



OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Financial Statements
and Supplementary Information

June 30, 2023 and 2022

(Dollars in thousands)

(With Independent Auditors' Report Thereon)

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Oregon Health & Science University:

Opinions

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of Oregon Health & Science University (OHSU), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise OHSU's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying 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 OHSU, as of June 30, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OHSU and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OHSU's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 OHSU's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OHSU's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis, the schedule of proportionate share of the net pension liability and related ratios, and the schedule of defined-benefit pension plan contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 audits 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.



Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise OHSU's basic financial statements. The supplemental information included in schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

Portland, Oregon
October 27, 2023

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Management Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands)

Introduction

Oregon Health & Science University (OHSU or the University) is Oregon's only public academic health center and one of the only universities in the US devoted exclusively to educating physicians, dentists, nurses, pharmacists, public health professionals and others in healthcare, biology and medicine. It is a national leader in education of health professionals and scientists, advanced biomedical and healthcare research, leading edge patient care, and outreach. As part of its multifaceted public mission, OHSU strives for excellence in education, research and scholarship, clinical practice, and community service. Through its dynamic interdisciplinary environment, OHSU stimulates the spirit of inquiry, initiative, and cooperation among students, faculty, and staff.

The following discussion and analysis provide an overview of the financial activities of OHSU for the year ended June 30, 2023 and should be read in conjunction with the financial statements and related note disclosures. This discussion was prepared by management and is designed to focus on current activities, resulting changes, and current known facts with selective comparative information for the years ended June 30, 2022 and 2021.

Financial Highlights

To manage its operations and monitor its financial position, OHSU focuses on two key indicators: the total change in OHSU's net position, which includes the Foundation, investment income and other nonoperating items, and the "Total University" operations component of operating income (before consolidation of the Foundation and reclassifications of state appropriations to nonoperating revenues).

The broadest measure of OHSU's financial strength is reflected in net position, the difference between assets and deferred outflows, and liabilities and deferred inflows. OHSU's net position was \$4.1 billion in fiscal year 2023 compared to fiscal year 2022 net position of \$3.9 billion, an increase of \$149 million, largely offsetting the prior year net position decrease of \$150 million. This follows an increase of \$493 million in fiscal year 2021. Despite the impact of the pandemic on earnings from operations, OHSU's net position increased by a cumulative 13.2% or \$478 million, from \$3.6 billion as of June 30, 2019 to \$4.1 billion as of June 30, 2023 due to positive operating income, strong investment returns, and cumulative federal relief for COVID-19, with the largest funding provided by the CARES Act Provider Relief Fund and Federal Emergency Management Agency (FEMA) Public Assistance Program.

When measuring operating results for the University, OHSU uses a single line "equity method" for the OHSU Foundation. The "equity method" follows the "Total University" column on the combining financial statements included at the end of these financial statements, with gifts recorded when transferred from the Foundation to the University for use and state appropriations included within operating revenues.

The receipt and then spending of large gifts, and accrued expenses for Oregon Public Employees Retirement System (PERS) pension have caused large swings in OHSU's revenues and expenses over time. Management uses the analysis of adjusted operating income on the following table to track underlying performance on a consistent basis where expenses for pension benefits are recorded on a cash basis, rather than an accrual basis, as they were prior to adoption of GASB 68.

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June 30, 2023 and 2022

(Dollars in thousands)

**Analysis of Total University Column of Combining Statements of
Revenues, Expense, and Changes in Net Position**

Years ended June 30, 2023 and 2022

(Dollars in thousands)

| | <u>2023</u> | <u>2022</u> | <u>\$ Change</u> | <u>% Change</u> |
|--|-------------------|------------------|------------------|-----------------|
| Patient service revenue, net | \$ 3,337,828 | 2,845,352 | 492,476 | 17.3 % |
| Other revenues | 1,235,075 | 1,141,373 | 93,702 | 8.2 |
| Total operating revenues | <u>4,572,903</u> | <u>3,986,725</u> | <u>586,178</u> | <u>14.7</u> |
| Salaries, wages, and benefits, net of pension accrual | 2,738,646 | 2,494,426 | 244,220 | 9.8 |
| Services, supplies, and other | 1,529,699 | 1,337,319 | 192,380 | 14.4 |
| Depreciation and amortization, and interest | 251,603 | 244,701 | 6,902 | 2.8 |
| Total operating expenses, net of pension accrual | <u>4,519,948</u> | <u>4,076,446</u> | <u>443,502</u> | <u>10.9</u> |
| Adjusted operating income (loss) | 52,955 | (89,721) | 142,676 | 159.0 |
| Cash basis pension expense | 53,561 | 54,976 | (1,415) | 2.6 |
| Accrual basis pension expense | (37,947) | (23,008) | (14,939) | 64.9 |
| Operating income (loss) | 68,569 | (57,753) | 126,322 | 218.7 |
| Investment income and gain(loss) in fair value of investments | 119,421 | (134,264) | 253,685 | 188.9 |
| State appropriations | 62,690 | 41,240 | 21,450 | 52.0 |
| COVID-19 relief grants | — | 33,514 | (33,514) | 100.0 |
| FEMA public assistance program | 22,576 | 8,966 | 13,610 | 151.8 |
| Other nonoperating, Foundation, and eliminations/reclasses | (149,638) | (67,698) | (81,940) | 121.0 |
| Total net income (loss) before contributions for capital and other | 123,618 | (175,995) | 299,613 | 170.2 |
| Other changes in net position | 25,573 | 25,698 | (125) | 0.5 |
| Total increase (decrease) in net position | <u>\$ 149,191</u> | <u>(150,297)</u> | <u>299,488</u> | <u>199.3 %</u> |

In fiscal year 2023, OHSU's adjusted operating income was \$53 million, a positive year-over-year variance of \$143 million when compared to an adjusted operating loss of \$(90) million in fiscal year 2022. Operating revenues increased by 14.7% compared to the prior fiscal year, outpacing the growth of operating expenses at 10.9%. The most notable contribution to operating revenue has been the increase to net patient revenue of \$492 million or 17.3%. OHSU hospital admissions increased by 4.3%, inpatient census by 5.1%, surgical cases by 9.2%, emergency visits by 8.9%, and ambulatory visits by 3.3% in fiscal year 2023. This growth reflects strong demand for OHSU's services together with improved staffing, access, and throughput. Adjusting for the PERS pension benefit, the Total University's operating income (loss) was \$69 million and \$(58) million in fiscal years 2023 and 2022, respectively.

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(A Component Unit of the State of Oregon)

Management Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands)

Fiscal year results reflect the continuing impact of OHSU's Improving Financial Performance (IFP) effort, co-led by the CEO of OHSU Health and the Dean of the School of Medicine, and reporting directly to the University President. IFP engages a wide range of faculty and administrative leadership, as well as an external advisory committee. Major financial improvements have been secured in the work streams of operations and efficiency; pharmacy, imaging and professional services growth; and operating room and procedural growth; as well as university-wide efforts to eliminate vacant positions wherever possible and control hiring with an emphasis on safety, reducing contract labor, and focused growth. OHSU is actively seeking additional revenues, working with public, private, and philanthropic partners to support strategic priorities. Advancing member and clinician wellness is also a key component of continued success.

OHSU continues to receive strong support from the State of Oregon as shown by a \$21 million increase in state appropriations from \$41 million in fiscal year 2022 to \$63 million in fiscal year 2023, including \$20 million for OHSU's 30-30-30 initiative to increase the number of graduates in the health professions as well as student diversity. As part of OHSU's Intergovernmental Transfer (IGT) partnership with the State of Oregon, which helps secure major funding for the Oregon Health Plan, OHSU receives a percentage of the cost of care for Medicaid and other low-income patients. Reflecting the postpandemic inflation environment and a midbiennium rebalance of the state budget, this support increased by \$102.5 million from fiscal year 2022 to fiscal year 2023, including \$57.5 million relating to last fiscal year. In fiscal year 2023, OHSU refined its reporting of IGT program support to better align with the State's reporting; this resulted in some reclassification of revenues among line items within the same total for operating revenues.

Not included within operating revenues or operating income is FEMA Public Assistance and CARES Act grants and investment income and gain (loss) in fair value of investments. OHSU recorded FEMA and CARES Act grants in nonoperating revenues of \$23 million and \$42 million in fiscal years 2023 and 2022, respectively. Both equity and fixed income markets exhibited volatility during fiscal year 2023. Investment losses occurred during the first quarter of the fiscal year, then markets rebounded in the last three quarters. OHSU recorded a gain of \$119 million and loss of \$134 million in fiscal years 2023 and 2022, respectively.

Long-term trends occurring in Oregon and nationally of payments per case not keeping up with rising labor, pharmacy, and medical supply costs, accelerated as fiscal year 2023 progressed. With strong demand for OHSU's services and strong revenue growth, operating results show improvement year over year, but with considerable month-to-month variability. Healthcare earnings are highly concentrated in a relatively small number of complex and high-cost cases that, depending on reimbursement, can impact an individual month's results. OHSU continues to focus on its IFP efforts to offset these factors.

Management recognizes that healthcare across Oregon and the nation is facing serious financial challenges. However, management believes that the pandemic has also been a catalyst for change. OHSU's ongoing focus is to support our people; build community engagement and health equity; improve access and grow strategically; advance OHSU's missions of education, research, patient care, and outreach that make us unique in Oregon; and build for the future.

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June 30, 2023 and 2022

(Dollars in thousands)

Subsequent to fiscal year ended June 30, 2023, on August 17, 2023, OHSU announced the execution of a nonbinding letter of intent with Legacy Health setting forth proposed terms to create a combined healthcare system with OHSU serving as the combined system's sole corporate parent. It can be viewed here:

<https://emma.msrb.org/P21757008.pdf>.

COVID-19 Funding

Significant federal and state COVID-19 financial and liquidity support was provided to OHSU in the form of grants and loans in fiscal years 2023, 2022, and 2021. The key programs included:

- Medicare Advance Payment Program
- CARES Act Federal Insurance Contributions Act (FICA) Deferral
- CARES Act Provider Relief Fund
- Higher Education Emergency Relief Fund (HEERF) Grants
- American Rescue Plan Act (ARPA)
- Federal Emergency Management Agency (FEMA) Public Assistance Program

OHSU has reported COVID-19 support in nonoperating revenues of \$22.6 million, \$42.5 million, and \$72.6 million in fiscal years 2023, 2022, and 2021, respectively.

Results of Operations

The statements of revenues, expenses, and changes in net position present OHSU's results of operations, including the Foundation. In accordance with generally accepted accounting principles for a government entity, revenues and expenses are classified as either operating or nonoperating.

The programs and operations of the University and the Foundation are funded from a broad range of sources, some of which are classified as operating and others as nonoperating. While state appropriations and CARES Act and FEMA grants are reported as nonoperating revenues, the funding supports operating expenses and lost operating revenues.

Similarly, reporting of Foundation operating expenses, including transfers to the University, as well as fundraising, and other costs that are funded in part by endowment investment income are reported as nonoperating, but support operating activities. Also, investment income and gain (loss) in fair value of investments, used to support operations, is reported as nonoperating while the PERS defined-benefit pension expense, reported as an operating activity under GASB 68, includes prior year PERS systemwide plan investment returns.

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Management Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands)

When measuring OHSU as a whole, management believes that the net income (loss) before contributions for capital and other, which includes both operating and nonoperating revenues, provides the most useful indicator of financial performance for the years ended June 30, 2023, 2022, and 2021.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

June 30, 2023, 2022 and 2021

(Dollars in thousands)

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|---|-------------------|------------------|------------------|
| Patient service revenue, net | \$ 3,337,828 | 2,845,352 | 2,595,048 |
| Gifts, grants, and contracts | 758,380 | 782,289 | 703,065 |
| All other operating revenues | <u>361,094</u> | <u>314,393</u> | <u>308,112</u> |
| Total operating revenues | <u>4,457,302</u> | <u>3,942,034</u> | <u>3,606,225</u> |
| Salaries, wages, and benefits | 2,702,614 | 2,455,284 | 2,166,014 |
| Defined-benefit pension | 37,947 | 23,008 | 113,695 |
| All other operating expenses | <u>1,798,799</u> | <u>1,589,138</u> | <u>1,406,739</u> |
| Total operating expenses | <u>4,539,360</u> | <u>4,067,430</u> | <u>3,686,448</u> |
| Operating income (loss) | (82,058) | (125,396) | (80,223) |
| Other nonoperating revenues (expenses) | 120,410 | (134,319) | 443,981 |
| State appropriations | 62,690 | 41,240 | 44,243 |
| CARES Act, ARPA, and FEMA grants | <u>22,576</u> | <u>42,480</u> | <u>72,593</u> |
| Net income (loss) before contributions for capital and other | 123,618 | (175,995) | 480,594 |
| Other changes in net position | <u>25,573</u> | <u>25,698</u> | <u>12,132</u> |
| Total change in net position | <u>\$ 149,191</u> | <u>(150,297)</u> | <u>492,726</u> |

OHSU's consolidated net income before contributions for capital and other was \$124 million in fiscal year 2023, compared to a loss of \$176 million, in fiscal year 2022. This followed by a gain of \$481 million in fiscal year 2021.

Fiscal year 2023 results reflect strong patient service volume and revenue growth, positive impact from a midbiennium rebalance of the IGT program (with two years of favorable adjustment paid in one year), and gains from IFP, offset by a shift from commercial to Medicare insurance coverage, higher drug costs and shortfalls in the 340b contract pharmacy program, and higher partner support to Hillsboro Medical Center and Adventist Health Portland. In fiscal year 2022, OHSU financial results were acutely impacted by Delta and Omicron surges, inflationary pressures, labor shortages, and negative investment returns. Mitigating some of the challenges were higher than expected research and education support from the State through the Medicaid IGT program and \$42 million in federal economic relief funds (grants).

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Management Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

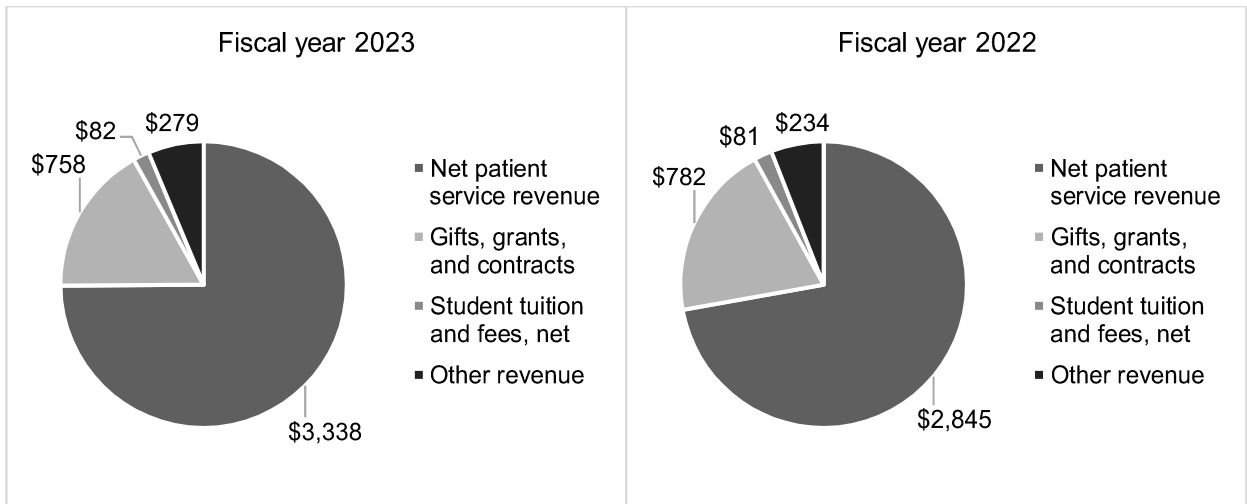
(Dollars in thousands)

Revenues Supporting Core Activities

OHSU's operating revenues for fiscal year 2023 total \$4.5 billion, an increase of 13.1% from fiscal year 2022 at \$3.9 billion. The increase was driven by patient service revenue, grants, gifts and contracts, and pharmaceutical services.

**Operating Revenue by Source
Fiscal years 2023 and 2022**

(Dollars in millions)



Increases in patient service revenue reflected a 3.6% increase in patient activity when measured by case mix index and outpatient-adjusted admissions. All-payer case mix index remains strong at 2.52.

Grants, gifts, and contracts recorded in fiscal year 2023 were \$758 million, compared to \$782 million in fiscal year 2022. The University continues to report consistent growth in federal government and industry grants, an indicator of the success of OHSU's research and other programs, along with steady increases in medical contracts over the last two fiscal years, reflecting partnerships that extend OHSU programs across the region.

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June 30, 2023 and 2022

(Dollars in thousands)

Gifts are recorded at the OHSU Foundation when pledged, and at the University when transferred from the Foundation and applied to program expenditures. The receipt of large gifts pledged in one year, received in cash over time, then spent during subsequent periods, results in significant fluctuation in the gift component of OHSU revenues on a combined basis. Gifts from the Foundation continue to provide critical funding to faculty, programs, and academic initiatives.

| | Fiscal year ended June 30 | | |
|--|----------------------------------|-------------|-------------|
| | 2023 | 2022 | 2021 |
| | (Dollars in thousands) | | |
| University grants and contracts, direct portion | \$ 593,799 | 576,415 | 534,952 |
| University grants and contracts, indirect cost recovery | 122,431 | 113,001 | 105,887 |
| Foundation gifts, net of eliminations, transferred to the University | 42,150 | 92,873 | 62,226 |
| Total gifts, grants, and contracts | \$ 758,380 | 782,289 | 703,065 |

Student tuition and fees were \$82 million and \$81 million in fiscal years 2023 and 2022, respectively. Fiscal year 2023 marks the tenth year of the OHSU Tuition Promise. Under this initiative, students enrolled in eligible clinical degree programs pay a tuition rate that is fixed for the remainder of their studies, as long as they complete the degree within the normal timeframe specified by the program.

Other revenue increased in fiscal year 2023 by \$46 million, or 19.7%, from fiscal year 2022 in part from increases in outpatient pharmaceutical sales. OHSU provides drug treatment to patients through normal retail sales, as well as a specialty pharmacy where patients are able to obtain specialty drugs delivered to their homes for complex conditions such as autoimmune diseases and organ transplants.

Reported in nonoperating revenues (expenses), fiscal year 2023 investment income and fair value of investments was a gain of \$119 million, primarily due to strong investment returns. This compared to a loss of \$134 million in fiscal year 2022, as the market responded to pressures of inflation, Federal Reserve tightening interest rates, and the war in Ukraine.

State appropriations, reported in other nonoperating revenues (expenses), totaled \$63 million in fiscal year 2023 and \$41 million in 2022. State appropriations support education in the Schools of Nursing, Dentistry, and Medicine, as well as operations of the Child Development and Rehabilitation Center, the Office of Rural Health, and the Poison Center. In fiscal year 2023, state appropriations include an increase of \$20 million for OHSU's 30-30-30 plan to help address the state's urgent healthcare workforce needs by increasing the number of graduates from clinical programs by 30% and increase all OHSU learner diversity to 30% by the year 2030.

OHSU's financials reflect \$23 million and \$9 million of FEMA Public Assistance Program funds in fiscal years 2023 and 2022, respectively, and \$0 and \$34 million in CARES Act and ARPA grants in fiscal years 2023 and 2022, respectively.

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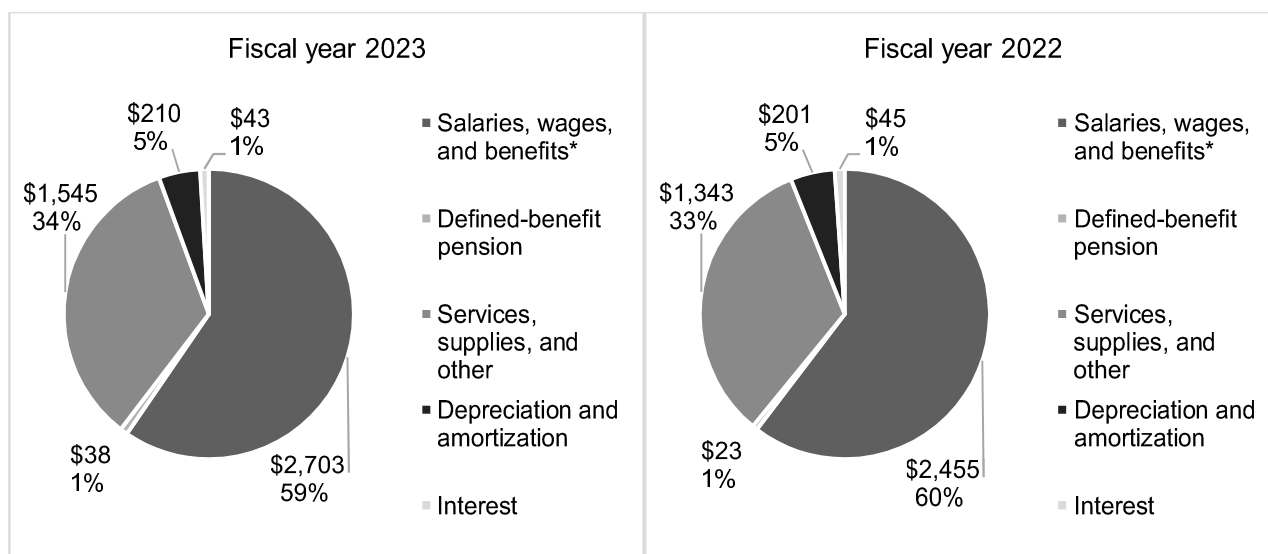
(Dollars in thousands)

Expenses Associated with Core Activities

OHSU's total operating expenses on a combined basis increased by \$472 million or 11.6% in fiscal year 2023 to \$4.5 billion from \$4.1 billion in fiscal year 2022. In fiscal year 2023, expense growth is related to salaries, wages, and benefits, services, supplies and other, and by the defined-benefit pension expense.

Operating Expenses
Fiscal years 2023 and 2022

(Dollars in millions)



* Salaries, wages, and benefits figures include OHSU's proportionate share of the Oregon PERS's net pension expense of \$38 million and \$23 million in fiscal years 2023 and 2022, respectively.

Salaries, wages, and benefits (excluding the impact of defined-benefit pension expense) comprised approximately 59% of total expenses, increasing by \$ 247 million, or 10%, in 2023 and \$290 million, or 13%, in 2022, respectively. In fiscal year 2023, expenses included various incentives and higher hospital contract labor costs.

In fiscal year 2023, the PERS defined-benefit pension expense increased by \$15 million, or 65%, from fiscal year 2022 due to cumulative 2022 and 2021 asset returns less than assumed, generating actuarial investment losses.

Services, supplies, and other expenses increased \$202 million or 15% in fiscal year 2023 and \$166 million or 14% in fiscal year 2022, representing the nonlabor costs associated with program growth, spending on pharmaceuticals and medical supplies, and general inflationary pressures impacting all healthcare environments.

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Fiscal years 2023 and 2022 also included integrated clinical operations support for Adventist Health Portland at \$11 million and \$7.7 million, respectively, an affiliate since January 2018, and Tuality (Hillsboro Medical Center) at \$23 million and \$11 million, respectively, a partner since February 2016.

Depreciation and amortization represent the reduction in value of capital assets with the passage of time. In fiscal year 2023, depreciation and amortization increased by \$10 million, or 4.9%, reflecting a return to more normal operations and capital spending, this compared to an increase of \$6 million, or 3.2%, in 2022. Fiscal year 2022 saw the adoption of GASB Statement No. 87 (GASB87) and GASB Statement No. 96 (GASB96) which resulted in depreciation, formerly recognized as space, equipment, and software expense.

Interest expense decreased by \$2.5 million, or 5.4%, in fiscal year 2023. In the prior fiscal year 2022, OHSU issued the Series 2021A, 2021B-1, 2021B-2, 2021C, and 2022A Bonds. Bond proceeds from the prior year issuance were used to refund several bonds from the previous Series 2016A, 2019B-1, 2019B-2, and 2012A, and also included an additional \$385 million for capital improvements for the University, including acquisition of an office building. The decrease in interest expense from prior year is a result of the exclusion of one-time cost of issuance for the bonds issued in prior year, the interest cost savings generated by refunding of previous bonds, and the increased interest cost of the additional debt for capital improvements.

Operating Expenses by Functional Classification

(Dollars in thousands)

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|--|---------------------|------------------|------------------|
| Instruction, research, and public service | \$ 645,399 | 589,163 | 565,922 |
| Clinical activity | 3,054,744 | 2,710,980 | 2,333,445 |
| Auxiliary activities | 3,157 | 2,976 | 6,528 |
| Internal service centers | 16,805 | 15,420 | 15,746 |
| Student services | 28,394 | 26,325 | 18,260 |
| Academic support | 103,838 | 93,247 | 108,619 |
| Institutional support | 298,559 | 295,856 | 205,433 |
| Operations, maintenance, and other | 140,931 | 127,443 | 129,228 |
| Direct foundation expenditures | 52,712 | 37,377 | 41,695 |
| Depreciation and amortization | 210,435 | 200,611 | 194,480 |
| Defined pension expense (benefit), net of contribution | <u>(15,614)</u> | <u>(31,968)</u> | <u>67,092</u> |
| Total operating expenses | <u>\$ 4,539,360</u> | <u>4,067,430</u> | <u>3,686,448</u> |

OREGON HEALTH & SCIENCE UNIVERSITY
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(Dollars in thousands)

Financial Position

The statements of net position present the assets and liabilities, deferred inflows of resources and deferred outflows of resources, and net position of OHSU as of a point in time. Net position, the difference between total assets and deferred outflows as compared to total liabilities and deferred inflows, presents the financial position at the end of the fiscal year and is one of the broadest measures of the financial condition of OHSU, while the change in net position is an indication of whether the overall financial condition has improved or worsened during the year.

The following table summarizes OHSU's statements of net position for the past two years by major category of assets, liabilities, deferred inflows and outflows, and net position as of June 30, 2023 and 2022.

Condensed Statements of Net Position

(Dollars in thousands)

| | 2023 | 2022 |
|---|--------------|-------------|
| Assets: | | |
| Current assets | \$ 1,312,404 | 1,227,145 |
| Capital assets | 2,231,880 | 2,181,208 |
| Other noncurrent assets | 3,192,144 | 3,222,712 |
| Total assets | 6,736,428 | 6,631,065 |
| Deferred outflows | 185,518 | 218,704 |
| Total assets and deferred outflows | \$ 6,921,946 | 6,849,769 |
| Liabilities: | | |
| Current liabilities | \$ 637,202 | 621,758 |
| Noncurrent liabilities | 1,843,161 | 1,800,519 |
| Total liabilities | 2,480,363 | 2,422,277 |
| Deferred inflows | 344,621 | 479,721 |
| Net position: | | |
| Net investment in capital assets | 1,215,606 | 1,205,762 |
| Restricted, expendable | 643,863 | 718,821 |
| Restricted, nonexpendable | 340,236 | 323,982 |
| Unrestricted | 1,897,257 | 1,699,206 |
| Total net position | 4,096,962 | 3,947,771 |
| Total liabilities, deferred outflows, and net position – end of year | \$ 6,921,946 | 6,849,769 |

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Assets

The largest components of OHSU's assets are cash and investments and capital assets, or physical plant.

Cash and Investments. During fiscal year 2023, OHSU's unrestricted and restricted cash and investments increased from \$3.0 billion to \$3.1 billion attributable to operating and investment performance and Foundation activity. Policies set by OHSU and the Foundation dictate how investments are allocated and what risk profiles are assumed. Working capital is primarily invested in short duration, liquid fixed-income assets. Long-term investment strategy, including the investment of endowment funds and the associated spending distribution policy at the OHSU Foundation, is equity oriented, aiming to maximize total return, promote diversification, preserve capital, and provide for cash flow needs of the University.

**Consolidated Asset Allocation of
Unrestricted and Restricted Cash and Investments**

(Dollars in thousands)

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|--|---------------------|------------------|------------------|
| Unrestricted cash and investments: | | | |
| Cash and cash equivalents | \$ 230,519 | 268,173 | 433,534 |
| Fixed income | 663,379 | 780,465 | 942,161 |
| Public Equity | 639,976 | 447,096 | 366,662 |
| Private Equity, Marketable Alt., and Other | 543,344 | 523,927 | 524,907 |
| Subtotal | <u>2,077,218</u> | <u>2,019,661</u> | <u>2,267,264</u> |
| Restricted cash and investments: | | | |
| Cash and cash equivalents | 23,934 | 29,366 | 33,364 |
| Fixed income | 202,660 | 182,365 | 158,260 |
| Public Equity | 220,983 | 206,193 | 172,478 |
| Private Equity, Marketable Alt., and Other | 536,150 | 532,867 | 502,081 |
| Subtotal | <u>983,727</u> | <u>950,791</u> | <u>866,183</u> |
| Total | <u>\$ 3,060,945</u> | <u>2,970,452</u> | <u>3,133,447</u> |

The unrestricted portion of cash and investments is represented in the calculation of days cash on hand for OHSU. Days cash on hand decreased from 203 days in 2022 to 185 days in 2023, the effect of a 2.7%

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increase in unrestricted operating cash and investments compared to a 12.8% increase in net unrestricted operating expenses.

Days Unrestricted Cash and Investments on Hand

June 30, 2023 and 2022

(Dollars in thousands)

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|------------------|
| OHSU without OHSU Foundation: | | |
| Unrestricted cash and investments | \$ 1,372,178 | 1,347,851 |
| Less nonoperating cash and investments | <u>(102,554)</u> | <u>(97,165)</u> |
| Operating cash and investments | <u>\$ 1,269,624</u> | <u>1,250,686</u> |
| Unrestricted operating expenses: | | |
| Total operating expenses | \$ 4,078,657 | 3,638,824 |
| Less depreciation and amortization | <u>(209,179)</u> | <u>(199,450)</u> |
| Net unrestricted operating expenses | <u>\$ 3,869,478</u> | <u>3,439,374</u> |
| Daily expense | \$ 10,601 | 9,423 |
| Days cash on hand | 120 | 133 |
| OHSU plus OHSU Foundation: | | |
| Unrestricted cash and investments | \$ 2,077,218 | 2,019,661 |
| Less nonoperating cash and investments | <u>(102,554)</u> | <u>(97,165)</u> |
| Operating cash and investments | <u>\$ 1,974,664</u> | <u>1,922,496</u> |
| Unrestricted operating expenses: | | |
| Total operating expenses | \$ 4,113,683 | 3,661,776 |
| Less depreciation and amortization | <u>(210,435)</u> | <u>(200,611)</u> |
| Net unrestricted operating expenses | <u>\$ 3,903,248</u> | <u>3,461,165</u> |
| Daily expense | \$ 10,694 | 9,483 |
| Days cash on hand | 185 | 203 |

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The following table presents the days unrestricted cash on hand for OHSU as of fiscal years ended June 30, 2023 and 2022, calculated with the removal of pension adjustments due to the adoption of GASB 68, and net of federal Medicare advance payments (MAP) and FICA loans.

Days Unrestricted Cash and Investments on Hand Pre-GASB 68 Adjustment

(Dollars in thousands)

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|------------------|
| OHSU plus OHSU Foundation: | | |
| Operating cash and investments | \$ 1,974,664 | 1,922,496 |
| Net unrestricted operating expenses | \$ 3,903,248 | 3,461,165 |
| Pension adjustment GASB 68 | <u>15,614</u> | <u>31,968</u> |
| Adjusted net unrestricted operating expenses | <u>\$ 3,918,862</u> | <u>3,493,133</u> |
| Daily expense | \$ 10,737 | 9,570 |
| Days cash on hand (pre-GASB 68) | 184 | 201 |
| Days cash on hand (pre-GASB 68), net of MAP and FICA loans | 184 | 194 |

⁽¹⁾ OHSU's proportionate share of the Oregon PERS's adjustment resulted in a net operating gain of \$15,614 and \$31,968 for fiscal years 2023 and 2022, respectively. Removing the pension adjustment results in days cash on hand of 184 and 201 on a pre-GASB 68 basis for fiscal years 2023 and 2022, respectively.

Capital Assets. Capital investments in patient care, research, education, and outreach are scaled and paced to available funding from operating earnings and philanthropy. Capital assets, net of accumulated depreciation, increased by \$51 million and \$47 million, respectively, during fiscal years 2023 and 2022. In fiscal year 2023, capital expenditures included the continued construction of the OHSU Hospital Expansion Project along with capital for replacement, infrastructure, right-of-use assets, and new capacities. Lease and subscription-based information technology assets, net of accumulated depreciation, of \$105 million and \$97 million, during fiscal years 2023 and 2022, respectively, are recorded with capital assets.

Liabilities

Total liabilities increased by \$58 million, or 2.4%, in fiscal year 2023 and \$17 million, or 0.7%, in fiscal year 2022. In fiscal year 2023, increases in current and noncurrent liabilities were primarily related to accounts payable and accrued expenses, unearned revenue, and pension liability.

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Current liabilities consist of the current portion of long-term debt, long-term leases and self-funded insurance, accounts payable and accrued expenses, salaries, wages, and benefits, and unearned revenue. In fiscal year 2023, current liabilities reflected an increase of \$15 million due to accounts payable and accrued expenses of \$32 million and unearned revenue of \$27 million, offset by a reduction in Medicare Advance of \$37 million as OHSU repaid the loan in fiscal year 2022. The unearned revenue increase was mostly due to the \$25 million OHSU Opportunity Fund agreement, a grant to increase the number of graduates in key healthcare professions programs by thirty percent and ensuring thirty percent of its learners are from underrepresented populations.

Noncurrent liabilities consist of the long-term portion less the current portion of debt, leases, and self-funded insurance, life income agreements, and pension liability. Noncurrent liabilities increased \$43 million or 2.4% in fiscal year 2023 due to an increase in the pension liability of \$90 million, offset by a reduction in long-term debt and other noncurrent liabilities.

Debt Management. At the close of fiscal year 2023, OHSU had approximately \$1,288 million in long-term debt and \$93 million in long-term leases, for a total of \$1,381 million outstanding. In the previous fiscal year 2022, OHSU had approximately \$1,332 million in long-term debt and \$88 million in long-term leases, for a total of \$1,420 million outstanding. Of the total \$1,381 million in long-term debt and long-term leases outstanding at the end of 2023, \$1,341 million is considered noncurrent and \$40 million is considered current and due within one year. OHSU continues to maintain its Standard & Poor's and Fitch ratings of AA- and Moody's rating of Aa3 for its rated bonds.

One measure of the degree of leverage on the University's statements of net position is the ratio of total long-term debt and leases to net position, shown below. Leverage, according to this metric, decreased from 0.36 in 2022 to 0.34 in 2023.

| | <u>2023</u> | <u>2022</u> |
|---|-----------------------|--------------|
| | (Dollars in millions) | |
| Total long-term debt and leases | \$ 1,381 | 1,420 |
| Net position | <u>4,097</u> | <u>3,948</u> |
| Total long-term debt and leases to net position | <u>\$ 0.34</u> | <u>0.36</u> |

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Annual Debt Service Coverage. The annual debt service coverage ratio for an entity represents the amount of cash flow available to meet the annual principal and interest payment on debt. Per bond covenants, OHSU's Credit Group must maintain an annual debt service coverage ratio of 1.10 times or greater in accordance with its Master Trust Indenture. OHSU's direct placement bonds have similar annual debt service coverage ratio requirements that must meet or exceed 1.0 or 1.10. The University continues to exceed these minimum requirements with ratios of 3.51 in fiscal year 2023, and 3.81 in fiscal year 2022.

Calculation of Annual Debt Service Coverage Ratio – Unrestricted

(Dollars in thousands)

| | <u>2023</u> | <u>2022</u> |
|--|-------------------|------------------|
| Total excess of revenues over expenses, before contributions for capital and other | \$ 123,618 | (175,995) |
| Add/subtract restricted net loss/gain | <u>68,808</u> | <u>61,061</u> |
| Unrestricted excess of revenues over expenses | <u>192,426</u> | <u>(114,934)</u> |
| Adjustments: | | |
| Depreciation and amortization | 210,435 | 200,611 |
| Interest expense | 42,798 | 45,251 |
| Net unrealized (gain) loss in fair value of investments | (76,777) | 209,722 |
| Loss on termination of swap agreement | 2,766 | — |
| Loss on disposal of assets | <u>(6)</u> | <u>1,972</u> |
| | <u>179,216</u> | <u>457,556</u> |
| Income available for debt service | <u>\$ 371,642</u> | <u>342,622</u> |
| Annual debt service ⁽¹⁾ | \$ 105,789 | 90,005 |
| Annual debt service coverage | 3.51 | 3.81 |

⁽¹⁾ "Annual debt service" is the aggregate amount of principal and interest scheduled to become due and payable on long-term debt and long-term leases during the fiscal year.

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The following table presents the annual debt service coverage ratio for fiscal years 2023 and 2022, calculated with the removal of pension adjustments due to the adoption of GASB 68.

**Calculation of Annual Debt Service Coverage Ratio – Unrestricted
Pre-GASB 68 Adjustment**

(Dollars in thousands)

| | <u>2023</u> | <u>2022</u> |
|---|-------------------|-----------------|
| Income available for debt service | \$ 371,642 | 342,622 |
| Pension adjustment GASB 68 | <u>(15,614)</u> | <u>(31,968)</u> |
| Adjusted income available for debt service | <u>\$ 356,028</u> | <u>310,654</u> |
| Annual debt service | \$ 105,789 | 90,005 |
| Annual debt service coverage (pre-GASB 68) ⁽²⁾ | 3.37 | 3.45 |

⁽²⁾ OHSU's proportionate share of Oregon PERS's adjustment resulted in a net operating gain of \$15,614 and \$31,968 for fiscal years 2023 and 2022, respectively. Removing the pension adjustment results in an annual debt service coverage ratio of 3.37 and 3.45 on a pre-GASB 68 basis for fiscal years 2023 and 2022, respectively.

Deferred Inflows and Outflows

Under GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, certain deferred outflows are presented below assets and certain deferred inflows are presented below liabilities.

Deferred outflow of resources on the statements of net position represent the consumption of net assets attributable to a future period and are primarily associated with OHSU's obligations for the PERS defined pension plan, other postemployment benefits and debt.

In fiscal year 2023, deferred outflows are \$186 million, a decrease of \$33 million, primarily due to assumption changes associated with the PERS defined pension obligation. Contributions made post measurement date are also reflected in deferred outflows. In fiscal year 2023, OHSU's contributions were \$64 million, which included an additional \$10 million in excess contribution above the contractually required \$54 million. In fiscal year 2022, OHSU's contributions were \$64 million, which included an additional \$10 million in excess contribution above the contractually required \$54 million.

Also within the deferred outflows is the deferred amortization of derivative instruments. OHSU terminated its fixed payor swap agreement in fiscal year 2023. The balance of the deferred outflow for amortization of derivative instruments was \$0 million in 2023 and \$5 million in 2022.

Losses and gains on refunding of debt are amortized over the shorter of the life of the new debt or the remaining life of the old debt or the mandatory tender date, when applicable. Absent any refunding activity, these numbers will slowly decline. OHSU has both deferred gains and losses. The deferred loss on refunding of debt of \$25 million in 2023 and \$30 million in 2022 is reported in the deferred outflows section below assets.

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Deferred inflow of resources on the statements of net position represent the acquisition of net assets attributable to a future period and are associated with OHSU's obligations for the PERS defined pension plan, other postemployment benefits, pending funds, and life income agreements.

In fiscal year 2023, deferred inflows are \$345 million, a decrease of \$135 million, primarily due to the change in defined pension obligation. Deferred inflows related to pension activities for fiscal years 2023 and 2022 were \$141 million and \$278 million, respectively, representing differences between projected and actual earnings on investments and changes in OHSU's proportionate share.

Net Position

As noted earlier, total net position increased by \$149 million, in fiscal year 2023, as compared to a decrease of \$150 million in fiscal year 2022. In fiscal year 2023, the increase in net position occurred within net investments in capital assets, restricted and unrestricted. Unrestricted net position, which is 46.3% of OHSU's total net position, increased by \$198 million in 2023 due to positive operating income, strong investment returns and federal relief for COVID-19. This compared to a decrease of \$53 million in 2022 primarily due to COVID-19 delta and omicron surges, inflationary pressures, labor shortages, and negative investment returns. Restricted net position, which is 24% of OHSU's total net position, decreased by \$59 million in 2023 primarily driven by programmatic spending on research and academic programs.

When evaluating OHSU's net position, it is important to note that OHSU's Marquam Hill property is leased from the State for renewable 99-year periods, at a lease payment equal to the debt service on bonds outstanding at the time of OHSU's separation from the Oregon University System. As that debt service is relatively low, the capitalized net present value of those lease payments is significantly less than the fair value of the included land and buildings.

OHSU Missions

OHSU's strategic plan, called OHSU 2025, is built around OHSU's vision: "OHSU will partner to make Oregon a national leader in health and science innovation for the purpose of improving the health and well-being of all Oregonians and beyond."

Six goals – timeless aspirations – form the basis of the plan:

1. Building a diverse, equitable environment where all can thrive and excel.
2. Being the destination for transformational learning.
3. Enhancing health and healthcare in every community.
4. Discovering and innovating to advance science and optimize health worldwide.
5. Partnering with communities for a better world.
6. Ensuring a sustainable foundational infrastructure.

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These goals span OHSU's missions, supported by objectives that are focused on identifying new ways to understand disease, treat illness, and train the next generation of scientists and health professionals. They begin with OHSU's commitment to listen to what communities – across Oregon and beyond – need from OHSU, and end with our commitment to the people who will respond to those needs and make this work a reality.

OHSU 2025 reflects not only the breadth and complexity of the state's only academic health center but also the challenges in health and science that OHSU must address. The plan was developed from the ground up with more than 5,000 OHSU members contributing, providing input on OHSU's future picture, shaping the plan's goals, and developing detail around its objectives and tactics.

The following sections highlight achievements for each of the missions.

OHSU Education

A foundation of OHSU's mission is the education and training of dentists, nurses, physicians, physician assistants, other health professionals, and biomedical scientists, through a broad range of undergraduate and graduate programs that provide healthcare and biomedical workforce for Oregon and beyond. Educational programs are conducted on the OHSU campus in Portland, online, and at various locations throughout the State. Collaborative programs enable OHSU to offer a joint Doctor of Pharmacy degree through an affiliation with Oregon State University (OSU). In addition, in partnership with Oregon Institute of Technology (OIT), OHSU offers a joint BS degree in Medical Laboratory Science, a joint BS degree in Emergency Medical Services Management, and a joint Associate of Applied Science degree in Emergency Medical Technology–Paramedic. OHSU also offers a joint Master of Business Administration in Health Care Management with Portland State University (PSU) and has also established a joint School of Public Health with PSU comprising several undergraduate and graduate programs including Bachelor degrees, Graduate Certificates, Master of Science, Master of Public Health, and PhD programs.

As of the fall 2022 term, OHSU had 2870 students enrolled in its various programs (excluding students enrolled in the joint Pharm.D. degree program with OSU, the joint undergraduate programs with OIT and the School of Public Health joint degree students registered by PSU). The following table sets forth the number of students enrolled in OHSU's programs for each of the past three academic years.

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Fall Headcount Enrollment ^(a)
For Programs in the Years Indicated

| | <u>2022/2023</u> | <u>2021/2022</u> | <u>2020/2021</u> |
|--------------------------|------------------|------------------|------------------|
| School of Dentistry: | | | |
| Graduate | \$ 28 | 28 | 27 |
| Professional | <u>286</u> | <u>288</u> | <u>291</u> |
| Subtotal | <u>314</u> | <u>316</u> | <u>318</u> |
| School of Medicine: | | | |
| Undergraduate | 18 | 18 | 17 |
| Graduate | 666 | 706 | 753 |
| Professional | <u>572</u> | <u>597</u> | <u>617</u> |
| Subtotal | <u>1,256</u> | <u>1,321</u> | <u>1,387</u> |
| School of Nursing: | | | |
| Undergraduate | 734 | 765 | 792 |
| Graduate | 51 | 59 | 87 |
| Professional | <u>224</u> | <u>227</u> | <u>189</u> |
| Subtotal | 1,009 | 1,051 | 1,068 |
| School of Public Health: | | | |
| Graduate | <u>291</u> | <u>296</u> | <u>262</u> |
| Total | \$ <u>2,870</u> | <u>2,984</u> | <u>3,035</u> |

^(a) This table excludes interns, residents, and trainees. This table also excludes students enrolled in the joint Pharm.D. degree program with OSU, the joint undergraduate programs with OIT and the School of Public Health joint degree students registered by PSU.

OHSU Research

OHSU is a national leader in many fields of research, including neuroscience; cancer research; hearing; microbiology; ophthalmology; infectious diseases and immunology; reproductive biology; atomic, molecular, cellular, and tissue imaging; and evidence-based medicine. In the state of Oregon, OHSU research projects received 71% of the grants made by the National Institutes of Health (NIH), with the next largest recipient in Oregon receiving 11%. In FY23, OHSU was ranked 32nd out of the 2,454 entities that received funding from the NIH. Faculty members include 5 members of the National Academy of Sciences and 10 members of the National Academy of Medicine. Researchers at OHSU have developed many of the leading advances in medicine, including the first artificial heart valve, pioneering use of optical coherence tomography, the first percutaneous angioplasty procedure, and the first molecularly targeted cancer therapy (Gleevec®).

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OHSU's many institutes are nationally and internationally recognized, including the Knight Cancer Institute, the only National Cancer Institute designated Comprehensive Cancer Center in Oregon; the Vollum Institute, privately endowed and dedicated to basic science research that has led to new treatments for neurological and psychiatric diseases; and the Casey Eye Institute, a world-recognized academic regional eye center that attracts top specialists from around the globe. OHSU's Pacific Northwest Cryo-EM Center is one of three NIH-designated national centers, providing technology and training for an imaging technique that is revolutionizing structural biology. OHSU's West Campus is home to the Vaccine and Gene Therapy Institute, which focuses on serious viral disease threats and programs intended to span the continuum between basic and clinical science, where discoveries are rapidly advanced from the level of molecular and cellular biology through animal models and ultimately into clinical testing, and the Oregon National Primate Research Center, one of the seven National Primate Research Centers supported by the National Institutes of Health. Their world-class translational research programs focus on current, developing, and projected high-priority human medical needs that are projected to increase in importance over the coming decades, including reproductive health, neurological sciences, metabolic health, and genetics, among others.

OHSU actively pursues private and public partnerships on important and innovative research projects to supplement federal funding, with corporate partners such as Thermo Fisher Scientific's Analytical Instrumentals Segment, a leading electronic microscopy company, and other major information technology and life sciences companies, and with academic partners such as Portland State University, Oregon State University, University of Oregon, Pacific Northwest National Laboratory, and Lawrence Berkeley National Laboratory.

Although the COVID-19 pandemic disrupted science at OHSU, as it did around the world, the institution continued to thrive in many areas and accomplished many extraordinary things. Despite the many challenges, OHSU had another strong year; receiving nearly \$582 million in externally sponsored awards for fiscal year 2023.

OHSU researchers made significant advances and discoveries that could have lasting impacts on the health and well-being of people across the globe. Below are a few highlights from fiscal year 2023.

New research in a rodent model at OHSU shows that some positive effects of psilocybin, a naturally occurring compound found in "magic mushrooms," may take effect immediately. Researchers say the findings bolster the case for people using psilocybin in conjunction with clinical treatment for conditions like depression and posttraumatic stress disorder. A team of OHSU researchers examined the effect of psilocybin on cognitive flexibility in rats by measuring animals' ability to switch between previously learned strategies. They observed that psilocybin enhances cognitive flexibility. This finding suggests that the combination of psilocybin and clinician intervention, such as psychotherapy, may be effective in treating symptoms of mental illness because of the drug's impact on cognitive flexibility. The study, published in February 2023 in the journal *Neuropsychopharmacology*, suggests that psilocybin may be particularly effective in treating depression not as a stand-alone pharmacological treatment, but rather in combination with clinical intervention. The team observed, however, that other psychedelics didn't have the same effects as psilocybin. They are currently conducting further investigations into the differences between psilocybin and other psychedelics to better understand what makes psilocybin so special.

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OHSU researchers and Analog Devices collaborated on a wearable device for seizure detection. OHSU neurologists formed a joint research agreement with semiconductor company Analog Devices, Inc. to conduct a year-long study to determine whether ADI's vital signs monitoring, or VSM, watch can measure key indicators that can be used to detect and predict seizures. The long-term goal of the project is to build machine learning algorithms to better identify a patient's seizures over time and eventually develop predictive software for the watch that will give advance warning to individuals (and caregivers and families) about a forthcoming seizure.

New research in a small songbird reveals differences in how the brain develops between male and female early in the bird's life. The study, developed by OHSU researchers and the Federal University of Rio Grande do Norte in Brazil, was published in the journal Cell Reports. It identifies thousands of genes that are differentially expressed during development in the part of the zebra finch's brain that controls singing among males. The study provides new insights about how genes and hormones differentiate the brains of males and females. The new study zeroed in on an area of the zebra finch brain known to be associated with singing, which is only done by males in this species. In the song-control circuitry of the brain, the researchers found that thousands of genes were expressed differently in males and females. Many of these genes have been linked to cell survival and to differences in the growth of cells and axons forming connections within the brain.

OHSU Healthcare

OHSU is home to Oregon's only major academic health center, which serves a multistate area with tertiary and quaternary healthcare services from its campus in Portland, Oregon, where it operates two hospitals, OHSU Hospital and OHSU Doernbecher Children's Hospital (OHSU Hospital or the Hospital), with 576 licensed beds. During 2023, the OHSU Hospital represented 8.0% of the available beds and 10.8% of the filled beds for the entire State. The OHSU Hospital had an 87% occupancy rate for available beds in 2023, compared to the Oregon statewide average of 64% according to the Oregon Association of Hospitals and Health Systems' Oregon DataBank. As an academic health center, OHSU's professional staff is composed primarily of the faculty of OHSU's School of Medicine. The OHSU Practice Plan (OPP) is the largest organized clinical practice in Oregon. As of June 30, 2023, there were over 1,800 active faculty practice plan members, including physicians, nurse practitioners, physician assistants, and other licensed independent practitioners from across all medical specialties.

| OHSU Patient Activity | Fiscal year ended June 30 | | | Variance | |
|------------------------------|---------------------------|-----------|-----------|----------------|----------------|
| | 2023 | 2022 | 2021 | 2023 v 2022 | 2022 v 2021 |
| Inpatient admissions | 27,446 | 26,327 | 25,612 | 4.3 % | 2.8 % |
| Average length of stay | 7.02 | 6.76 | 6.66 | 3.8 | 1.5 |
| Average daily census | 486 | 464 | 448 | 4.7 | 3.6 |
| Day/observation patients | 45,954 | 41,595 | 41,327 | 10.5 | 0.6 |
| Emergency visits | 54,748 | 50,268 | 41,997 | 8.9 | 19.7 |
| Ambulatory visits | 1,139,073 | 1,102,857 | 1,103,642 | 3.3 | (0.1) |
| Surgical cases | 35,257 | 32,273 | 33,124 | 9.2 | (2.6) |
| Casemix index | 2.52 | 2.48 | 2.49 | 1.6 | (0.4) |
| Outpatient share of activity | 56.2 % | 57.2 % | 55.4 % | (1.7) | 3.2 |
| CMI/OP adjusted admissions | 157,853 | 152,389 | 142,945 | 3.6 | 6.6 |

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(Dollars in thousands)

In addition to its tertiary care focus in Portland, OHSU is working with other healthcare providers noted below to leverage expertise and resources throughout Oregon.

Adventist Health. Adventist Health Portland and OHSU finalized an agreement to integrate their clinical activities and services in the Portland metropolitan area through an affiliation effective January 1, 2018. This agreement makes OHSU and Adventist Health Portland part of the same Portland metropolitan health system, bringing together Adventist's healthcare enterprise that includes a 302-licensed bed medical center, 25 medical clinics, and home care and hospice services in the Portland-Vancouver metro area. Under this affiliation, OHSU and Adventist Health will share a bottom line and operate as a unified system. The agreement does not include OHSU's research and education missions. The other 20 Adventist Health hospitals in the western United States are also excluded from the agreement. Each organization will retain its existing hospital licenses, capital assets, and employees. Each entity will continue to maintain its own mission and culture but together will seek to transform access and the delivery of health to Oregonians through a unified clinical enterprise and shared brand experience.

Tuality Healthcare. On February 1, 2016, OHSU affiliated with Tuality through the execution of a management agreement (the Tuality Agreement) between the organizations. Tuality owns and operates Tuality Community Hospital, a 215-licensed-bed acute care hospital located in Hillsboro, Oregon. Under the Tuality Agreement, OHSU agrees to oversee the unified and integrated clinical enterprises of OHSU and Tuality as a single, integrated economic unit. OHSU and Tuality remain as separate entities, own their own assets and continue to be the licensed operators of their own facilities. Under the Tuality Agreement, OHSU agrees to be responsible for Tuality's operating income and loss, including making cash payments to Tuality in an amount equal to any Tuality operating loss, in the manner specified in the Tuality Agreement. Tuality is a component unit of OHSU as OHSU approves Tuality's annual operating budget. Since Tuality has a separate board of directors and they do not provide services exclusively to OHSU, they are presented as a discretely presented component unit of OHSU. In November 2019, Tuality adopted a new public-facing name, Hillsboro Medical Center.

Columbia Memorial Hospital. OHSU and Columbia Memorial Hospital (CMH) in Astoria, Oregon, have collaborated on programs, including cardiology and cancer, offering chemotherapy, imaging, pharmacy, and other services for individuals on the North Oregon Coast. OHSU and CMH jointly organize and operate an Oncology Collaboration, including a 19,600-square-foot comprehensive cancer treatment center and specialty clinic, with radiation therapy. CMH owns and operates the cancer treatment center, opened in October 2017, under its license while OHSU has provided the professional services and medical direction through OHSU-employed physicians.

OHSU Foundation

OHSU has one designated independent nonprofit foundation – the Oregon Health & Science University Foundation (OHSU Foundation, the Foundation). The Foundation exists to secure private philanthropic support to advance OHSU's vital missions and to invest and manage gifts responsibly to honor donors' wishes.

OREGON HEALTH & SCIENCE UNIVERSITY

(A Component Unit of the State of Oregon)

Management Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands)

The Foundation is an Oregon nonprofit corporation promoting the charitable, scientific, and educational purposes of OHSU. The Foundation is a component unit of OHSU for financial reporting purposes, but is not part of the OHSU Obligated Group established pursuant to the Master Indenture, which currently consists solely of OHSU. The Foundation has a self-perpetuating board of trustees, on which the OHSU president sits as an ex officio voting member. OHSU Foundation is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

As OHSU's designated foundation, all development activities conducted by the Foundation must be coordinated with OHSU. In accepting gifts, the Foundation must obtain OHSU approval for all endowments and any gifts that result in new programs. In addition, if the Foundation was dissolved or if the OHSU president were to revoke recognition of the Foundation as an OHSU-designated foundation, the assets of such foundation would, within the limits of legal and fiduciary rights, be distributed to OHSU, its successor in interest, or to another entity recognized by OHSU as an institutional foundation. These interrelated functions and requirements have been further confirmed and implemented in the articles and bylaws of the Foundation. The table below identifies major gifts, which are reported as required under the Council for Advancement and Support of Education (CASE) Reporting Standards and Management Guidelines, which may differ from recognition rules under governmental accounting standards.

| Amount | OHSU major gifts description | Fiscal year |
|----------------|--|--------------------|
| \$10.3 million | Center for Pancreatic Health gift | 2021–22 |
| \$14.2 million | HIV and TB vaccine using CMV platform grant | 2020–21 |
| \$10 million | OHSU-UO Center for Biomedical Data Science gift | 2019–20 |
| \$25 million | OHSU and Doernbecher Children's Hospital gift | 2017–18 |
| \$14.7 million | SMMART Trials grant | 2017–18 |
| \$15 million | Center for Pancreatic Health gift | 2016–17 |
| \$15 million | Casey Eye Institute gift | 2015–16 |
| \$12 million | Gary and Christine Rood Family Pavilion gift | 2015–16 |
| \$500 million | Knight Cancer Institute gift | 2014–15 |
| \$100 million | Knight Cancer Institute gift | 2014–15 |
| \$38.8 million | Vaccine and Gene Therapy Institute, Oregon National Primate Research Center, and Behavioral Neuroscience grant | 2014–15 |
| \$28.9 million | Knight Cancer Institute and OHSU Parkinson Center gift | 2013–14 |
| \$25 million | Center for Pancreatic Health gift | 2013–14 |
| \$10 million | Knight Cancer Institute gift | 2013–14 |
| \$125 million | Gift to create a Cardiovascular Institute at OHSU | 2012–13 |
| \$25 million | Bob and Charlee Moore Institute for Nutrition gift | 2011–12 |
| \$10 million | New School of Dentistry gift | 2010–11 |
| \$100 million | Knight Cancer Institute gift | 2008–09 |

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

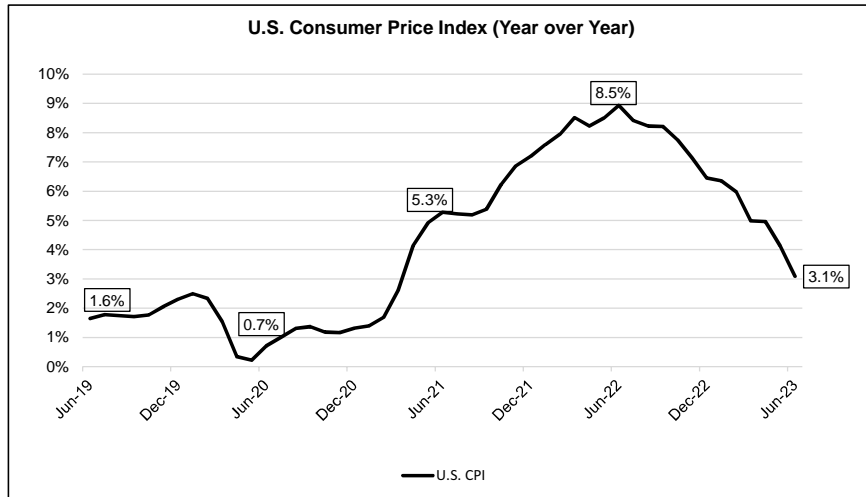
Management Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands)

Economic Outlook

Fiscal year 2023 exhibited continued economic and capital market volatility driven by inflationary pressures, global central bank actions, geopolitics, and concerns over a potential recession. Even as the US Federal Reserve increased the range of the Target Federal Funds Rate by 3.5% the US economy still exhibited positive growth momentum as unemployment rates remained low at 3.6%, inflation decelerated significantly, economic growth was positive increasing 2.5% year over year and supply chain disruptions continued to moderate towards the end of the fiscal year. Within the global economy and healthcare, inflation has presented a major challenge. The deceleration of the growth of inflation into fiscal year-end has been a positive dynamic.



In financial markets, the first half of fiscal year 2023 saw mixed performance of risk assets, but a second half rally resulted in global equities returning a strong 16.5% for the full fiscal year. In fixed income, increasing interest rates globally resulted in modestly negative returns with global fixed income declining -2.5%.

The healthcare regulatory environment continues to exhibit substantial policy uncertainty as federal and state agencies and regulators grapple with a difficult operating environment and continued trend of consolidation in the healthcare sector across both providers and payers. The Federal Trade Commission and Antitrust Division within the US Department of Justice is expected to continue to critically evaluate proposed vertical and horizontal integration between providers and payers to maintain and promote a competitive healthcare marketplace.

OREGON HEALTH & SCIENCE UNIVERSITY

(A Component Unit of the State of Oregon)

Management Discussion and Analysis (Unaudited)

June 30, 2023 and 2022

(Dollars in thousands)

Results over the past several fiscal years show that OHSU's financial position continues to improve in spite of significant operating environment difficulties, with net position increasing from \$3.4 billion at June 30, 2018 to \$4.1 billion for the 5-year period ended June 30, 2023. OHSU's financial strength is further recognized by its current credit ratings of Aa3 / AA- / AA- by Moody's, S&P, and Fitch, respectively. The University's financial planning and budget process continues to take a proactive planning approach to the evolving healthcare and economic environment, diligently monitoring, and making operational adjustments as is necessary. In spite of these challenges, OHSU will continue to focus on supporting its people, building community engagement and health equity, improving access and growing strategically, in order to advance the University's missions and build for the future.

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Statements of Net Position

June 30, 2023 and 2022

(Dollars in thousands)

| | 2023 | 2022 |
|---|---------------------|------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 236,630 | 262,472 |
| Short-term investments | 22,040 | 22,574 |
| Current portion of funds held by trustee | 30,423 | 42,305 |
| Patients accounts receivable, net of bad debt allowances of \$755 and \$1,372 – in 2023 and 2022, respectively | 626,072 | 504,558 |
| Student receivables | 24,035 | 24,351 |
| Grant and contract receivable | 82,924 | 81,631 |
| Current portion of pledges and estates receivable | 115,949 | 121,490 |
| Other receivables, net | 69,491 | 69,009 |
| Inventories, at cost | 66,692 | 64,279 |
| Prepaid expenses | 38,148 | 34,476 |
| Total current assets | 1,312,404 | 1,227,145 |
| Noncurrent assets: | | |
| Capital assets, net of accumulated depreciation | 2,231,880 | 2,181,208 |
| Funds held by trustee – less current portion | 235,624 | 303,469 |
| Other long-term receivables, net of reserves | 33,500 | 33,500 |
| Long-term investments: | | |
| Long-term investments, restricted | 970,401 | 941,206 |
| Long-term investments, unrestricted | 1,831,874 | 1,744,200 |
| Total long-term investments | 2,802,275 | 2,685,406 |
| Prepaid financing costs, net | 1,065 | 1,268 |
| Pledges and estates receivable, net – less current portion | 106,197 | 174,981 |
| Restricted postemployment benefit asset | 11,743 | 10,070 |
| Other noncurrent assets | 1,740 | 14,018 |
| Total noncurrent assets | 5,424,024 | 5,403,920 |
| Total assets | 6,736,428 | 6,631,065 |
| Deferred outflows: | | |
| Deferred amortization of derivative instruments | — | 4,843 |
| Loss on refunding of debt | 25,395 | 29,835 |
| Pension obligation | 153,221 | 174,512 |
| Goodwill | 174 | 261 |
| Other Postemployment Benefits (OPEB) obligation | 6,728 | 9,253 |
| Total deferred outflows | 185,518 | 218,704 |
| Total assets and deferred outflows | \$ 6,921,946 | 6,849,769 |

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Statements of Net Position

June 30, 2023 and 2022

(Dollars in thousands)

| | 2023 | 2022 |
|---|--------------|-----------|
| Liabilities: | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 15,463 | 23,735 |
| Current portion of long-term leases | 24,995 | 22,580 |
| Current portion of self-funded insurance programs liability | 45,397 | 47,549 |
| Accounts payable and accrued expenses | 219,742 | 187,841 |
| Accrued salaries, wages, and benefits | 120,667 | 127,391 |
| Compensated absences payable | 84,185 | 78,135 |
| Unearned revenue | 120,057 | 92,929 |
| Unearned/Medicare Advance Payment | — | 37,246 |
| Other current liabilities | 6,696 | 4,352 |
| Total current liabilities | 637,202 | 621,758 |
| Noncurrent liabilities: | | |
| Long-term debt – less current portion | 1,272,736 | 1,308,089 |
| Long-term leases – less current portion | 67,766 | 65,467 |
| Liability for self-funded insurance programs – less current portion | 56,528 | 55,848 |
| Liability for life income agreements | 20,503 | 20,111 |
| Pension liability | 396,378 | 305,955 |
| Other noncurrent liabilities | 29,250 | 45,049 |
| Total noncurrent liabilities | 1,843,161 | 1,800,519 |
| Total liabilities | 2,480,363 | 2,422,277 |
| Deferred inflows: | | |
| Deferred lease revenue | 822 | 1,538 |
| Gain on refunding of debt | 841 | 1,056 |
| Life income agreements | 29,206 | 32,759 |
| Pending funds | 164,306 | 159,604 |
| Pension obligation | 141,040 | 278,368 |
| Other Postemployment Benefits (OPEB) amounts | 8,406 | 6,396 |
| Total deferred inflows | 344,621 | 479,721 |
| Net position: | | |
| Investments in capital assets | 1,215,606 | 1,205,762 |
| Restricted, expendable | 643,863 | 718,821 |
| Restricted, nonexpendable | 340,236 | 323,982 |
| Unrestricted | 1,897,257 | 1,699,206 |
| Total net position | 4,096,962 | 3,947,771 |
| Total liabilities, deferred inflows, and net position | \$ 6,921,946 | 6,849,769 |

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

(Dollars in thousands)

| | 2023 | 2022 |
|--|--------------|-------------|
| Operating revenues: | | |
| Patient service revenue, net of bad debt adjustments of \$11,716 and \$7,963 – in 2023 and 2022, respectively | \$ 3,337,828 | 2,845,352 |
| Student tuition and fees, net | 81,617 | 80,886 |
| Gifts, grants, and contracts | 758,380 | 782,289 |
| Other | 279,477 | 233,507 |
| Total operating revenues | 4,457,302 | 3,942,034 |
| Operating expenses: | | |
| Salaries, wages, and benefits | 2,702,614 | 2,455,284 |
| Defined-benefit pension | 37,947 | 23,008 |
| Services, supplies, and other | 1,545,566 | 1,343,276 |
| Depreciation and amortization | 210,435 | 200,611 |
| Interest | 42,798 | 45,251 |
| Total operating expenses | 4,539,360 | 4,067,430 |
| Operating income (loss) | (82,058) | (125,396) |
| Nonoperating revenues, including state appropriations: | | |
| Investment income and gain (loss) in fair value of investments | 119,421 | (134,264) |
| State appropriations | 62,690 | 41,240 |
| COVID-19 relief grants | — | 33,514 |
| Other | 23,565 | 8,911 |
| Total nonoperating revenues (expenses), net | 205,676 | (50,599) |
| Net income (loss) before contributions for capital and other | 123,618 | (175,995) |
| Other changes in net position: | | |
| Contributions for capital and other | 8,129 | 4,877 |
| Nonexpendable donations | 17,444 | 20,821 |
| Total other changes in net position | 25,573 | 25,698 |
| Total increase (decrease) in net position | 149,191 | (150,297) |
| Net position – beginning of year | 3,947,771 | 4,098,068 |
| Net position – end of year | \$ 4,096,962 | 3,947,771 |

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Dollars in thousands)

| | 2023 | 2022 |
|---|--------------|-------------|
| Cash flows from operating activities: | | |
| Receipts for patient services | \$ 3,218,658 | 2,802,768 |
| Receipts from students | 81,933 | 83,560 |
| Receipts of gifts, grants, and contracts | 842,294 | 888,034 |
| Other receipts | 264,249 | 123,537 |
| Payments to employees for services | (2,768,321) | (2,494,525) |
| Payments to suppliers | (1,519,750) | (1,333,873) |
| Net cash provided by operating activities | 119,063 | 69,501 |
| Cash flows from noncapital financing activities: | | |
| Federal direct loan proceeds | 66,398 | 64,618 |
| Federal direct loan disbursements | (67,011) | (64,576) |
| State appropriations | 62,690 | 41,240 |
| CARES Act grants | — | 33,514 |
| Nonexpendable donations and life income agreements | 39,361 | 25,857 |
| Net cash provided by noncapital financing activities | 101,438 | 100,653 |
| Cash flows from capital and related financing activities: | | |
| Scheduled principal payments on long-term debt | (64,508) | (36,277) |
| Interest payments on long-term debt | (58,299) | (64,893) |
| Proceeds from issuance of long-term debt | — | 577,619 |
| Repayment on debt | — | (181,415) |
| Acquisition of capital assets | (225,632) | (208,586) |
| Contributions for capital and other | 8,129 | 4,877 |
| Net cash (used in) provided by capital and related financing activities | (340,310) | 91,325 |
| Cash flows from investing activities: | | |
| Purchases of investments | (1,147,529) | (2,396,239) |
| Proceeds from sales and maturities of investments | 1,148,835 | 1,946,039 |
| Interest on investments and cash balances | 92,661 | 15,619 |
| Net cash provided by (used in) investing activities | 93,967 | (434,581) |
| Net decrease in cash and cash equivalents | (25,842) | (173,102) |
| Cash and cash equivalents, beginning of year | 262,472 | 435,574 |
| Cash and cash equivalents, end of year | \$ 236,630 | 262,472 |

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Dollars in thousands)

| | 2023 | 2022 |
|--|-------------|-------------|
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | | |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | \$ | |
| Depreciation and amortization | (82,058) | (125,396) |
| Provision for bad debts | 210,435 | 200,611 |
| Interest expense reported as operating expense | 11,716 | 7,963 |
| Noncash contribution | 42,798 | 45,251 |
| Defined-benefit pension | (3,895) | (5,398) |
| Net changes in assets and liabilities: | | |
| Patient accounts receivable | (25,614) | (41,969) |
| Student receivables | (133,230) | (52,637) |
| Grant and contracts receivable | 316 | 2,674 |
| Pledges and estates receivable | (680) | (18,773) |
| Other receivables, assets, and deferred outflows | 74,325 | 73,249 |
| Inventories | 22,018 | (28,796) |
| Prepaid expenses | (2,413) | (5,989) |
| Accounts payable and accrued expenses | (3,672) | (694) |
| Accrued salaries, wages, and benefits | 31,901 | 16,086 |
| Compensated absences payable | (6,724) | 8,143 |
| Due to contractual agencies | 6,050 | 1,703 |
| Liability for life income agreements | 2,344 | 2,090 |
| Unearned revenue | 392 | (3,381) |
| Medicare Advance Payment | 27,128 | 11,098 |
| Liability for self-funded insurance programs | (37,246) | (81,174) |
| Other noncurrent liabilities and deferred inflows | (1,472) | 15,890 |
| Net cash provided by operating activities | \$ 119,063 | 69,501 |
| Supplemental schedule of noncash capital and related financing and investing activities: | | |
| Unrealized change in fair value of investments | \$ 75,896 | (192,291) |
| Gain (loss) on disposal capital assets | 6 | (1,972) |
| Obligations acquired under lease agreements | 35,469 | 41,308 |
| Acquisition of right-of-use assets | 37,701 | 38,686 |

See accompanying notes to financial statements

OREGON HEALTH & SCIENCE UNIVERSITY
Nongovernmental Discretely Presented Component Units

Consolidated Balance Sheets

June 30, 2023 and 2022

(Dollars in thousands)

| Assets | 2023 | 2022 |
|--|-------------|-------------|
| Current assets: | | |
| Common stocks: Mutual funds | \$ 8,662 | 10,324 |
| Cash and cash equivalents | 49,950 | 62,023 |
| Short-term investments | 6,906 | 6,061 |
| Patient accounts receivable, net | 44,537 | 40,488 |
| Other receivables | 10,978 | 7,875 |
| Supplies inventory | 5,910 | 4,873 |
| Prepaid expenses and other | 2,941 | 2,129 |
| Estimated receivables for Medicare and Medicaid settlements | — | 454 |
| Current portion of assets whose use is limited | 1,052 | 1,033 |
| Total current assets | 130,936 | 135,260 |
| Assets whose use is limited: | | |
| Board-designated funds | 31,777 | 33,041 |
| Under bond indenture agreement – held by Trustee | — | 1,909 |
| Donor-restricted – specific purpose | 6,147 | 6,096 |
| Donor-restricted – endowment | 2,759 | 2,855 |
| Required for current liabilities | (1,052) | (1,033) |
| Total assets whose use is limited | 39,631 | 42,868 |
| Property and equipment: | | |
| Property and equipment, net of accumulated depreciation and amortization | 64,399 | 62,212 |
| Other assets | 15,987 | 7,414 |
| Total assets | \$ 250,953 | 247,754 |

OREGON HEALTH & SCIENCE UNIVERSITY
Nongovernmental Discretely Presented Component Units

Consolidated Balance Sheets

June 30, 2023 and 2022

(Dollars in thousands)

| Liabilities and Net Assets | 2023 | 2022 |
|---|-------------|-------------|
| Current liabilities: | | |
| Accounts payable | \$ 62,134 | 58,795 |
| Accrued payroll and employee benefits | 12,448 | 14,772 |
| Due to related party | 13,892 | 26,139 |
| Deferred revenue | — | 2,672 |
| Estimated liabilities for Medicare and Medicaid settlements | 5,325 | — |
| Long-term debt due within one year | 1,122 | 1,090 |
| Leases – current liability | 1,502 | — |
| Accrued bond interest payable | 72 | 78 |
| Total current liabilities | 96,495 | 103,546 |
| Long-term liabilities: | | |
| Long-term debt, net of amount due within one year | 8,850 | 9,959 |
| Leases – long-term liability | 5,403 | — |
| Liability for pension benefits | 21,693 | 29,680 |
| Other long-term liabilities | 24,418 | 23,872 |
| Total long-term liabilities | 60,364 | 63,511 |
| Total liabilities | 156,859 | 167,057 |
| Net assets: | | |
| Net assets without donor restrictions | 85,585 | 71,616 |
| Net assets with donor restrictions | 8,509 | 9,081 |
| Total net assets | 94,094 | 80,697 |
| Total liabilities and net assets | \$ 250,953 | 247,754 |

See accompanying notes to financial statements

OREGON HEALTH & SCIENCE UNIVERSITY

Nongovernmental Discretely Presented Component Units

Consolidated Statements of Operations

Years ended June 30, 2023 and 2022

(Dollars in thousands)

| | <u>2023</u> | <u>2022</u> |
|---|------------------|----------------|
| Net patient service revenue: | | |
| Patient service revenue (net of contractual allowances and discounts) | \$ 270,347 | 261,998 |
| Total net patient service revenue | <u>270,347</u> | <u>261,998</u> |
| Other revenue | | |
| OHSU support | 22,813 | 11,051 |
| Other revenue | 258,178 | 220,721 |
| Total other revenue | <u>280,991</u> | <u>231,772</u> |
| Total revenue | <u>551,338</u> | <u>493,770</u> |
| Operating expenses: | | |
| Salaries and wages | 108,775 | 100,417 |
| Employee benefits | 29,156 | 24,196 |
| Supplies and other expenses | 354,679 | 317,277 |
| Professional fees | 44,125 | 43,131 |
| Depreciation and amortization | 7,641 | 7,456 |
| Interest | 724 | 707 |
| Total operating expenses | <u>545,100</u> | <u>493,184</u> |
| Income from operations | <u>6,238</u> | <u>586</u> |
| Other nonoperating income: | | |
| Realized (loss) income on investments whose use is limited by board designation | (55) | 256 |
| Gain on investments in affiliated companies | 468 | 610 |
| Gain (loss) on disposal of property and equipment | 2 | (72) |
| Change in net unrealized gains (losses) on investments | 1,810 | (6,624) |
| Other operating (loss) revenue | (2,007) | 300 |
| Total other income | <u>218</u> | <u>(5,530)</u> |
| Excess (deficit) of revenue over expenses | 6,456 | (4,944) |
| Contributions for property and equipment acquisition | 27 | 25 |
| Pension-related changes | 7,486 | 11,436 |
| Increase in net assets without donor restrictions | \$ <u>13,969</u> | <u>6,517</u> |

See accompanying notes to consolidated financial statements

OREGON HEALTH & SCIENCE UNIVERSITY

Nongovernmental Discretely Presented Component Units

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2023 and 2022

(Dollars in thousands)

| | <u>2023</u> | <u>2022</u> |
|--|------------------|----------------|
| Net assets without donor restrictions: | | |
| Excess (deficit) of revenue over expenses | \$ 6,456 | (4,944) |
| Contributions for property and equipment acquisition | 27 | 25 |
| Pension-related changes | <u>7,486</u> | <u>11,436</u> |
| Increase (decrease) in net assets without donor restrictions | <u>13,969</u> | <u>6,517</u> |
| Net assets with donor restrictions: | | |
| Gifts, grants, and bequests | 1,159 | 1,781 |
| Investment income (loss) | 346 | (1,068) |
| Net assets released from restrictions | <u>(2,077)</u> | <u>(1,386)</u> |
| Decrease in net assets with donor restrictions | <u>(572)</u> | <u>(673)</u> |
| Change in net assets | 13,397 | 5,844 |
| Net assets, beginning of year | <u>80,697</u> | <u>74,853</u> |
| Net assets, end of year | <u>\$ 94,094</u> | <u>80,697</u> |

See accompanying notes to consolidated financial statements

OREGON HEALTH & SCIENCE UNIVERSITY
(A Component Unit of the State of Oregon)

Notes to Financial Statements

June 30, 2023 and 2022

(Dollars in thousands)

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

As the only health sciences university and major academic health center in the state of Oregon (the State), Oregon Health & Science University (OHSU or the University) is dedicated to the education and training of healthcare professionals, research, patient care, outreach, and public service. In addition to the School of Medicine, School of Nursing, School of Dentistry, the joint College of Pharmacy with Oregon State University, and the joint School of Public Health with Portland State University, OHSU comprises several other academic and research units, including the Vollum Institute, the Vaccine and Gene Therapy Institute, Oregon National Primate Research Center, OHSU Brain Institute, Oregon Institute of Occupational Health Science, Oregon Clinical and Translational Research Institute, and the Pacific Northwest Center for Cryo-EM. OHSU also comprises several clinical units, including OHSU Hospital (the Hospital), the OHSU Practice Plan (OPP), and the Institute on Development and Disability (IDD). Doernbecher Children's Hospital is a unit of the Hospital serving pediatric patients. The Knight Cancer Institute is the only National Cancer Institute designated cancer center in the State, and the Knight Cardiovascular Institute provides the State's most comprehensive clinical and heart research program. In addition, OHSU operates a captive insurance company domiciled in Arizona for self-insurance purposes, OHSU Insurance Company (INSCO), which is blended in the accompanying financial statements.

Pursuant to an act of the Oregon Legislature (the Act), on July 1, 1995, OHSU was restructured from one of seven component units of the Oregon University System (OUS) to an independent public corporation. OHSU remains a component unit of the State.

The majority of the real property that constitutes OHSU's main campus on Marquam Hill (and certain off-campus properties) in Portland is owned by the State. Pursuant to the Act, the State retained title of such real property and OHSU was granted exclusive care, custody, and control of such real property. To evidence this condition, the State and OHSU entered into a 99-year lease, dated July 1, 1995 (the State Lease), under which the State leased to OHSU all of the State's leasable interest in such real property. Under the terms of the State Lease, the State may terminate the State Lease if, prior to such termination, the State causes the defeasance or discharge of all then-outstanding obligations of OHSU that were issued to finance improvements on the property subject to the State Lease or to refinance obligations of OHSU to the State. Under the State Lease, improvements include completed and partially completed buildings, fixtures, structures, and other improvements constructed on the property subject to the State Lease. In addition, OHSU was granted ownership of all personal property of the University, as it existed prior to the enactment of the Act.

Oregon Health & Science University Foundation is a separately incorporated nonprofit Foundation affiliated with OHSU. The primary purpose of the Foundation is to raise money for OHSU research, scientific, charitable, and educational purposes and to promote support for Doernbecher Children's Hospital. Doernbecher Children's Hospital Foundation, an Oregon nonprofit corporation, merged on January 1, 2021 with OHSU Foundation. Consequently, the financial position and the changes in financial position of the Foundation is blended in the accompanying financial statements.

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On February 1, 2016, OHSU affiliated with Tuality Healthcare and subsidiaries (Tuality), doing business as Hillsboro Medical Center, through the execution of a management agreement (the Tuality Agreement) between the organizations. Tuality owns and operates Tuality Community Hospital, a 215-licensed-bed acute care hospital located in Hillsboro, Oregon. Under the Tuality Agreement, OHSU agrees to oversee the unified and integrated clinical enterprises of OHSU and Tuality as a single, integrated economic unit. OHSU and Tuality remain as separate legal entities, own their own assets, and continue to be the licensed operators of their respective facilities. Tuality is a component unit of OHSU as OHSU approves Tuality's annual operating budget. Since Tuality has a separate board of directors and they do not provide services exclusively to OHSU, they are presented as a discretely presented component unit of OHSU.

On January 1, 2020, OHSU partnered with ODS Community Health, Inc. to form OHSU Health IDS, LLC (OHI). OHI is owned 60% by OHSU and 40% by ODS Community Health, Inc. OHI operates as an Integrated Delivery System (IDS) under Health Share of Oregon, a Coordinated Care Organization (CCO) certified by the Oregon Health Authority (OHA) to serve OHP (Medicaid) enrollees in the Portland-metro area. OHI remains a separate legal entity, own their own assets, and maintains its own direct contract with Health Share of Oregon. OHI is a component unit of OHSU as OHSU approves OHI's annual operating budget. Since OHI has a separate board of directors and they do not provide services exclusively to OHSU, they are presented as a discretely presented component unit of OHSU.

(b) Accounting Standards

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting. OHSU's financial statements and note disclosures are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements and interpretations. OHSU uses proprietary fund accounting.

OHSU prepares and presents its financial information in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), known as the "Reporting Model" statement. GASB 34 established the requirements and reporting model for annual financial statements. GASB 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the reporting entity in the form of "management's discussion and analysis." This reporting model also requires the use of a direct-method cash flow statement.

OHSU has also adopted 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*. This statement establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB 34.

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(c) New Accounting Pronouncements

In June 2022, the GASB issued Statement No. 101, "Compensated Absences," which will be effective for the fiscal year ending June 30, 2025. This Statement will update the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The Statement amends the existing disclosure requirements to allow governments to disclose only the net change in the liability as long as they identify it as a net change.

(d) Financial Reporting Entity

As defined by generally accepted accounting principles, the financial reporting entity consists of OHSU as the primary government and its component units, which are legally separate organizations for which the primary government is financially accountable. Financial accountability is defined as a) appointment of the voting majority of the component units' board, and either (1) the ability to impose will by the primary government or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government, or (b) the component unit is financially dependent on and there is potential for the component unit to provide specific financial benefits to, or impose specific burdens on, the primary government.

Component units are reported as part of the reporting entity under the blended or discrete method of presentation. Blending involves merging the component unit data with the primary government. There are three situations when blending is allowed: (1) when the board of the component unit is substantially the same as that of the primary government and there is a financial benefit or burden relationship between the primary government and the component unit or management of the primary government has operational responsibility for the component unit, (2) when the component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it, or (3) the component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government. OHSU Foundation and INSCO are considered to be blended component units as they serve the primary government exclusively. All transactions between OHSU and its blended component units are eliminated upon consolidation. Tuality and OHI are presented discretely since they have a separate board of directors and they do not provide services exclusively to OHSU. They are both considered a nonmajor component unit as there are no significant transactions with OHSU and there is not a significant financial benefit/burden relationship with OHSU.

Financial reports for INSCO and OHSU Foundation that include financial statements and required supplementary information are publicly available. These reports, and those of Tuality and OHI are, may be obtained by contacting the management of OHSU.

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(e) Basis of Accounting

Basis of accounting refers to the timing of when revenues and expenses are recognized in the accounts and reported in the financial statements. OHSU reports as a proprietary fund within the governmental model. OHSU's financial statements have been prepared using the accrual basis of accounting with the economic resources measurement focus. Under this method of accounting, revenue is recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

(f) Use of Estimates

The preparation of financial statements in conformity with US generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in OHSU's financial statements include patient accounts receivable allowances, liabilities related to self-insurance programs, and valuation of pension liabilities.

(g) Cash and Cash Equivalents

OHSU held \$176,842 of cash equivalents within cash and cash equivalents at June 30, 2023 and held none at June 30, 2022.

(h) Investments

Investments are carried at fair value. Fair values are determined based on quoted market prices, where available. Investments in joint ventures are recorded using the equity method of accounting. Alternative investments, which are not readily marketable, are carried at estimated fair values as provided by investment managers. OHSU reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. These estimated fair values may differ from the values that would have been used had a ready market for those securities existed.

Net unrealized gains and losses are included in the net unrealized gain (loss) in fair value of investments in nonoperating revenues in the statements of revenues, expenses, and changes in net position. Interest, dividends, and realized gains and losses on investments are included in nonoperating revenues as investment income when earned.

(i) Inventories

Inventories consist primarily of supplies and pharmaceutical supplies in organized stores at various locations across the campus and in the Hospital. Inventories are recorded using several different methodologies dependent upon the operational use of the supplies and system capabilities. OHSU utilizes standard-cost and average-cost methodologies to record and report inventory value.

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(j) Capital Assets

Capital asset acquisitions (excluding intangible right-to-use lease and subscription IT assets) are stated at cost. Donated items are recorded on the basis of fair market value at the date of donation. OHSU capitalizes equipment additions greater than \$5 and capital projects greater than \$25. Maintenance, repairs, and minor replacements are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recorded as other in nonoperating revenue.

The provision for depreciation is determined by the straight-line method at rates calculated to amortize the cost of assets over the shorter of their estimated useful lives or the related lease term as follows: buildings and other improvements, 10 to 40 years; and equipment, 3 to 20 years.

(k) Net Position Classifications

Net position is classified into four net asset categories, in accordance with donor-imposed restrictions:

- Net investment in capital assets represents the depreciated value of capital purchases, net of related debt.
- Net position restricted, expendable, carries externally imposed time or purpose restrictions that expire in the future.
- Net position restricted, nonexpendable, carries externally imposed restrictions that never expire.
- Net position unrestricted carries no externally imposed restrictions.

Investment income earned on donor-restricted endowment funds in excess of the annual spending distribution is accounted for in the expendable restricted net position category.

OHSU first applies restricted resources to an expense where an expense is incurred for a purpose for which both restricted and unrestricted funds are available.

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A summary of restricted funds by restriction category for fiscal years ended June 30, 2023 and 2022 is as follows:

| | <u>2023</u> | <u>2022</u> |
|-------------------------------|-------------------|----------------|
| Restricted expendable: | | |
| Research | \$ 339,184 | 412,421 |
| Academic support | 89,324 | 85,943 |
| Instruction | 59,907 | 62,072 |
| Capital projects and planning | 14,119 | 16,497 |
| Student aid | 63,762 | 63,511 |
| Clinical support | 19,033 | 18,195 |
| Institutional support | 5,483 | 5,817 |
| Defined-benefit OPEB | 11,743 | 10,070 |
| Other | 41,308 | 44,295 |
| | <u>\$ 643,863</u> | <u>718,821</u> |
| Restricted nonexpendable: | | |
| Research | \$ 43,964 | 43,454 |
| Instruction | 89,829 | 87,026 |
| Academic support | 110,287 | 106,253 |
| Student aid | 55,212 | 49,880 |
| Other | 40,944 | 37,369 |
| | <u>\$ 340,236</u> | <u>323,982</u> |

(I) Endowments

The endowment corpus is accounted for in the restricted, nonexpendable net position category and reported on the statements of net position as restricted long-term investments. The Foundation's spending policy for endowment funds is determined by the Executive Committee of the Board of Trustees (Executive Committee) and is calculated using a weighted average methodology comprised of an eight quarter moving average of the fair value of the endowment fund adjusted for inflation, and of the previous year's actual spending distribution adjusted for inflation. The resulting effective spending rate payout is then banded to be between 4.0% and 5.5% each year. The Executive Committee authorized a 4.5% distribution rate to calculate the effective spending rate for the years ended June 30, 2023 and 2022.

The Foundation's management and investment of donor-restricted endowment funds are subject to the provisions of the Uniform Prudent Management of Institutional Funds Act enacted by the State in January 2008.

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The endowment fund investment pool (endowment fund) held by the Foundation is the repository for funds from restricted, nonexpendable contributions where the principal amount cannot be used, but a spending distribution, described below, can be used for the designated purpose. The endowment fund also holds quasi-endowment funds, which have been designated as endowment by the Foundation's board of trustees. All interest, dividends, and changes in fair value on the endowment fund are allocated to the appropriate unrestricted or restricted net position classification as specified by the donor at the time of receipt. Endowment accounts receive spending distributions subject to the Foundation's board of trustees' approved spending policy, which provides a predetermined amount of total return that can be spent for purposes designated by the donor. All expendable income restricted by the donor is carried as restricted, expendable net position until such time as the restriction has been met. At June 30, 2023 and 2022, the fair value of investments in the endowment fund was \$950,900 and \$896,000, respectively. The fair value of the unspent portion of endowments in excess of corpus at June 30, 2023 and 2022 was \$103,800 and \$115,000, respectively.

At June 30, 2023 and 2022, accumulated loss of \$0.4 million and \$0.3 million, respectively, related to endowment accounts with market value below corpus was reflected in nonexpendable restricted net position.

(m) Federal Income Taxes

OHSU, as a division of the State, is not subject to federal income taxes of the Internal Revenue Code, except for unrelated business income.

(n) State Appropriations

The Oregon State Legislature makes an appropriation to OHSU on a biennial basis. The appropriation is recognized as nonoperating revenues over the related appropriation period as applicable eligibility requirements are met.

(o) Research Activity

Restricted grants receivable represent receivables for grant activities on which OHSU has met all applicable eligibility requirements and on which the funds are available from the granting agency. As of June 30, 2023 and 2022, the grants receivable balance was \$32,834 and \$36,281, respectively, and was included in grant and contract receivables in the accompanying statements of net position. The balance in unearned revenue as of year-end represents amounts advanced for which OHSU has not met all applicable eligibility requirements. As of June 30, 2023 and 2022, the grants unearned revenue balance was \$56,990 and \$59,339, respectively.

(p) Operating Revenues

OHSU includes patient service revenue, student tuition and fees, gifts, grants and contracts, and other income from sales and services in operating revenues. These revenues are key components of the operations of OHSU.

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(q) Net Patient Service Revenue

A summary of patient service revenues during the years ended June 30, 2023 and 2022 is as follows:

| | 2023 | 2022 |
|------------------------------|--------------|-------------|
| Gross patient charges | \$ 8,059,588 | 6,963,647 |
| Contractual discounts | (4,710,044) | (4,110,332) |
| Bad debt adjustments | (11,716) | (7,963) |
| Net patient service revenues | \$ 3,337,828 | 2,845,352 |

OHSU has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, outpatient case rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts due and determined to be collectible from patients, third-party payors, and others for services rendered and includes estimates for potential retroactive revenue adjustments under reimbursement agreements with third-party payors. Such estimates are adjusted in future periods as final settlements are determined.

A significant portion of OHSU's services are provided to Medicare, Medicaid, and Oregon Health Plan (OHP) patients under contractual arrangements. Inpatient acute care services rendered by OHSU to Medicare, Medicaid, and OHP program beneficiaries are generally reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors (i.e., Medicare severity diagnosis related groups or MS DRGs). Such payments include a capital cost component and may be greater or less than the actual charges for services. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. Home health services related to Medicare beneficiaries are reimbursed under a prospective payment system methodology. OHSU is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audits of OHSU's annual cost reports by the Medicare Administrative Contractor and Medicaid.

OHSU partners with the State of Oregon (the State) in an innovative collaboration resulting in significant additional federal funding for Oregon's Medicaid program. Through the Intergovernmental Transfer (IGT) partnership with the State this program reduces OHSU's losses from the Medicaid program and enables support for OHSU's research and education missions. In fiscal years 2023 and 2022, the program generated \$268,500 and \$166,000, respectively, for its missions.

The laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that estimated third-party payor settlements payable, net will change by a material amount in the near term. For the years ended June 30, 2023 and 2022, OHSU received third-party settlements of \$4,333 and \$1,945, respectively, as a result of final settlements of prior years' cost reports and revisions of estimates for prior years cost report settlements.

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OHSU has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations to provide medical services to subscribing participants. The basis for payment to OHSU under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined fee schedules, and certain capitated per member per month payment arrangements.

Significant concentrations of gross patient accounts receivable as of June 30, 2023 and 2022 were approximately as follows:

| | 2023 | 2022 |
|--|-------------|-------------|
| Medicare and Medicare managed care contracts | 25 % | 22 % |
| Medicaid and OHP | 19 | 19 |
| Commercial and managed care insurance | 54 | 57 |
| Nonsponsored | 2 | 2 |
| | 100 % | 100 % |

(r) Student Tuition and Fees Revenues

A summary of student tuition and fees revenues during the years ended June 30, 2023 and 2022 is as follows.

| | 2023 | 2022 |
|--|-------------|-------------|
| Gross student tuition | \$ 98,059 | 96,276 |
| Tuition discounts | (16,442) | (15,390) |
| Student tuition and fees revenues, net | \$ 81,617 | 80,886 |

(s) Charity Care

OHSU provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its published rates. Because OHSU does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

OHSU maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. Charity care provided measured as charges forgone and based on established rates was \$58,056 and \$85,789 in 2023 and 2022, respectively.

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(t) Pledges and Estates Receivable

Pledges and estates receivable are recorded as receivables and revenues when all eligibility criteria are met in the appropriate net asset category based upon donor-imposed restrictions and are reported at fair value at the date the promise is received. Pledges are generally received within 5 to 10 years of the date of original commitment. The majority of estates are received within one year. Pledges and estates receivable, less reserves for estimated uncollectible amounts, are discounted to their present value using rates that range from 0.14% to 4.88%.

(u) Life Income Agreements

The Foundation has been named as remainder beneficiary for various life income agreements. Life income agreements provide for contractual payments to designated beneficiaries for a specific period, after which the remaining principal and interest revert to the Foundation. Contributions received under life income agreements are included in long-term investments, restricted, with the corresponding commitment to the beneficiary included in liability for life income agreements in the accompanying statements of net position. The Foundation has investments with a fair value of \$51,000 and \$51,900 as at June 30, 2023 and 2022, respectively, related to its individually managed life income agreements.

(v) Moda Note Receivable

OHSU has contracts with, and receives patient revenues from, the major health plans in Oregon. OHSU's guiding principle in developing payor provider partnerships is to ensure that Oregonians continue to have access to Oregon's public health sciences university and academic health center and its affiliates and that OHSU has access to major populations of Oregon across its missions of patient care, education, research, and outreach.

Since 2013, OHSU has partnered with Moda Health Plan, Inc. (Moda) to advance population health management. In December 2014, OHSU invested \$50,000 in Moda through a 10-year surplus note to help capitalize Moda's Oregon healthcare efforts. The principal balance of this note shall become due and payable in full on December 15, 2024, and the note bears interest on its unpaid principal balance at a rate equal to 4% per annum. Payment of interest and principal is subject to approval by the Oregon insurance commissioner, which is part of the Department of Consumer and Business Services (DCBS). The Oregon insurance commissioner allowed payment of accrued interest to OHSU of \$2,000 and \$2,000 in fiscal years 2023 and 2022, respectively.

Moda had a large share of Oregon's individual insurance market during the initial years of the Affordable Care Act and had significant receivables due from the federal government under the risk corridor program that was designed to encourage plans to offer individual coverage. At that time, it was uncertain if, or when, the federal government would pay these amounts. In light of uncertain payment of federal risk corridor receivables, higher risk from losses at Moda, and the likelihood that interest payments could have been deferred, OHSU recorded a valuation reserve of \$16,500 against the surplus note receivable as of June 30, 2015. In April 2020, the US Supreme Court ruled in favor of Moda Health Plan and other insurers that had sued the federal government for backing out of support under the Affordable Care Act. The justices reversed a lower court's ruling that Congress had suspended the government's obligation to make such payments under the Affordable Care Act.

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OHSU reviewed the valuation of the note receivable as of June 30, 2023 and 2022 and has retained the current net valuation of \$33,500, which represents 0.8% and 0.9% of the University's total net position as of June 30, 2023 and 2022, respectively.

(w) Leases (Lessee) and Similar Subscription-Based Information Technology (IT) Arrangements

OHSU is a lessee for various noncancelable leases of buildings and equipment. OHSU also has noncancelable subscription IT arrangements (similar to a lease) for the right-to-use information technology hardware and software (subscription IT arrangements).

Short-term Leases and Subscription IT arrangements

For leases and subscription IT arrangements with a maximum possible term of 12 months or less at commencement, OHSU recognizes expense based on the provisions of the lease contract or subscription IT arrangement, respectively.

Leases and Subscription IT arrangements other than short term

For all other leases and subscription IT arrangements (i.e., those that are not short term) whose total discounted minimum payment obligation are greater than \$100, OHSU recognizes a lease or subscription IT liability, respectively, and an intangible right-to-use lease asset or subscription IT asset, respectively.

Measurement of Lease Amounts

At lease commencement, OHSU initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation expense on a straight-line basis over the lease term.

Measurement of Subscription IT Amounts

At subscription commencement, OHSU initially measures the subscription IT liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription IT liability is reduced by the principal portion of subscription payments made. The subscription IT asset is initially measured as the initial amount of the subscription IT liability less any vendor incentives received at or before the subscription commencement date, plus the capitalizable implementation costs. Subsequently, the subscription IT asset is amortized into depreciation expense on a straight-line basis over the subscription term.

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Key Estimates and Judgments

Key estimates and judgments include how the OHSU determines (1) the discount rate it uses to calculate the present value of the expected lease and subscription payments, (2) lease and subscription term, and (3) lease and subscription payments.

- OHSU generally uses its estimated incremental borrowing rate as the discount rate for leases and subscription IT arrangements unless the rate that the lessor/vendor charges is known. OHSU obtains its current incremental borrowing rate from its primary banking institution on a periodic basis. OHSU's incremental borrowing rate for leases and subscription IT arrangements is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the lease or subscription payments, respectively, under similar terms at the commencement or remeasurement date.
- The lease or subscription term includes the noncancelable period of the lease or subscription IT arrangement, respectively, plus any additional periods covered by either an OHSU or lessor unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both OHSU and the lessor/vendor have an option to terminate (or if both parties have to agree to extend) are excluded from the lease or subscription term.

Remeasurement of Lease and Subscription Amounts

OHSU monitors changes in circumstances that may require remeasurement of a lease or subscription IT arrangement. When certain changes occur that are expected to significantly affect the amount of the lease or subscription IT liability, the liability is remeasured and a corresponding adjustment is made to the lease or subscription IT asset, respectively.

Presentation in Statements of Net Position

Lease and subscription IT assets are reported with capital assets and lease and subscription IT liabilities are reported with long-term leases in the statements of net position.

(2) Cash and Investments

OHSU holds substantially all of its cash, cash equivalents, and investment balances at financial institutions. OHSU's cash is insured by the Federal Deposit Insurance Corporation subject to standard limits. Additionally, a portion of cash and cash equivalents are collateralized deposits as required under the Oregon Revised Statutes (ORS).

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OHSU's investment policies are approved by the board of directors and are accounted for as prescribed by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in the fair value of investments are included in nonoperating revenues. The composition of investments at fair value at June 30, 2023 and 2022 is as follows:

| | 2023 | 2022 |
|---|--------------|-------------|
| Short-term investments: | | |
| Cash and cash equivalents | \$ — | 835 |
| US government securities | 22,040 | 21,739 |
| | 22,040 | 22,574 |
| Funds held by trustee, current portion: | | |
| Cash and cash equivalents | 30,423 | — |
| Fixed income | — | 42,305 |
| | 30,423 | 42,305 |
| Funds held by trustee, less current portion: | | |
| Cash and cash equivalents | 45,983 | — |
| US government securities | 89,130 | 135,765 |
| Corporate obligations | 100,511 | 137,845 |
| Other fixed income | — | 29,859 |
| | 235,624 | 303,469 |
| Long-term investments – less current portion: | | |
| Cash and cash equivalents | 20,819 | 32,555 |
| US government securities | 251,115 | 306,325 |
| US agency securities | 149,820 | 147,035 |
| Corporate obligations | 221,500 | 243,208 |
| Fixed income | 216,881 | 226,209 |
| Equities | 966,071 | 755,564 |
| Alternative investments | 247,116 | 222,666 |
| Joint ventures and partnerships | 656,810 | 661,846 |
| Real estate investments and other | 72,143 | 89,998 |
| | 2,802,275 | 2,685,406 |
| Total investments, all categories | \$ 3,090,362 | 3,053,754 |

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The methods used to determine the fair value of financial instruments reflect market participant objectives and are based on the application of a valuation hierarchy. These methods are prescribed by GASB No. 72, *Fair Value Measurement and Application*. The hierarchy is based on the reliability of inputs as follows:

- Level 1 – Valuation is based on quoted prices for identical financial instruments in active markets. OHSU does not adjust the quoted price for Level 1 financial instruments.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and independent pricing models or other model-based valuation techniques using observable inputs.
- Level 3 – Certain types of financial instruments are classified as Level 3 within the valuation hierarchy because these financial instruments trade infrequently and, therefore, have little or no price transparency. Valuation is based on unobservable inputs used to measure fair value to the extent that observable inputs are not available.

The following table presents a categorization, based on the foregoing valuation hierarchy, of OHSU's financial instruments measured at fair value as of June 30, 2023:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Fair value</u> |
|---|-------------------|----------------|----------------|-------------------------|
| Cash and cash equivalents | \$ — | 76,406 | — | 76,406 |
| US government securities | — | 362,285 | — | 362,285 |
| US agency securities | — | 149,820 | — | 149,820 |
| Domestic equity securities | 98,470 | — | 134 | 98,604 |
| International equity securities | 33,609 | — | — | 33,609 |
| US corporate securities | — | 281,382 | — | 281,382 |
| Non-US corporate securities | — | 40,629 | — | 40,629 |
| Asset-backed securities | — | 56,032 | — | 56,032 |
| Venture capital and private equity | — | — | 28,140 | 28,140 |
| Mutual funds – fixed income only | 164,950 | 1,150 | — | 166,100 |
| Municipal bonds | — | 3,862 | — | 3,862 |
| Other fixed income | — | 361 | 11,345 | 11,706 |
| Alternative Investments | — | — | 750 | 750 |
| Real estate investments and other | 1,073 | 1,101 | 2,323 | 4,497 |
| | <u>\$ 298,102</u> | <u>973,028</u> | <u>42,692</u> | 1,313,822 |
| Investments measured using NAV per share or its equivalent | | | | 1,673,986 |
| Equity method investments | | | | <u>102,554</u> |
| Total assets | | | \$ | <u><u>3,090,362</u></u> |

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The following table presents a categorization, based on the foregoing valuation hierarchy, of OHSU's financial instruments measured at fair value as of June 30, 2022:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Fair value</u> |
|---|-------------------|------------------|----------------|-------------------|
| Cash and cash equivalents | \$ — | 82,131 | — | 82,131 |
| US government securities | — | 463,830 | — | 463,830 |
| US agency securities | — | 147,035 | — | 147,035 |
| Domestic equity securities | 98,696 | — | 134 | 98,830 |
| International equity securities | 54,904 | — | — | 54,904 |
| US corporate securities | — | 335,178 | — | 335,178 |
| Non-US corporate securities | — | 45,875 | — | 45,875 |
| Asset-backed securities | — | 74,129 | — | 74,129 |
| Venture capital and private equity | — | — | 21,236 | 21,236 |
| Mutual funds – fixed income only | 166,910 | — | — | 166,910 |
| Municipal bonds | — | 7,312 | — | 7,312 |
| Other fixed income | — | 423 | 11,628 | 12,051 |
| Alternative Investments | — | — | 731 | 731 |
| Real estate investments and other | 1,088 | 1,634 | 4,464 | 7,186 |
| | <u>\$ 321,598</u> | <u>1,157,547</u> | <u>38,193</u> | 1,517,338 |
| Investments measured using NAV per share or its equivalent | | | | 1,439,251 |
| Equity method investments | | | | <u>97,165</u> |
| Total assets | | | \$ | <u>3,053,754</u> |

There were no transfers of financial instruments between Level 1 or Level 2 classifications either in 2023 or 2022. Changes in Level 3 financial instruments are as follows:

| | <u>2023</u> | <u>2022</u> |
|---|------------------|-----------------|
| Balance at beginning of year | \$ 38,193 | 41,472 |
| Contributions | 110 | 1,859 |
| Net realized (losses) gains | (537) | 100 |
| Net unrealized (losses) gains | (33) | 70 |
| Purchases | 28,895 | 21,971 |
| Sales | (1,969) | (1,418) |
| Transfer from (to) NAV per share, or its equivalent, classification from sales | <u>(21,967)</u> | <u>(25,861)</u> |
| Balance at end of year | <u>\$ 42,692</u> | <u>38,193</u> |

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Net realized and unrealized gains and losses on financial instruments classified as Level 3 are reported as nonoperating revenues as investment income when earned.

OHSU uses a practical expedient for the estimation of the fair value of investments in funds for which the investment does not have a readily determinable fair value. The practical expedient used by OHSU for certain financial instruments is the NAV per share. Valuations provided by fund administrators for these financial instruments consider variables such as the financial performance of underlying investments, recent sales prices, and other pertinent information. The valuation is adjusted when changes to inputs and assumptions are corroborated by evidence, such as completed or pending third-party transactions in the underlying security and changes in financial results, data, or cash flows. Management or its discretionary investment partner reviews the valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.

The following table presents information for investments where either the NAV per share or its equivalent was used to value the investments as of June 30, 2023 and 2022:

| | <u>Redemption frequency</u> | <u>Redemption notice period</u> |
|--|---------------------------------|-------------------------------------|
| Domestic equities | Weekly to every two years | 3–180 days |
| Non-US equities | Weekly to every four years | 3–180 days |
| Global equities | Quarterly | 3–180 days |
| Venture capital/private equity | Event-driven | N/A |
| Marketable alternative investments – nonfixed income | Monthly to every three years | 15–180 days |
| Marketable alternative investments – fixed income only | Monthly | 15–35 days |
| Real estate investments and contracts | Event-driven | N/A |

Domestic equities, non-US equities, global equities, and natural resources funds represent investments in equities, both US and international, and may include investments in developed and emerging markets.

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(3) Investments and Related Policies

(a) Interest Rate Risk

As of June 30, 2023 and 2022, OHSU had the following investments and maturities at fair value:

| | | 2023 | | | | |
|------------------------------------|----|-----------------------------|------------------|-------------------|---|------------------|
| | | Maturity | | | | |
| | | Less than 1 year | 1–5 Years | 6–10 Years | More than 10 years or none | Total |
| Cash and cash equivalents | \$ | 76,406 | — | — | — | 76,406 |
| US government securities | | 97,622 | 156,636 | 63,281 | 44,746 | 362,285 |
| US agency securities | | 923 | 8,715 | 11,447 | 128,735 | 149,820 |
| Domestic equity securities | | — | — | — | 556,833 | 556,833 |
| International equity securities | | — | — | — | 409,238 | 409,238 |
| US corporate securities | | 110,016 | 91,713 | 38,977 | 40,676 | 281,382 |
| Non-US corporate securities | | 2,587 | 20,996 | 8,376 | 8,670 | 40,629 |
| Asset-backed securities | | 2,226 | 21,324 | 6,183 | 26,299 | 56,032 |
| Venture capital and private equity | | — | — | — | 656,810 | 656,810 |
| Mutual funds – fixed income only | | 34,574 | 51,355 | 51,775 | 28,396 | 166,100 |
| Municipal bonds | | 96 | 1,566 | 1,506 | 694 | 3,862 |
| Other fixed income | | — | 340 | 21 | 11,345 | 11,706 |
| Alternative Investments | | — | — | — | 247,116 | 247,116 |
| Real estate investments and other | | — | — | — | 72,143 | 72,143 |
| | \$ | <u>324,450</u> | <u>352,645</u> | <u>181,566</u> | <u>2,231,701</u> | <u>3,090,362</u> |

| | | 2022 | | | | |
|-----------------------------------|----|-----------------------------|------------------|-------------------|---|------------------|
| | | Maturity | | | | |
| | | Less than 1 year | 1–5 Years | 6–10 Years | More than 10 years or none | Total |
| Cash and money market funds | \$ | 81,527 | 598 | — | 5 | 82,130 |
| US government securities | | 151,065 | 189,133 | 75,525 | 48,107 | 463,830 |
| US agency securities | | 135 | 12,155 | 128,005 | 6,740 | 147,035 |
| Domestic equity securities | | — | — | — | 550,781 | 550,781 |
| International equity securities | | — | — | — | 204,784 | 204,784 |
| US corporate securities | | 145,094 | 96,711 | 43,452 | 49,921 | 335,178 |
| Non-US corporate securities | | 2,977 | 23,173 | 10,708 | 9,018 | 45,876 |
| Asset-backed securities | | 4,516 | 23,308 | 27,491 | 18,814 | 74,129 |
| Joint ventures and partnerships | | — | — | — | 661,846 | 661,846 |
| Mutual funds – fixed income only | | 50,250 | 45,165 | 48,497 | 23,853 | 167,765 |
| Municipal bonds | | 313 | 1,723 | 1,932 | 3,345 | 7,313 |
| Other fixed income | | — | 310 | 113 | — | 423 |
| Alternative investments | | — | — | — | 222,666 | 222,666 |
| Real estate investments and other | | — | — | — | 89,998 | 89,998 |
| | \$ | <u>435,877</u> | <u>392,276</u> | <u>335,723</u> | <u>1,889,878</u> | <u>3,053,754</u> |

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OHSU held \$56,032 and \$74,129 of asset-backed securities collateralized primarily by auto loans, credit card receivables, and collateralized mortgage obligations as of June 30, 2023 and 2022, respectively. These securities are valued at their estimated fair values. The valuation of these securities is sensitive to principal prepayments, which may result from a decline in interest rates, and they are sensitive to an increase in average maturity, which may result from interest rate increases that lead to decreasing prepayments.

At June 30, 2023 and 2022, OHSU had certain joint ventures and partnerships, alternative investments, real estate investments, and other investments. These investments may contain elements of both credit and market risk. Such risks may include limited liquidity, absence of regulatory oversight, dependence upon key individuals, and nondisclosure of portfolio composition. Because these investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

OHSU's investment policies vary based on the investment objectives of the portfolio. The operating and trustee-held portfolios seek to preserve principal with the intent of maximizing total return within appropriate risk parameters. Maturities of securities selected in these portfolios are driven by prevailing market conditions, while considering cash requirements of the organization.

The Foundation investment policies are established based on the investment objectives of the portfolio. The endowment portfolio, which is included in long-term investments in the accompanying statements of net position, seeks to produce a predictable and stable payout stream that increases over time, while achieving growth of corpus. The endowment fund may invest in cash and cash equivalents, fixed-income securities, US and non-US equity securities and other alternative investments. The objective for the current fund is to provide a reliable source of liquidity to meet short-term working capital needs. The current fund may invest in cash, cash equivalents, fixed income securities, equity mutual funds and ETFs, and quasi-endowment within the endowment fund. The duration of the C/F 1–5-year portfolio shall be within a range of 75% to 125% of the Barclay's 1–5 year Government/Credit Bond Index. The charitable gift annuity pool seeks to produce a relatively predictable and stable payout stream that will satisfy the funds distribution obligations while achieving long-term capital appreciation of the overall fund balance. The charitable gift annuity pool may invest in cash and cash equivalents, US and non-US equities, fixed-income, and real estate. Charitable trusts are managed to provide for the distribution of a stated income payment while attempting to achieve reasonable expected total returns. Charitable trust investment objectives and asset allocation guidelines are determined based on the individual circumstances of each trust account. Allowable investments for charitable trusts include cash and cash equivalents, US. and non-US equities, fixed-income, real estate, and commodities.

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(b) Credit Risk

The current fund investment policy requires minimum ratings or better from Standard & Poor's, Moody's, or Fitch as follows:

| | Minimum Standard & Poor's rating | Minimum Moody's rating | Minimum Fitch rating |
|---|---|---------------------------------------|-------------------------------------|
| US and foreign corporate indebtedness | BBB- or A-2 | Baa3 or P-2 | BBB- or F-2 |
| Certificates of deposit | BBB- or A-2 | Baa3 or P-2 | BBB- or F-2 |
| Foreign government, foreign agency, or supranational organization debt | A or A-1 | A2 or P-1 | A or F-1 |
| Agency mortgage-backed securities | AAA | Aaa | AAA |
| Commercial mortgage-backed securities | AAA | Aaa | AAA |
| Asset-backed securities | AAA | Aaa | AAA |
| Municipal bonds | A | A2 | A |

At the time of purchase, securities must be rated by at least two of the three rating agencies. If the security is rated by all three agencies, the middle rating will apply. If only two ratings are available, then the lower rating will be used.

If the credit quality of a holding in the current fund declines so that it is below the level required as stated above, a decision will be made by the Investment Committee to hold or sell the security.

Investments in the charitable gift annuity pool shall have a minimum credit quality rating of Baa/BBB or an average credit rating of Baa/BBB for mutual funds or pooled funds and a minimum rating of A-1/P-1 for investments in commercial paper. The charitable trust investments generally have a minimum credit quality rating in investment-grade Baa/BBB bond investments and a minimum rating of A-1/P-1 for investments in commercial paper. However, an individual trust may hold up to 9% of the portfolio in below-investment-grade investments.

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As of June 30, 2023 and 2022, OHSU had the following investments with credit rating at fair value:

| Investment type | Credit rating S&P or equivalent | Total | |
|-----------------------------|---------------------------------------|-----------|---------|
| | | 2023 | 2022 |
| Cash and money market funds | AAA | \$ 76,406 | — |
| | A-1+ | — | 26,681 |
| | Not rated | — | 1,135 |
| | NA | — | 54,314 |
| US government securities | AAA | 35,375 | 43,464 |
| | AA+ | 325,534 | 279,559 |
| | AA | 925 | 1,867 |
| | AA- | — | 10 |
| | A- | 410 | 2,105 |
| | BBB+ | — | 663 |
| | BBB- | 41 | 304 |
| | NA | — | 135,858 |
| US agency securities | AAA | 17,658 | 9,457 |
| | AA+ | 132,162 | 137,578 |
| US corporate securities | AAA | 11,457 | 12,178 |
| | AA+ | 8,073 | 14,158 |
| | AA | 7,458 | 10,378 |
| | AA- | 19,953 | 22,991 |
| | A+ | 30,674 | 42,704 |
| | A | 60,162 | 65,181 |
| | A- | 52,277 | 54,701 |
| | BBB+ | 24,090 | 30,076 |
| | BBB | 51,126 | 60,161 |
| | BBB- | 10,268 | 16,372 |
| | BB+ | — | 300 |
| | BB | 2,882 | 1,758 |
| | B | 498 | 532 |
| | Below B | 28 | 17 |
| Not rated | 391 | 456 | |
| n/a | 2,045 | 3,215 | |

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| Investment type | Credit rating S&P or equivalent | Total | | |
|----------------------------------|---------------------------------------|----------|--------|--------|
| | | 2023 | 2022 | |
| Non-US corporate securities | AAA | \$ 6,947 | 9,070 | |
| | AA+ | 499 | 1,367 | |
| | AA | 1,133 | 668 | |
| | AA- | 1,345 | 2,222 | |
| | A+ | 2,199 | 2,255 | |
| | A | 5,050 | 2,618 | |
| | A- | 7,703 | 8,770 | |
| | BBB+ | 7,130 | 6,273 | |
| | BBB | 5,669 | 8,550 | |
| | BBB- | 2,080 | 824 | |
| | BB+ | — | 2,701 | |
| | NA | 874 | 558 | |
| | Asset-backed securities | AAA | 17,122 | 18,749 |
| | | AA+ | 171 | 34,357 |
| AA | | 4,267 | 2,905 | |
| A | | 1,687 | 720 | |
| BBB+ | | 342 | 363 | |
| BBB | | 3,907 | 1,806 | |
| BBB- | | 413 | — | |
| BB | | 3,198 | 673 | |
| B | | 1,788 | 528 | |
| Below B | | 2,177 | 1,889 | |
| Not rated | | 16,994 | 3,395 | |
| NA | | 3,966 | 8,744 | |
| Mutual funds – fixed income only | | AAA | 97,810 | 98,949 |
| | | AA | 7,557 | 8,043 |
| | A | 16,424 | 16,218 | |
| | BBB | 19,762 | 21,842 | |
| | BB | 6,479 | 7,347 | |
| | B | 5,064 | 5,394 | |
| | Below B | 5,962 | 4,488 | |
| | Not rated | 7,042 | 5,484 | |

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| Investment type | Credit rating S&P or equivalent | Total | |
|-----------------------------------|---------------------------------------|---------------------|------------------|
| | | 2023 | 2022 |
| Municipal bonds | AAA | \$ 493 | 1,529 |
| | AA | 2,870 | 3,229 |
| | AA- | — | 1,069 |
| | A+ | — | 154 |
| | A | 437 | 437 |
| | A- | — | 53 |
| | BBB+ | — | 707 |
| | BBB | 11 | 11 |
| | BB | 51 | 71 |
| | Not rated | — | 53 |
| Other fixed income | BBB | 44 | 67 |
| | BB | 178 | 138 |
| | B | 124 | 186 |
| | Below B | 15 | 28 |
| | Not rated | 11,345 | 4 |
| Joint ventures and partnerships | NA | 656,810 | 661,846 |
| Alternative investments | NA | 247,116 | 222,666 |
| Real estate investments and other | NA | 72,143 | 89,998 |
| Domestic equity securities | NA | 556,833 | 550,781 |
| International equity securities | NA | 409,238 | 204,784 |
| | | <u>\$ 3,090,362</u> | <u>3,053,754</u> |

(c) Concentration of Credit Risk

The current fund's investment policy limits investments in any issue or issuer as follows:

| | <u>Maximum concentration</u> |
|---|----------------------------------|
| US and foreign corporate indebtedness | No more than 3% per issuer |
| Certificates of deposit | No more than 5% per issuer |
| Foreign government, foreign agency, or supranational organization debt | No more than 5% per issuer |
| Agency mortgage-backed securities | No more than 15% per cusip |
| Commercial mortgage-backed securities | No more than 5% per cusip |
| Asset-backed securities | No more than 5% per cusip |
| Municipal bonds | No more than 5% per cusip |

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The investment policy relating to the charitable gift annuity pool limit investments in any one issue to a maximum of 5%, except for issues of the US government and its agencies or diversified mutual funds, which may be held without limitation. The investment policy for charitable trusts limits investments in any one issue to a maximum of 5%, except for issues of the US government and its agencies or diversified mutual funds.

As of June 30, 2023 or 2022, OHSU had no investments in excess of the thresholds discussed above.

(d) Foreign Currency Risk

OHSU's investment policies permit investments in international equities and other asset classes, which can include foreign currency exposure. The endowment fund allows for investments in international equities and in non-US dollar-denominated bonds. The current fund allows up to 20% of the portfolio to be invested in non-US sovereign or supranational issues. The charitable gift annuity pool investment policy allows up to 30% of the portfolio to be invested in international equities. The charitable trust investment policy allows up to 32% of the portfolio to be invested in international equities, based on the individual circumstances of each trust account. The following table details the fair value of foreign denominated securities by currency type:

| Foreign currency | Value (US dollar) | |
|------------------------|----------------------|--------|
| | 2023 | 2022 |
| British sterling pound | \$ 11,589 | 11,290 |
| Canadian dollar | 187 | — |
| Euro | 15,462 | 17,225 |
| Total | \$ 27,238 | 28,515 |

(4) Due from/to Contractual Agencies

Due from contractual agencies, reflected in patient accounts receivable under current assets in the statements of net position, represents amounts receivable from the State Medicaid Program (Medicaid), the Federal Medicare Program (Medicare), and other contractual agencies. Due to contractual agencies, reflected in other current liabilities in the statements of net position, represents amounts payable to

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Medicaid, Medicare, and other contractual agencies. A summary of the balances as of June 30, 2023 and 2022 is as follows:

| | Due from contractual agencies | | Due to contractual agencies | | Net, due from (to) | |
|----------------------------|-------------------------------|------------------|-----------------------------|------------------|--------------------|------------------|
| | June 30, 2023 | June 30, 2022 | June 30, 2023 | June 30, 2022 | June 30, 2023 | June 30, 2022 |
| Medicaid | \$ 55,480 | 20,647 | — | — | 55,480 | 20,647 |
| IGT | — | 146 | (2,021) | (1,960) | (2,021) | (1,814) |
| Medicare | 6,598 | — | — | (191) | 6,598 | (191) |
| Other contractual agencies | 6,644 | — | — | (5,386) | 6,644 | (5,386) |
| | <u>\$ 68,722</u> | <u>20,793</u> | <u>(2,021)</u> | <u>(7,537)</u> | <u>66,701</u> | <u>13,256</u> |

In 2017, OHSU worked with the state legislature and the Oregon Health Authority to build a program that leverages federal funds for the state's Medicaid program, maintains historical principles of support for OHSU's missions, and simplifies the complexity of prior funding programs between OHSU and the State. The legislature approved the program in the Oregon Health Authority's 2017–2019 budget and Oregon's OHSU IGT Program was approved by the US Centers for Medicare and Medicaid Services (CMS) and implemented on January 1, 2018, with the corresponding funding payments between entities beginning in March 2018. Under this IGT program, OHSU no longer pays the provider tax paid by other hospitals in Oregon. Instead, because OHSU is an Oregon public corporation, it transfers funds directly to the state to be used for Oregon's Medicaid program. The federal government matches funds used in the Medicaid program on approximately a three-to-one basis.

Oregon's Medicaid coordinated care organizations (CCOs) pay OHSU an additional amount per clinical service provided to patients as Quality and Access payments. These additional payments have been approved by CMS and are funded through a combination of OHSU's IGT and federal dollars. The purpose of these funds is to maintain access to the high quality unique academic health center services OHSU provides to Medicaid patients.

During fiscal years 2023 and 2022, respectively, OHSU made IGT of \$315,672 and \$352,675 to the State of Oregon. The State of Oregon used these dollars, and the corresponding federal match, for payment of Medicaid services throughout Oregon. Oregon's Medicaid CCO's paid OHSU \$584,198 and \$486,939, in fiscal years 2023 and 2022, respectively, through Quality and Access payments. The Quality and Access Payments and the IGT, are included as a net reduction in the contractual discounts and represents a portion of the Medicaid payment for patient care services. A net benefit of the program, including funding from other federal and state sources, allows the University to have resources available to support OHSU's missions. During the years ended June 30, 2023 and 2022, the University was able to provide support for its missions of \$268,500 and \$166,000, respectively.

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(5) Capital Assets

Capital assets for fiscal years ended June 30, 2023 and 2022 are listed by category below:

| | 2023 | 2022 |
|---|--------------|-------------|
| Land and land improvements | \$ 84,835 | 84,835 |
| Buildings and other improvements | 3,033,056 | 2,969,181 |
| Equipment | 1,222,779 | 1,166,596 |
| Construction in progress | 219,524 | 120,952 |
| Accumulated depreciation | (2,433,216) | (2,257,736) |
| Total capital assets, net excluding lease and subscription IT assets | 2,126,978 | 2,083,828 |
| Lease and subscription IT assets, net (note 13(g)) | 104,902 | 97,380 |
| Total capital assets, net as reported in the statement of net position | \$ 2,231,880 | 2,181,208 |

The following is a summary of capital assets for the fiscal years ended June 30, 2023 and 2022:

| | Balance June 30, 2022 | Increases | Decreases | Balance June 30, 2023 |
|---|--------------------------------------|------------------|------------------|--------------------------------------|
| Capital assets not depreciated: | | | | |
| Land and land improvements | \$ 84,835 | — | — | 84,835 |
| Construction in progress | 120,952 | 165,881 | (67,309) | 219,524 |
| Total capital assets not depreciated | 205,787 | 165,881 | (67,309) | 304,359 |
| Other capital assets: | | | | |
| Buildings and other improvements | 2,969,181 | 63,875 | — | 3,033,056 |
| Equipment | 1,166,596 | 63,185 | (7,002) | 1,222,779 |
| Total other capital assets | 4,135,777 | 127,060 | (7,002) | 4,255,835 |

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| | Balance June 30, 2022 | Increases | Decreases | Balance June 30, 2023 |
|--|--------------------------------------|------------------|------------------|--------------------------------------|
| Less accumulated depreciation: | | | | |
| Buildings and other improvements | \$ (1,342,998) | (108,271) | (4,340) | (1,455,609) |
| Equipment | (914,738) | (69,414) | 6,545 | (977,607) |
| Total accumulated depreciation | <u>(2,257,736)</u> | <u>(177,685)</u> | <u>2,205</u> | <u>(2,433,216)</u> |
| Other capital assets, net | <u>1,878,041</u> | <u>(50,625)</u> | <u>(4,797)</u> | <u>1,822,619</u> |
| Total capital assets, net | <u>\$ 2,083,828</u> | <u>115,256</u> | <u>(72,106)</u> | <u>2,126,978</u> |
| Lease and subscription IT assets, net (note 13(g)) | | | | <u>104,902</u> |
| Total capital assets, net as reported in the statement of net position | | | | <u>\$ 2,231,880</u> |

| | Balance June 30, 2021 | Increases | Decreases | Balance June 30, 2022 |
|--------------------------------------|--------------------------------------|------------------|------------------|--------------------------------------|
| Capital assets not depreciated: | | | | |
| Land and land improvements | \$ 82,303 | 2,532 | — | 84,835 |
| Construction in progress | 114,969 | 183,134 | (177,151) | 120,952 |
| Total capital assets not depreciated | <u>197,272</u> | <u>185,666</u> | <u>(177,151)</u> | <u>205,787</u> |
| Other capital assets: | | | | |
| Buildings and other improvements | 2,857,836 | 112,388 | (1,043) | 2,969,181 |
| Equipment | <u>1,134,725</u> | <u>87,683</u> | <u>(55,812)</u> | <u>1,166,596</u> |
| Total other capital assets | <u>3,992,561</u> | <u>200,071</u> | <u>(56,855)</u> | <u>4,135,777</u> |
| Less accumulated depreciation: | | | | |
| Buildings and other improvements | (1,238,264) | (105,418) | 684 | (1,342,998) |
| Equipment | <u>(895,582)</u> | <u>(73,462)</u> | <u>54,306</u> | <u>(914,738)</u> |
| Total accumulated depreciation | <u>(2,133,846)</u> | <u>(178,880)</u> | <u>54,990</u> | <u>(2,257,736)</u> |
| Other capital assets, net | <u>1,858,715</u> | <u>21,191</u> | <u>(1,865)</u> | <u>1,878,041</u> |
| Total capital assets, net | <u>\$ 2,055,987</u> | <u>206,857</u> | <u>(179,016)</u> | <u>2,083,828</u> |

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| | Balance June 30, 2021 | Increases | Decreases | Balance June 30, 2022 |
|--|--------------------------------------|------------------|------------------|--------------------------------------|
| Lease and subscription IT assets, net (note 13(g)) | | | | \$ <u>97,380</u> |
| Total capital assets, net as reported in the statement of net position | | | | \$ <u><u>2,181,208</u></u> |

(6) Compensated Absences Payable

Vacation pay for classified employees is generally earned at 8 to 24 hours per month, depending on the length of service and classification, with a maximum accrual of up to 364 hours per employee and a maximum payment upon separation of up to 364 hours. A maximum of 96 to 288 hours of vacation can be earned per year, depending on the length of service and classification. Vacation/PTO pay for unclassified employees is earned at 14.67 to 17.33 hours per month, with a maximum accrual of 256 hours. The maximum payment of unused vacation/PTO hours for unclassified employees at termination is 80 hours at a 50% payment rate. There are a few exceptions, such as that the previous Management Service employees who transitioned to Unclassified Administrative on July 8, 1996 will be paid up to 250 hours unused accrued vacation at 100% pay rate. Eligible employees may have the opportunity to cash-out unused accrued vacation hours, up to 100 hours per year based on their representational group. Employees under the House Officers representation group are granted front-loaded vacation banks.

Sick leave is recorded as an expense when paid. Sick leave for employees is generally earned at the rate of 8 hours per month and a maximum of 96 hours per year, with no restrictions on maximum hours accrued. Employees in the following groups earn sick leave at the rate of 1 hour for 30 hours worked: resource, flex, temporary, unclassified below 0.5FTE, OHSU student, non-OHSU student, and graduate assistant.

There are two representational groups setup with time off accruals based on the academic year: Graduate Researchers United (GRU) and House Officers Union (HOU). PTO for GRU represented employees is earned at the rate of 13.33 hours per month, with a maximum of 160 hours per year. These hours can be used for time off and sick leave. No cash-out of unused PTO GRU is available. GRU represented employees can carryover 10 days from one academic year to another. House Officers are granted 160 hours of vacation and 120 hours sick leave, front-loaded at the beginning of the academic year. Sick leave hours unused by the HOU represented employees during the academic year will carry over to the following appointment year. Vacation cash-out is not allowed for HOU represented employees and sick leave hours are not paid at separation.

In recognition of Juneteenth, employees have been granted 8 hours paid leave pro rated by FTE.

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(7) Retirement Plans

The University, excluding blended component units, offers various pension plans to all qualified employees: the State's Public Employees Retirement System (PERS), which includes a cost-sharing, defined-benefit plan, and a defined-contribution plan (individual account plan – IAP), the University Pension Plan (UPP), and the Clinical Retirement Plan (CRP).

(a) Defined-Benefit Pension Plan Descriptions

PERS is a cost-sharing, multiemployer retirement system available to units of state government, political subdivisions, community colleges, and school districts, containing multiple actuarial pools. Plan assets may be used to pay the benefits of the employees of any employer that provides pensions through the plan. As of the June 30, 2022 measurement date, there were 898 participating employers.

PERS is administered in accordance with ORS Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a). The State's legislature has delegated authority to the Public Employees Retirement Board (PERS Board) to administer the system. The PERS Board is composed of five trustees who administer retirement (service and disability), death, and retiree health insurance benefits. All members of the PERS Board are appointed by the governor and confirmed by the state senate. The governor designates the chairperson. Statute specifies PERS Board membership must be three people with experience in business management, pension management, or investing who are not members of the PERS system; one person who is either an employee of the state in a management position or a person who holds an elective office in the governing body of a participating public employer other than the state; and one person representing public employees and retirees.

The State's PERS issues a publicly available financial report that includes financial statements and required supplementary information, including a 10-year historical trend information showing the accumulation of sufficient assets to pay benefits when due. Copies of the State's PERS's Annual Comprehensive Financial Report (ACFR) and Actuarial Valuations may be obtained from the PERS website at <https://www.oregon.gov/pers/EMP/Pages/Actuarial-Financial-Information.aspx>.

PERS comprises three separate defined-benefit groups: PERS Tier 1, PERS Tier 2, and Oregon Public Service Retirement Plan (OPSRP).

(i) Benefits Provided

The following describes the benefits provided through the PERS plan:

(1) PERS Tier 1/PERS Tier 2

- (a) The Tier 1/Tier 2 plans are closed to new members hired on or after August 29, 2003.
- (b) Members are provided retirement, disability, and death benefits.

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- (c) Vesting occurs if either of the following conditions are met, unless the account is withdrawn:
 - 1. An active member in each of 5 calendar years
 - 2. Reached at least 55 years of age while working in a qualifying position (age 50 for police and fire members).
 - (d) The retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds.
 - (e) The basic benefit is based on years of service and final average salary. A percentage (2.00% for police and fire employees, 1.67% for general 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.
 - (f) Normal retirement age for general members is age 58 for Tier 1 and age 60 for Tier 2, or any age with 30 years or more of retirement credit. Normal retirement age for police and fire members is age 55, or age 50 with 25 years or more of retirement credit. Benefits are reduced if normal retirement age is not attained.
 - (g) Annual Cost of Living Adjustments (COLA) of up to 2% annually for service time accrued before October 1, 2013; COLA for service time after that date uses a lower rate. Service time accrued in both periods is "blended."
- (2) PERS OPSRP
- (a) The OPSRP plan is open to members hired on or after August 29, 2003.
 - (b) Members are provided retirement, disability, and death benefits.
 - (c) Vesting occurs if either of the following conditions are met, unless the account is withdrawn:
 - 1. Completion of at least 600 hours of service in each of five calendar years
 - 2. Reached normal retirement age as an active member on that date.
 - (d) The retirement allowance is payable monthly for life.
 - (e) The basic benefit is based on years of service and final average salary. A percentage (1.8% for police and fire employees, 1.5% for general employees) is multiplied by the number of years of service and the final average salary.

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- (f) Normal retirement age for general members is age 65, or age 58 with 30 years or more of retirement credit. Normal retirement age for police and fire members is age 60, or age 53 with 25 years or more of retirement credit. Benefits are reduced if normal retirement age is not attained.
- (g) Annual COLA of up to 2% annually for service time accrued before October 1, 2013; COLA for service time after that date uses a lower rate. Service time accrued in both periods is “blended.”

(ii) *Contributions*

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS defined-benefit plan and the other postemployment benefits (OPEB) plans.

The employer contribution rate for active employees is established by the PERS Board based upon actuarial valuations, which are performed once every two years to determine the level of employer contributions. Employer contribution rates during the period were based on the December 31, 2019 actuarial valuation. The rates were based on a percentage of payroll and first became effective July 1, 2021. The employer contribution rate for PERS Tier 1 and Tier 2 was 17.53% from July 1, 2021 to June 30, 2023. The employer contribution rate for OPSRP was 13.34% (OPSRP Police and Fire, 17.70%) from July 1, 2021 to June 30, 2023.

The State and certain schools, community colleges, and political subdivisions have made lump-sum payments to establish side accounts and their rates have been reduced. OHSU made \$10,000 lump-sum payments to PERS during fiscal years 2023 and 2022, respectively. Amounts contributed post measurement date, including fiscal years 2023 and 2022 side account contributions of \$10,000, are recorded as deferred outflows in the amount of \$63,913 and \$63,754 for the years ended June 30, 2023 and 2022, respectively. In fiscal year 2022, OHSU participated in the Employer Incentive Fund (EIF), a program that provided a 25% match on qualifying employer lump-sum payments. OHSU will recognize the \$2,500 match payment as state appropriations in fiscal year 2024.

The defined-benefit pension plan contributions can be found in the required supplementary information.

(iii) *Net Pension Liability*

OHSU's proportionate share of the net pension liability for PERS as of June 30, 2023 and 2022 is \$396,378 and \$305,955, respectively, utilizing a June 30, 2022 and 2021 measurement date, respectively. The net pension liability for the June 30, 2023 and 2022 fiscal year-end was determined based on the results of the December 31, 2020 and 2019 actuarial valuation rolled forward to the respective measurement dates using standard actuarial procedures.

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The basis for OHSU's proportion is actuarially determined by comparing OHSU's projected long-term contribution effort to the PERS cost-sharing, multiple-employer defined-benefit pension plan with the total projected long-term contribution effort of all participating employers. OHSU's proportionate share was 2.59% for the June 30, 2022 measurement date and 2.56% for the June 30, 2021 measurement date.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of PERS, and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(iv) *Proportionate Share of Pension Expense and Deferrals Related to Pensions*

OHSU's pension expense for the years ended June 30, 2023 and 2022 was \$37,947 and \$23,008, respectively. The pension expense, which is considered period interest cost, service cost, amortization of deferred outflows and inflows, and changes in benefit terms, has increased since prior year and is included in salaries, wages, and benefits in the statements of revenues, expenses, and changes in net position.

In July 2021, the assumed rate of return on investments was reduced from 7.20% to 6.90%. The new assumed rate was also used in the actuarial valuation, which established the employer contribution rates for the 2021-23 biennium.

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Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of the fiscal years ended June 30, 2023 and 2022:

| | Deferred outflow of resources | | Deferred inflow of resources | |
|--|--|----------------|---|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Differences between expected and actual experience | \$ 19,241 | 28,639 | (2,472) | — |
| Changes of assumptions | 62,194 | 76,591 | (568) | (805) |
| Net difference between projected and actual earnings on pension plan investments | — | — | (70,865) | (226,496) |
| Changes in proportionate share | 4,370 | — | (33,275) | (50,333) |
| Differences between contributions and OHSU's proportionate share of system contributions | <u>3,503</u> | <u>5,528</u> | <u>(33,860)</u> | <u>(734)</u> |
| Total (prior to post-MD contributions) | 89,308 | 110,758 | (141,040) | (278,368) |
| Contributions subsequent to the measurement date | <u>63,913</u> | <u>63,754</u> | <u>—</u> | <u>—</u> |
| Gross deferred outflow (inflow) of resources | <u>\$ 153,221</u> | <u>174,512</u> | <u>(141,040)</u> | <u>(278,368)</u> |

The contributions made subsequent to the measurement date of \$63,913 will be recognized as a reduction in the net pension liability during the year ending June 30, 2024.

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Remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Fiscal year ending | Deferred outflow (inflow) of resources |
|---------------------------|---|
| 2024 | \$ (13,751) |
| 2025 | (21,398) |
| 2026 | (40,443) |
| 2027 | 26,216 |
| 2028 | (2,356) |
| Total | \$ (51,732) |

(v) *Actuarial Methods and Assumptions*

The following methods and assumptions were used in developing total pension liability reported as of June 30, 2023 and 2022:

| Actuarial methods and Assumptions | 2023 | 2022 |
|--|---|---|
| Valuation date | December 31, 2020 | December 31, 2019 |
| Measurement date | June 30, 2022 | June 30, 2021 |
| Experience study report | 2020, published July 2021 Based on data for the experience period January 1, 2017 to December 31, 2020 | 2018, published July 2019 Based on data for the experience period January 1, 2015 to December 31, 2018 |
| Actuarial assumptions: | | |
| Actuarial cost method | Entry age normal | Entry age normal |
| Inflation rate | 2.40 % | 2.40 % |
| Long-term expected rate of return | 6.90 | 6.90 |
| Discount rate | 6.90 | 6.90 |
| Projected salary increases | 3.40 | 3.40 |
| Cost of Living Adjustments (COLA) | Blend of 2% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> case decision; blend based on service | Blend of 2% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> case decision; blend based on service |

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| Actuarial methods and Assumptions | 2023 | 2022 |
|-----------------------------------|---|---|
| Mortality | <p>Healthy retirees and beneficiaries: Pub-2010 Healthy retiree, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustment and set-backs as described in the valuation.</p> <p>Active members: Pub-2010 Employee, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation.</p> <p>Disabled retirees: Pub-2010 Disabled retirees, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation.</p> | <p>Healthy retirees and beneficiaries: Pub-2010 Healthy retiree, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustment and set-backs as described in the valuation.</p> <p>Active members: Pub-2010 Employee, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation.</p> <p>Disabled retirees: Pub-2010 Disabled retirees, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation.</p> |

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 2020 experience study, used in developing total pension liability measured as of June 30, 2022, was based on the data for the experience period January 1, 2017 to December 31, 2020.

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(vi) *Discount Rate*

The discount rate used to measure the total pension liability for the fiscal years ended June 30, 2023 and 2022 was 6.90% and 6.90%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for PERS was applied to all periods of projected benefit payments to determine the total pension liability. The impact of a 1.00% decrease and increase in the discount rate on the net pension liability is as follows:

Discount Rate Sensitivity – Net Pension Liability

(Dollars in thousands)

| <u>OHSU's proportionate share</u> | <u>1% Decrease</u> | <u>Current discount rate</u> | <u>1% Increase</u> |
|-----------------------------------|--------------------|----------------------------------|--------------------|
| June 30, 2023 | \$ 702,942 | 396,378 | 139,798 |
| June 30, 2022 | 600,822 | 305,955 | 59,258 |

(vii) *Investments*

The Oregon State Treasury is the investment officer for the State. Investment standards are established in ORS 293.726 and require funds to be managed as a prudent investor would do. The Oregon Investment Council (OIC) establishes policies for the investment and reinvestment of moneys in the Oregon Public Employees Retirement Fund (OPERF).

ORS 293.701 defines the investment funds over which OIC has responsibility. Included is the OPERF, which comprises the defined-benefit pension plan, the individual account program, and the other postemployment benefit plans. OIC establishes policies for the investment and reinvestment of moneys in the investment funds as well as the acquisition, retention, management, and disposition of investments in the investment funds. OIC is also responsible for providing an examination of the effectiveness of the investment program.

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(1) *Assumed Asset Allocation*

The following table illustrates both the assumed and actual asset allocation. Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of the measurement date June 30, 2022:

OIC Target and Actual Investment Allocation as of June 30, 2022*

| <u>Asset class/strategy</u> | <u>OIC policy low range</u> | <u>OIC policy high range</u> | <u>OIC target allocation</u> | <u>Asset class/strategy</u> | <u>Actual allocation²</u> |
|------------------------------------|---------------------------------|----------------------------------|----------------------------------|------------------------------------|--|
| Debt securities | 15.0 % | 25.0 % | 20.0 % | Debt securities | 19.8 % |
| Public equity | 25.0 | 35.0 | 30.0 | Public equity | 21.2 |
| Real estate | 7.5 | 17.5 | 12.5 | Real estate | 13.6 |
| Private equity | 15.0 | 27.5 | 20.0 | Private equity | 28.0 |
| Risk parity | — | 3.5 | 2.5 | Risk Parity | 2.0 |
| Real assets | 2.5 | 10.0 | 7.5 | Real Assets | 7.9 |
| Diversifying strategies | 2.5 | 10.0 | 7.5 | Diversifying Strategies | 4.9 |
| Opportunity portfolio ¹ | — | 5.0 | — | Opportunity portfolio ¹ | 2.6 |
| Total | | | <u>100.0 %</u> | Total | <u>100.0 %</u> |

¹ Opportunity portfolio is an investment strategy, and it may be invested up to 5% of total Fund assets.

² Based on the actual investment value at June 30, 2022.

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The following table illustrates both the assumed and actual asset allocation. Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of the measurement date June 30, 2021:

OIC Target and Actual Investment Allocation as of June 30, 2021*

| <u>Asset class/strategy</u> | <u>OIC policy low range</u> | <u>OIC policy high range</u> | <u>OIC target allocation</u> | <u>Asset class/strategy</u> | <u>Actual allocation²</u> |
|-------------------------------------|---------------------------------|----------------------------------|----------------------------------|-------------------------------------|--|
| Debt securities | 15.0 % | 25.0 % | 20.0 % | Debt securities | 20.8 % |
| Public equity | 27.5 | 37.5 | 32.5 | Public equity | 29.4 |
| Real estate | 9.5 | 15.5 | 12.5 | Real estate | 10.5 |
| Private equity | 14.0 | 21.0 | 17.5 | Private equity | 25.1 |
| Risk parity | — | 2.5 | 2.5 | Risk Parity | 2.4 |
| Alternatives portfolio ³ | 7.5 | 17.5 | 15.0 | Alternatives portfolio ³ | 9.5 |
| Opportunity portfolio ¹ | — | 5.0 | — | Opportunity portfolio ¹ | 2.3 |
| Total | | | <u>100.0 %</u> | Total | <u>100.0 %</u> |

¹ Opportunity portfolio is an investment strategy, and it may be invested up to 5% of total plan net position.

² Based on the actual investment value at June 30, 2021.

³ In October 2021, the alternative portfolio was split into real assets and diversifying strategies.

* The OIC target allocations are based on OIC asset classes as determined by each manager's primary investment type, not the financial statement classification of individual holdings. The target allocation amounts do not include deferred compensation plan investments. The actual investment allocation is based on the financial statement investment classifications, including deferred compensation plan investments. Risk parity is included with the alternatives portfolio.

(2) Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, the PERS Board reviews long-term assumptions developed by the consulting actuary's capital market assumptions team and the OIC investment advisers. The table below shows the actuary's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes

