



**OREGON HEALTH & SCIENCE UNIVERSITY FOUNDATION**  
(A Component Unit of Oregon Health & Science University)

Financial Statements and Required Supplementary Information

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 3800  
1300 South West Fifth Avenue  
Portland, OR 97201

## **Independent Auditors' Report**

The Board of Trustees  
Oregon Health & Science University Foundation:

We have audited the accompanying statements of net position of Oregon Health & Science University Foundation (the Foundation), a component unit of Oregon Health & Science University, as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oregon Health & Science University Foundation as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



***Other Matter***

U.S. generally accepted accounting principles require that the management's discussion and analysis, on pages 1 through 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**KPMG LLP**

Portland, Oregon  
October 17, 2014

**OREGON HEALTH & SCIENCE UNIVERSITY FOUNDATION**  
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Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

This section of the Oregon Health & Science University Foundation (OHSUF or the foundation) financial report presents a discussion and analysis of the foundation's financial performance during the fiscal years ended June 30, 2014 and 2013. This discussion has been prepared and approved by management along with the financial statements and related note disclosures, and should be read in conjunction with – and is qualified in its entirety by – the financial statements and notes. The discussion and analysis focuses on current activities, resulting changes, and current known facts.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the basic financial statements provided in this report. The foundation's basic financial statements include the statements of net position; the statements of revenues, expenses, and changes in net position; the statements of cash flows; and the notes to the financial statements.

- The statements of net position and the statements of revenues, expenses, and changes in net position provide information about the activities of the foundation as a whole and present a longer-term view of the foundation's finances. The statements of financial position presents the foundation's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the success of fund-raising and investment strategies, and the level of program support provided to Oregon Health & Science University (OHSU).
- The statements of revenues, expenses, and changes in net position present financial results for the foundation by separating operating revenues and operating expenses from nonoperating activities and other changes in net position. Evaluating the amount of operating income or loss can help determine if current contributions are keeping pace with program service spending and the costs of operating the foundation. The section of the report that shows nonoperating activities and other changes in net position quantifies the financial impact of nonexpendable contributions and other activities and transactions that took place during the reporting period. The level of investment income during the reporting period provides an indication of how investment activity is impacting the value of foundation funds held in marketable investments.
- The statements of cash flows present information related to cash inflows and outflows summarized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. This statement will help to analyze which foundation activities (operating, noncapital financing, capital, or investing) are producing or utilizing cash in the time periods represented in the financial reports.

The financial statements described above can be found on pages 10–13 of this report. The notes to the financial statements can be found on pages 14–32.

**Financial Highlights**

Contributions (including nonexpendable donations and life income agreements) to OHSUF in fiscal year 2014 totaled \$105.0 million. When compared to the prior year, 2014 contribution levels decreased by \$39.7 million or 27.4%, due primarily to a \$100 million gift from Phil and Penny Knight for the establishment of the OHSU Knight Cardiovascular Institute in the prior year.

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Program services provided to OHSU totaled \$94.5 million. This level of program support was 27.8% higher than the \$74.0 million provided in fiscal year 2013, an increase of \$20.5 million. Compared to the prior year, additional program support of \$17.3 million was provided for capital projects, primarily related to the Oregon University System/Collaborative Life Science Building and the new School of Dentistry. Additional program support of \$3.9 million was provided for academic support.

Investment performance for OHSUF is primarily composed of the investment results of the endowment fund investment pool (endowment fund) and current fund investment pool (current fund). Fiscal year 2014 investment returns resulted in a net gain of \$55.9 million. The investment performance of the endowment fund, which is a fully diversified investment portfolio, resulted in a 14.0% net investment gain, which trailed the benchmark return for the portfolio of 15.7%. This performance followed a net investment gain of 9.6% in fiscal year 2013. The investment performance of the current fund, which is invested primarily in short-term fixed-income securities, resulted in a 2.0% net investment gain, which exceeded the benchmark return of 0.8% for the portfolio. This performance was similar to the prior year performance, which resulted in a net investment gain of 1.2%. In fiscal year 2014, the fair value of OHSUF's endowment fund increased by \$41.4 million or 11.7% and the fair value of the current fund increased by \$34.4 million or 14.6%.

Donations as well as investment gains contributed to an increase of \$57.6 million in total net position in fiscal year 2014. As of June 30, 2014, OHSUF had total assets of \$849.1 million, total liabilities of \$75.0 million and net position of \$774.1 million.

In September 2013, Phil and Penny Knight challenged OHSU (the Knight Cancer Challenge) to raise \$500 million which they would match for a total of \$1 billion. If the challenge is successfully met, these funds will be used to help in the fight to eradicate cancer, particularly through advanced early detection. We have until February, 2016 to successfully meet the Knight Cancer Challenge and we are 86% toward the goal.

**Assets**

OHSUF's assets primarily consist of cash and cash equivalents, pledges and estates receivable, and long-term investments. On the statements of net position, assets are classified based on the type of underlying investment as of the date of the statements of net position and considering restrictions on associated assets.

Highlights related to specific asset types include the following:

- Current assets consist of cash and cash equivalents, short-term investments, accrued interest on investments, prepaid expenses, and the current portion of restricted pledges and estates receivable.

*Cash and cash equivalents and short-term investments* balances on June 30, 2014 totaled \$6.1 million. Cash and cash equivalents and short-term investments totaled \$2.7 million and \$3.3 million on June 30, 2013 and 2012, respectively.

*Pledges and estates receivable, current portion* includes the value of outstanding pledges (less an allowance for uncollectible accounts) and the estimated value of estates of which the foundation is a named beneficiary (less an allowance for uncollectible estates receivable). On June 30, 2014, the foundation had net pledges receivable of \$112.1 million and estates receivable of \$2.2 million. The current portion of net pledges and estates receivable is \$29.7 million at June 30, 2014. On June 30, 2013, the foundation had net

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pledges receivable of \$139.1 million and estates receivable of \$1.3 million. The current portion of net pledges and estates receivable is \$38.0 million at June 30, 2013. On June 30, 2012, the foundation had net pledges receivable of \$76.0 million and estates receivable of \$0.1 million. The current portion of net pledges and estates receivable was \$20.2 million at June 30, 2012. The value of the outstanding pledges in 2014, 2013, and 2012 includes \$66.0 million, \$119.0 million, and \$58.0 million, respectively, which is the combined remaining balance of the \$100 million pledge received in 2013 for support of the OHSU Knight Cardiovascular Institute and the \$100 million pledge received in 2009 for support of the OHSU Knight Cancer Institute.

- Noncurrent assets consist of restricted cash and long-term investments, accounts receivable from OHSU, the long-term portion of restricted pledges receivable (less a discount for present value and an allowance for uncollectible amounts), other receivables and capital assets, net of accumulated depreciation.

*Long-term investments* consist of assets invested in the current fund, the endowment fund, and assets related to life income agreements. Long-term and restricted investments totaled \$716.6 million as of June 30, 2014, an increase of \$102.1 million over the prior fiscal year. During 2014, the OHSUF portion of the endowment pool increased by \$41.4 million and the OHSUF portion of the current fund increased by \$34.4 million. The increase in the endowment fund was primarily due to new contributions and investment gains offset by liquidations in the portfolio made to fund spending distributions. The increase in the current fund was due primarily to receipt of pledge payments. As of June 30, 2013, long-term and restricted investments totaled \$614.4 million, an increase of \$41.0 million from 2012. Changes in the value of long-term investments during 2013 resulted primarily from new contributions and investment gains offset by spending distributions.

*Pledges, noncurrent* net of discounts total \$84.6 million at June 30, 2014, \$102.3 million at June 30, 2013, and \$55.9 million at June 30, 2012. For further information on pledges receivable, refer to the information provided above and in note 5.

*Capital assets, net of accumulated depreciation* totaled \$0.4 million at the end of 2014 and \$0.5 million at the end of 2013 and 2012.

Total assets were \$849.1 million, \$768.1 million, and \$664.1 million as of June 30, 2014, 2013, and 2012, respectively. Assets increased in 2014 when compared to 2013 by \$81.0 million or 10.6%. Assets increased in 2013 when compared to 2012 by \$104.0 million or 15.7%. The increases in total assets are related to new contributions received and investment gains in excess of operating expenses.

### **Liabilities**

- Current liabilities consist of accounts payable and accrued liabilities, a significant portion of which is due to OHSU, and the current portion of leasehold incentives related to the Salmon Street office location. Current liabilities totaled \$44.3 million on June 30, 2014, \$35.8 million on June 30, 2013, and \$28.9 million on June 30, 2012. The 2014 balance is an increase of \$8.5 million from 2013. The 2013 balance is an increase of \$6.9 million from 2012. These increases are primarily related to an increase in the amount due to OHSU. Fluctuations in the amounts due to OHSU are expected to occur each year based on the timing of reimbursements to OHSU for expenditures of amounts in accordance with donor intent.

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- Noncurrent liabilities of \$30.7 million, \$15.8 million, and \$15.9 million at June 30, 2014, 2013, and 2012, respectively, consist of amounts held by the foundation that were due to other institutions, the long-term portion of lease incentives, and the liability for life income agreements. The values of the liability for life income agreements increased \$13.8 million or 96.0% in 2014 primarily due to accrual of the liability associated with a charitable lead trust received during the period.

Total liabilities are equal to approximately 8.8%, 6.7%, and 6.8% of foundation assets as of June 30, 2014, 2013, and 2012, respectively.

### Net Position

Net position is classified as net investment in capital assets, restricted, or unrestricted. Restricted net position is classified as nonexpendable or expendable. Nonexpendable net position is required to be retained in perpetuity. Expendable net position may be spent in the future in accordance with specified donor or other externally imposed restrictions.

Highlights of significant changes in net position are provided below:

- Nonexpendable restricted net position totaled \$174.2 million, \$166.7 million, and \$161.1 million as of June 30 in 2014, 2013, and 2012, respectively. The increases of \$7.5 million from 2013 to 2014 and \$5.6 million from 2012 to 2013 resulted primarily from new contributions.
- Expendable restricted net position totaled \$549.2 million, \$499.8 million, and \$405.5 million on June 30, 2014, 2013, and 2012, respectively. This represents increases of \$49.4 million in 2014 and \$94.3 million in 2013 primarily resulted from new contributions received for program support and investment gains offset by program support expenses.
- Unrestricted net position totaled \$50.3 million at June 30, 2014, \$49.6 million at June 30, 2013, and \$52.1 million at June 30, 2012. The increase in 2014 is primarily related to new unrestricted gifts and investment growth offset by supporting service expenses. The decrease in 2013 is primarily related to use of reserves to fund foundation operations offset by contributions and investment growth in unrestricted quasi-endowments and the current fund.
- Overall, as of June 30, 2014, net position totaled \$774.1 million an increase of \$57.6 million. As of June 30, 2013, net position totaled \$716.5 million, an increase of \$97.3 million compared to the 2012 balance of \$619.2 million. These increases are primarily resulted from new contributions and investment returns.

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## Foundation Summary Schedule of Net Position

	June 30		
	2014	2013	2012
Noncapital assets	\$ 848,772,220	767,616,904	663,509,118
Capital assets	367,773	508,741	550,502
Total assets	\$ 849,139,993	768,125,645	664,059,620
Current liabilities	\$ 44,299,814	35,807,739	28,934,453
Noncurrent liabilities	30,737,138	15,808,649	15,933,642
Total liabilities	\$ 75,036,952	51,616,388	44,868,095
Net position:			
Net investment in capital assets	\$ 367,773	508,741	550,502
Restricted net position	723,397,726	666,446,338	566,590,255
Unrestricted net position	50,337,542	49,554,178	52,050,768
Total net position	\$ 774,103,041	716,509,257	619,191,525

## Operating Revenues

Operating revenues for fiscal year 2014 totaled \$100.5 million, compared to \$143.7 million in fiscal year 2013 and \$38.9 million in fiscal year 2012. The primary component of operating revenues was contributions, which for 2014 totaled \$98.2 million. This represents a decrease of \$42.8 million or 30.4% from 2013 to 2014 and an increase of \$104.7 million or 288.8% from 2012 to 2013.

Total contributions including nonexpendable contributions for 2014 primarily included new cash gifts of \$26.8 million, new pledges of \$57.1 million, bequests of \$7.3 million and deferred irrevocable gifts of \$12.9 million. Contributions for 2013 primarily included new cash gifts of \$24.1 million, new pledges of \$114.0 million, including \$100 million received from Phil and Penny Knight to support the OHSU Knight Cardiovascular Institute, bequests of \$5.5 million and deferred irrevocable gifts of \$0.8 million.

## Operating Expenses

Program services expense provided to OHSU totaled \$94.5 million in 2014, \$74.0 million in fiscal year 2013, and \$61.8 million in fiscal year 2012. The level of support provided in 2014 exceeds the level provided in 2013 by \$20.5 million and 2013 exceeds the level provided in 2012 by \$12.1 million. The higher level of program service expense provided to OHSU results from transfers to complete the Oregon University System/OHSU Collaborative Life Science Building.

Supporting services expense totaled \$15.7 million for fiscal year 2014, \$13.5 million for fiscal year 2013 and \$13.3 million for fiscal year 2012. The level of expense in fiscal year 2014 reflects an increase of \$2.2 million or 16.3% over fiscal year 2013 primarily due to campaign advertising costs related to the Knight Cancer Challenge. Fiscal year 2013 is comparable to fiscal year 2012.



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Total operating expenses for fiscal year 2014 were \$110.2 million, compared with \$87.5 million in 2013 and \$75.1 million in 2012. Higher expenses in 2014 and 2013 are primarily related to the increased level of capital projects and planning program service expense provided to OHSU.

Operating revenues less operating expenses resulted in an operating loss of \$9.7 million in 2014, operating income of \$56.3 million in 2013, and an operating loss of \$36.2 million for fiscal year 2012. During 2014 and 2012, program services and supporting services expenses exceeded contributions, resulting in an operating loss. During 2013, contributions exceeded the level of program services and supporting services expenses, resulting in operating income. An operating loss occurs during times when contributions raised in prior years are used to fund current year programs and projects. The use of gift funds in a period other than when the gift is received occurs frequently and can be caused by a variety of factors. Examples of the types of situations that can cause this include when the receipt of a pledge or estate gift is included as contribution revenue in one year, but funded by the donor and used for program support in a subsequent year; when the use of funds are delayed because the donor's restrictions were not met in the year in which the gift was received; and when program expenses are supported by the endowment spending distribution, which is funded by investment income classified as nonoperating revenue.

**Nonoperating Activities**

Investment performance for OHSUF, net of investment management fees, resulted in investment income of \$55.9 million and \$35.2 million in fiscal years 2014 and 2013, respectively, and investment losses of \$1.9 million in fiscal year 2012. The fiscal year 2014 activities reflected a 2.0% return on the current fund and a 14.0% investment return on the endowment fund, compared to a 1.2% return on the current fund and a 9.6% investment return the endowment fund in 2013, and a 1.3% return on the current fund and a 2.3% loss on the endowment fund in 2012. In 2014, endowment investment performance trailed its total asset benchmark by 1.7% and during 2013 exceeded its total asset benchmark by 0.3%.

Nonoperating activities also include the change in value of life income agreements. The foundation estimates its obligation to beneficiaries under life income agreements, and the annual change in this estimate is recorded as a change in value of life income agreements in the accompanying statements of revenues, expenses, and changes in net position. The change in value of life income agreements was an increase of \$1.5 million in 2014 and \$1.0 million in 2013. The change in value reflects the investment gains and losses of the underlying investments of the life income agreements.

Other nonoperating revenue activities totaled \$3.0 million, \$1.1 million, and \$0.8 million in 2014, 2013, and 2012, respectively.

**Other Changes in Net Position**

Other changes in net position consist of nonexpendable donations, and life income agreement donations of \$6.9 million in 2014, \$3.7 million in 2013 and \$11.5 million in 2012. The change is related to permanently restricted contributions to the endowment fund during the year.

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**Changes in Net Position**

In fiscal year 2014, there was an increase in net position of \$57.6 million compared to an increase in net position of \$97.3 million in 2013 and a decrease in net position of \$26.1 million in 2012. When comparing the current year performance to the prior years, each year has been impacted differently, with the primary drivers being contributions, program service expense and investment income. The increase in net position in 2014 and 2013 resulted from new contributions and investment income, the decrease in net position in 2012 resulted from program service expense and investment losses.

	<b>Years ended June 30</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Operating revenues:			
Contributions	\$ 98,156,410	140,967,404	36,255,793
Other income	2,372,393	2,763,075	2,674,351
Total operating revenues	<u>100,528,803</u>	<u>143,730,479</u>	<u>38,930,144</u>
Operating expenses:			
Program services	94,518,162	73,960,571	61,830,580
Supporting services	15,713,198	13,509,375	13,291,953
Total operating expenses	<u>110,231,360</u>	<u>87,469,946</u>	<u>75,122,533</u>
Operating (loss) income	(9,702,557)	56,260,533	(36,192,389)
Investment income (loss), net	55,897,079	35,161,142	(1,877,278)
Other nonoperating revenue	4,534,975	2,183,635	424,795
Income (loss) before other changes in net position	50,729,497	93,605,310	(37,644,872)
Nonexpendable donations	6,864,287	3,712,422	11,500,216
Change in net position	57,593,784	97,317,732	(26,144,656)
Beginning net position	716,509,257	619,191,525	645,336,181
Ending net position	<u>\$ 774,103,041</u>	<u>716,509,257</u>	<u>619,191,525</u>

The level of expendable and nonexpendable contributions raised totaled \$105.0 million, \$144.7 million, and \$47.8 million in fiscal years 2014, 2013, and 2012, respectively. The foundation provided program services support to OHSU of \$94.5 million in 2014, \$74.0 million in 2013 and \$61.8 million in 2012.

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Statements of Net Position

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,473,387	1,600,816
Short-term investments	630,985	1,127,129
Accrued interest on investments	1,043,530	1,230,584
Prepaid expenses	194,786	182,085
Pledges and estates receivable, current portion (net)	<u>29,678,421</u>	<u>38,007,853</u>
Total current assets	<u>37,021,109</u>	<u>42,148,467</u>
Noncurrent assets:		
Restricted assets:		
Cash and long-term investments	671,654,298	566,834,559
Due from OHSU	9,277,793	6,969,971
Pledges, noncurrent (net)	<u>84,605,698</u>	<u>102,310,968</u>
Total restricted assets	<u>765,537,789</u>	<u>676,115,498</u>
Long-term investments	44,917,632	47,588,476
Other receivables	1,295,690	1,764,463
Capital assets, net of accumulated depreciation of \$1,417,184 and \$1,296,449, respectively	<u>367,773</u>	<u>508,741</u>
Total noncurrent assets	<u>812,118,884</u>	<u>725,977,178</u>
Total assets	<u>\$ 849,139,993</u>	<u>768,125,645</u>
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,367,243	1,889,623
Due to OHSU	41,839,211	33,824,756
Leasehold incentives, current portion	<u>93,360</u>	<u>93,360</u>
Total current liabilities	<u>44,299,814</u>	<u>35,807,739</u>
Noncurrent liabilities:		
Due to other institutions	2,508,892	1,267,917
Leasehold incentives, noncurrent	101,148	194,508
Liability for life income agreements	<u>28,127,098</u>	<u>14,346,224</u>
Total noncurrent liabilities	<u>30,737,138</u>	<u>15,808,649</u>
Total liabilities	<u>75,036,952</u>	<u>51,616,388</u>
Net position:		
Net investment in capital assets	367,773	508,741
Restricted for:		
Nonexpendable:		
Research	22,184,798	21,578,914
Academic support	61,767,315	59,762,214
Instruction	36,757,331	33,114,141
Student aid	39,001,057	38,285,893
Other	<u>14,492,044</u>	<u>13,923,311</u>
Total nonexpendable restricted net position	<u>174,202,545</u>	<u>166,664,473</u>
Expendable:		
Research	274,061,103	227,139,281
Academic support	170,787,282	157,434,025
Instruction	35,866,763	29,340,239
Capital projects and planning	5,506,051	25,214,896
Student aid	25,155,647	19,854,970
Clinical support	12,798,980	13,396,516
Institutional support	12,467,456	12,853,373
Other	<u>12,551,899</u>	<u>14,548,565</u>
Total expendable restricted net position	<u>549,195,181</u>	<u>499,781,865</u>
Total restricted net position	<u>723,397,726</u>	<u>666,446,338</u>
Unrestricted net position	<u>50,337,542</u>	<u>49,554,178</u>
Total net position	<u>774,103,041</u>	<u>716,509,257</u>
Total liabilities and net position	<u>\$ 849,139,993</u>	<u>768,125,645</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
Operating revenues:		
Contributions:		
Donations	\$ 86,019,908	140,428,649
Annuity and life income agreements	12,136,502	538,755
Total contributions	98,156,410	140,967,404
Other income:		
Management fees	850,218	772,909
Other income	1,522,175	1,990,166
Total other income	2,372,393	2,763,075
Total operating revenues	100,528,803	143,730,479
Operating expenses:		
Program services:		
Research	34,510,796	33,843,497
Academic support	14,985,540	11,079,968
Instruction	4,931,945	5,551,432
Institutional support	2,728,933	1,734,109
Public service	2,834,933	2,363,278
Capital projects and planning	26,457,644	9,185,154
Student aid	2,373,777	2,907,396
Clinical support	5,624,087	7,262,751
Transfers to other institutions	70,507	32,986
Total program services	94,518,162	73,960,571
Supporting services:		
Salaries and other payroll expenses	11,665,807	11,208,435
Services and supplies	3,863,862	2,145,022
Depreciation	183,529	155,918
Total supporting services	15,713,198	13,509,375
Total operating expenses	110,231,360	87,469,946
Operating (loss) income	(9,702,557)	56,260,533
Nonoperating activities:		
Investment income, net of investment fees of \$7,054,086 and \$4,707,473 in 2014 and 2013, respectively	55,897,079	35,161,142
Change in value of life income agreements	1,539,550	1,047,927
Other nonoperating activities	2,995,425	1,135,708
Total nonoperating activities	60,432,054	37,344,777
Income before other changes in net position	50,729,497	93,605,310
Other changes in net position:		
Nonexpendable donations	5,911,006	3,712,422
Nonexpendable life income agreement donations	953,281	—
Total other changes in net position	6,864,287	3,712,422
Change in net position	57,593,784	97,317,732
Net position, beginning of year	716,509,257	619,191,525
Net position, end of year	\$ 774,103,041	716,509,257

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Donations	\$ 98,860,518	71,956,355
Life income agreement contributions	24,097,563	378,087
Management fee income	850,218	772,909
Other receipts	1,522,175	1,990,166
Salaries and other payroll expenses	(11,234,135)	(11,284,858)
Services and supplies	(3,913,408)	(2,398,109)
Program services	(84,913,278)	(73,217,343)
Net cash provided by (used in) operating activities	<u>25,269,653</u>	<u>(11,802,793)</u>
Cash flows from noncapital financing activities:		
Annuity payments to beneficiaries	(2,142,185)	(1,788,372)
Nonexpendable donations and life income agreements	11,749,184	5,001,474
Other noncapital financing activities	9,195,573	8,030,632
Net cash provided by noncapital financing activities	<u>18,802,572</u>	<u>11,243,734</u>
Cash flows from capital and related financing activity:		
Purchase of capital assets	(43,278)	(135,660)
Net cash used in capital and related financing activity	<u>(43,278)</u>	<u>(135,660)</u>
Cash flows from investing activities:		
Purchases of investments	(316,511,408)	(235,884,635)
Proceeds from sales and maturities of investments	269,069,644	228,901,362
Interest and dividend income	11,235,713	10,602,617
Investment income on trusts	3,255,772	1,820,503
Investment fees	(7,206,097)	(4,742,659)
Net cash (used in) provided by investing activities	<u>(40,156,376)</u>	<u>697,188</u>
Net increase in cash and cash equivalents	3,872,571	2,469
Cash and cash equivalents, beginning of year	<u>1,600,816</u>	<u>1,598,347</u>
Cash and cash equivalents, end of year	<u>\$ 5,473,387</u>	<u>1,600,816</u>

**OREGON HEALTH & SCIENCE UNIVERSITY FOUNDATION**  
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Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
Reconciliation of operating (loss) income to net cash provided by (used in) operating activities:		
Operating (loss) income	\$ (9,702,557)	56,260,533
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:		
Depreciation	183,529	155,918
Noncash contributions	(6,572,401)	(5,259,602)
Decrease (increase) in pledges and estates receivable	26,034,702	(64,226,214)
Decrease (increase) in prepaid expenses	32,299	(46,588)
Decrease in capital assets	717	—
Increase in obligations for life income agreements	13,692,797	1,017,499
Decrease in obligations for leasehold incentives	(93,360)	(93,360)
Increase in accounts payable and other liabilities	1,693,927	389,021
Net cash provided by (used in) operating activities	\$ 25,269,653	(11,802,793)
Schedule of noncash noncapital financial activities:		
Noncash nonexpendable donations and life income agreements	792,052	2,110,721

See accompanying notes to financial statements.

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Notes to Financial Statements

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**(1) Organization**

Oregon Health & Science University Foundation (OHSUF or the foundation) is an Oregon nonprofit corporation established in 1970 to support the missions of Oregon Health & Science University (OHSU) and to support statewide biomedical research. OHSUF is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The foundation is a blended component unit of OHSU for financial reporting purposes.

**(2) Summary of Significant Accounting Policies**

The foundation prepares its financial statements in accordance with U.S. generally accepted accounting principles as required for a governmental entity and, therefore, follows the accounting rules as promulgated by the Governmental Accounting Standards Board (GASB).

The foundation reports as a special-purpose government engaged in business-type activities whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

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

- *Net investment in capital assets* carries the depreciated value of capital purchases, net of related debt (if applicable).
- *Nonexpendable restricted net position* carries externally imposed restrictions that never expire.
- *Expendable restricted net position* carries externally imposed restrictions that expire in the future.
- *Unrestricted net position* carries no externally imposed restrictions.

Investment income earned on donor-restricted endowment funds, discussed in notes 2(f) and 4, in excess of the annual spending distribution is accounted for in the expendable restricted net position category.

The foundation first applies restricted resources to an expense where an expense is incurred for a purpose for which both restricted and unrestricted net position are available.

**(a) Operating Revenues**

The foundation includes unrestricted and expendable restricted contributions, management fee income, and other income from sales, services, and fund-raising activities in operating revenues. These revenues are key components of the operations of the foundation.

**(b) Operating Expenses**

The foundation includes program services provided to OHSU, supporting services of operating the foundation, and depreciation on property and equipment in operating expenses.

**(c) Operating Income and Changes in Net Position**

The statements of revenues, expenses, and changes in net position include operating income. Changes in net position, which are excluded from operating income, include net investment income

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(loss), nonexpendable donations and life income agreements, changes in value of life income agreements, and other nonoperating activities.

**(d) Revenue Recognition**

Contributions are voluntary, expendable, nonreciprocal transfers of assets, and may be made in the form of cash, securities, real property, personal property, materials and supplies, equipment, services, and unconditional promises to give those items in the future. Contributions, including estates receivable (substantiated undistributed estates) and promises to give, are recorded as revenue at fair value once all eligibility requirements are met, and are accounted for in the appropriate net position category based upon donor-imposed restrictions. Pledges and estates receivable with nonexpendable donor-imposed restrictions are not recognized in the statements of revenues, expenses, and changes in net position until the contribution is received.

Pledges are generally received within ten years of the date of the original commitment. The majority of estates are received within one year. Pledges and estates receivable, less an allowance for uncollectible amounts, are discounted to their present value using rates that range from 0.30% to 4.82%.

**(e) Investments**

Investments are stated at fair value based on the underlying investments of the pool. The fair value of all debt and equity securities with a readily determinable fair value is based on quotations obtained from national securities exchanges. Alternative investments, which are not readily marketable and lack publicly available market values, are carried at estimated fair value as provided by the investment managers. The foundation reviews and evaluates the values provided by its investment managers and considers the valuation methods and assumptions used in determining the fair value of the alternative investments to be reasonable. Those estimated fair values may differ significantly from the values that would have been used had a ready market for those securities existed. Other investments, comprised primarily of donated property, are recorded at their fair value at the time of receipt. In accordance with generally accepted accounting principles, real estate that is associated with endowments is valued at fair value. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains and losses and the unrealized gains and losses on those investments, is shown in the statements of revenues, expenses, and changes in net position as investment income, net of investment fees.

**(f) 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 Board of Trustees and is based on a three-year moving average of the fair value of the endowment fund. The Board of Trustees authorized a 4.5% distribution in the years ended June 30, 2014 and 2013.



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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 (UPMIFA) enacted by the state of Oregon in January 2008.

**(g) *Life Income Agreements***

The foundation has been named as a remainder beneficiary for various life income agreements including charitable remainder unitrusts, charitable remainder trust annuities, charitable gift annuities, and life estate agreements. Life income agreements provide for contractual payments to designated income beneficiaries for a specific period, after which the remaining principal and interest revert to the designated remainder beneficiaries. When the foundation is the trustee for life income agreements, the foundation records the fair value of the assets, the actuarially determined liability, and the difference between the asset and liability as a contribution during the period in which the eligibility requirements are met. Over the term of these life income agreements, any changes in actuarial assumptions and amortization of any discount are recorded in nonoperating activities as a change in the value of life income agreements in the accompanying statements of revenues, expenses, and changes in net position. For those life income agreements where the foundation is not the trustee, the foundation records a contribution in the period in which the donation is received if the foundation is not designated as the remainder beneficiary of the trust. For those life income agreements where the foundation is not the trustee, but is designated as an irrevocable remainder beneficiary, the foundation records a contribution and a receivable for the fair value of the remainder interest assets discounted to present value during the period in which the trust is established.

**(h) *Capital Assets, Net***

Capital assets are recorded at cost less accumulated depreciation, which is computed on a three-year, four-year, or five-year, straight-line basis for computer equipment, and a five-year, seven-year, or ten-year, straight-line basis for other capital assets. Leasehold improvements are depreciated over a ten-year, straight-line basis, or the lease term, whichever is shorter. Depreciation is calculated using the half-year convention.

**(i) *Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates affect reported amounts of assets and liabilities at the date of the financial statements and the reported income and expense during the reporting period. Actual results could differ from those estimates. Significant estimates include allowance rates for uncollectible pledges and estates, discount rates for pledges, estimates used in determining fair value of investments, and actuarial assumptions in the liability for life income agreements.

**(j) *Reclassifications***

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

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**(3) Cash and Investments**

**(a) Cash and Cash Equivalents**

Cash and cash equivalents include bank demand deposits, petty cash, and money market accounts with original maturities of three months or less at the date of purchase, that are not considered restricted long-term investments. For valuation purposes, cash and cash equivalents have observable inputs. Federal depository insurance provides a limited amount of protection for cash deposits, typically the first \$250,000 per account. The foundation does not include in its investment policy any requirement to collateralize deposits that exceed FDIC insured amounts. Cash equivalents including those held in restricted assets were \$35.1 million and \$20.4 million at June 30, 2014 and 2013, respectively.

**(b) Investments**

Through its Investment Committee, the Board of Trustees of OHSUF is responsible for the management of the foundation's investments. The Board of Trustees establishes investment policies for all funds and selects asset managers for the endowment fund and the current fund. The Vice President and Chief Financial Strategist of OHSUF directs the implementation of Board-designated actions.

**(4) Investment Pools and Distribution Policies**

The foundation maintains two primary internal investment pools. The current funds investment pool (current fund) is the repository for funds available for current operations. For all current funds not related to an endowment account, it is the practice of the foundation's Board of Trustees to utilize investment income on these funds for operations. At June 30, 2014 and 2013, the fair value of the foundation's investments in the current fund was \$269.8 million and \$235.4 million, respectively.

The endowment fund investment pool (endowment fund) 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. 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 interest, dividends, and changes in fair value on donor-restricted endowment funds are allocated to the appropriate restricted net position classification as specified by the donor at the time of receipt. 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, 2014 and 2013, the fair value of the foundation's investments in the endowment fund was \$395.9 million and \$354.5 million, respectively. Of these amounts, \$57.4 million and \$41.5 million as of June 30, 2014 and 2013, respectively, represent unspent earnings in excess of donor-restricted original contributions that are available for future designation to expenditure by the Board of Directors.

Spending distributions were not made for certain endowment accounts during fiscal year 2013 because the fair value of the individual endowment accounts dropped below the corpus. Spending distributions on these accounts were resumed once the earnings of the endowment fund were sufficient to restore the corpus and

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support the annual spending distribution. At June 30, 2014, there were no endowment accounts with a fair value below corpus. At June 30, 2013, accumulated loss of \$0.1 million related to endowment accounts with market value below corpus was reflected in nonexpendable restricted net position.

The foundation also has investments with a fair value of \$56.9 million and \$27.3 million at June 30, 2014 and 2013, respectively, related to its individually managed life income agreements. These investments are included in various separately managed individual charitable trusts and life estate agreements, in reinsured annuity contracts, or in the charitable gift annuity pool.

Foundation investment policies are established based on the investment objectives of the portfolio. Each portfolio has its own Board-authorized asset allocation guideline. The objective for the current fund is to earn a total return, net of fees and expenses, that exceeds the Merrill Lynch 1-3 Year Treasury index while also providing a reliable source of liquidity to meet short-term working capital needs. The current fund may invest in cash, cash equivalents, and fixed-income securities. The duration of the portfolio shall be within a range of 70% to 130% of the Merrill Lynch 1-3 Year Treasury Index. The objective for the endowment fund is 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, U.S. and non-U.S. equity securities and other alternative investments. Fixed-income securities held in this fund shall have a medium to long average duration (three to eight years). 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, U.S. and non-U.S. 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, U.S. and non-U.S. equities, fixed income, real estate and commodities.

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(a) ***Fair Value of Investments***

Investments at June 30, 2014 and 2013 are as follows:

<u>Asset classes</u>	<u>2014</u>	<u>2013</u>
Fixed income	\$ 328,939,865	293,464,899
Domestic equities	73,386,692	43,639,257
Non-U.S. equities	119,205,891	102,447,681
Venture capital/private equity	26,502,745	25,158,066
Marketable alternative investments	62,725,166	60,098,794
Real estate investments and contracts	24,020,191	22,653,523
Natural resource funds	42,814,842	37,779,924
Global tactical asset allocation	17,119,032	13,219,541
Mutual funds – nonfixed income	19,005,874	13,464,960
Annuity contracts	2,652,857	2,822,252
Insurance policies	829,760	801,267
	<u>\$ 717,202,915</u>	<u>615,550,164</u>

**Alternative Investments**

Alternative investments are defined under U.S. generally accepted accounting principles as those investments without readily determinable fair values. These investment vehicles differ by fund and can be in the form of limited partnerships, limited liability corporations, investment trusts, institutional funds, and offshore investment funds and are included primarily in the venture capital/private equity and marketable alternative investment categories in the table above. Alternative investment funds can contain certain types of financial instruments, including, among others, derivatives, futures, forward contracts, options, swaps, and securities sold not yet purchased, intended to hedge against changes in the fair value of investments or enhance potential risk-adjusted returns. The investment styles employed by the underlying managers include, but are not limited to, private equity, venture capital, buyout, absolute return, diversified arbitrage, merger arbitrage, event driven, commodities, real estate, energy, domestic long/short, global long/short, market neutral, and distressed.

These financial instruments involve varying degrees of risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and nonmarketable investments), and nondisclosure of full portfolio composition. Because some of these investments are not readily marketable, their estimated values are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

Alternative investments can be less liquid than other investments. When liquidity limitations are imposed on these alternative investments, the types of restrictions can include, but are not limited to, lockup provisions whereby the foundation is unable to redeem shares or invested capital of an investment for a period of time, usually between one and three years after the initial investment for

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June 30, 2014 and 2013

marketable alternative funds and ten to twelve years for private equity and venture capital funds, notice provisions whereby the foundation is required to give notice, ranging from 30 to 95 days, to transact a redemption of an investment after the expiration of any lockup provisions, and the establishment of gates, which further limit the timing and amount of a requested fund distribution beyond the specified lockup provisions.

**(b) Interest Rate and Credit Risk**

As of June 30, 2014, the foundation had the following fixed-income investments disclosed by maturity in the current fund, endowment fund, and life income agreement portfolios, stated at fair value:

<u>Investment type</u>	<u>Maturity</u>	<u>Endowment</u>	<u>Current funds</u>	<u>Other</u>	<u>Total</u>
U.S. government securities	1–5 years	\$ —	38,759,523	36,783	38,796,306
	6–10 years	—	—	3,789	3,789
U.S. agency securities	1–5 years	—	—	30,584	30,584
	6–10 years	—	—	5,988	5,988
International debt securities	More than 10 years	12,735,212	—	—	12,735,212
Corporate bonds	Less than 1 year	—	7,971,920	305,259	8,277,179
	1–5 years	—	87,807,965	418,549	88,226,514
Asset-backed securities and collateralized mortgage obligations	1–5 years	—	33,649,299	—	33,649,299
	6–10 years	—	2,465,674	—	2,465,674
	More than 10 years	—	26,500,928	—	26,500,928
Municipal bonds	1–5 years	—	2,957,243	—	2,957,243
	More than 10 years	—	4,615,717	—	4,615,717
Mutual funds – fixed income only	Less than 1 year	33,359,792	1,005,685	1,365,851	35,731,328
	1–5 years	11,364,229	3,831,849	5,747,217	20,943,295
	6–10 years	—	9,262,558	3,045,191	12,307,749
	More than 10 years	—	686,957	—	686,957
144A private debt obligations	Less than 1 year	—	4,361,770	—	4,361,770
	1–5 years	—	36,544,573	—	36,544,573
Certificate of deposit	Less than 1 year	—	—	99,760	99,760
Total		<u>\$ 57,459,233</u>	<u>260,421,661</u>	<u>11,058,971</u>	<u>328,939,865</u>

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As of June 30, 2013, the foundation had the following fixed-income investments disclosed by maturity in the current fund, endowment fund, and life income agreement portfolios, stated at fair value:

<u>Investment type</u>	<u>Maturity</u>	<u>Endowment</u>	<u>Current funds</u>	<u>Other</u>	<u>Total</u>
U.S. government securities	Less than 1 year	\$ 1,925,458	—	7,107	1,932,565
	1–5 years	8,052,462	39,511,045	16,385	47,579,892
	6–10 years	2,846,112	—	12,947	2,859,059
	More than 10 years	2,142,136	—	—	2,142,136
U.S. agency securities	Less than 1 year	—	—	101,029	101,029
	1–5 years	—	—	40,758	40,758
Corporate bonds	Less than 1 year	—	10,663,813	100,172	10,763,985
	1–5 years	—	71,928,333	536,027	72,464,360
Asset-backed securities and collateralized mortgage obligations	Less than 1 year	—	23,685,358	—	23,685,358
	1–5 years	—	29,437,506	—	29,437,506
Municipal bonds	Less than 1 year	—	12,997,997	—	12,997,997
	1–5 years	—	6,323,799	—	6,323,799
Mutual funds – fixed income only	Less than 1 year	28,712,309	1,284,371	782,654	30,779,334
	1–5 years	—	—	718,647	718,647
	6–10 years	11,837,860	10,755,110	5,696,865	28,289,835
	More than 10 years	—	—	18,666	18,666
144A private debt obligations	1–5 years	—	23,329,973	—	23,329,973
Total		<u>\$ 55,516,337</u>	<u>229,917,305</u>	<u>8,031,257</u>	<u>293,464,899</u>

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As of June 30, 2014, the foundation had the following fixed-income investments disclosed by credit quality in the current fund, endowment fund, and life income agreement portfolios, stated at fair value:

<u>Investment type</u>	<u>Credit quality</u>	<u>Endowment</u>	<u>Current funds</u>	<u>Other</u>	<u>Total</u>
U.S. government securities		\$ —	38,759,523	40,572	38,800,095
U.S. agency securities	AAA	—	—	36,572	36,572
International debt securities	AAA	2,432,425	—	—	2,432,425
	AA	3,094,656	—	—	3,094,656
	A	3,527,654	—	—	3,527,654
	BBB	2,445,161	—	—	2,445,161
	BB	1,057,023	—	—	1,057,023
	Not rated	178,293	—	—	178,293
Corporate bonds	AAA	—	—	100,562	100,562
	AA	—	2,765,736	104,199	2,869,935
	A	—	83,797,303	519,047	84,316,350
	BBB	—	9,216,846	—	9,216,846
Asset-backed securities and collateralized mortgage obligations	AAA	—	62,615,901	—	62,615,901
Municipal bonds	AA	—	2,310,130	—	2,310,130
	A	—	5,262,830	—	5,262,830
Mutual funds – fixed income only	AAA	34,609,857	562,205	5,767,159	40,939,221
	AA	340,927	—	630,292	971,219
	A	2,386,488	—	1,261,280	3,647,768
	BBB	4,432,049	104,664	1,892,007	6,428,720
	BB	795,496	6,059,088	247,291	7,101,875
	B	1,022,781	6,180,696	160,386	7,363,863
	Below B	1,136,423	—	144,730	1,281,153
	Not rated	—	1,880,396	55,114	1,935,510
144A private debt obligations	AA	—	6,484,608	—	6,484,608
	A	—	23,187,439	—	23,187,439
	BBB	—	11,234,296	—	11,234,296
Certificate of deposit	AAA	—	—	99,760	99,760
Total		<u>\$ 57,459,233</u>	<u>260,421,661</u>	<u>11,058,971</u>	<u>328,939,865</u>

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As of June 30, 2013, the foundation had the following fixed-income investments disclosed by credit quality in the current fund, endowment fund, and life income agreement portfolios, stated at fair value:

<u>Investment type</u>	<u>Credit quality</u>	<u>Endowment</u>	<u>Current funds</u>	<u>Other</u>	<u>Total</u>
U.S. government securities		\$ 14,966,168	39,511,045	36,439	54,513,652
U.S. agency securities	AAA	—	—	141,787	141,787
Corporate bonds	AA	—	17,908,998	212,625	18,121,623
	A	—	34,076,993	423,574	34,500,567
	BBB	—	30,606,155	—	30,606,155
Asset-backed securities and collateralized mortgage obligations	AAA	—	53,122,864	—	53,122,864
Municipal bonds	A-1	—	1,140,584	—	1,140,584
	AAA	—	682,785	—	682,785
	AA	—	9,415,694	—	9,415,694
	A	—	8,082,733	—	8,082,733
Mutual funds – fixed income only	AAA	24,369,160	1,284,371	4,677,652	30,331,183
	AA	4,531,118	—	564,983	5,096,101
	A	4,789,498	—	725,588	5,515,086
	BBB	5,579,852	32,379	843,086	6,455,317
	BB	928,667	3,902,707	168,210	4,999,584
	B	103,279	4,815,785	119,884	5,038,948
	Below B	248,595	1,690,166	64,380	2,003,141
	Not rated	—	314,073	53,049	367,122
144A private debt obligations	AA	—	4,755,167	—	4,755,167
	A	—	9,062,733	—	9,062,733
	BBB	—	9,512,073	—	9,512,073
Total		<u>\$ 55,516,337</u>	<u>229,917,305</u>	<u>8,031,257</u>	<u>293,464,899</u>

Mutual fund credit rating and maturity information is based on the average duration and ratings of the underlying fixed-income securities.

The foundation holds \$30.7 million of asset-backed securities collateralized primarily by auto loans, equipment, and credit card receivables, and \$31.9 of collateralized mortgage obligations as of June 30, 2014. The foundation holds \$17.7 million of asset-backed securities collateralized primarily by auto loans, equipment, and credit card receivables, and \$35.4 of collateralized mortgage obligations as of June 30, 2013. These investments were obtained in part to provide an attractive yield while limiting credit risk and to increase diversification compared to other high quality debt instruments. These securities are carried at fair value. 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



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prepayments. These factors may increase the interest rate volatility of the foundation's investment portfolio.

**(c) Credit Risk**

The current fund investment policy requires the weighted average quality of the portfolio to be AA or higher as rated by one or more of the nationally recognized credit-rating services. Investments shall generally emphasize U.S. Treasuries, Agencies, municipal bonds, and high-quality corporate securities. The below listed securities require initial minimum ratings or better from Moody's or Standard & Poor's as follows:

	<b>Minimum Moody's rating</b>	<b>Minimum Standard &amp; Poor's rating</b>
Commercial paper	P-1	A-1
Municipal bonds	A3	A-

At the time of purchase, all credits must be rated at least Baa3 by Moody's or BBB- by S&P. In the event of a split rating, the higher rating will prevail. Credits in the BBB or BAA rating category will have a maximum position of 1% of market value. Total exposure to BBB and/or Baa rated issues will not exceed 20%. A 5% target allocation to high yield bonds is allowed.

The endowment fund requires a weighted average credit rating of each fixed-income portfolio (within the fund) of A or higher. Issues of state or municipal agencies are prohibited, except under unusual circumstances. The endowment fund may hold up to a maximum of 10% of the fixed-income portion of the fund in below-investment -grade (but rated B or higher by Moody's or Standard & Poor's) fixed-income securities.

If the credit quality of a holding in the current or endowment 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.

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.

**(d) Concentration of Credit Risk**

The foundation's policies relating to the endowment fund and charitable gift annuity pool limit investments in any one issue to a maximum of 5%, except for issues of the U.S. government and its agencies or diversified mutual funds, which may be held without limitation. The foundation's investment policy for charitable trusts limits investments in any one issue to a maximum of 10%, except for issues of the U.S. government and its agencies or diversified mutual funds. The current fund investment policy places no limit on the amount that may be invested in any one issuer, except

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that a maximum of 3% may be invested in the securities of any nongovernmental issuer. As of June 30, 2014 and 2013, the foundation held no individual investments or investments with an issuer that have balances above 5% of its total invested assets or over 3% for nongovernmental issuers in the current fund.

**(e) Foreign Currency Risk**

The foundation's investment policies permit investments in international equity and other asset classes, which can include foreign currency exposure. The endowment fund allows up to 35% of the portfolio to be invested in international equities and up to 40% of the fixed-income portion of the fund to be invested in non-U.S. dollar-denominated bonds. The current fund allows up to 10% of the portfolio to be invested in non-U.S. 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 at June 30:

Foreign currency	Value (U.S. dollar)	
	2014	2013
Australian dollar	\$ 939,634	951,083
British pound sterling	3,741,439	3,437,901
Canadian dollar	2,225,974	1,242,615
Euro	2,828,138	2,489,571
Swiss franc	1,606,667	1,394,774
Total	\$ 11,341,852	9,515,944

**(f) Commitments**

As of June 30, 2014 and 2013, the foundation had total accumulated commitments to nonmarketable private alternative investments of \$69.1 million and \$69.6 million, respectively. As of June 30, 2014 and 2013, the foundation had funded \$57.8 million and \$55.8 million, respectively, of the total amount committed to these investments. These investments are structured as limited partnerships and include investments in U.S. and non-U.S. private equity, venture capital, natural resources, distressed securities, real estate, and energy.

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**(5) Restricted Pledges and Estates Receivable**

The foundation had the following restricted pledges and estates receivable as of June 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Pledges maturing within 1 year	\$ 28,381,454	37,160,803
Pledges maturing within 2–10 years	88,098,504	105,710,536
	116,479,958	142,871,339
Less allowance for uncollectible pledges	(2,529,687)	(1,195,506)
	113,950,271	141,675,833
Less discount for net present value (rates of 0.30% to 4.82%)	(1,882,192)	(2,612,103)
Total net pledges receivable	112,068,079	139,063,730
Estates receivable	2,332,674	1,321,147
Less allowance for uncollectible estates receivable	(116,634)	(66,056)
Total net estates receivable	2,216,040	1,255,091
Total restricted pledges and estates receivable, net	\$ 114,284,119	140,318,821

**(6) Trusts Held by Others**

The foundation is the named beneficiary of 29 and 30 trusts held by outside trustees as of June 30, 2014 and 2013, respectively. The fair value reported to management of trust assets held by others was \$45.2 million and \$40.5 million as of June 30, 2014 and 2013, respectively. Trust distributions from these assets are recorded as contributions as they occur. Trust distributions of \$1.4 million and \$1.8 million were recorded as contributions during fiscal years 2014 and 2013, respectively.

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**(7) Commitments**

The foundation leases its office on Salmon Street under a lease expiring as of the close of business on July 31, 2016. Doernbecher Children's Hospital Foundation (DCHF) shares office space and approximately 17.5% of the rental cost with the foundation under the foundation's lease. The foundation also entered into a lease for office space on OHSU's campus beginning July 1, 2010 and expiring as of the close of business on September 30, 2014. The total obligations under these leases are as follows for the years ending June 30:

	<b>Salmon Street Building</b>	<b>OHSU Buildings</b>	<b>Payments</b>
Year ending June 30:			
2015	\$ 500,210	5,489	505,699
2016	517,713	—	517,713
2017	43,265	—	43,265
Total			\$ 1,066,677

The foundation had net leasing costs of \$386,484 and \$397,482 during the years ended June 30, 2014 and 2013, respectively.

**(8) Related-Party Transactions**

**(a) DCHF**

The foundation has entered into a service agreement with DCHF. Under the terms of the agreement, the foundation provides management and staff resources and other support services to DCHF in the areas of program management, gift processing, donor program support, planned giving program support, communications, office services, accounting, and computer support. OHSUF has recorded \$971,438 related to this service agreement as reimbursement of supporting services expenses in the accompanying statements of revenues, expenses, and changes in net position for the year ended June 30, 2014. During the year ended June 30, 2013, OHSUF recorded \$1,191,356 related to this service agreement as management fee revenue in the accompanying statements of revenues, expenses, and changes in net position.

The foundation provides investment management services and administration services to DCHF for its current funds, which have a balance of \$24.0 million at June 30, 2014 and \$23.3 million at June 30, 2013. The foundation retains 100.0% of the net earnings or losses on these funds. The current fund had net earnings of 2.0% for the year ended June 30, 2014 and 1.2% for the year ended June 30, 2013. DCHF retains ownership of these funds.

The foundation provides investment management and administration services to DCHF for its endowment funds, which have a balance of \$29.7 million at June 30, 2014 and \$23.6 million at June 30, 2013. The foundation's fee is currently 1.6% of the three-year moving average of the fair value of the fund. DCHF retains ownership of these funds. The foundation has recorded revenues of

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approximately \$0.4 million included in the accompanying statements of revenues, expenses, and changes in net position for the years ended June 30, 2014 and 2013 related to investment management and administration services to DCHF for its endowment funds.

**(b) Faculty Practice Plan Reserve Funds**

In 2009, the OHSU Medical Group, a separate 501(c)(3) organization that was previously separate from OHSU, merged with OHSU. As a result of the merger, OHSU established Faculty Practice Plan Reserve Funds at the foundation. The foundation provides investment management and administration services for these funds that are held to benefit specific clinical departments within the OHSU Medical Group. In exchange for providing this service, the foundation charges a fee of 0.6% of the fund balance.

In conjunction with this merger, the Medical Group transferred funds to the foundation and at June 30, 2014 and 2013, approximately \$43.2 million and \$43.5 million, respectively, was held in Faculty Practice Plan Reserve Funds. The foundation provided approximately \$2.2 million and \$3.6 million of funds received during the merger for Faculty Practice Plan Reserve Funds to OHSU during the fiscal years ended June 30, 2014 and 2013, respectively.

Additionally, subsequent to the merger, departments within the OHSU Medical Group have deposited funds with the foundation. Approximately \$31.8 million and \$24.9 million of funds transferred subsequent to the merger are recorded in current liabilities due to OHSU at June 30, 2014 and 2013, respectively.

In total, the foundation held \$75.0 million and \$68.4 million of Faculty Practice Plan Reserve Funds at June 30, 2014 and 2013, respectively.

**(c) OHSU**

The foundation provides investment management services to OHSU for its endowment fund. The fair value of the OHSU endowment was \$92.3 million as of June 30, 2014 and \$82.6 million as of June 30, 2013. OHSU retains ownership of these funds; therefore, they are not reported on the foundation's financial statements. The foundation has recorded revenues of approximately \$1.4 million included in the accompanying statements of revenues, expenses, and changes in net position for each of the years ended June 30, 2014 and 2013 related to investment management services performed for OHSU.

In fiscal year 2014, the foundation entered into an agreement with OHSU whereby the foundation would provide program support advances for certain capital projects. Individual advances made under this agreement will not exceed 80% of the outstanding pledges or other assets related to the capital project. Total outstanding program support advances at June 30, 2014 were \$9.2 million for the School of Dentistry capital project. Fees related to this advance are currently assessed to OHSU at 2.74%.

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**(9) Capital Assets**

The following is a summary of capital assets for the fiscal years ended June 30, 2014 and 2013:

	<b>June 30, 2013 balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2014 balance</b>
Capital assets:				
Building lease improvements	\$ 327,719	—	—	327,719
Computer equipment	1,290,642	41,513	(63,510)	1,268,645
Office equipment	186,829	1,765	—	188,594
Total capital assets	<u>1,805,190</u>	<u>43,278</u>	<u>(63,510)</u>	<u>1,784,958</u>
Less accumulated depreciation:				
Building lease improvements	(190,768)	(44,383)	—	(235,151)
Computer equipment	(996,457)	(112,657)	62,793	(1,046,321)
Office equipment	(109,224)	(26,489)	—	(135,713)
Total accumulated depreciation	<u>(1,296,449)</u>	<u>(183,529)</u>	<u>62,793</u>	<u>(1,417,185)</u>
Total capital assets, net	<u>\$ 508,741</u>	<u>(140,251)</u>	<u>(717)</u>	<u>367,773</u>
	<b>June 30, 2012 balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2013 balance</b>
Capital assets:				
Building lease improvements	\$ 327,719	—	—	327,719
Computer equipment	1,246,276	105,409	(61,043)	1,290,642
Office equipment	178,081	8,748	—	186,829
Total capital assets	<u>1,752,076</u>	<u>114,157</u>	<u>(61,043)</u>	<u>1,805,190</u>
Less accumulated depreciation:				
Building lease improvements	(145,942)	(44,826)	—	(190,768)
Computer equipment	(972,552)	(84,948)	61,043	(996,457)
Office equipment	(83,080)	(26,144)	—	(109,224)
Total accumulated depreciation	<u>(1,201,574)</u>	<u>(155,918)</u>	<u>61,043</u>	<u>(1,296,449)</u>
Total capital assets, net	<u>\$ 550,502</u>	<u>(41,761)</u>	<u>—</u>	<u>508,741</u>

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The foundation has recorded depreciation expense of \$183,529 and \$155,918 for the years ended June 30, 2014 and 2013, respectively, which is included in supporting services in the accompanying statements of revenues, expenses, and changes in net position.

**(10) Defined Contribution and 403(b) Pension**

The foundation has a defined-contribution money purchase plan with investment options provided by TIAA/CREF and Standard Insurance Company. An eligible employee may direct how contributions are invested among the available investment options. The foundation serves as the plan administrator and reserves the right to amend, modify, or terminate the Plan at any time, provided that no amendment or modification shall act to reduce the balances of the individual accounts of any participant accrued to the time of such amendment or modification. For each plan year, the foundation has made a pension contribution to the plan equal to 12% of each participant's eligible compensation for the plan year. Contributions are fully vested after five years. The foundation's contributions to the plan were \$916,546 and \$823,096 during the years ended June 30, 2014 and 2013, respectively.

The foundation also has a 403(b) plan administered by both TIAA/CREF and The Vanguard Group. An employee may choose to make contributions through either TIAA/CREF or The Vanguard Group as an optional employee election with deferral up to maximum federal regulations. The foundation does not make contributions to the 403(b) plan as the employer.

**(11) Life Income Funds**

Life income contributions for the years ended June 30, 2014 and 2013 are as follows at the date of donation:

	2014			2013		
	Agreements	Asset	Liability	Agreements	Asset	Liability
Charitable remainder unitrusts	6	\$ 3,992,028	1,677,243	2	\$ 78,087	36,012
Charitable lead unitrusts	1	19,972,859	9,934,852	—	—	—
Charitable gift annuities	20	1,769,014	1,032,023	14	1,456,308	974,513
Life estate agreements	—	—	—	1	16,859	1,974
	<u>27</u>	<u>\$ 25,733,901</u>	<u>12,644,118</u>	<u>17</u>	<u>\$ 1,551,254</u>	<u>1,012,499</u>

Total life income instruments held at June 30, 2014 and 2013 are as follows:

	2014			2013		
	Agreements	Asset	Liability	Agreements	Asset	Liability
Charitable remainder unitrusts	63	\$ 22,919,864	10,475,894	62	\$ 16,124,219	7,166,276
Charitable lead unitrusts	1	20,121,596	9,943,937	—	—	—
Charitable remainder trust annuities	6	700,514	289,645	7	708,416	259,576
Charitable gift annuities	193	10,748,555	6,896,334	188	9,528,675	6,468,973
Life estate agreements	4	1,299,036	521,288	4	1,335,860	451,399
	<u>267</u>	<u>\$ 55,789,565</u>	<u>28,127,098</u>	<u>261</u>	<u>\$ 27,697,170</u>	<u>14,346,224</u>

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Twenty charitable gift annuities, included above, with a total gift value of \$4.8 million, have been reinsured with insurance carriers in order to reduce liability exposure. Under the reinsurance contracts, the insurance carrier pays the future beneficiary payments. To the extent the insurance carriers are unable to perform under the contract, the foundation would be responsible for payment.

Changes in OHSUF's liability for life income agreements during the fiscal years ended June 30, 2014 and 2013 are summarized below:

	<b>June 30, 2013 balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2014 balance</b>
Charitable remainder unitrusts	\$ 7,166,276	6,218,077	(2,908,459)	10,475,894
Charitable lead unitrusts	—	10,122,988	(179,051)	9,943,937
Charitable remainder trust annuities	259,576	181,088	(151,019)	289,645
Charitable gift annuities	6,468,973	1,592,803	(1,165,442)	6,896,334
Life estate agreements	451,399	78,323	(8,434)	521,288
Total	<u>\$ 14,346,224</u>	<u>18,193,279</u>	<u>(4,412,405)</u>	<u>28,127,098</u>

  

	<b>June 30, 2012 balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>June 30, 2013 balance</b>
Charitable remainder unitrusts	\$ 7,330,025	1,803,964	(1,967,713)	7,166,276
Charitable remainder trust annuities	654,160	116,494	(511,078)	259,576
Charitable gift annuities	5,895,916	1,500,745	(927,688)	6,468,973
Life estate agreements	464,419	1,974	(14,994)	451,399
Total	<u>\$ 14,344,520</u>	<u>3,423,177</u>	<u>(3,421,473)</u>	<u>14,346,224</u>

Increases or decreases may result from actuarial adjustments, distributions to beneficiaries, new gifts, termination of an agreement, and investment income or loss.



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**(12) Unrestricted Net Position**

Designations for unrestricted and Board-designated net position for the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Funds for current operations	\$ 20,113,760	23,060,230
Designated for specific purposes	2,179,181	2,597,036
Designated for endowment	<u>28,044,601</u>	<u>23,896,912</u>
Total unrestricted net position	<u>\$ 50,337,542</u>	<u>49,554,178</u>

**(13) Supporting Services**

Supporting services, which included administrative and fund-raising expenses, totaled approximately \$15.7 million and \$13.5 million for the years ended June 30, 2014 and 2013, respectively.

The foundation's cost of insuring for risks in the areas of general liability, employee medical, directors and officers, and other coverage is included in supporting services, and is covered by third-party insurance. During the year ended June 30, 2014, the foundation's umbrella liability limit was increased from \$5 million to \$10 million. There was no change in the level of the foundation's insurance coverage during the fiscal year ended June 30, 2013.