs	183	170	162
Institutional Support	88	85	82
Operations & Maintenance of Plant	39	36	34
Student Aid	31	31	34
Other Operating Expenses	53	57	54
Total Operating Expenses	\$ 1,170	\$ 1,100	\$ 1,093

2018 Operating Expenses by Function



The implementation of GASB Statement Nos. 68 and 71 in 2015 and GASB Statement No. 75 in 2018 has had a significant impact on the operating expenses reported by OSU. See the table on the next page for the impact of GASB Statements Nos. 68, 71 and 75 on the functional expenses of the university.

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

The following tables show the effect of GASB Statement Nos. 68, 71 and 75 on operating expenses across the functional classifications (in millions):

Effect of GASB Statement Nos. 68, 71 and 75 on Expenses by Function

For the Year Ended June 30, 2018	As Reported	Without GASB 68/71	Difference
Instruction	\$ 307	\$ 297	\$ 10
Research	216	211	5
Public Service	131	127	4
Academic Support	86	83	3
Student Services	36	34	2
Auxiliary Programs	183	179	4
Institutional Support	88	86	2
Operation & Maintenance of Plant	39	35	4
Student Aid	31	31	-
Other Operating Expenses	53	52	1
Total Operating Expenses	\$ 1,170	\$ 1,135	\$ 35

For the Year Ended June 30, 2017	As Reported	Without GASB 68/71	Difference
Instruction	\$ 291	\$ 279	\$ 12
Research	208	202	6
Public Service	108	103	5
Academic Support	80	76	4
Student Services	34	32	2
Auxiliary Programs	170	165	5
Institutional Support	85	81	4
Operation & Maintenance of Plant	36	35	1
Student Aid	31	31	-
Other Operating Expenses	57	56	1
Total Operating Expenses	\$ 1,100	\$ 1,060	\$ 40

For the Year Ended June 30, 2016	As Reported	Without GASB 68/71	Difference
Instruction	\$ 298	\$ 270	\$ 28
Research	209	195	14
Public Service	106	94	12
Academic Support	82	73	9
Student Services	32	28	4
Auxiliary Programs	162	151	11
Institutional Support	82	72	10
Operation & Maintenance of Plant	34	31	3
Student Aid	34	34	-
Other Operating Expenses	54	52	2
Total Operating Expenses	\$ 1,093	\$ 1,000	\$ 93

GASB Statement Nos. 68, 71, and 75 have resulted in increases to total operating expenses of \$35, \$40, and \$93 million in 2018, 2017, and 2016, respectively. The \$168 million aggregate total for the three year period has had a marked impact on the university's reported operating performance and net position.

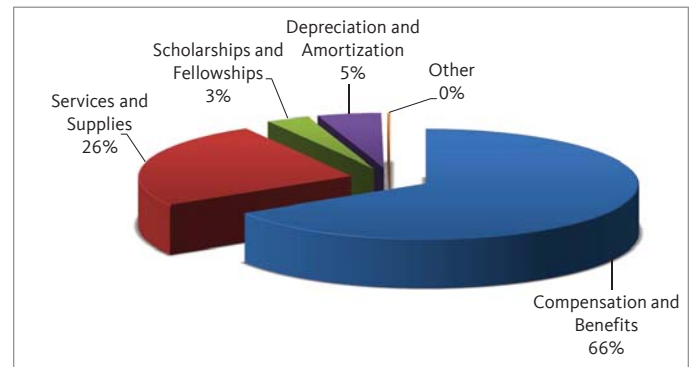
Operating Expenses by Natural Classification

Due to the way in which expenses are incurred by OSU, variances are presented and explained by analyzing changes in the natural classification of expenses. Each natural classification analysis can be applied to multiple functional expense caption items. See Note 13 Operating Expenses by Natural Classification for additional information.

The following summarizes operating expenses by natural classification (in millions):

For the Years Ended June 30,	2018	2017	2016
Compensation and Benefits	\$ 774	\$ 736	\$ 747
Services and Supplies	299	268	254
Scholarships and Fellowships	39	39	40
Depreciation and Amortization	56	55	50
Other	2	2	2
Total Operating Expenses	\$ 1,170	\$ 1,100	\$ 1,093

2018 Operating Expenses by Natural Classification



Comparison of fiscal year 2018 to fiscal year 2017

Compensation and Benefit costs increased by \$38 million, or 5 percent.

- Salary and wage costs increased by \$20 million due to additional staff and faculty hires combined with wage increases.
- Wage costs further increased by \$2 million due to increased graduate student employment.
- Wage costs decreased by \$2 million due to decreased undergraduate student employment.
- Retirement and health insurance costs increased by \$21 million due primarily to increased retirement contributions and insurance rates.
- Other payroll expenses increased by \$3 million.
- Adjustments and accruals to compensation and benefits associated with the net pension liability reporting requirement of GASB Statement Nos. 68 and 71 decreased by \$5 million. See Note 15 Employee Retirement Plans for additional information on this variance.

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

- Adjustments and accruals to compensation and benefits associated with the OPEB asset and liability reporting requirement of GASB Statement No. 75 decreased by \$1 million. See Note 16 Other Postemployment Benefits (OPEB) for additional information.

Services and Supplies expenses increased by \$31 million, or 12 percent. Increases in supplies, fees and services for contract education services, communications and conferences were slightly offset by decreases in subcontract expenses.

Scholarships and Fellowships costs was relatively unchanged. Decreases in state and private student aid were offset by increases in federal, institutional and OSU Foundation aid.

Depreciation and Amortization expense increased by \$1 million, or 2 percent. During 2018, \$27 million in capital projects were completed and placed into service, including the Steam Tunnel Utility System improvement, and Agricultural Systems Center.

Comparison of fiscal year 2017 to fiscal year 2016

Compensation and Benefit costs decreased by \$11 million, or 1 percent.

- Salary and wage costs increased by \$24 million due to additional staff and faculty hires combined with wage increases.
- Wage costs further increased by \$4 million due to increased student and graduate employment.
- Retirement and health insurance costs increased by \$10 million.
- Other payroll expenses increased by \$2 million.
- Adjustments and accruals to compensation and benefits associated with the net pension liability reporting requirement of GASB Statement Nos. 68 and 71 decreased by \$53 million. See Note 15 for additional information on this variance.
- Other year-end accruals associated with other post-employment benefits (OPEB) and other accruals increased by \$2 million.

Services and Supplies expenses increased by \$14 million, or 6 percent.

- Increases in supplies, utilities, maintenance and repairs, rentals and leases, fees and services, and medical/scientific services and supplies were slightly offset by decreases in subcontract expenses.

Scholarships and Fellowships costs decreased by \$1 million, or 3 percent.

- Decreases in federal, state, institutional and OSU Foundation aid was only slightly offset by increases in private aid.

Depreciation and Amortization expense increased by \$5 million, or 10 percent. During 2017, \$156 million in capital projects were completed and placed into service, including the Valley Football Center Renovation, Johnson Hall, and the Cascades Residence, Dining, and Tykeson Hall buildings.

Nonoperating Expenses

For the Years Ended June 30,	2018	2017	2016
Loss on Sale of Assets	\$ (1)	\$ (1)	\$ (1)
Interest Expense	(22)	(20)	(20)
Perkins Loan Program Termination	(22)	-	-
Total Nonoperating Expenses	\$ (45)	\$ (21)	\$ (21)

Comparison of fiscal year 2018 to fiscal year 2017

Interest Expense increased by \$2 million, or 10 percent, due primarily to increased revenue bond interest, other loan interest expense and no adjustment for capitalized interest in fiscal year 2018 due to the early implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. See Note 1 Organization and Summary of Significant Accounting Policies, Section H Capital Assets for additional information.

Gain (Loss) on Sale or Disposal of Fixed Assets decreased by less than \$1 million due to fewer disposals in fiscal year 2018.

Perkins Loan Program Termination expense increased by \$22 million due to the recording of the Perkins loan program liability for the amount of federal capital contribution (FCC) due back to the U.S. Department of Education (ED). The Perkins loan program has been discontinued by the federal government. OSU will be continuing to collect on Perkins loans outstanding and return the FCC to the ED as it is collected. See Note 1 Organization and Summary of Significant Accounting Policies, Section W Perkins Loan Program Termination for additional information.

Comparison of fiscal year 2017 to fiscal year 2016

Interest Expense increased by less than \$1 million due primarily to increased revenue bond interest, slightly offset by decreased interest expense for other types of bond debt.

Gain (Loss) on Sale or Disposal of Fixed Assets decreased by less than \$1 million due to fewer disposals in fiscal year 2017.

Economic Outlook

Funding for the major activities of OSU comes from a variety of sources: tuition and fees; financial aid programs; state, federal and county appropriations; federal, foundation and other grants; private and government contracts; royalties; and donor gifts and investment earnings. Revenues are also generated through recovery of costs associated with federal grant and contract activities, which serve to offset related administrative and facilities costs.

Public higher education in Oregon continues to face familiar challenges – inadequate state support, pressures to keep education affordable and yet improve degree completions, changing student demographics necessitating more support services, and costs associated with mandated participation in state health and retirement systems.

Enrollment changes can have the greatest impact on the operating budget. While changes in individual enrollment categories vary, overall enrollment is flattening. This ability to hold steady while enrollments decline at other Oregon universities supports OSU’s value proposition. Research expenditures continue on an upward trajectory. Regardless of the specific external influences, the university deploys both long-term and short-term planning strategies to stabilize operations and optimize its ability to execute the mission.

OSU is ultimately subject to the same economic variables that affect other entities but maintains its focus on providing quality instruction, research and public service to its students and the citizens of the state, the nation and the world. For detailed information on the state’s economic outlook, Oregon’s Office of Economic Analysis provides quarterly forecasts at its website: www.oregon.gov/DAS/OEA/Pages/index.aspx



Statements of Net Position

As of June 30,	University	
	2018	2017
	(In thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	\$ 78,461	\$ 62,997
Collateral from Securities Lending (Note 2)	13,510	5,988
Accounts Receivable, Net (Note 3)	123,599	114,861
Notes Receivable, Net (Note 4)	4,548	4,469
Inventories	1,746	1,758
Prepaid Expenses	8,893	6,154
Total Current Assets	230,757	196,227
Noncurrent Assets		
Cash and Cash Equivalents (Note 2)	43,176	26,553
Investments (Note 2)	247,248	184,643
Notes Receivable, Net (Note 4)	20,656	18,523
Net OPEB Asset (Note 16)	1,027	-
Capital Assets, Net of Accumulated Depreciation (Note 5)	1,182,980	1,126,879
Total Noncurrent Assets	1,495,087	1,356,598
Total Assets	\$ 1,725,844	\$ 1,552,825
DEFERRED OUTFLOWS OF RESOURCES (Note 6)		
	\$ 111,573	\$ 170,999
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities (Note 7)	\$ 88,557	\$ 72,758
Deposits	1,704	2,036
Obligations Under Securities Lending (Note 2)	13,510	5,988
Current Portion of Long-Term Liabilities (Note 9)	46,896	42,021
Unearned Revenues	62,693	57,052
Total Current Liabilities	213,360	179,855
Noncurrent Liabilities		
Long-Term Liabilities (Note 9)	576,074	457,227
Net Pension Liability (Note 15)	293,881	322,538
OPEB Liability (Note 16)	18,960	6,949
Total Noncurrent Liabilities	888,915	786,714
Total Liabilities	\$ 1,102,275	\$ 966,569
DEFERRED INFLOWS OF RESOURCES (Note 6)		
	\$ 7,202	\$ 3,068
NET POSITION		
Net Investment in Capital Assets	\$ 711,200	\$ 705,793
Restricted For:		
Nonexpendable Endowments	5,960	5,135
Expendable:		
Gifts, Grants and Contracts	49,698	46,121
Student Loans	10,091	32,253
Capital Projects	5,963	5,708
Debt Service	1,996	2,652
OPEB Asset	1,027	-
Unrestricted (Note 10)	(57,995)	(43,475)
Total Net Position	\$ 727,940	\$ 754,187

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

Statements of Financial Position

As of June 30,	Component Units	
	2018	2017
	(In thousands)	
ASSETS		
Cash and Cash Equivalents	\$ 26,189	\$ 18,294
Investments	692,942	642,846
Contributions, Pledges and Grants Receivable, Net	46,981	45,465
Assets Held-For-Sale	5,559	4,759
Assets Held Under Split-Interest Agreements	47,684	54,382
Charitable Trusts Held Outside the Foundation	15,310	13,480
Prepaid Expenses and Other Assets	3,703	2,568
Property and Equipment, Net	13,168	6,074
Total Assets	\$ 851,536	\$ 787,868
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 8,588	\$ 12,261
Endowment Assets Held for OSU	47,976	46,046
Accounts Payable to the University	4,944	4,477
Obligations to Beneficiaries of Split-Interest Agreements	21,514	23,315
Deposits and Unearned Revenue	9,562	8,228
Long-Term Liabilities	4	6
Total Liabilities	92,588	94,333
NET ASSETS		
Unrestricted	19,894	5,242
Temporarily Restricted	307,416	287,957
Permanently Restricted	431,638	400,336
Total Net Assets	758,948	693,535
TOTAL LIABILITIES AND NET ASSETS	\$ 851,536	\$ 787,868

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

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,	University	
	2018	2017
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Allowances of \$77,609 and \$75,229, respectively)	\$ 332,932	\$ 316,310
Federal Grants and Contracts	203,740	184,785
State and Local Grants and Contracts	10,450	13,886
Nongovernmental Grants and Contracts	26,164	22,329
Educational Department Sales and Services	51,454	49,558
Auxiliary Enterprises (Net of Allowances of \$2,981 and \$3,183, respectively)	175,300	171,518
Other Operating Revenues	8,569	9,248
Total Operating Revenues	808,609	767,634
OPERATING EXPENSES		
Instruction	307,402	290,915
Research	216,013	208,114
Public Service	131,223	107,743
Academic Support	86,078	79,932
Student Services	36,313	33,980
Auxiliary Programs	183,396	169,594
Institutional Support	87,482	85,183
Operation and Maintenance of Plant	38,741	36,484
Student Aid	31,004	30,637
Other Operating Expenses	52,487	57,097
Total Operating Expenses (Note 13)	1,170,139	1,099,679
Operating Loss	(361,530)	(332,045)
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 14)	225,847	203,295
Financial Aid Grants	42,731	43,177
Gifts	56,475	52,591
Investment Activity (Note 12)	12,292	12,800
Gain (Loss) on Sale of Assets, Net	(555)	(673)
Interest Expense	(22,263)	(20,626)
Perkins Loan Program Termination (Note 1, Section W)	(21,676)	-
Other Nonoperating Items	835	4,497
Total Net Nonoperating Revenues	293,686	295,061
Loss Before Other Revenues	(67,844)	(36,984)
OTHER REVENUES		
Debt Service Appropriations (Note 14)	1,073	1,084
Capital Grants and Gifts	50,279	48,631
Changes to Permanent Endowments	824	179
Total Net Other Revenues	52,176	49,894
Increase (Decrease) In Net Position	(15,668)	12,910
NET POSITION		
Beginning Balance	754,187	741,277
Change in Accounting Principle (Note 1, Section AA)	(10,579)	-
Beginning Balance, Restated	743,608	741,277
Ending Balance	\$ 727,940	\$ 754,187

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

Statements of Activities

For the Years Ended June 30,	Component Units	
	2018	2017
	(in thousands)	
CHANGE IN UNRESTRICTED NET ASSETS		
REVENUES		
Grants, Bequests and Gifts	\$ 7,353	\$ 6,347
Interest and Dividends	4,425	3,657
Investment Income (Loss), Net	6,672	16,783
Net Assets Released From Restrictions and Other Transfers	90,564	87,548
Other Revenues	32,613	15,894
Total Revenues	141,627	130,229
EXPENSES		
University Support	82,521	78,808
Management, General and Development Expenses	31,102	24,202
Investment Expense	13,352	11,892
Total Expenses	126,975	114,902
Increase (Decrease) In Unrestricted Net Assets	14,652	15,327
Beginning Balance, Unrestricted Net Assets	5,242	(10,085)
Ending Balance, Unrestricted Net Assets	\$ 19,894	\$ 5,242
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
REVENUES		
Grants, Bequests and Gifts	\$ 55,082	\$ 46,771
Interest and Dividends	9,240	9,534
Investment Income, Net	37,520	43,888
Change in Value of Life Income Agreements	2,003	417
Other Revenues	9,034	3,058
Net Assets Released From Restrictions and Other Transfers	(93,420)	(87,844)
Increase In Temporarily Restricted Net Assets	19,459	15,824
Beginning Balance, Temporarily Restricted Net Assets	287,957	272,133
Ending Balance, Temporarily Restricted Net Assets	\$ 307,416	\$ 287,957
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
REVENUES		
Grants, Bequests and Gifts	\$ 27,140	\$ 12,310
Interest and Dividends	183	129
Investment Loss, Net	(200)	(109)
Change in Value of Life Income Agreements	483	1,862
Other Revenues	840	61
Net Assets Released From Restrictions and Other Transfers	2,856	296
Increase In Permanently Restricted Net Assets	31,302	14,549
Beginning Balance, Permanently Restricted Net Assets	400,336	385,787
Ending Balance, Permanently Restricted Net Assets	\$ 431,638	\$ 400,336
Beginning Balance	\$ 693,535	\$ 647,835
Increase In Total Net Assets	65,413	45,700
Ending Balance	\$ 758,948	\$ 693,535

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

Statements of Cash Flows

For the Years Ended June 30,	University	
	2018	2017
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	\$ 332,545	\$ 314,054
Grants and Contracts	237,522	230,504
Educational Department Sales and Services	54,720	50,960
Auxiliary Enterprise Operations	170,695	171,246
Payments to Employees for Compensation and Benefits	(737,291)	(697,330)
Payments to Suppliers	(288,146)	(279,522)
Student Financial Aid	(38,425)	(38,835)
Other Operating Receipts	13,094	8,960
Net Cash Used by Operating Activities	(255,286)	(239,963)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	225,847	203,295
Financial Aid Grants	42,731	43,177
Private Gifts Received for Endowment Purposes	824	179
Other Gifts and Private Contracts	56,475	52,591
Net Agency Fund Receipts (Payments)	(332)	302
Net Cash Provided by Noncapital Financing Activities	325,545	299,544
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt Service Appropriations	1,073	1,084
Capital Grants and Gifts	43,752	58,942
Proceeds from Capital Debt	124,405	52,355
Sales of Capital Assets	434	151
Purchases of Capital Assets	(113,867)	(106,636)
Interest Payments on Capital Debt	(21,867)	(21,037)
Principal Payments on Capital Debt	(21,760)	(16,542)
Net Cash Provided (Used) by Capital and Related Financing Activities	12,170	(31,683)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Purchases of Investments	(62,613)	(6,093)
Interest Receipts on Investments and Cash Balances	12,271	12,032
Net Cash Provided (Used) by Investing Activities	(50,342)	5,939
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,087	33,837
CASH AND CASH EQUIVALENTS		
Beginning Balance	89,550	55,713
Ending Balance	\$ 121,637	\$ 89,550

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

Statements of Cash Flows - Continued

For the Years Ended June 30,	University	
	2018	2017
	(In thousands)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (361,530)	\$ (332,045)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	56,493	54,757
Changes in Assets and Liabilities:		
Accounts Receivable	(3,462)	4,774
Notes Receivable	(2,212)	(1,044)
Inventories	12	167
Prepaid Expenses	(2,739)	1,885
Net Pension Liability and Related Deferrals	36,425	40,372
OPEB Asset/(Liability) and Related Deferrals	(1,088)	
Accounts Payable and Accrued Liabilities	17,782	(12,436)
Long-Term Liabilities	(608)	(753)
Unearned Revenues	5,641	4,360
NET CASH USED BY OPERATING ACTIVITIES	\$ (255,286)	\$ (239,963)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Capital Assets Acquired by Gifts-in-Kind	\$ 1,251	\$ 1,644
Increase (Decrease) in Fair Value of Investments Recognized as a Component of Investment Activity	21	768
Capital Assets Acquired by Accounts Payable	2,584	4,963

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Oregon State University (OSU, university) is a comprehensive public university governed by the Oregon State University Board of Trustees (board), a citizen board appointed by the Governor with confirmation by the state senate. OSU serves as the state of Oregon's land-, sea-, space-, and sun-grant university.

The OSU financial reporting entity is comprised of OSU and two related foundations. OSU includes the main campus in Corvallis and a branch campus in Bend and receives separate appropriations for statewide activities including Agricultural Experiment Stations, Cooperative Extension Service, and Forestry Research Laboratories. Because the Governor of the State of Oregon (state) appoints the OSU Board of Trustees, and because OSU receives some financial support from the state, OSU is a discretely presented component unit of the state and is included in its comprehensive annual financial report (CAFR).

Similarly, the university's two related foundations are discretely presented as component units on OSU's basic financial statements under the guidelines established by Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Discretely presented means that the statements are included separately in the financial report. The Oregon State University Foundation (OSUF) was incorporated in 1947 to pursue and administer gifts and bequests in support of the university. The OSUF is responsible for all fundraising of the university and for the management of the majority of the university's endowments. The Agricultural Research Foundation (ARF) was incorporated in 1934 to encourage and facilitate research in all branches of agriculture and related fields for the benefit of Oregon's agricultural industries. The ARF is the custodian of privately and publicly donated research funds that support projects conducted by OSU scientists on campus, across the state, and by affiliated entities. Both foundations are nonprofit entities under Section 501(c)(3) of the Internal Revenue Code. The majority of resources that each foundation holds and invests are restricted to the activities of the university in accordance with donor intent, and can only be used by, or for the benefit of, OSU. These resources are significant to the operations of OSU, and the university routinely accesses them through various inter-company processes. See Note 20 University Foundations for additional information regarding the related foundations reported as Component Units.

B. Financial Statement Presentation

The OSU financial accounting records are maintained in accordance with U.S. generally accepted accounting principles (GAAP) as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB). The

financial statement presentation required by 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*, modified by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, provides a comprehensive, entity-wide perspective of OSU assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

In preparing the financial statements, interfund transfers between university funds, and internal revenues and expenses associated with self-supporting auxiliary and service center operations, have been eliminated.

Financial statements of the OSU foundations for the fiscal years ended June 30, 2018 and 2017 are discretely presented as discussed above. The foundations' financial statements are prepared in accordance with the pronouncements of the Financial Accounting Standards Board (FASB). As such, certain revenue recognition criteria and presentation features are different from GASB revenue criteria and presentation. Accordingly, those financial statements have been consolidated and reported on separate pages following their respective financial statement counterparts of the university. No modifications have been made to the foundations' financial information included in the university's financial report.

C. Basis of Accounting

For financial reporting purposes, OSU is considered a special-purpose government engaged only in business-type activities. Accordingly, the OSU 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.

NEWLY IMPLEMENTED ACCOUNTING STANDARDS

OSU implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*, effective for the fiscal year ending June 30, 2018. GASB Statement No. 75 improves the usefulness of information about post-employment benefits other than pensions (other post-employment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. As a result of the implementation, OSU restated beginning net position on the Statement of Revenues, Expenses and Changes in Net Position by (\$10,578,917) and reduced benefit expense by \$1,088,279 resulting in a change in ending net position of (\$9,490,638). See Note 1 Section AA, and Note 16 Other Post-Employment Benefits (OPEB) for additional information.

OSU implemented GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the fiscal year ending

June 30, 2018. GASB Statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. OSU is named as the co-beneficiary of the remainder interest of two trust agreements established in 1956. However, the value of OSU's share of the remainder trusts is immaterial to the financial statements of the university at this time. Therefore, no adjustments have been made in the accounting for the trusts.

OSU implemented GASB Statement No. 85, *Omnibus 2017*, effective for the fiscal year ending June 30, 2018. GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and other post-employment benefits (OPEB)). The implementation of GASB Statement No. 85 did not materially impact the OSU financial statements.

OSU implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the fiscal year ending June 30, 2018. GASB Statement No. 88 improves disclosures related to debt, including direct borrowings and direct placements and clarifies which liabilities should be included when disclosing information related to debt. The implementation of GASB Statement No. 88 expanded the long-term debt disclosures. See Note 9 Long-Term Liabilities.

OSU implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, effective for the fiscal year ending June 30, 2021. OSU elected to early implement GASB Statement No. 89 during the year ended June 30, 2018. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will no longer be capitalized and included in the historical cost of a capital asset.

UPCOMING ACCOUNTING STANDARDS

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset and is effective for the fiscal year ending June 30, 2019. It establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. OSU has asset retirement liabilities that are subject to the requirements of this statement. The university is in the process of com-

pleting a full review of its assets to identify any additional liabilities, and anticipates that the implementation of GASB Statement No. 83 will have a material impact on Net Position.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. GASB Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement establishes criteria for identifying fiduciary activities and guidance on how to report activities meeting the criteria in a fiduciary fund in the basic financial statements. The Statement is effective for the fiscal year ending June 30, 2020, and will apply to custodial funds held primarily for student groups by the university.

In June 2017, GASB issued Statement No. 87, *Leases*. GASB Statement No. 87 improves the accounting and financial reporting for leases and is effective for the fiscal year ended June 30, 2021. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use leased assets, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. This Statement will substantially impact the university's lease accounting and reporting.

D. Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. The majority of the university's cash and cash equivalents are invested in the Oregon Short-Term Fund (OSTF), which is managed by the Oregon State Treasury, and provides daily liquidity. Cash and cash equivalents classified as current assets consist of: cash on hand, cash for current operations, cash held for the payment of the current portion of debt service, and cash held as a fiduciary agent for student groups. Cash and cash equivalents classified as non-current assets consist of student building fee cash held for future debt service and cash for capital construction projects. See Note 2 Cash and Investments, Section A Cash and Cash Equivalents for disclosure of restricted portions of cash and cash equivalents.

E. Investments

Investments are reported at fair value as determined by market prices. Unrealized and realized gains or losses on investments are reported as investment activity in the Statement of Revenues, Expenses, and Changes in Net Position. See Note 12 Investment Activity for additional information. All investments are classified as noncurrent assets in the Statement of Net Position.

F. Receivables

Accounts receivable consists primarily of amounts due for tuition and fee charges to students, grants and contracts, and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable for tuition and fee

charges are recorded net of estimated uncollectible amounts in accordance with generally accepted accounting principles. Grants and contracts receivable include amounts due from federal, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the university's grants and contracts. Capital construction receivables include amounts due from the state in connection with reimbursement of allowable expenditures made pursuant to the grant agreements between the university and the state for facilities projects funded by the state.

Notes receivable consist primarily of student loans receivable due from the federal Perkins Loan Program and from other loans administered by the university. Construction loans receivable are reimbursements receivable from the state in connection with allowable expenditures made pursuant to contracts between the university and the state for various facility projects initially funded by the university. Construction reimbursements can be current or long-term depending on the estimated timing of completion of associated construction projects. The university does not currently hold any notes receivable from the state related to construction reimbursements.

G. Inventories

Inventories are recorded at cost, with cost being generally determined on a first-in, first-out or average basis. Inventories consist primarily of supplies in storerooms and physical plant stores.

H. Capital Assets

Capital assets are recorded at cost on the date acquired or at acquisition value on the date donated. OSU capitalizes equipment with unit costs of \$5,000 or more and an estimated useful life greater than one year. OSU 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 \$50,000 to \$100,000, depending on the type of real property. Intangible assets valued in excess of \$100,000 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.

Prior to the implementation of GASB Statement No. 89, OSU capitalized interest expense as part of the historical cost of acquiring capital assets. Based on the rates of its debt borrowings, the university calculated a weighted composite interest rate and applied it to capital outlays to calculate capitalized interest. The amount of interest capitalized was the portion of the interest cost incurred during the assets' acquisition periods that could have been avoided if outlays for the assets had not been made. The university incurred interest costs related to the acquisition and construction of capital assets of \$19,104,113, of which \$699,642, was capitalized, for the fiscal year ended June 30,

2017. With the implementation of GASB Statement No. 89 effective for the fiscal year ended June 30, 2018, interest cost incurred before the end of a construction period is no longer capitalized but is instead recorded as a cost of the period in which it is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. This is generally 50 years for buildings; 25 years for major renovations/additions to buildings; 10 to 20 years for infrastructure and land improvements; 5 to 11 years for non-expendable assets; and the useful life of the asset or term of the lease, whichever is less, for leasehold improvements. Amortization terms for intangible assets vary depending on the factors relating to the specific asset. Depreciation is not applied to land, museum collections, works of art, historical treasures, or library special collections.

I. Unearned Revenues

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

J. Compensated Absences

OSU 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. An estimate is made to allocate this liability between its current and noncurrent components.

Sick leave is recorded as an expense when paid. There is no payout provision for unused sick leave and no liability exists.

K. Net Pension Liability

The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, are actuarially determined at the system-wide Retirement Plan level and are allocated to employers based on their proportionate share. The university's proportionate share is allocated to OSU by the Oregon Department of Administrative Services.

L. Net OPEB (Asset)/Liability

Under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the university reported a Net OPEB Obligation related to the implicit rate subsidy provided to retirees who were allowed to purchase health insurance under the university's PEBB health care plans. The implementation of GASB Statement No. 75, effective for fiscal year ending June 30, 2018, supersedes GASB Statement No. 45. Under GASB Statement No. 75, the university now reports their proportionate share of the net PERS RHIA OPEB asset, net PERS RHIPA OPEB liability and the total PEBB OPEB liability along with the associated deferred outflows of resources and deferred inflows of resources. Historically, the OPEB

Obligation was included in the noncurrent portion of long-term liabilities. With the implementation of GASB Statement No. 75, the OPEB asset is recorded under Noncurrent Assets, while the OPEB liabilities are netted and reported under Noncurrent Liabilities on the Statement of Net Position. See Note 16 Other Post-Employment Benefits (OPEB) for a detailed description of each plan and the proportionate share methodology for each.

The change from GASB Statement No. 45 to GASB Statement No. 75 had the following impact on the university's reported OPEB liability (in thousands):

GASB 45 Net OPEB Obligation at 6/30/2017	\$	6,949
Reversal of Prior OPEB Obligation		(6,949)
GASB 75 Total PEBB OPEB Liability		15,242
GASB 75 Net PERS RHIPA OPEB Liability		3,718
Ending OPEB Liability at 6/30/2018	\$	18,960

M. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent the consumption of net position in one period that is applicable to future periods, and have a positive effect on net position that is similar to assets, but are not considered assets. Deferred inflows of resources represent the acquisition of net position that is applicable to future periods, and have a negative effect on net position that is similar to liabilities, but are not considered liabilities. Deferred outflows and inflows are related to defined benefit pension plans, defined benefit OPEB plans and net fair value gains or losses on forward foreign currency contracts. See Note 2 Cash and Investments, Section A Foreign Currency Risk-Deposits, Note 6 Deferred Outflows and Inflows of Resources, Note 15 Employee Retirement Plans, and Note 16 Other Post-employment Benefits (OPEB).

N. Net Position

OSU's net position is classified as follows:

NET INVESTMENT IN CAPITAL ASSETS

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

RESTRICTED - NONEXPENDABLE ENDOWMENTS

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

RESTRICTED - EXPENDABLE

Restricted-Expendable includes resources which OSU is legally or contractually obligated to spend in accordance with restrictions stipulated by external parties.

UNRESTRICTED

Unrestricted net position represents resources that may be used at the discretion of the board.

O. Restricted/Unrestricted Resources

The university has no formal policy addressing which resources to use when both restricted and unrestricted net position are available for the same purpose. University personnel decide which resources to use at the time expenses are incurred. Factors used to determine which resources to use include relative priorities of the university in accordance with the university's strategic initiatives and externally imposed matching requirements of certain restricted funds. Major capital purchases are often times split-funded from multiple restricted and unrestricted funding sources.

P. Endowments

The university manages timber and forestry land endowments, while all other endowments are managed by the OSU Foundation. The university endowment assets managed by the OSU Foundation are invested with the objectives of long-term capital appreciation and stable but growing income. The university board policy is to distribute 4.5 percent of the preceding 12-quarter moving average of the endowment market value for spending purposes.

Net appreciation of endowments is included in restricted expendable gifts, grants, and contracts on the Statement of Net Position.

Non-expendable endowments on the Statement of Net Position at June 30, 2018, represents the original corpus of true endowment funds of \$2,384,154 and the full non-expendable fair value of the real estate endowments of \$3,575,364. Nonexpendable endowments on the Statement of Net Position at June 30, 2017, represents the original corpus of true endowment funds of \$2,384,154 and the full non-expendable fair value of the real estate endowments of \$2,750,952.

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

The university's endowments are identified and invested as follows (in thousands):

	June 30, 2018	June 30, 2017
True Endowments		
Corpus	\$ 2,384	\$ 2,384
Market Valuation	2,131	1,964
Real Estate	3,575	2,751
Total	8,090	7,099
Quasi-Endowments		
Corpus	18,569	18,354
Market Valuation	25,430	23,671
Real Estate	2,978	1,757
Total	46,977	43,782
Total Fair Value of Endowments	\$ 55,067	\$ 50,881
Invested Endowments:		
Timber and Forestry Land Held by OSU	\$ 6,553	\$ 4,508
Invested by OSU Foundation	47,976	46,046
Invested in the Public University Fund (PUF)	195	207
Total Invested Endowments	54,724	50,761
Endowment Cash in PUF	128	120
Long-Term Receivable from Casey Family Trust	215	-
Total Fair Value of Endowments	\$ 55,067	\$ 50,881

Q. Income Taxes

OSU is treated as a governmental entity for tax purposes. As such, OSU is generally not subject to federal and state income taxes. However, OSU 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 OSU was granted exemption from income taxes. No income tax is recorded because there are no income taxes due on unrelated business income during fiscal year 2018.

R. Revenues and Expenses

OSU 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 and benefits, scholarships and fellowships, utilities, supplies and other services, professional fees, and depreciation.

Nonoperating revenues and expenses generally have the characteristics of nonexchange transactions. In a nonexchange transaction, OSU receives value without directly giving equal value in exchange. Examples of nonoperating revenues include government appropriations, nonexchange grants, gifts, and contributions. Nonoperating expenses are defined in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmen-*

tal Entities That Use Proprietary Fund Accounting, and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Examples of nonoperating expenses include interest on capital debt and bond expenses.

S. State Support

OSU receives support from the state in the form of General Fund and Lottery appropriations and debt service appropriations for some Oregon Department of Energy loans. See Note 14 Government Appropriations for details on appropriations.

In addition to appropriations, the state provides funding for plant facilities on the university's campus. Capital projects for new facilities and capital improvements and repair are funded by gifts, state-paid debt, and university-paid debt and resources. The state legislature considers projects from all seven public universities for allocation of Oregon's bonding capacity. Funds for capital projects funded by state-paid debt are provided through grant agreements between OSU and the state. Revenue is recorded as Capital Grants in the Statement of Revenues, Expenses and Changes in Net Position when appropriate expenditures are reimbursable per the grant agreements. Funds for capital projects funded by university-paid debt can also be funded through Oregon's bonding capacity. At the time that the bonds are sold, the state instructs OSU to record a liability to the state for the debt, and a receivable for construction reimbursements. The receivable is reduced as expenditures on the capital project are completed and reimbursed by the state.

Facilities funded by gifts, state-paid debt and university-paid debt are reflected as completed assets or construction in progress in the accompanying Statement of Net Position. University-paid debt relating to bonds issued by the state are primary obligations of the state. OSU is contractually committed to pay the state to fund the retirement of debt obligations issued on its behalf. These contracts are included as current and long-term liabilities in the Statement of Net Position.

T. Allowances

Student tuition and fees and campus housing revenues included in auxiliary enterprise revenues are reported net of scholarship allowances. A scholarship allowance is the difference between the university's stated rates and charges and the amounts actually paid by students and/or third parties making payments on behalf of the students. Under this approach, scholarships awarded by the university are considered as reductions in tuition and fee revenues rather than as expenses. Additionally, certain governmental grants, such as Pell grants, and payments from other federal, state or nongovernmental programs, are required to be recorded as either operating or nonoperating revenues in the university's financial statements. To the extent that revenues from such programs are applied to tuition, fees,

and other student charges, the university has reported a corresponding scholarship allowance.

OSU has three types of allowances that are netted against gross tuition and fees and housing revenues. Tuition and housing waivers, provided directly by OSU, amounted to \$39,918,755 and \$37,680,269 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) used for paying student tuition and fees and campus housing was estimated to be \$38,458,167 and \$38,005,374 for the fiscal years ended 2018 and 2017, respectively. Bad debt expense related to student accounts is also reported as an allowance against operating revenues and was estimated to be \$2,212,736 and \$2,726,211 for the fiscal years ended 2018 and 2017, respectively.

U. Federal Student Loan Programs

OSU receives proceeds from the Federal Direct Student Loan Program (FDSLPL). Since OSU transmits these grantor supplied moneys without having administrative or direct financial involvement in the program, the activity of the FDSLPL is not reported in operations. OSU disbursed federal student loans in the amount of \$140,881,372 and \$139,233,971 for the fiscal years ended 2018 and 2017, respectively.

V. Deposit Liabilities

Deposit Liabilities primarily consist of fund balances held by OSU on behalf of student groups and organizations that account for activities in the OSU accounting system and whose cash is part of the cash held on deposit with the Oregon State Treasury.

W. Perkins Loan Program Termination

OSU administers Title IV Perkins Loans for the benefit of its students. Funds for the Perkins program were initially received through Federal Capital Contributions (FCC) from the U.S. Department of Education (ED) and were supplemented with Institutional Capital Contributions (ICC). Over the years, the proportion of federal to institutional matching funds varied, from a 90/10 split to a 75/25 split. Academic year 2017-18 was the last year in which new Perkins loans were allowed to be disbursed as the U.S. Congress did not renew the program. The ED has given institutions the option of assigning existing Perkins loans back to the federal government or continuing to collect on them while returning FCC as loans are repaid. OSU has elected to continue to collect on Perkins loans and return the FCC as it is collected. Historically, the balance of the Perkins loans was reported in Notes Receivable and in Net Position Expendable for Student Loans. Due to the impending repayment of the FCC portion of the Perkins program to the ED as loans are collected, an accrued liability has been established for the amount of the remaining FCC due to the ED.

X. Related Party Transactions

During fiscal year 2018, OSU entered into a related party transaction with head baseball coach Pat Casey and the Pat Casey Family Trust (PCFT). The parties have agreed to a split-dollar arrangement whereby Coach has agreed to reduce his salary by \$215,000 annually and the university is then loaning \$215,000 annually for each of the next 5 years to the PCFT at an annual interest rate of 2.66 percent. The PCFT is using the loan funds to purchase a life insurance policy on Pat Casey's wife. The term of the loan from the university to PCFT is 23 years, or upon the death of Mrs. Casey, whichever comes first. When the life insurance policy terminates, OSU will be reimbursed by the PCFT for the full principal amount of the loan plus accrued interest. The loan from OSU to PCFT is reported in non-current notes receivable.

Y. Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Z. Reclassifications

Certain amounts within the June 30, 2017 financial statements have been reclassified to conform to the June 30, 2018 presentation. The reclassifications had no effect on previously reported total net position and do not constitute a restatement of prior periods.

AA. Change in Accounting Principle

GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*, is effective for fiscal year 2018. The state did not determine the amounts as of June 30, 2016, therefore restatement of all prior periods presented is not possible. See Note 16 Other Post-Employment Benefits (OPEB) for additional information.

The cumulative effect of applying GASB Statement No. 75 is reported as a restatement of beginning net position as of July 1, 2017 as follows (in thousands):

	July 1, 2017
Beginning Net Position	\$ 754,187
Less Beginning Net PERS RHIA OPEB Liability	(642)
Less Beginning Net PERS RHIPA OPEB Liability	(4,299)
Plus Reversal of Prior Year PEBB OPEB Liability	6,949
Less Beginning Total PEBB OPEB Liability	(14,696)
Plus Beginning Deferred Outflows	2,109
Total Change in Accounting Principle	(10,579)
Restated Beginning Net Position	<u>\$ 743,608</u>

2. CASH AND INVESTMENTS

At June 30, 2018 and 2017, the majority of the cash and investments of OSU were held in custody with the Oregon State Treasury (OST). The OST manages these invested assets through commingled investment pools. The operating funds for OSU are commingled with operating cash and investments from five other Oregon public universities and referred to collectively as the Public University Fund (PUF). The investments held in the PUF are managed by the OST and administered by the statutorily defined designated university. OSU is currently serving as the designated university for the PUF pool. Each underlying investment pool has an investment policy and set of objectives identifying risk and return parameters for the respective investment pool. The OST invests these deposits in high grade, dollar-denominated, short and intermediate-term fixed income securities. The Oregon Investment Council (OIC) provides oversight and counsel on the investment policies, activities, and performance for each investment pool held in the PUF.

Total cash and investments for the university includes both restricted and unrestricted amounts and are summarized as follows: (in thousands)

	June 30, 2018	June 30, 2017
Unrestricted	\$ 122,625	\$ 82,394
Bonds Reserved for Capital	68,885	8,098
Restricted For:		
Endowments	54,852	50,881
Gifts, Grants and Contracts	24,455	18,009
Capital	59,179	71,304
Student Aid	6,473	9,280
Debt Service	6,768	6,974
Payroll Withholdings	23,955	21,232
Student Groups and Campus Organizations	1,459	1,169
Perkins Title IV Cash	2,685	4,328
Petty Cash	175	176
Supplemental Retirement Plan Investment	152	-
Unrealized Gain/(Loss) on Investments	(2,778)	348
Total Cash and Investments	\$ 368,885	\$ 274,193

In general, deposits and investment securities as described below have exposure 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 it is possible that such

changes could materially affect the amounts reported in the financial statements.

For full disclosure regarding cash and investments managed by the OST, a copy of the OST 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 www.oregon.gov/treasury/Reports/Pages/Annual-Reports.aspx

A. Cash and Cash Equivalents

DEPOSITS WITH OREGON STATE TREASURY

OSU maintains the majority of its current cash balances on deposit with the OST. These deposits are held on a pooled basis in the Oregon Short-Term Fund (OSTF). The OSTF is a short-term cash and investment pool available for use by all state agencies or by agreement for related agencies, such as OSU. The OST invests these deposits in high-grade short-term investment securities. While the university is not required by statute to collateralize deposits, it has a contractual obligation with the OST to collateralize deposits within 24 hours of receipt. At fiscal years ended June 30, 2018 and 2017, OSU cash and cash equivalents on deposit at OST were \$118,803,333 and \$85,043,039, respectively.

OTHER DEPOSITS

For the year ended June 30, 2018 and 2017, OSU had cash at U.S. Bank held for Title IV Perkins Loans of \$2,685,019 and \$4,327,765, respectively. Additionally, for the years ended June 30, 2018 and 2017, OSU had vault and petty cash balances of \$174,628 and \$176,044, respectively.

CUSTODIAL CREDIT RISK—DEPOSITS

Custodial credit risk is the risk that, in the event of a financial institution failure, cash deposits will not be returned to a depositor. The university and state do not have formal policies regarding custodial credit risk for deposits. However, banking regulations and Oregon Revised Statute (ORS) Chapter 295 establish the insurance and collateral requirements for deposits in the OSTF. OSU cash balances held on deposit at the OST are invested continuously, therefore custodial credit risk exposure to the OST is low. Additionally, cash balances on deposit with U.S. Bank are collateralized, therefore invested continuously, resulting in low credit risk.

FOREIGN CURRENCY RISK—DEPOSITS

Deposits in foreign currency run the risk of changing value due to fluctuations in foreign exchange rates. Per PUF policy, all deposits are in U.S. currency and therefore not exposed to foreign currency risk.

To facilitate study-abroad programs, there are some cash balances held in the local currency of other countries to pay local expenses. The aggregate foreign denominated account balances converted into U.S. dollars equaled \$102,276 and \$90,794 at June 30, 2018 and 2017, respectively. Amounts deposited in foreign bank accounts are reported as accounts receivable on the financial statements.

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

To further mitigate foreign currency risks for prospective study abroad activities, OSU periodically enters into forward foreign currency contracts. At June 30, 2018 and 2017, respectively, these contracts totaled \$539,345 and \$603,159. Contracts at June 30, 2018, had a net fair value loss of \$25,991. Contracts at June 30, 2017, had a net fair value gain of \$3,443.

June 30, 2018 (in thousands)						
Notional Currency	Amount	Principal Amount	Effective Date	Maturity Date	Contract Rate	Fair Value Adj.
EUR	\$ 380	\$ 554	7/2/2018	11/16/2018	\$ 1.2168	\$ (23)
JPY	8,291	84	7/2/2018	11/19/2018	0.0093	(3)

June 30, 2017 (in thousands)						
Notional Currency	Amount	Principal Amount	Effective Date	Maturity Date	Contract Rate	Fair Value Adj.
EUR	\$ 449	\$ 567	5/15/2017	4/30/2018	\$ 1.1325	\$ 4
JPY	10,460	103	5/9/2017	4/2/2018	0.0090	(1)

The net fair value gain is reported in deferred inflows of resources on the Statement of Net Position. The net fair value loss is reported in deferred outflows of resources on the Statement of Net Position.

B. Investments

OSU's operating funds are invested in the PUF. University investments in the PUF are invested in the Core Bond Fund (CBF) managed by the OST. The CBF invests primarily in intermediate-term fixed income securities and is managed with an investment objective to maximize total return (i.e., principal and income) over an intermediate time horizon within stipulated risk parameters. The CBF is actively managed to maintain an average duration of four to five years, through a diversified portfolio of quality, investment grade fixed income securities as defined in the portfolio guidelines. The majority of the university's endowment assets are managed by the OSU Foundation. These endowment assets are invested in the OSU Foundation's pooled endowment fund (fund) and directed by external investment managers. The fund is expected to operate in perpetuity and the investments are invested with a long-term horizon while maintaining a prudent level of risk. Additionally, the university manages timber and forestry land endowments and a land grant endowment invested in the PUF.

All investments are managed as a prudent investor would do, exercising reasonable care, skill and caution.

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

Significant events in domestic and international investment markets, or aggressive action by the Federal Open Market Committee to influence both short and long-term interest rates, contribute to price volatility. Consequently, the fair value of OSU's operating and endowment 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.

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

OSU's investments are classified and invested as follows (in thousands):

	June 30, 2018	June 30, 2017
Operating Funds		
PUF Core Bond Fund	\$ 192,372	\$ 133,882
Total Operating Funds	192,372	133,882
Endowment Funds		
Invested by OSU Foundation	47,976	46,046
Timber and Forestry Land	6,553	4,508
PUF Core Bond Fund	195	207
Total Endowment Funds	54,724	50,761
Separately Held Investments	152	-
Total Investments	\$ 247,248	\$ 184,643

Investments of the OSU discretely presented component units are summarized at fair value as follows (in thousands):

	June 30, 2018	June 30, 2017
Investment Type:		
Mutual Funds, Corporate Stocks and Corporate Bonds	\$ 71,438	\$ 88,741
Limited Partnerships	256,661	229,507
Global Bonds	83,866	46,840
International Equity	199,179	185,841
Direct Equity Holdings	37,451	40,553
Real Estate Held for Investments	24,264	20,644
Government Securities and Municipal Bonds	273	12,250
Certificates of Deposit	194	194
Investment Receivables	1,028	8,185
Other	18,588	10,091
Total Investments	\$ 692,942	\$ 642,846

CREDIT RISK

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. OSU has separate investment policies for its operating and endowment assets. As of June 30, 2018, approximately 93 percent of the investments in the PUF CBF are subject to credit risk reporting. Fixed income securities in the PUF CBF 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 \$269,463,400. Fixed income securities which have not been evaluated by the rating agencies totaled \$78,121,855. The PUF CBF totaled \$375,495,937, of which OSU owned \$192,566,260, or 51 percent. Of the OSU

endowments managed by the OSU Foundation and allocated to fixed income, all investments were held in mutual funds which have not been evaluated by the rating agencies.

As of June 30, 2017, approximately 99 percent of the investments in the PUF CBF are subject to credit risk reporting. Fixed income securities in the PUF CBF 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 \$272,150,701. Fixed income securities which have not been evaluated by the rating agencies totaled \$37,721,349. The PUF CBF totaled \$312,900,263, of which OSU owned \$134,088,603, or 43 percent. All of the OSU endowments managed by the OSU Foundation were held in mutual funds which have not been evaluated by the rating agencies.

CUSTODIAL CREDIT RISK—INVESTMENTS

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the university will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The OIC has no formal policy regarding the holding of securities by a custodian or counterparty. For the years ended June 30, 2018 and 2017, the university's investments were exposed to custodial credit risk indirectly through the OST.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk refers to potential losses if total investments are concentrated with one or few issuers. With the exception of U.S. Government and Agency issues, the PUF policy for reducing credit risk for fixed income securities is that no more than five percent of the bond portfolio par value will be invested in securities of a single issuer, and no more than three percent will be invested in any individual issue. Per policy, the PUF held no securities from a single issuer that exceeded five percent of the bond portfolio.

FOREIGN CURRENCY RISK—INVESTMENTS

Foreign currency risk is the risk that investments may lose value due to fluctuations in foreign exchange rates. Per PUF investment policy, all investments are to be in U.S. dollar denominated securities, therefore no amounts of the PUF investments had reportable foreign currency risk at June 30, 2018 or 2017.

Of the OSU Endowments invested by the OSU Foundation at June 30, 2018, \$13,817,018, or 28.8 percent, were held subject to foreign currency risk. At June 30, 2017, \$15,563,645, or 33.8 percent were held subject to foreign currency risk.

INTEREST RATE RISK

Investments in fixed income securities are subject to the risk that changes in interest rates will adversely affect the fair value of the investments. As of June 30, 2018, securities held in the PUF CBF subject to interest rate risk totaled \$347,585,255 and had an average duration of 3.71 years.

Additionally, securities of the OSU Endowment investments held subject to interest rate risk totaling \$5,613,164 had an average duration of 3.32 years. As of June 30, 2017, securities held in the PUF CBF subject to interest rate risk totaled \$309,872,051 and had an average duration of 3.91 years. Additionally, securities of the OSU Endowment investments held subject to interest rate risk totaling \$4,742,768 had an average duration of 3.4 years. Duration measures the change in the value of a fixed income security that will result from a one percent change in interest rates.

FAIR VALUE MEASUREMENT

Investments are reported at estimated fair value as determined by the OST, based on a fair value hierarchy which prioritizes the input techniques used to measure fair value. The hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted market prices that are observable for the asset, either directly or indirectly, including inputs in markets that are not considered to be active; and

Level 3 – Inputs that are unobservable. These are only used if relevant Level 1 and Level 2 inputs are not available.

Inputs are used in applying valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. In addition to the underlying reported net asset values (NAV), which generally serve as the primary valuation input, other inputs may include liquidity factors and broad credit data. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The fair value of OSU's investments in the PUF CBF are based on the investments' net asset value (NAV) per share provided by the Treasury. Fair value measurements for the university's investments in the PUF CBF at June 30 2018 and 2017 totaled \$192,566,260 and \$134,088,603, respectively.

As of June 30, 2018 and 2017, respectively, OSU's investment in timber and forestry land was valued at \$6,553,054 and \$4,507,593. This investment is a natural resource investment and is therefore required to be reported at fair value. In order to obtain the value of the timber and the land, a professional timber cruise is performed every five years, and interim valuations are conducted by professionals within the OSU College of Forestry every year-end. The periodic timber cruise and annual valuation is a level 3 input.

Notes to the Financial Statements

For the Years Ended June 30, 2018 and 2017

COMPONENT UNIT INVESTMENTS BY LEVEL

The following tables present the component unit investments by level within valuation hierarchy as of June 30, 2018 and 2017:

	Assets at fair value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Pooled Investment Program	\$ 152,320	\$ 8,234	\$ 401,008	\$ 561,562
Investment Property Mortgages and Contracts	-	-	24,264	24,264
Other Nonpooled Investments	-	-	3,787	3,787
	40,456	-	62,873	103,329
Total Investments	\$ 192,776	\$ 8,234	\$ 491,932	\$ 692,942

	Assets at fair value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Pooled Investment Program	\$ 138,764	\$ 11,378	\$ 372,956	\$ 523,098
Investment Property Mortgages and Contracts	-	-	20,644	20,644
Other Nonpooled Investments	-	-	6,125	6,125
	70,488	-	22,491	92,979
Total Investments	\$ 209,252	\$ 11,378	\$ 422,216	\$ 642,846

C. Securities Lending

In accordance with state investment policies, the state participates in securities lending transactions. The Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the state's securities pursuant to a form of loan agreement. Both the state and borrowers maintain the right to terminate all securities lending transactions on demand. OSU's cash on deposit with the OST is subject to securities lending. There were no significant violations of the provisions of securities lending agreements during the years ended June 30, 2018 and 2017.

During the year, State Street had the authority to lend short-term fixed income and equity securities and receive as collateral U.S. dollar and foreign currency cash, U.S. government and agency securities, and foreign sovereign debt of Organization of Economic Cooperation and Development countries. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned U.S. security. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default, and during the year the state did impose restrictions on the amount of the loans that the custodian made on its behalf. The OST is fully indemnified by the custodian against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

State Street, as lending agent, has created a fund to re-invest cash collateral received on behalf of the OSTF and Oregon state agencies, including OSU. As permitted under the fund's Declaration of Trust (Declaration), participant

purchases and redemptions are transacted at \$1 per unit ("constant value") based on the amortized cost of the fund's investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the statement of net position.

The fair value of investments held by the fund is based upon valuations provided by a recognized pricing service. These funds are not registered with the Securities and Exchange Commission, but the custodial agent is subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. No income from the funds was assigned to any other funds.

The maturities of investments made with the cash collateral generally do not match the maturities of the securities loaned. Since the securities loaned are callable on demand by either the lender or borrower, the life of the loans at June 30, 2018 and 2017, is effectively one day. As of June 30, 2018 and 2017, the state had no credit risk exposure to borrowers because the amounts owed to borrowers exceeded the amounts borrowers owed to the state.

The fair value of the university's share of securities lending balances on loan comprised the following (in thousands):

Investment Type	June 30, 2018	June 30, 2017
U.S. Treasury and Agency Securities	\$ 12,911	\$ 1,548
Domestic Fixed Income Securities	12,204	5,923
Total	\$ 25,115	\$ 7,471

The fair value of the university's share of total cash and securities collateral received as of June 30, 2018 and 2017, was \$25,631,297 and \$7,634,303, respectively. The fair value of the university's share of investments purchased with cash collateral as of June 30, 2018 and 2017, was \$13,511,298 and \$5,989,269, respectively.

3. ACCOUNTS RECEIVABLE

Accounts receivable, including amounts due from component units, comprised the following (in thousands):

	June 30, 2018	June 30, 2017
Student Tuition and Fees	\$ 40,960	\$ 41,174
Federal Grants and Contracts	36,869	29,652
State, Other Government, and Private Gifts, Grants and Contracts	10,057	10,467
Auxiliary Enterprises and Other Operating Activities	14,885	13,634
Capital Construction	12,182	6,906
Component Units	8,696	9,367
Other	7,087	11,156
	130,736	122,356
Less: Allowance for Doubtful Accounts	(7,137)	(7,495)
Accounts Receivable, Net	\$ 123,599	\$ 114,861

4. NOTES RECEIVABLE

Student loans made through the Title IV Federal Perkins Loan Program are funded through interest earnings and repayment of loans. Federal Perkins loans deemed uncollectible are assigned to the U.S. Department of Education (ED) for collection. Due to the termination of the Perkins loan program by the U.S. Congress, no new loans are allowed to be made and the federal capital contribution (FCC) portion of the loan program will be returned to the ED as loans are collected. See Note 1, Section W for additional information. OSU has provided an allowance for uncollectible loans which is calculated using the cohort default rate reported to the federal government.

Institutional and Other Student Loans include loans offered through the university itself and other various non-federal loan programs.

Notes receivable comprised the following (in thousands):

	June 30, 2018			June 30, 2017		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Institutional and Other						
Student Loans	\$ 157	\$ 598	\$ 755	\$ 200	\$ 659	\$ 859
Perkins Loans	4,990	22,435	27,425	4,610	21,001	25,611
Other	-	215	215	-	-	-
	<u>5,147</u>	<u>23,248</u>	<u>28,395</u>	<u>4,810</u>	<u>21,660</u>	<u>26,470</u>
Less: Allowance for						
Doubtful Accounts	(599)	(2,592)	(3,191)	(341)	(3,137)	(3,478)
Notes Receivable, Net	<u>\$ 4,548</u>	<u>\$ 20,656</u>	<u>\$ 25,204</u>	<u>\$ 4,469</u>	<u>\$ 18,523</u>	<u>\$ 22,992</u>



5. CAPITAL ASSETS

The following schedule reflects the changes in capital assets (in thousands):

	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, Non-depreciable/									
Non-amortizable:									
Land	\$ 31,277	\$ 686	\$ -	\$ -	\$ 31,963	\$ 1,762	\$ -	\$ -	\$ 33,725
Capitalized Collections	29,258	331	6	-	29,595	445	-	(371)	29,669
Construction in Progress	104,481	82,901	(155,861)	-	31,521	71,989	(26,735)	223	76,998
Intangible Assets in Progress	144	-	-	-	144	-	-	-	144
Total Capital Assets, Non-depreciable/Non-amortizable	165,160	83,918	(155,855)	-	\$ 93,223	74,196	(26,735)	(148)	140,536
Capital Assets, Depreciable/									
Amortizable:									
Equipment	214,674	20,063	721	(6,971)	228,487	14,398	1,019	(8,951)	234,953
Library Materials	80,987	550	-	(1,625)	79,912	337	-	-	80,249
Buildings	1,256,729	3,034	152,507	(4,318)	1,407,952	21,199	11,527	-	1,440,678
Land Improvements	27,756	1,997	1,629	-	31,382	391	3,628	-	35,401
Improvements Other Than Buildings	12,715	12	255	-	12,982	174	-	-	13,156
Infrastructure	33,323	820	743	-	34,886	2,888	10,561	-	48,335
Intangible Assets	10,686	466	-	(532)	10,620	-	-	-	10,620
Total Capital Assets, Depreciable/Amortizable	1,636,870	26,942	155,855	(13,446)	1,806,221	39,387	26,735	(8,951)	1,863,392
Less Accumulated Depreciation/									
Amortization for:									
Equipment	(155,934)	(15,924)	-	6,305	(165,553)	(16,274)	-	8,154	(173,673)
Library Materials	(78,133)	(742)	-	1,625	(77,250)	(643)	-	(3)	(77,896)
Buildings	(446,242)	(33,765)	-	4,259	(475,748)	(35,126)	-	(40)	(510,914)
Land Improvements	(12,616)	(1,627)	-	-	(14,243)	(1,944)	-	(1)	(16,188)
Improvements Other Than Buildings	(9,119)	(847)	-	-	(9,966)	(552)	-	-	(10,518)
Infrastructure	(18,980)	(1,533)	-	-	(20,513)	(1,620)	-	-	(22,133)
Intangible Assets	(9,406)	(319)	-	433	(9,292)	(334)	-	-	(9,626)
Total Accumulated Depreciation/ Amortization	(730,430)	(54,757)	-	12,622	(772,565)	(56,493)	-	8,110	(820,948)
Total Capital Assets, Net	\$ 1,071,600	\$ 56,103	\$ -	\$ (824)	\$ 1,126,879	\$ 57,090	\$ -	\$ (989)	\$ 1,182,980
Capital Assets Summary									
Capital Assets, Non-depreciable/ Non-amortizable	\$ 165,160	\$ 83,918	\$(155,855)	\$ -	\$ 93,223	\$ 74,196	\$ (26,735)	\$ (148)	\$ 140,536
Capital Assets, Depreciable/ Amortizable	1,636,870	26,942	155,855	(13,446)	1,806,221	39,387	26,735	(8,951)	1,863,392
Total Cost of Capital Assets	1,802,030	110,860	-	(13,446)	1,899,444	113,583	-	(9,099)	2,003,928
Less Accumulated Depreciation/ Amortization	(730,430)	(54,757)	-	12,622	(772,565)	(56,493)	-	8,110	(820,948)
Total Capital Assets, Net	\$ 1,071,600	\$ 56,103	\$ -	\$ (824)	\$ 1,126,879	\$ 57,090	\$ -	\$ (989)	\$ 1,182,980

6. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred outflows and inflows of resources comprised the following (in thousands):

	June 30, 2018	June 30, 2017
Deferred Outflows of Resources		
Pension		
Contributions Subsequent to the Measurement Date	\$ 27,936	\$ 19,571
Change in Proportionate Share	10,182	7,673
Difference Between Contributions and Proportionate Share of Contributions	213	575
Difference Between Expected and Actual Experience	14,212	10,671
Change in Assumptions	53,569	68,789
Net Difference Between Projected and Actual Earnings on Plan Investments*	3,028	63,720
OPEB		
Contributions Subsequent to the Measurement Date	2,247	-
Change in Proportionate Share	160	-
Net Fair Value Loss on Foreign Currency Forward Contracts	26	-
Total Deferred Outflows of Resources	\$ 111,573	\$ 170,999
Deferred Inflows of Resources		
Pension		
Difference Between Contributions and Proportionate Share of Contributions	\$ 6,288	\$ 3,065
OPEB		
Difference Between Contributions and Proportionate Share of Contributions	47	-
Change in Proportionate Share	19	-
Change in Assumptions	332	-
Net Difference Between Projected and Actual Earnings on Plan Investments*	516	-
Net Fair Value Gain on Foreign Currency Forward Contracts	-	3
Total Deferred Inflows of Resources	\$ 7,202	\$ 3,068

*Per GASB, deferred outflows of resources and deferred inflows of resources arising from the difference between projected and actual earnings on plan investments are netted and shown as either a net deferred outflow of resources or a net deferred inflow of resources.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprised the following (in thousands):

	June 30, 2018	June 30, 2017
Services and Supplies	\$ 49,039	\$ 33,881
Payroll Related	21,614	19,397
Accrued Interest	8,530	8,134
Salaries and Wages	6,790	6,383
Contract Retainage	2,584	4,963
Total	\$ 88,557	\$ 72,758

8. OPERATING LEASES

A. Receivables/Revenues

OSU receives income for land, property and equipment that is leased to outside entities under noncancelable operating leases. Rental income received from leases was \$5,442,166 and \$5,100,676 for the years ended June 30, 2018 and 2017, respectively. The original cost of assets leased was \$24,729,787 and \$25,050,790 for the years ended June 30, 2018 and 2017, respectively. Accumulated depreciation totaled \$10,172,474 and \$9,770,997 for the years ended June 30, 2018 and 2017, respectively.

A significant portion of OSU's annual operating lease revenue and future lease receivables is derived from a lease between the university and INTO OSU, Inc., a separate legal entity wholly-owned by INTO Incorporated. INTO Incorporated is an international corporation that partners with universities to provide study-abroad programs in multiple countries including the US, UK and China. The current lease expires in October of 2041, and encompasses the International Living-Learning Center and several smaller campus buildings.

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

Aggregate future minimum operating lease revenues at June 30, 2018 were (in thousands):

For the year ending June 30,	
2019	\$ 4,588
2020	3,241
2021	2,881
2022	2,882
2023	2,842
2024-2028	12,904
2029-2033	12,820
2034-2038	12,697
2039-2043	11,099
2044-2048	1,317
2049-2053	1,242
2054-2058	1,158
2059-2063	989
Total Minimum Operating Lease Revenues	<u>\$ 70,660</u>

B. Payables/Expenses

OSU leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases and rents were \$1,759,451 and \$1,784,857 for the years ended June 30, 2018 and 2017, respectively.

In November, 2017, OSU signed a 10-year lease for the second floor of the Meier & Frank Building in downtown Portland for the site of the OSU Portland Center. The space is being renovated to classroom and office space with the lease commencing August, 2018, which increased future lease payments by \$14,953,114.

Future minimum operating lease payments at June 30, 2018 were (in thousands):

For the year ending June 30,	
2019	\$ 1,659
2020	2,077
2021	1,882
2022	1,770
2023	1,813
2024-2028	9,727
2029-2033	151
Total Minimum Operating Lease Payments	<u>\$ 19,079</u>



9. LONG-TERM LIABILITIES

Long-term liability activity was as follows (in thousands):

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year	Long-Term Portion
Long-Term Debt						
Due to the State of Oregon:						
Contracts Payable	\$ 315,804	\$ 153	\$ (15,828)	\$ 300,129	\$ 15,296	\$ 284,833
Oregon Department of Energy Loans (SELP)	12,761	-	(795)	11,966	721	11,245
Revenue Bonds	108,972	72,705	(367)	181,310	366	180,944
Installment Purchases	23	9	(23)	9	6	3
Total Long-Term Debt	437,560	72,867	(17,013)	493,414	16,389	477,025
Other Noncurrent Liabilities						
Line of Credit	-	51,700	(4,900)	46,800	-	46,800
Notes Payable	-	586	-	586	117	469
PERS pre-SLGRP Pooled Liability	29,764	-	(1,753)	28,011	1,754	26,257
Compensated Absences	31,924	24,656	(25,544)	31,036	23,397	7,639
Employee Termination	-	1,295	-	1,295	1,295	-
Supplemental Retirement Plan	-	152	-	152	-	152
Perkins Loan Program Liability	-	21,676	-	21,676	3,944	17,732
Total Other Noncurrent Liabilities	61,688	100,065	(32,197)	129,556	30,507	99,049
Total Long-Term Liabilities	\$ 499,248	\$ 172,932	\$ (49,210)	\$ 622,970	\$ 46,896	\$ 576,074
	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year	Long-Term Portion
Long-Term Debt						
Due to the State of Oregon:						
Contracts Payable	\$ 335,922	\$ 264	\$ (20,382)	\$ 315,804	\$ 15,828	\$ 299,976
Oregon Department of Energy Loans (SELP)	13,512	-	(751)	12,761	795	11,966
Revenue Bonds	56,958	52,355	(341)	108,972	366	108,606
Installment Purchases	-	40	(17)	23	20	3
Total Long-Term Debt	406,392	52,659	(21,491)	437,560	17,009	420,551
Other Noncurrent Liabilities						
PERS pre-SLGRP Pooled Liability	31,215	-	(1,451)	29,764	1,452	28,312
Compensated Absences	29,804	25,944	(23,824)	31,924	23,560	8,364
Employee Termination	1,422	-	(1,422)	-	-	-
Total Other Noncurrent Liabilities	62,441	25,944	(26,697)	61,688	25,012	36,676
Total Long-Term Liabilities	\$ 468,833	\$ 78,603	\$ (48,188)	\$ 499,248	\$ 42,021	\$ 457,227

Notes to the Financial Statements

For the Years Ended June 30, 2018 and 2017

The schedule of principal and interest payments for OSU debt is as follows (in thousands):

For the Year Ending June 30,	Contracts		Revenue	Other	Total	Principal	Interest
	Payable	SELP	Bonds	Borrowings	Payments		
2019	\$ 29,199	\$ 1,262	\$ 7,053	\$ 6	\$ 37,520	\$ 15,303	\$ 22,217
2020	27,115	1,186	7,053	3	35,357	13,606	21,751
2021	26,467	1,185	7,053	-	34,705	13,918	20,787
2022	25,935	1,186	7,053	-	34,174	14,157	20,017
2023	25,401	1,185	7,053	-	33,639	14,644	18,995
2024-2028	120,716	5,928	35,264	-	161,908	77,500	84,408
2029-2033	99,547	4,351	35,264	-	139,162	74,440	64,722
2034-2038	66,933	-	35,264	-	102,197	52,758	49,439
2039-2043	34,588	-	35,264	-	69,852	30,384	39,468
2044-2048	3,608	-	158,051	-	161,659	137,580	24,079
2049-2053	-	-	38,408	-	38,408	37,020	1,388
Accreted Interest						1,874	(1,874)
						<u>\$ 483,184</u>	<u>\$ 365,397</u>
Total Future Debt Service	459,509	16,283	372,780	9	848,581		
Less: Interest Component of Future Payments	(159,380)	(4,317)	(201,700)	-	(365,397)		
Principal Portion of Future Payments	300,129	11,966	171,080	9	483,184		
Adjusted by:							
Net Unamortized Bond Premiums (Discounts)	-	-	10,230		10,230		
Total Long-Term Debt	\$ 300,129	\$ 11,966	\$ 181,310	\$ 9	\$ 493,414		

The state periodically issues bonded debt which it then loans to the university for capital construction. OSU has entered into contractual loan agreements with the state for the repayment of principal and interest amounts due. In addition, OSU may also borrow funds from the Oregon Department of Energy through the Small-scale Energy Loan Program (SELP). The state may periodically issue new debt to refund previously held debt. Per the contract and loan agreements, when this occurs the state is required to pass the savings on to the university. OSU may also issue Revenue bonds as authorized by ORS 351.369.

A. Contracts Payable

OSU has entered into contractual loan agreements with the state for repayment of debt instruments issued by the state on behalf of OSU for capital construction and refunding of previously issued debt. OSU makes loan payments (principal and interest) to the state in accordance with the loan agreements. Loans, with interest rates ranging from 1.53 percent to 7.00 percent, are due serially through 2044.

During the fiscal year ended June 30, 2018, the state did not issue any bonds that resulted in an increase or decrease to the university's contracts payable to the state. Changes to OSU's contracts payable to the state included debt service payments for principal of \$14,434,387 and the addition and

deduction of \$152,883 and \$1,393,891, respectively, for the amortization of accreted interest applicable to zero coupon bonds sold prior to 2002.

During the fiscal year ended June 30, 2017, the state issued new bonds for the refunding of previously held debt, which resulted in a net reduction to OSU's contracts payable of \$4,684,591. Other changes included debt service payments for principal of \$13,938,704 and the addition and deduction of \$263,396 and \$1,758,213, respectively, for the amortization of accreted interest applicable to zero coupon bonds sold prior to 2002.

B. Oregon Department of Energy Loans

OSU has entered into loan agreements with the Oregon Department of Energy (DOE) Small-scale Energy Loan Program (SELP) for energy conservation projects. OSU makes monthly loan payments (principal and interest) to the DOE in accordance with the loan agreements. SELP loans, with interest rates ranging from 2.00 percent to 5.46 percent, are due through 2032.

C. Revenue Bonds

General Revenue Bonds, with bullet maturities, are due in fiscal years 2044 through 2049 and have effective yields ranging from 3.25 percent to 5.00 percent.

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

During the fiscal year ended June 30, 2018, OSU issued \$72,705,000 par value of taxable General Revenue Bonds.

These General Revenue Series 2017 taxable bonds were sold at par with bullet maturities due in 2048 and 2049, and an effective rate of 3.75 percent for the following capital construction projects:

- Renovation of Gilkey Hall
- Steam Line Replacement and Tunnel Extension
- Upper Division and Graduate Student Housing Projects
- Newport Housing Project
- Minor Capital Programmatic Improvements

Other changes to the revenue bond liability during fiscal year 2018 included the amortization of \$366,406 in bond premium.

During the fiscal year ended June 30, 2017, OSU issued \$47,260,000 par value of taxable and tax-exempt General Revenue Bonds. The bonds were sold at a premium of \$5,094,963 and included the following:

- \$40,165,000 Series 2016A tax-exempt bonds with bullet maturities due in 2046 and 2047, and an effective rate of 4.00 percent for the following capital construction projects:
 - Cascade Campus Residence Hall
 - Cascade Campus Dining/Academic Center
 - IT Systems Infrastructure
- \$7,095,000 Series 2016B taxable bonds with a bullet maturity due in 2046, and an effective rate of 3.25 percent for the following capital construction projects:
 - Cascade Campus Dining/Academic Center
 - IT Systems Infrastructure

Other changes to the revenue bond liability during fiscal year 2017 included the amortization of \$341,081 in bond premium.

D. Line of Credit

During the fiscal year ended June 30, 2018, OSU executed a revolving credit agreement with U.S. Bank for \$50,000,000 to provide short-term financing for capital expenditures. Repayment of current borrowings will be made upon receipt of anticipated gifts. The revolving credit agreement commitment expires on July 7, 2020.

During the fiscal year ended June 30, 2018, in anticipation of secured pledges, OSU drew the following amounts for the associated projects:

- | | |
|-----------------------------|--------------|
| • Valley Football Center | \$29,600,000 |
| • Athletic Capital Projects | \$2,300,000 |

Additionally, OSU drew \$19,800,000 to purchase the Research Way lab building. This portion of the loan will be repaid with revenue bonds expected to be issued in the Spring of 2019.

Other changes to the line of credit liability during fiscal year 2018 included the payment of \$4,900,000 in principal. OSU currently has \$3,200,000 of unused line of credit with U.S. Bank.

E. Note Payable

During the fiscal year ended June 30, 2018, OSU entered into a promissory note to pay Samaritan Health Services, Inc. a total of \$585,892 in five equal annual payments of \$117,178 with the first payment due November 2018. The note arises from billing and payment errors between the university and Samaritan Health Services. There is no interest charged on the note and the note will be fully paid in fiscal year 2023.

F. State and Local Government Rate Pool

Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), state and community colleges were pooled together in the State and Community College Pool (SCCP), and local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP effective January 1, 2002, at which time a transitional pre-SLGRP Pooled Liability was created. The pre-SLGRP Pooled 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 public universities, state proprietary funds and the government-wide reporting fund in the state's comprehensive annual financial report. OSU paid interest expense on the liability in the amounts of \$1,918,604 and \$2,210,145 for June 30, 2018 and 2017, respectively. Principal payments of \$1,753,105 and \$1,451,597 were applied to OSU's liability for June 30, 2018 and 2017, respectively.

G. Employee Termination

OSU had severance agreements with eight former employees relating to early termination of their respective employment contracts. The payout of these liabilities will end in fiscal year 2019.

H. Perkins Loan Program Liability

During fiscal year 2018, OSU established a liability for the Federal Capital Contributions (FCC) received from the U.S. Department of Education (ED) which funded the Perkins loan program. With the close-out of the Perkins loan program, the FCC is due back to the ED. OSU has elected to continue to collect on these loans and will return the FCC to the ED as it is collected. See Note 1 Organization and Summary of Significant Accounting Policies, Section W Perkins Loan Program Termination for additional information.

10. UNRESTRICTED NET POSITION

Unrestricted net position is comprised of the following (in thousands):

	June 30, 2018	June 30, 2017
University Operations	\$ 204,512	\$ 174,548
Net Pension Liability (See Note 15)	(293,881)	(322,538)
Other Post-Employment Benefits Liabilities (See Note 16)	(18,960)	(6,949)
Pension & OPEB Related Deferred Outflows (See Note 6)	111,547	170,999
Pension & OPEB Related Deferred Inflows (See Note 6)	(7,202)	(3,065)
State and Local Government Rate Pool Liability (See Note 9)	(28,011)	(29,764)
Compensated Absences Liability	(26,000)	(26,706)
Total Unrestricted Net Position	<u>\$ (57,995)</u>	<u>\$ (43,475)</u>

11. PLEDGED GENERAL REVENUES

The university implemented a General Revenue Bond Program in 2015 to provide funding for capital construction and other related projects. As security for this debt, OSU has pledged general revenues which include student tuition and fees, auxiliary enterprise revenues, education department sales and services and other university operating revenues, with certain exclusions as shown in the table below. Net pledged general revenues is calculated by deducting excluded and restricted revenues from total operating revenues, and adding beginning unrestricted net position adjusted for the excluded items. Pledged revenues are as follows (in thousands):

	June 30, 2018	June 30, 2017
Total Operating Revenues	\$ 808,609	\$ 767,634
(Less):		
Student Building Fees	(3,295)	(3,317)
Student Incidental Fees	(27,616)	(26,704)
Federal Grants and Contracts	(203,740)	(184,785)
State and Local Grants and Contracts	(10,450)	(13,886)
Nongovernmental Grants and Contracts	(26,164)	(22,329)
Amounts Required to be Deposited or Paid for University-Paid State Bonds	(44,023)	(37,168)
Plus:		
Adjusted Beginning Unrestricted Net Position	(55,330)	(36,335)
General Revenues Pledged to Repay Revenue Bonds	<u>\$ 437,991</u>	<u>\$ 443,110</u>

12. INVESTMENT ACTIVITY

Investment Activity detail is as follows (in thousands):

	June 30, 2018	June 30, 2017
Royalties and Technology Transfer Income	\$ 5,026	\$ 5,494
Investment Earnings	6,466	3,863
Endowment Income	1,796	1,905
Net Appreciation (Depreciation) of Investments	21	768
Gain (Loss) on Sale of Investments	(1,404)	423
Interest Income	387	347
Total Investment Activity	<u>\$ 12,292</u>	<u>\$ 12,800</u>

13. OPERATING EXPENSES BY NATURAL CLASSIFICATION

The Statement of Revenues, Expenses and Changes in Net Position reports operating expenses by their functional classification. The reporting of the net pension liability and OPEB liabilities/(asset) as per GASB Statement Nos. 68, 71 and 75, significantly affects the reported compensation and benefit expenses of OSU. Changes in the pension and OPEB expenses and associated reporting requirements increased the reported compensation and benefit expenses of OSU by \$35,337,201 and \$40,192,963 for the fiscal years ended June 30, 2018 and 2017, respectively.



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

The following displays operating expenses by both the functional and natural classifications (in thousands):

June 30, 2018	Compensation and Benefits	Services and Supplies	Scholarships and Fellowships	Depreciation and Amortization	Other	Total
Instruction	\$ 278,508	\$ 28,370	\$ 222	\$ 20	\$ 282	\$ 307,402
Research	150,379	62,510	3,092	-	32	216,013
Public Services	82,603	46,782	738	46	1,054	131,223
Academic Support	64,216	21,847	15	-	-	86,078
Student Services	29,281	6,956	18	-	58	36,313
Auxiliary Services	86,208	76,031	4,482	16,675	-	183,396
Institutional Support	61,697	25,780	5	-	-	87,482
Operation & Maint. of Plant	18,216	20,414	-	111	-	38,741
Student Aid	10	138	29,853	-	1,003	31,004
Other	2,940	9,893	-	39,641	13	52,487
Total	\$ 774,058	\$ 298,721	\$ 38,425	\$ 56,493	\$ 2,442	\$ 1,170,139

June 30, 2017	Compensation and Benefits	Services and Supplies	Scholarships and Fellowships	Depreciation and Amortization	Other	Total
Instruction	\$ 264,567	\$ 25,805	\$ 281	\$ 19	\$ 243	\$ 290,915
Research	147,437	57,671	2,974	-	32	208,114
Public Services	79,423	26,309	930	46	1,035	107,743
Academic Support	60,581	19,344	7	-	-	79,932
Student Services	27,484	6,384	61	-	51	33,980
Auxiliary Services	77,175	72,059	4,708	15,652	-	169,594
Institutional Support	60,581	24,597	5	-	-	85,183
Operation & Maint. of Plant	15,461	20,912	-	111	-	36,484
Student Aid	-	323	29,869	-	445	30,637
Other	3,142	15,026	-	38,929	-	57,097
Total	\$ 735,851	\$ 268,430	\$ 38,835	\$ 54,757	\$ 1,806	\$ 1,099,679

14. GOVERNMENT APPROPRIATIONS

OSU receives support from the state in the form of General Fund and Lottery appropriations. These appropriations are in support of the operations of the university and SELP debt service. Appropriations for SELP debt service are based on the loan agreements between the university and the Oregon Department of Energy. Additionally, OSU receives state general fund, state forest product harvest tax (Harvest Tax), federal appropriations, and county appropriations in support of operations of the statewide public services, which include the agricultural experiment stations, cooperative extension services and forestry research laboratories. OSU also receives lottery appropriations in support of outdoor school operations for middle school children, which the cooperative extension service administers on behalf of the state. Government appropriations comprised the following (in thousands):

	June 30, 2018	June 30, 2017
General Fund - Education & General	\$ 125,468	\$ 117,532
General Fund - Statewide Public Services	60,927	60,512
General Fund - SELP Debt Service	1,073	1,084
Lottery Funding - Outdoor School	11,760	-
Lottery Funding - Sports Lottery	515	515
Harvest Tax	3,847	3,687
Total State	\$ 203,590	\$ 183,330
Federal Appropriations	10,988	10,100
County Appropriations	12,342	10,949
Total Appropriations	\$ 226,920	\$ 204,379

15. EMPLOYEE RETIREMENT PLANS

Oregon State University offers various defined benefit and defined contribution retirement plans to qualified employees as described below.

A. Public Employees Retirement Plan (PERS)

ORGANIZATION

The university participates with other state agencies in the Oregon Public Employees Retirement System (System), which is a cost-sharing multiple employer defined benefit plan. Plan assets may be used to pay the benefits of the employees of any employer that provides pensions through the plan. PERS is administered in accordance with Oregon Revised Statutes (ORS) Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a). The Oregon Legislature has delegated authority to the Public Employees Retirement Board (PERS Board) to administer and manage the System.

PLAN MEMBERSHIP

PERS memberships prior to January 1, 1996 are Tier One members. The 1995 Oregon Legislature enacted Chapter 654, Section 3, Oregon Laws 1995, which has been codified into ORS 238.435. This legislation created a second tier of benefits for those who established membership on or after January 1, 1996. The second tier does not have the Tier One assumed earnings rate guarantee and has a higher normal retirement age of 60, compared to 58 for Tier One. Both Tier One and Tier Two are defined benefit plans.

The 2003 Legislature enacted HB 2020, codified as ORS 238A, which created the Oregon Public Service Retirement Plan (OPSRP). OPSRP consists of the Pension Program Defined Benefit (DB) and the Individual Account Program (IAP). The IAP is a defined contribution plan. Membership includes public employees hired on or after August 29, 2003.

Beginning January 1, 2004, PERS active Tier One and Tier Two members became members of IAP of OPSRP. PERS members retained their existing Defined Benefit Plan accounts, but member contributions are now deposited into the member's IAP account, not into the member's Defined Benefit Plan account. Accounts are credited with earnings and losses, net of administrative expenses. OPSRP is part of PERS and is administered by the PERS Board.

PENSION PLAN REPORT

The PERS defined benefit and defined contribution retirement plans are reported as pension trust funds in the fiduciary funds combining statements and as part of the Pension and Other Employee Benefit Trust in the State of Oregon Comprehensive Annual Financial Report. PERS issues a separate, publicly available audited financial report that may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, PO Box 23700, Tigard, OR 97281-3700.

The report may also be accessed online at: www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Employers participating in the Plan are required to report pension information in their financial statements for fiscal periods beginning on or after June 15, 2014, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*.

The requirements of this Statement incorporate provisions intended to reflect the effects of transactions and events related to pensions in the measurement of employer liabilities for pensions and recognition of pension expense and deferred outflows of resources and deferred inflows of resources related to pensions.

SYSTEM BASIS OF ACCOUNTING

Contributions for employers are recognized on 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.

PROPORTIONATE SHARE ALLOCATION METHODOLOGY

The basis for the employer's proportion of the statewide plan is actuarially determined by comparing the employer's projected long-term contribution effort to the Plan with the total projected long-term contribution effort of all employers. The contribution rate for every employer has at least two major components: Normal Cost Rate and Unfunded Actuarial Liability (UAL) Rate.

PENSION PLAN LIABILITY

The components of the Plan's collective net pension liability as of the measurement dates of June 30, 2017 and 2016 are as follows (dollars in millions):

	June 30, 2017	June 30, 2016
Collective Plan:		
Total Pension Liability	\$ 79,852	\$ 77,094
Plan Fiduciary Net Position	66,372	62,082
Plan Net Pension Liability	<u>\$ 13,480</u>	<u>\$ 15,012</u>

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. That 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.

OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) PENSION (CHAPTER 238) PROGRAM

PENSION BENEFITS

The PERS retirement allowance is payable monthly for life. There are 13 retirement benefit options a retiring employee may select from. 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) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results. Monthly payments must be a minimum of \$200 per month or the member will receive a lump-sum payment of the actuarial equivalence of benefits to which he or she is entitled.

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. General Service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

DEATH BENEFITS

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

- The member was employed by a PERS employer at the time of death.
- The member died within 120 days after termination of PERS-covered employment.
- The member died as a result of injury sustained while employed in a PERS-covered job.
- 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 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 adjustments (COLAs). The COLA is capped at 2.0 percent.

OREGON PUBLIC SERVICE RETIREMENT PLAN (OP-SRP DB) PENSION PROGRAM

PENSION BENEFITS

The OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

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

DEATH BENEFITS

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

DISABILITY BENEFITS

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

BENEFIT CHANGES AFTER RETIREMENT

Under ORS 238A.210 monthly benefits are adjusted annually through COLAs. The cap on the COLA varies based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

OREGON PUBLIC SERVICE RETIREMENT PLAN (OP-SRP IAP) PENSION PROGRAM

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. Upon retirement, a member of the OPSRP 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. Upon the death of a non-retired member, the beneficiary receives

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

in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution 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.

CONTRIBUTIONS

PERS and OPSRP employee contribution requirements are established by ORS 238.200 and ORS 238A.330, respectively, and are credited to an employee's account in the IAP and may be amended by an act of the Oregon Legislature. The PERS and OPSRP funding policies provide for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Post-Employment Benefit Plans.

Employer contribution rates for the fiscal year ended June 30, 2018 were based on the December 31, 2015 actuarial valuation. Employer contribution rates for the fiscal year ended June 30, 2017 were based on the December 31, 2013 actuarial valuation as subsequently modified by the Moro decision. The employer contribution rates for PERS and OPSRP are as follows:

	2018	2017
Base Tier One/Two Rate	15.09%	10.46%
SLGRP Rate	1.76%	1.85%
RHIA/RHIPA OPEB Rate	0.99%	0.97%
Total PERS Tier One/Two Rate	17.84%	13.28%
Base OPSRP Rate	8.21%	4.66%
SLGRP Rate	1.76%	1.85%
RHIA/RHIPA OPEB Rate	0.81%	0.80%
Total OPSRP Rate	10.78%	7.31%

The university's required employer contributions for PERS and OPSRP for the years ended June 30, 2018 and 2017, were \$33,853,548 and \$23,232,722, respectively, including amounts to fund employer specific liabilities.

FEDERAL CIVIL SERVICE RETIREMENT

Some OSU Extension Service employees hold federal appointments. Prior to December 31, 1986, federal appointees were required to participate in the Federal Civil Service Retirement System (CSRS), a defined benefit plan. CSRS employees are subject to the Hospital Insurance portion of the Federal Insurance Contributions Act (FICA), CSRS employee deduction of 7.0 percent, and employer contribution of 7.0 percent, and are also eligible for optional membership in PERS.

The Federal Employees Retirement System (FERS), a defined benefit plan, was created beginning January 1, 1987. Employees on federal appointment hired after December 31, 1983 were automatically converted to FERS. Other federal employees not covered by FERS had a one-time option to transfer to FERS up to December 31, 1987. New FERS employees contribute 0.8 percent with an employer contribution rate of

13.9 percent. FERS employees are not eligible for membership in PERS and they contribute at the full FICA rate.

The university's required employer contributions for CSRS and FERS for the years ended June 30, 2018 and 2017, were \$279,797 and \$291,026, respectively.

NET PENSION LIABILITY

At June 30, 2018, the university reported a liability of \$293,881,485 for its proportionate share of the PERS net pension liability. The net pension liability as of June 30, 2018 was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. At June 30, 2017, the university reported a liability of \$322,538,214 for its proportionate share of the PERS net pension liability. The net pension liability as of June 30, 2017 was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The PERS system does not provide OSU an audited proportionate share as a separate employer; the university is allocated a proportionate share of PERS employer state agencies. The state Department of Administrative Services (DAS) calculated OSU's proportionate share of all state agencies internally based on actual contributions by OSU as compared to the total for employer state agencies. The Oregon Audits Division reviewed this internal calculation. At June 30, 2018, OSU's proportion was 2.18 percent of the statewide pension plan. At June 30, 2017, OSU's proportion was 2.15 percent of the statewide pension plan.

For the years ended June 30, 2018 and 2017, OSU recorded total pension expense of \$64,361,101 and \$59,691,943, respectively, due to the change in net pension liability, changes to deferred outflows and deferred inflows, and amortization of previously deferred amounts.

DEFERRED ITEMS

Deferred items are calculated at the system-wide level and are allocated to employers based on their proportionate share. For fiscal years ending June 30, 2018 and 2017, deferred items include:

- Difference between expected and actual experience
- Changes in assumptions
- Net difference between projected and actual pension plan investment earnings
- Changes in employer proportion since the prior measurement date
- A difference between employer contributions and proportionate share of contributions

Differences between expected and actual experience, changes in assumption, and changes in employer proportion are amortized over the average remaining service lives of all plan participants, including retirees, determined as of the

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

beginning of the respective measurement period. Employers are required to recognize pension 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 each measurement period are as follows:

- Measurement period ended June 30, 2017 – 5.3 years
- Measurement period ended June 30, 2016 – 5.3 years
- Measurement period ended June 30, 2015 – 5.4 years
- Measurement period ended June 30, 2014 – 5.6 years

The difference between projected and actual pension plan investment earnings attributable to each measurement period is amortized over a closed five-year period.

One year of amortization is recognized in the university’s total pension expense for fiscal years 2018 and 2017.

At June 30, 2018, OSU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 14,212	\$ -
Change in Assumptions	53,569	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	3,028	-
Change in Proportionate Share	10,182	-
Differences Between Contributions and Proportionate Share of Contributions	213	6,288
Total	\$ 81,204	\$ 6,288
Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD)	74,916	
Contributions Subsequent to the MD	27,936	
Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD	\$ 102,852	

Of the amount reported as deferred outflows of resources, \$27,935,620 are related to pensions resulting from contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

At June 30, 2017, OSU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 10,671	\$ -
Change in Assumptions	68,789	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	63,720	-
Change in Proportionate Share	7,673	-
Differences Between Contributions and Proportionate Share of Contributions	575	3,065
Total	\$ 151,428	\$ 3,065
Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD)	148,363	
Contributions Subsequent to the MD	19,571	
Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD	\$ 167,934	

Of the amount reported as deferred outflows of resources, \$19,570,980 are related to pensions resulting from contributions subsequent to the measurement date and are recognized as a reduction of the net pension liability in the year ended June 30, 2018.

As of June 30, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year Ended June 30:	
2019	\$ 15,155
2020	38,940
2021	26,881
2022	(6,490)
2023	430
	\$ 74,916

ACTUARIAL METHODS AND ASSUMPTIONS

The following methods and assumptions were used in the development of the total pension liability:

Actuarial Methods:		
As of:	June 30, 2018	June 30, 2017
Valuation Date	December 31, 2015	December 31, 2014
Measurement Date	June 30, 2017	June 30, 2016
Experience Study Report	2014, published September 2015	
Actuarial Cost Method	Entry Age Normal	
Actuarial Assumptions:		
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	
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision; blend based on service	
Mortality	<i>Healthy retirees and beneficiaries:</i>	
	RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.	
	<i>Active members:</i>	
	Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.	
Mortality	<i>Disabled retirees:</i>	
	Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per scale BB, disabled mortality table.	

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.

DISCOUNT RATE

The discount rate used to measure the total pension liability 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 was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY ANALYSIS

The sensitivity analysis shows the sensitivity of the university’s proportionate share of the net pension liability to changes in the discount rate. The following presents the university’s proportionate share of the net pension liability calculated using the discount rate of 7.50 percent as of June 30, 2018 and 2017, as well as what the university’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (in thousands):

	June 30, 2018	June 30, 2017
1% Decrease 6.5%	\$500,828	\$520,792
Current Discount Rate 7.5%	293,881	322,538
1% Increase 8.5%	120,836	156,833

DEPLETION DATE PROJECTION

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, generally requires that a blended discount rate be used to measure the total pension liability (the actuarial accrued liability calculated using the individual entry age normal cost method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan’s fiduciary net position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the fiduciary net position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB Statement No. 68 will often require that the actuary perform complex projections of future benefit payments and pension plan investments. GASB Statement No. 68 (paragraph 67) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB Statement No. 68 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 assumptions.
- GASB Statement No. 68 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 Statement No. 68 would clearly indicate that the fiduciary net position is always projected to be sufficient to cover benefit payments and administrative expenses.

ASSUMED ASSET ALLOCATION

Asset Class/ Strategy	Low Range	High Range	OIC Target
Cash	0.00 %	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 %

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 to the right 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: www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx

LONG-TERM EXPECTED RATE OF RETURN BY ASSET CLASS

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%

BOND DEBT

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 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 periodically over the life of the twenty-four year debt repayment schedule.

The payroll assessment for the pension obligation bond began in May 2004. The assessment rate for fiscal year 2018 was 6.0 percent through October 31, 2017 and was increased to 6.2 percent effective November 1, 2017. The assessment rate for fiscal year 2017 was 6.0 percent. Payroll assessments paid by OSU for the fiscal years ended June 30, 2018 and 2017, were \$15,699,309 and \$14,436,097, respectively.

B. Other Retirement Plans

OPTIONAL RETIREMENT PLAN

The 1995 Oregon Legislature enacted legislation that authorized the university to offer a defined contribution retirement plan as an alternative to PERS. A Retirement Plan Committee was appointed to administer the Optional Retirement Plan.

ment Plan (ORP) and named trustees to manage plan assets placed with mutual funds and insurance companies. Beginning April 1, 1996, the ORP was made available to university academic and administrative faculty. Employees choosing the ORP may invest the employee and employer contributions in one of two investment companies, either Fidelity or the Teacher's Insurance Annuity Association (TIAA).

The ORP consists of four tiers. Membership under ORP Tier One and Tier Two is determined using the same date of entry criteria as PERS. The third tier is determined by the date of entry applicable to the OPSRP. Employees hired on or after July 1, 2014 who elected the ORP are Tier Four members. The first contributions for Tier Four were payable January 2015, after six-months of qualifying service.

Tier Four is a departure from the other three tiers. The employee is entitled to an employer contribution plus a "match" contribution based on the employee's participation in the voluntary 403(b) investment plan. The employer contribution is fixed at 8 percent by plan rules and is unaffected by PERS rates, unlike the other tiers. The employer provides an ORP match contribution equal to 403(b) deferrals up to a 4 percent maximum. Under the ORP Tiers One, Two and Three, the employee's contribution rate is 6 percent and is paid by the employer.

The employer contribution rates for the ORP are as follows:

	2018	2017
Tier One/Two	23.68%	20.45%
Tier Three	9.29%	7.94%
Tier Four	8.00%	8.00%

OREGON PUBLIC UNIVERSITIES 401(A) DEFINED CONTRIBUTION PLAN

Eligible ranked faculty participate in the TIAA retirement program, a defined contribution plan, on all salary in excess of \$4,800 dollars per calendar year. Employee and employer contributions are directed to PERS on the first \$4,800 of salary. The contribution to TIAA annuities are supplemental to PERS. 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. The legacy plan, Oregon University System 401(a) Defined Contribution Plan, document was amended and restated July 1, 2015, and the Plan Sponsor is now the Board of Trustees for the University of Oregon.

FEDERAL CIVIL SERVICE RETIREMENT - THRIFT SAVINGS PLAN

OSU Extension Service employees that hold federal appointments can also participate in a Thrift Savings Plan (TSP) with an automatic employer contribution of 1 percent. Employees may also contribute to this plan at variable rates up to the limit set by the Internal Revenue Service, in which case the employer contributes at a variable rate up to 5 percent. CSRS employees are also eligible for participation in the TSP but without employer contributions.

SUPPLEMENTAL RETIREMENT PLANS (SRP)

Through June 30, 2017, OSU participated in an IRC Section 414(d) cash balance deferred compensation plan to provide a specific benefit value to the university president upon separation. The 414(d) plan is qualified under IRC Section 401(a) as a governmental plan. During fiscal year 2018, the 414(d) plan was amended to allow for a lump sum distribution of the sole remaining participants' cash balance, which the university president rolled into a personal IRA account. The 414(d) plan was then terminated.

During fiscal year 2018, per direction and authorization from the board of trustees, OSU established a supplemental retirement plan for eligible employees who have been designated to become a participant in the plan. The supplemental plan has two parts: a 403(b) defined contribution plan and a 415(m) excess benefit plan. Investments of the 403(b) plan are invested as directed by the employee. The 415(m) plan assets are invested and managed by TIAA. The university has recorded an investment for the balance managed by TIAA as well as an offsetting liability for the amount that will be payable to the employee upon completion of their contract.

During the fiscal year ended June 30, 2018, the university contributed \$152,431 to the 415(m) plan, and \$30,000 to the employees' 403(b) plan.

SUMMARY OF OTHER PENSION PAYMENTS

OSU's total payroll for the year ended June 30, 2018 was \$502,839,495, of which \$173,609,733 was subject to defined contribution retirement plan contributions. The following schedule lists pension payments made by OSU for the fiscal year (in thousands):

	June 30, 2018			
	Employer Contribution	As a % of Covered Payroll	Employee Contribution	As a % of Covered Payroll
ORP	\$ 16,929	9.75%	\$ 8,762	5.05%
TIAA	54	0.03	54	0.03
FERS - TSP	78	0.04	193	0.11
SRP	182	0.11	-	0.00
Total	\$ 17,243	9.93%	\$ 9,009	5.19%

Of the employee share, OSU paid \$8,761,803 of the ORP and \$54,110 of the TIAA employee contributions on behalf of their employees during the fiscal year ended June 30, 2018. The FERS-TSP contributions of \$193,393 represents employee contributions to the TSP for FERS employees that were matched from one to five percent by the employer in fiscal year 2018.

OSU's total payroll for the year ended June 30, 2017 was \$482,693,112, of which \$153,482,690 was subject to defined contribution retirement plan contributions.

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

The following schedule lists pension payments made by OSU for the fiscal year (in thousands):

	June 30, 2017			
	Employer Contribution	As a % of Covered Payroll	Employee Contribution	As a % of Covered Payroll
ORP	\$ 13,575	8.84%	\$ 8,628	5.62%
TIAA	52	0.03	52	0.03
FERS - TSP	85	0.06	237	0.15
SRP	162	0.11	-	0.00
Total	\$ 13,874	9.04%	\$ 8,917	5.80%

Of the employee share, OSU paid \$7,935,764 of the ORP and \$52,191 of the TIAA employee contributions on behalf of their employees during the fiscal year ended June 30, 2017. The FERS-TSP contributions of \$237,204 represents employee contributions to the TSP for FERS employees that were matched from one to five percent by the employer in fiscal year 2017.

16. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

A. Public Employees Retirement Plans (PERS)

PLAN DESCRIPTION

The Public Employees Retirement System (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 also administers two separate defined benefit other post-employment benefit (OPEB) plans: the Retirement Health Insurance Account (RHIA) and the Retiree Health Insurance Premium Account (RHIPA). Only Tier One and Tier Two PERS members are eligible to participate in the RHIA and RHIPA plans. (Refer to Note 15 for details concerning Tier One and Tier Two membership in PERS.)

The RHIA is a cost-sharing multiple-employer defined benefit OPEB plan in which the university participates. Established under Oregon Revised Statute (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 Legislature has sole authority to amend the benefit provisions and employer obligations for the RHIA plan.

Established under ORS 238.415, the RHIPA is considered 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 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 PERS 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 comprehensive annual financial report. 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 the Public Employees Retirement System, Fiscal Services Division, PO Box 23700, Tigard, OR 97281-3700. The report may also be accessed online at: www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Employers participating in RHIA and RHIPA plans are required to report OPEB information in their financial statements for fiscal periods beginning on or after June 15, 2017, in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*.

The requirements of this Statement incorporate provisions intended to reflect the effects of transactions and events related to OPEB in the measurement of employer liabilities for OPEB and recognition of OPEB expense and deferred outflows of resources and deferred inflows of resources.

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.

**PROPORTIONATE SHARE ALLOCATION
METHODOLOGY**

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

OPEB TOTAL PLAN (ASSET) LIABILITY

The components of the Net OPEB liability (asset) for the OPEB plans as of the measurement date of June 30, 2017 are as follows (in millions):

	June 30, 2017
Net OPEB - RHIA (Asset)	
Total OPEB - RHIA Liability	\$ 470.0
Plan Fiduciary Net Position	511.8
Plan Net OPEB - RHIA (Asset)	\$ (41.8)
	June 30, 2017
Net OPEB - RHIPA Liability	
Total OPEB - RHIPA Liability	\$ 70.9
Plan Fiduciary Net Position	24.3
Plan Net OPEB - RHIA Liability	\$ 46.6

**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. That 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.

CONTRIBUTIONS

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

For the fiscal year ended June 30, 2018, the university contributes 0.07 percent of PERS-covered payroll for Tier One and Tier Two plan members to fund the normal cost portion of RHIA benefits. In addition, the university contributes 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 \$1,171,032 for the year ended June 30, 2018. The actual contribution equaled the annual required contribution for the year.

For the fiscal year ended June 30, 2018, the university contributed 0.11 percent of PERS-covered payroll for Tier One and Tier Two plan members to fund the normal cost portion of RHIPA benefits. In addition, the university contributes 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 \$1,076,546 for the year ended June 30, 2018. The actual contribution equaled the annual required contribution for the year.

NET OPEB ASSET

a. RHIA

At June 30, 2018, the university reported an asset of \$1,027,381 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 OSU an audited proportionate share as a separate employer; the university is allocated a proportionate share of PERS employer state agencies. The state Department of Administrative Services (DAS) calculated OSU’s proportionate share of all state agencies internally based on actual contributions by OSU as compared to the total for employer state agencies. The Oregon Audits Division reviewed this internal calculation. At June 30, 2018, OSU’s proportion was 2.46 percent of the statewide OPEB plan.

For the year ended June 30, 2018, OSU recorded OPEB related expense of (\$1,664) due to changes in the net RHIA OPEB asset, deferred outflows and deferred inflows, and amortization of deferred amounts.

b. RHIPA

At June 30, 2018, the university reported a liability of \$3,717,755 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 OSU an audited proportionate share as a separate employer; the university is allocated a proportionate share of PERS employer state agencies. DAS calculated OSU’s proportionate share of all state agencies internally based on actual contributions by OSU as compared to the total for employer state agencies. The Oregon Audits Division reviewed this internal calculation. At June 30, 2018, OSU’s proportion was 7.97 percent of the statewide OPEB plan.

For the year ended June 30, 2018, OSU recorded OPEB related expense of \$422,518 due to changes in the net RHIPA OPEB liability, deferred outflows and deferred inflows, and amortization of deferred amounts.

DEFERRED ITEMS

a. RHIA

Deferred items are calculated at the system-wide level and are allocated to employers based on their proportionate share. For fiscal year ending June 30, 2018, deferred items include:

- No difference between expected and actual experience
- No difference due to changes in assumptions
- Net difference between projected and actual OPEB plan investment earnings
- Changes in employer proportion since the prior measurement date
- A difference between employer contributions and proportionate share of contributions

Differences between expected and actual experience, changes in assumption, and change in employer proportion are amortized over the average remaining service lives of all plan participants, including retirees, determined as of the beginning of the respective measurement period. 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 is 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.

One year of amortization is recognized in the university’s total OPEB expense for fiscal year 2018.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	\$ -	\$ 476
Change in Proportion	20	-
Difference Between Fund Contributions and Proportionate Share of Contributions	-	39
Total	<u>\$ 20</u>	<u>\$ 515</u>
Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD)	(495)	
Contributions Subsequent to the MD	<u>1,171</u>	
Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD	<u>\$ 676</u>	

Of the amount reported as deferred outflows of resources, \$1,171,032 are related to contributions subsequent to the measurement date and will be recognized as an increase of the net OPEB asset in the year ended June 30, 2019.

As of June 30, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to RHIA OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ended June 30:		
2019	\$	(126)
2020		(126)
2021		(124)
2022		(119)
	<u>\$</u>	<u>(495)</u>

b. RHIPA

Deferred items are calculated at the system-wide level and are allocated to employers based on their proportionate share. For fiscal year ending June 30, 2018, deferred items include:

- No difference between expected and actual experience
- No difference due to changes in assumptions
- Changes in employer proportion since the prior measurement date
- Difference between employer contributions and proportionate share of contributions
- Net difference between projected and actual OPEB plan investment earnings

Differences between expected and actual experience, changes in assumptions, and change in employer proportion are amortized over the average remaining service lives of all plan participants, including retirees, determined as of the beginning of the respective measurement period. 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 is 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.

One year of amortization is recognized in the university’s total OPEB expense for fiscal year 2018.

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

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	\$ -	\$ 40
Change in Proportion	-	19
Difference Between Fund Contributions and Proportionate Share of Contributions	-	8
Total	<u>\$ -</u>	<u>\$ 67</u>
Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD)	(67)	
Contributions Subsequent to the MD	<u>1,076</u>	
Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD	<u>\$ 1,009</u>	

Of the amount reported as deferred outflows of resources, \$1,076,546 are related to contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

As of June 30, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to RHIPA OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ended June 30:		
2019	\$	(14)
2020		(14)
2021		(15)
2022		(15)
2023		(4)
Thereafter		(5)
	<u>\$</u>	<u>(67)</u>

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

The following key methods and assumptions were used to measure the total OPEB liability:

Actuarial Methods and Assumptions:		
	RHIA	RHIPA
Valuation Date	December 31, 2015	December 31, 2015
Measurement Date	June 30, 2017	June 30, 2017
Experience Study Report	2014, published September 2015	
Actuarial Assumptions:		
Actuarial Cost	Entry Age Normal	
Inflation Rate	2.50 percent	
Long-Term Expected Rate of	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	<i>Healthy retirees and beneficiaries:</i>	
	RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.	
	<i>Active members:</i>	
	Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.	
	<i>Disabled retirees:</i>	
	Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per scale BB, disabled mortality table.	

DISCOUNT RATE

The discount rate used to measure the total OPEB liability/ (asset) 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

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

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 the university'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 (in thousands):

	June 30, 2018	
	RHIA	RHIPA
1% Decrease 6.5%	\$143	\$4,108
Current Discount Rate 7.5%	(\$1,027)	\$3,718
1% Increase 8.5%	(\$2,023)	\$3,357

The sensitivity analysis below shows the sensitivity of the university'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 (in thousands):

	June 30, 2018	
	RHIA	RHIPA
1% Decrease	(\$1,027)	\$3,208
Current Trend Rate	(1,027)	3,718
1% Increase	(1,027)	4,296

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 %

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: www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx

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	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 Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*, 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 administra-

tive expenses. Determining the discount rate under GASB Statement No. 75 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB Statement No 75 (paragraph 39) 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 assumptions.
- GASB Statement 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 Statement No. 75 would clearly indicate that the fiduciary net position is always projected to be sufficient to cover benefit payments and administrative expenses.

B. Public Employees' Benefit Board (PEBB) PLAN DESCRIPTION

OSU participates in a defined benefit post-employment healthcare plan administered by the Public Employees Benefit Board (PEBB). This plan offers healthcare assistance to eligible retired employees and their beneficiaries. Chapter 243 of the Oregon Revised Statutes (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 paragraph 4 of GASB Statement 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."

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Employers participating in PEBB are required to report OPEB information in their financial statements for fiscal periods beginning on or after June 15, 2017, in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*.

The requirements of this Statement incorporate provisions intended to reflect the effects of transactions and events related to OPEB in the measurement of employer liabilities and recognition of OPEB expense and deferred outflows of resources and deferred inflows of resources.

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 by all employers in the fiscal year.

TOTAL OPEB LIABILITY

At June 30, 2018, the university reported a liability of \$15,242,440 for its proportionate share of the total OPEB liability. 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 OSU an audited proportionate share as a separate employer; the university is allocated a proportionate share of PEBB participating employers. DAS calculated OSU's proportionate share of all participating employers internally based on actual contributions by OSU as compared to the total for participating employers. The Oregon Audits Division reviewed this internal calculation. At June 30, 2018, OSU's proportion was 10.26 percent of participating employers.

For the year ended June 30, 2018, OSU recorded total PEBB OPEB related expense of \$1,479,708 due to the changes to the total OPEB liability and deferred inflows, and amortization of deferred amounts.

DEFERRED ITEMS

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, 2018, there were:

- Changes in assumptions
- Changes in employer proportion since the prior measurement date

Changes in assumption and changes in employer proportion are amortized over the closed period equal to the average expected remaining service lives of all covered active and inactive participants. 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 begin-

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

ning of the measurement period ended June 30, 2018 is 8.2 years.

One year of amortization is recognized in the university's total OPEB expense for fiscal year 2018.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in Assumptions	\$ -	\$ 332
Change in Proportion	140	-
Total	\$ 140	\$ 332
Net Deferred Outflow/(Inflow) of Resources	<u>(192)</u>	

As of June 30, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to PEGB OPEB will be recognized in OPEB expense as follows (in thousands):

Year Ended June 30:	
2019	\$ (27)
2020	(27)
2021	(27)
2022	(26)
2023	(26)
Thereafter	(59)
	<u>\$ (192)</u>

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.

The following key methods and assumptions were used to measure the total OPEB liability:

Actuarial Methods and Assumptions:	
Valuation Date	July 1, 2017
Measurement Date	June 30, 2018
Actuarial Assumptions:	
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	<i>Medical and vision cost increases:</i> 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
	<i>Dental cost changes:</i> decrease 1.10% in the first year; increase 3.10% in the second year; increase 4.00% per year thereafter
	30% of eligible employees
Election and lapse rates	60% spouse coverage for males, 35% for females
	7% annual lapse rate

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 is 3.87 percent.

SENSITIVITY ANALYSIS

The sensitivity analysis below shows the sensitivity of the university's proportionate share of the total OPEB liability calculated using the discount rate of 3.87 percent, as well as what the net 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 as of June 30, 2018 (in thousands):

	June 30, 2018
1% Decrease 2.87%	\$16,587
Current Discount Rate 3.87%	15,242
1% Increase 1.87%	14,009

The sensitivity analysis below shows the sensitivity of the university'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 as of June 30, 2018 (in thousands):

	June 30, 2018
1% Decrease	\$13,430
Current Trend Rate	15,242
1% Increase	17,406

17. RISK FINANCING

OSU is a member of the Public Universities Risk Management and Insurance Trust (PURMIT). PURMIT is a separate legal entity that provides risk management and insurance support to its member universities (Member). PURMIT is governed by a Board of Trustees comprised of one representative from each Member. PURMIT carries out its mission through a combination of risk transfer and risk retention. PURMIT operates a self-insurance program for property and casualty lines under which each Member may select their own deductible. PURMIT also procures insurance and excess insurance, purchases specialty insurance lines, and provides administrative and operational services.

PURMIT is funded by annual Member assessments that are based on exposure, premium costs, expected claims, and operational costs, which are outlined in a Risk Allocation Model, and based on sound actuarial analysis.

As a Member of PURMIT, OSU transfers the following insurable risks to PURMIT and insurance companies:

- Real property loss for university owned buildings, equipment, automobiles and other types of property
- Tort liability claims brought against OSU, its officers, employees or agents
- Workers' Compensation and Employer's Liability
- Crime, Fiduciary and Network Security
- Specialty lines of coverage for marine, medical practicums, intercollegiate athletics, international travel, camps and clinics, day care, aviation exposures, and other items

OSU has a deductible of \$100,000 per occurrence/claim to PURMIT on property and casualty claims, and various deductibles on other insurance and specialty insurance lines. Annually, OSU sets aside pre-loss funding in advance to pay for the claims that are expected for that policy year. The amount of settlements has not exceeded insurance coverage since PURMIT was established in June of 2014.

18. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed, and planned but not initiated construction projects totaled approximately \$246,571,318 at June 30, 2018. These commitments will be primarily funded from gifts and grants, bond proceeds, and other OSU funds.

During Fiscal year 2018, OSU purchased a 72-acre former demolition landfill property that is adjacent to the OSU Cascades Campus in Bend, Oregon. Due to estimated site reclamation costs of \$34,300,000, the property was sold to the university for a nominal price. In conjunction with an adjacent 46-acre pumice mine acquired in 2016, both sites will be developed in the near future to support the expansion of OSU Cascades to a 128-acre residential university with housing and classroom space for both undergraduate and graduate students. The future site reclamation and development will be funded primarily by state-backed bonds.

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

OSU 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. OSU reimburses the Oregon Employment Division on a quarterly basis for actual benefits paid. Each year resources are budgeted to pay current charges. The amount of future benefit payments to claimants and the resulting liability to OSU cannot be reasonably determined at June 30, 2018.

19. SUBSEQUENT EVENTS

OSU management has reviewed events and transactions that occurred subsequent to the Statement of Net Position date of June 30, 2018, and found none that required adjustment or disclosure in the financial statements.

20. UNIVERSITY FOUNDATIONS

The university's two related foundations are the OSU Foundation (OSUF) and the Agricultural Research Foundation (ARF). The foundations were established to provide assistance in fund raising, public outreach and other support for the mission of OSU. The OSUF was incorporated in 1947 to encourage, receive, and administer gifts and bequests

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

for the support of the university and is responsible for all fundraising of the university as well as management of the majority of the university's endowments. The ARF was incorporated in 1934 to encourage and facilitate research in all branches of agriculture and related fields for the benefit of Oregon's agricultural industries. Each foundation is a legally separate, tax-exempt entity with an independent governing board. Although OSU does not control the timing or amount of receipts from the foundations or income thereon, the majority of resources that each foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by each foundation can only be used by, or for the benefit of the university, the foundations are considered component units of OSU and are discretely presented in the financial statements. The financial activity is reported for the years ended June 30, 2018 and 2017. Both OSU affiliated foundations are audited annually and received unmodified audit opinions.

During the years ended June 30, 2018 and 2017, gifts of \$69,082,191 and \$67,890,112, respectively, were transferred from the foundations to OSU.

Please see the combining financial statements for the OSU component units on the following pages.

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

- *Oregon State University Foundation, 4238 SW Research Way, Corvallis, OR 97333*
- *Agricultural Research Foundation, 1600 SW Western Blvd, Suite 320, Corvallis, OR 97333*





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

**Component Units
Combining Financial Statements**

Statements of Financial Position

As of June 30, 2018

	Oregon State University Foundation	Agricultural Research Foundation	Total Component Units
	(in thousands)		
ASSETS			
Cash and Cash Equivalents	\$ 25,579	\$ 610	\$ 26,189
Investments	667,737	25,205	692,942
Contributions, Pledges and Grants Receivable, Net	43,497	3,484	46,981
Assets Held-For-Sale	5,559	-	5,559
Assets Held Under Split-Interest Agreements	47,684	-	47,684
Charitable Trusts Held Outside the Foundation	15,310	-	15,310
Prepaid Expenses and Other Assets	3,525	178	3,703
Property and Equipment, Net	13,152	16	13,168
Total Assets	\$ 822,043	\$ 29,493	\$ 851,536
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 8,549	\$ 39	\$ 8,588
Endowment Assets Held for OSU	47,976	-	47,976
Accounts Payable to the University	-	4,944	4,944
Obligations to Beneficiaries of Split-Interest Agreements	21,514	-	21,514
Deposits and Unearned Revenue	-	9,562	9,562
Long-Term Liabilities	-	4	4
Total Liabilities	78,039	14,549	92,588
NET ASSETS			
Unrestricted	15,574	4,320	19,894
Temporarily Restricted	297,781	9,635	307,416
Permanently Restricted	430,649	989	431,638
Total Net Assets	744,004	14,944	758,948
TOTAL LIABILITIES AND NET ASSETS	\$ 822,043	\$ 29,493	\$ 851,536

**Component Units
Combining Financial Statements**

Statements of Activities

For the Year Ended June 30, 2018

	Oregon State University Foundation	Agricultural Research Foundation	Total Component Units
	(in thousands)		
CHANGE IN UNRESTRICTED NET ASSETS			
REVENUES			
Grants, Bequests and Gifts	\$ 1,531	\$ 5,822	\$ 7,353
Interest and Dividends	4,425	-	4,425
Investment Income, Net	5,963	709	6,672
Net Assets Released From Restrictions and Other Transfers	87,552	3,012	90,564
Other Revenues	32,613	-	32,613
Total Revenues	132,084	9,543	141,627
EXPENSES			
University Support	73,435	9,086	82,521
Management, General and Development Expenses	30,743	359	31,102
Investment Expense	13,352	-	13,352
Total Expenses	117,530	9,445	126,975
Increase In Unrestricted Net Assets	14,554	98	14,652
Beginning Balance, Unrestricted Net Assets	1,020	4,222	5,242
Ending Balance, Unrestricted Net Assets	\$ 15,574	\$ 4,320	\$ 19,894
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS			
REVENUES			
Grants, Bequests and Gifts	\$ 52,316	\$ 2,766	\$ 55,082
Interest and Dividends	9,240	-	9,240
Investment Income, Net	37,468	52	37,520
Change in Value of Life Income Agreements	2,003	-	2,003
Other Revenues	9,034	-	9,034
Net Assets Released From Restrictions and Other Transfers	(90,408)	(3,012)	(93,420)
Increase In Temporarily Restricted Net Assets	19,653	(194)	19,459
Beginning Balance, Temporarily Restricted Net Assets	278,128	9,829	287,957
Ending Balance, Temporarily Restricted Net Assets	\$ 297,781	\$ 9,635	\$ 307,416
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS			
REVENUES			
Grants, Bequests and Gifts	\$ 27,139	\$ 1	\$ 27,140
Interest and Dividends	178	5	183
Investment Income (Loss), Net	(200)	-	(200)
Change in Value of Life Income Agreements	483	-	483
Other Revenues	840	-	840
Net Assets Released From Restrictions and Other Transfers	2,856	-	2,856
Increase In Permanently Restricted Net Assets	31,296	6	31,302
Beginning Balance, Permanently Restricted Net Assets	399,353	983	400,336
Ending Balance, Permanently Restricted Net Assets	\$ 430,649	\$ 989	\$ 431,638
Beginning Balance, Total Net Assets	\$ 678,501	\$ 15,034	\$ 693,535
Increase In Total Net Assets	65,503	(90)	65,413
Ending Balance, Total Net Assets	\$ 744,004	\$ 14,944	\$ 758,948

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

**Component Units
Combining Financial Statements**

Statements of Financial Position

As of June 30, 2017

	Oregon State University Foundation	Agricultural Research Foundation	Total Component Units
	(in thousands)		
ASSETS			
Cash and Cash Equivalents	\$ 16,778	\$ 1,516	\$ 18,294
Investments	618,713	24,133	642,846
Contributions, Pledges and Grants Receivable, Net	43,263	2,202	45,465
Assets Held-For-Sale	4,759	-	4,759
Assets Held Under Split-Interest Agreements	54,382	-	54,382
Charitable Trusts Held Outside the Foundation	13,480	-	13,480
Prepaid Expenses and Other Assets	2,465	103	2,568
Property and Equipment, Net	6,052	22	6,074
Total Assets	\$ 759,892	\$ 27,976	\$ 787,868
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 12,030	\$ 231	\$ 12,261
Endowment Assets Held for OSU	46,046	-	46,046
Accounts Payable to the University	-	4,477	4,477
Obligations to Beneficiaries of Split-Interest Agreements	23,315	-	23,315
Deposits and Unearned Revenue	-	8,228	8,228
Long-Term Liabilities	-	6	6
Total Liabilities	81,391	12,942	94,333
NET ASSETS			
Unrestricted	1,020	4,222	5,242
Temporarily Restricted	278,128	9,829	287,957
Permanently Restricted	399,353	983	400,336
Total Net Assets	678,501	15,034	693,535
TOTAL LIABILITIES AND NET ASSETS	\$ 759,892	\$ 27,976	\$ 787,868

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

**Component Units
Combining Financial Statements**

Statements of Activities

For the Year Ended June 30, 2017

Oregon State University Foundation	Agricultural Research Foundation	Total Component Units
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(in thousands)

CHANGE IN UNRESTRICTED NET ASSETS

REVENUES

Grants, Bequests and Gifts	\$ 895	\$ 5,452	\$ 6,347
Interest and Dividends	3,657	-	3,657
Investment Income, Net	15,931	852	16,783
Net Assets Released From Restrictions and Other Transfers	84,962	2,586	87,548
Other Revenues	15,894	-	15,894

Total Revenues

121,339 8,890 130,229

EXPENSES

University Support	70,555	8,253	78,808
Management, General and Development Expenses	23,836	366	24,202
Investment Expense	11,892	-	11,892

Total Expenses

106,283 8,619 114,902

Increase In Unrestricted Net Assets

15,056 271 15,327

Beginning Balance, Unrestricted Net Assets

(14,036) 3,951 (10,085)

Ending Balance, Unrestricted Net Assets

\$ 1,020 \$ 4,222 \$ 5,242

CHANGE IN TEMPORARILY RESTRICTED NET ASSETS

REVENUES

Grants, Bequests and Gifts	\$ 43,800	\$ 2,971	\$ 46,771
Interest and Dividends	9,534	-	9,534
Investment Income, Net	43,843	45	43,888
Change in Value of Life Income Agreements	417	-	417
Other Revenues	3,058	-	3,058
Net Assets Released From Restrictions and Other Transfers	(85,258)	(2,586)	(87,844)

Increase In Temporarily Restricted Net Assets

15,394 430 15,824

Beginning Balance, Temporarily Restricted Net Assets

262,734 9,399 272,133

Ending Balance, Temporarily Restricted Net Assets

\$ 278,128 \$ 9,829 \$ 287,957

CHANGE IN PERMANENTLY RESTRICTED NET ASSETS

REVENUES

Grants, Bequests and Gifts	\$ 12,309	\$ 1	\$ 12,310
Interest and Dividends	129	-	129
Investment Income (Loss), Net	(113)	4	(109)
Change in Value of Life Income Agreements	1,862	-	1,862
Other Revenues	61	-	61
Net Assets Released From Restrictions and Other Transfers	296	-	296

Increase In Permanently Restricted Net Assets

14,544 5 14,549

Beginning Balance, Permanently Restricted Net Assets

384,809 978 385,787

Ending Balance, Permanently Restricted Net Assets

\$ 399,353 \$ 983 \$ 400,336

Beginning Balance, Total Net Assets

\$ 633,507 \$ 14,328 \$ 647,835

Increase In Total Net Assets

44,994 706 45,700

Ending Balance, Total Net Assets

\$ 678,501 \$ 15,034 \$ 693,535

SCHEDULE OF UNIVERSITY CONTRIBUTIONS*
Public Employees Retirement System

For Fiscal Years Ended June 30,	2018	2017	2016	2015	2014	2013	2012
Contractually Required Contribution ¹	\$ 27,936	\$ 19,571	\$ 19,078	\$ 15,945	\$ 15,100	\$ 13,760	\$ 12,666
Contributions in Relation to the Contractually Required Contribution	27,936	19,571	19,078	15,945	15,100	13,760	12,666
Contribution Deficiency/(Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 258,277	\$ 244,265	\$ 228,327	\$ 218,835	\$ 202,058	\$ 189,839	\$ 177,054
Contributions as a Percentage of Covered Payroll	10.8%	8.0%	8.4%	7.3%	7.5%	7.2%	7.2%

¹For Actuarial Assumptions and Methods, see table in Note 15

SCHEDULE OF UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY/(ASSET)*
Public Employees Retirement System

As of the Measurement Date June 30,	2017	2016	2015	2014	2013
University's Allocation of the Net Pension Liability/(Asset)	2.18%	2.15%	2.00%	1.80%	1.80%
University's Proportionate Share of the Net Pension Liability/(Asset)	\$ 293,881	\$ 322,538	\$ 114,746	\$ (40,834)	\$ 91,930
University's Covered Payroll	\$ 244,265	\$ 228,327	\$ 218,835	\$ 202,058	\$ 189,839
University's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Covered Payroll	120.31%	141.26%	52.43%	20.21%	48.43%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability/(Asset)	83.12%	80.53%	91.88%	103.59%	91.97%

*These tables will eventually contain 10 years of data. Only the data presented above is available at this time.

Required Supplementary Information (dollars in thousands)

SCHEDULE OF UNIVERSITY PERS RHIA OPEB EMPLOYER CONTRIBUTION*

For Fiscal Years Ended June 30, Actuarially Determined	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contributions ¹	\$ 1,171	\$ 1,172	\$ 1,104	\$ 1,170	\$ 1,091	\$ 1,020	\$ 963	\$ 367	\$ 362
Contributions in Relation to the Actuarially Determined Contributions	1,171	1,172	1,104	1,170	1,091	1,020	963	367	362
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$258,239	\$244,227	\$228,283	\$ 217,824	\$201,446	\$184,769	\$173,316	\$146,279	\$142,707
Contributions as a Percentage of Covered Payroll	0.45%	0.48%	0.48%	0.54%	0.54%	0.55%	0.56%	0.25%	0.25%

¹For Actuarial Assumptions and Methods, see table in Note 16

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

As of the Measurement Date June 30,	2017	2016
University's Allocation of the Net RHIA OPEB Liability/(Asset)	2.46%	2.36%
University's Proportionate Share of the Net RHIA OPEB Liability/(Asset)	\$ (1,027)	\$ 641
University's Covered Payroll	\$ 244,227	\$ 228,283
University's Proportionate Share of the Net RHIA OPEB Liability/(Asset) as a Percentage of Covered Payroll	0.42%	0.28%
Plan Fiduciary Net Position as a Percentage of the Total RHIA OPEB Liability/(Asset)	108.88%	94.15%

*These tables will eventually contain 10 years of data. Only the data presented above is available at this time.

SCHEDULE OF UNIVERSITY PERS RHIPA OPEB EMPLOYER CONTRIBUTION*

For Fiscal Years Ended June 30, Actuarially Determined	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contributions ¹	\$ 1,076	\$ 937	\$ 886	\$ 508	\$ 475	\$ 257	\$ 244	\$ 82	\$ 83
Contributions in Relation to the Actuarially Determined Contributions	1,076	937	886	508	475	257	244	82	83
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 258,239	\$ 244,227	\$ 228,283	\$ 217,824	\$ 201,446	\$ 184,769	\$ 173,316	\$ 146,279	\$ 142,707
Contributions as a Percentage of Covered Payroll	0.42%	0.38%	0.39%	0.23%	0.24%	0.14%	0.14%	0.06%	0.06%

¹For Actuarial Assumptions and Methods, see table in Note 16

**SCHEDULE OF UNIVERSITY'S PROPORTIONATE SHARE OF THE
NET PERS RHIPA OPEB LIABILITY***

As of the Measurement Date June 30,	2017	2016
University's Allocation of the Net RHIPA OPEB Liability	7.97%	8.01%
University's Proportionate Share of the Net RHIPA OPEB Liability	\$ 3,718	\$ 4,299
University's Covered Payroll	\$ 244,227	\$ 228,283
University's Proportionate Share of the Net RHIPA OPEB Liability as a Percentage of Covered Payroll	1.52%	1.88%
Plan Fiduciary Net Position as a Percentage of the Total RHIPA OPEB Liability	34.25%	21.87%

*These tables will eventually contain 10 years of data. Only the data presented above is available at this time.

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

As of June 30,	2018	2017
University's Allocation of the Total OPEB Liability	\$ 15,242	\$ 14,696
University's Proportionate Share of the Total OPEB Liability	10.26%	10.15%
University's Covered Payroll	\$368,750	\$388,332
University's Proportionate Share of the Total OPEB Liability as a Percentage of Covered Payroll	4.13%	3.78%

*This table will eventually contain 10 years of data. Only the data presented above is available at this time.

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