OREGON HEALTH & SCIENCE UNIVERSITY FOUNDATION

(A Component Unit of Oregon Health & Science University)

Financial Statements and Required Supplementary Information

June 30, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, 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 Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis, on pages 3 through 9, 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.

Change in Accounting Principle

As discussed in note 2 to the financial statements, in 2018 the Foundation adopted new accounting guidance as contained in the Governmental Accounting Standards Board Statement No. 81, *Irrevocable Split-Interest Agreements*. Our opinion is not modified with respect to this matter.

KPMG LLP

Portland, Oregon
October 19, 2018

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, 2018 and 2017. 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 net position present the foundation's assets, liabilities, and deferred inflows with the net among these 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; coupled with 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 its investment pools.
- 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 14–37.

Financial Highlights

Total contributions (including nonexpendable donations and life income agreements) to OHSUF in fiscal year 2018 totaled $63.9 million. When compared to the prior year, 2018 contribution levels decreased by $22.4 million or 26.0%, due primarily to a $20.0 million gift for the Knight Cardiovascular Institute recorded in the prior year. Total contributions to OHSUF in fiscal 2017 totaled $86.3 million. When compared to the prior year, 2017 contribution levels decreased by $463.1 million or 84.3%, due primarily to a $500.0 million gift from Phil and Penny Knight for the Knight Cancer Challenge in 2016.

Program services provided to OHSU in fiscal year 2018 totaled $112.3 million. This level of program support was 0.2% higher than the $112.1 million provided in fiscal year 2017, an increase of $0.2 million. Program services for 2017 decreased by $0.1 million as compared to 2016. Program support for 2018 was in line with 2017. During 2018, program support for capital projects was increased by $6.0 million, from $3.3 million to $9.3 million, primarily related to construction expenditures for the Knight Cancer Research Building and expansion of the Casey Eye Institute.

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); which is comprised of separate investment vehicles with varying objectives based on the liquidity needs of the foundation, as discussed in note 4. Fiscal year 2018 investment returns resulted in a net gain of $62.0 million. Fiscal year 2017 investment returns resulted in a net gain of $76.5 million. The 2018 investment performance of the endowment fund, which is a fully diversified investment portfolio, resulted in a 9.9% net investment gain, which exceeded the benchmark return for the portfolio of 7.5%. The 2017 investment performance of the endowment fund resulted in a 15.7% net investment gain, which exceeded the benchmark return for the portfolio of 12.6%. The fiscal year 2018 investment return of the current fund's reserve fund (C/F reserve) was 1.5%, which exceeded the benchmark return of 1.4% for the portfolio. The fiscal year 2018 investment return of the short duration 1-5 year separately managed account (C/F 1-5 year) within the current fund pool was 0.0%, which exceeded the benchmark return of –0.2% for the portfolio. During fiscal year 2017, the investment return of the C/F reserve and C/F 1-5 year accounts was 1.1% (exceeding the benchmark return of 0.5% for the portfolio) and 0.3% (exceeding the benchmark return of 0.1% for the portfolio). In fiscal year 2018, the fair value of OHSUF's endowment fund increased by $55.6 million or 10.2% and the fair value of the current fund increased by $3.5 million or 1.0%. In fiscal year 2017, the fair value of OHSUF's endowment fund increased by $91.2 million or 20.1% and the fair value of the current fund increased by $35.8 million or 11.8%.

Donations and investment gains, less operating expenses, contributed to an increase of $3.6 million in total net position in fiscal year 2018. As of June 30, 2018, OHSUF had total assets of $1.5 billion, total liabilities of $0.1 billion, total deferred inflows of $0.1 billion, and net position of $1.3 billion.

In September 2013, Phil and Penny Knight challenged OHSUF (the Knight Cancer Challenge) to raise $500.0 million which they would match for a total of $1.0 billion. The Knight Cancer Challenge was successfully met in June 2015. Many of the contributions from this challenge, primarily those related to pledges for endowment and certain designated estates, will be recognized in future financial periods in accordance with the accounting rules as promulgated by the Governmental Accounting Standards Board. These funds will be used to help in the fight to eradicate cancer, particularly through advanced early detection.

Assets

OHSUF's assets primarily consist of cash and cash equivalents, net 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 net restricted pledges and estates receivable.

  Cash and cash equivalents and short-term investments balances on June 30, 2018 totaled $21.2 million. Cash and cash equivalents and short-term investments totaled $24.9 million and $41.5 million on June 30, 2017 and 2016, 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, 2018, the foundation had net pledges receivable of $513.5 million and estates receivable of $1.0 million. The current portion of net pledges and estates receivable is $127.7 million at June 30, 2018. On June 30, 2017, the foundation had net pledges receivable of $564.4 million and estates receivable of $0.3 million. The current portion of net pledges and estates receivable is $59.3 million at June 30, 2017. On June 30, 2016, the foundation had net pledges receivable of $610.7 million and estates receivable of $2.8 million. The current portion of net pledges and estates receivable is $65.5 million at June 30, 2016. The value of the outstanding pledges in 2018, 2017, and 2016 includes $420.0 million, $460.0 million, and $504.9 million, respectively, which is the combined remaining balance of the $500.0 million pledge received in 2016 for the Knight Cancer Challenge and the $100.0 million pledge received in 2013 for support of the OHSU Knight Cardiovascular Institute.

- Noncurrent assets consist of restricted cash and long-term investments, accounts receivable from OHSU, the long-term portion of net 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 $974.1 million as of June 30, 2018, an increase of $65.6 million over the prior fiscal year. During 2018, the OHSUF portion of the endowment pool increased by $55.6 million and the OHSUF portion of the current fund increased by $3.5 million. Changes in the value of long-term investments during 2018 resulted primarily from investment gains. As of June 30, 2017, long-term and restricted investments totaled $908.5 million, an increase of $143.8 million from 2016. Changes in the value of long-term investments during 2017 resulted primarily from new contributions and pledge payments, a transfer received for the Oregon Rural Health Initiative (ORHI) as discussed in note 8(d), and investment gains, offset by program service expenses.

  Pledges, noncurrent net of discounts total $386.8 million at June 30, 2018, $505.4 million at June 30, 2017, and $547.9 million at June 30, 2016. For further information on pledges receivable, refer to the information provided above and in note 5.

  Capital assets, net of accumulated depreciation totaled $0.3 million at the end of 2018, $0.4 million at the end of 2017, and $0.1 million at the end of 2016.

Total assets were $1.5 billion, $1.5 billion, and $1.4 billion as of June 30, 2018, 2017, and 2016, respectively. These amounts are comparable between each period.

Liabilities

- Current liabilities consist of accounts payable and accrued liabilities, a significant portion of which is due to OHSU and ORHI, and the current portion of leasehold incentives related to the Salmon Street office location. Current liabilities totaled $81.9 million on June 30, 2018, $81.9 million on June 30, 2017, and $54.4 million on June 30, 2016. The 2018 balance is in line with 2017. The 2017 balance is an increase of $27.5 million from 2016, primarily as a result of the transfer received from ORHI, see further discussion at note 8(d).
- Noncurrent liabilities of $25.0 million, $24.9 million, and $25.4 million at June 30, 2018, 2017, and 2016, respectively, consist of funds held by the foundation that were due to other institutions, the liability for life income agreements, the noncurrent portion of leasehold incentives related to the Salmon Street office location, and other noncurrent liabilities.

Total liabilities are equal to approximately 7.0%, 7.1%, and 5.6% of foundation assets as of June 30, 2018, 2017, and 2016, respectively.

Deferred Inflows

Deferred inflows relate to assets received by the foundation, which will be recognized as revenue in a future reporting period and they consist of the foundation's interest in a pending fund and life income agreements. Deferred inflows totaled $110.9 million, $101.0 million, and $89.9 million at June 30, 2018, 2017, and 2016, respectively. The increases in deferred inflows of $9.9 million in 2018 and $11.1 million in 2017 are primarily the result of investment gains in the pending fund.

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 $221.1 million, $204.5 million, and $188.8 million as of June 30, 2018, 2017, and 2016, respectively. The increases of $16.6 million from 2017 to 2018 and $15.7 million from 2016 to 2017 resulted primarily from new contributions and investment gains.
- Expendable restricted net position totaled $1.0 billion, $1.0 billion, and $1.0 billion on June 30, 2018, 2017, and 2016, respectively. These amounts are comparable and result primarily from new contributions received for program support and investment gains offset by program support expenses.
- Unrestricted net position totaled $61.1 million at June 30, 2018, $53.7 million at June 30, 2017, and $42.2 million at June 30, 2016. The increase in 2018 is primarily related to new contributions, investment gains, and management fees received on the endowment fund; offset by supporting services. The increase in 2017 is primarily related to investment gains offset by supporting services.
- Overall net position totaled $1.3 billion for each of the years ended June 30, 2018, 2017, and 2016.

Foundation Summary Schedule of Net Position

		June 30		
		2018	**2017**	**2016**
		(Dollars in thousands)		
Noncapital assets	$	1,518,822	1,505,075	1,427,240
Capital assets		263	383	122
Total assets	$	1,519,085	1,505,458	1,427,362
Current liabilities	$	81,930	81,858	54,436
Noncurrent liabilities		24,978	24,882	25,418
Total liabilities	$	106,908	106,740	79,854
Deferred inflows	$	110,885	100,989	89,870
Net position:				
Net investment in capital assets	$	263	383	122
Restricted net position		1,239,945	1,243,626	1,215,283
Unrestricted net position		61,084	53,720	42,233
Total net position	$	1,301,292	1,297,729	1,257,638

Operating Revenues

Operating revenues for fiscal year 2018 totaled $51.4 million, compared to $78.1 million in fiscal year 2017 and $543.0 million in fiscal year 2016. The primary component of operating revenues was contributions, which for 2018 totaled $48.1 million. For fiscal year 2018, this represents a decrease of $26.7 million or 34.1% from 2017 and for fiscal year 2017, a decrease of $464.9 million or 85.6% from 2016. The higher level of operating revenues during 2016 primarily resulted from recording the $500.0 million pledge from Phil and Penny Knight for the Knight Cancer Challenge.

Total contributions, including nonexpendable contributions for 2018, primarily included new cash gifts of $21.4 million, new pledges of $31.1 million, bequests of $7.9 million, and deferred irrevocable gifts of $2.7 million. Total contributions, including nonexpendable contributions for 2017, primarily included new cash gifts of $43.4 million, new pledges of $29.7 million, bequests of $8.3 million, and deferred irrevocable gifts of $4.3 million.

Operating Expenses

Program services expense provided to OHSU totaled $112.3 million in fiscal year 2018, $112.1 million in fiscal year 2017, and $112.2 million in fiscal year 2016. Program services expense for 2018 was in line with 2017 and 2016.

Supporting services expense totaled $16.1 million for fiscal year 2018, $15.6 million for fiscal year 2017, and $17.1 million for fiscal year 2016. The level of expense in fiscal year 2018 reflects an increase of $0.5 million or 3.2% from fiscal year 2017. The increase during fiscal year 2018 is primarily due to computer replacements, which were postponed in 2017. The decrease during fiscal year 2017 is primarily due to a decline in advertising and professional services expenditures.

Total operating expenses were $128.5 million in 2018, $127.8 million in 2017, and $129.3 million in 2016. Higher expenses in 2018 were primarily related to the increase in supporting services expense. Lower expenses in 2017 were primarily related to the decreased level of supporting services expense.

Operating revenues less operating expenses resulted in an operating loss of $77.0 million in 2018, an operating loss of $49.7 million in 2017 and operating income of $413.6 million in 2016. During 2018 and 2017, program services and supporting services expenses exceeded contributions, resulting in an operating loss. During 2016, 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 an investment gain of $62.0 million in fiscal year 2018, $76.5 million in fiscal year 2017, and an investment loss of $1.4 million in fiscal year 2016. The fiscal year 2018 activities reflected a 9.9% gain on the endowment fund, compared to a 15.7% investment gain in 2017, and a 3.4% investment loss in 2016. Endowment investment performance exceeded the benchmark return for the portfolio by 2.4% in 2018 and by 3.1% in 2017, and trailed its total asset benchmark by 1.5% in 2016. The fiscal year 2018 activities reflect a 1.5% gain on the C/F reserve, compared to a 1.1% investment gain in 2017, and a 0.6% gain in 2016. The fiscal year 2018 activities reflect a 0.0% return on the C/F 1-5 year account, compared to a 0.3% investment gain in 2017, and a 2.9% investment gain in 2016.

Other nonoperating activities totaled $2.7 million in 2018, $1.3 million in 2017, and $4.4 million in 2016.

Other Changes in Net Position

Other changes in net position consist of nonexpendable donations and life income agreement donations of $15.8 million in 2018, $11.9 million in 2017, and $9.8 million in 2016.

(Continued)

Changes in Net Position

In fiscal year 2018, there was an increase in net position of $3.6 million compared to increase in net position of $40.1 million in 2017 and an increase in net position of $426.4 million in 2016. 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 net investment income. The change in net position in each of the years resulted from new contributions and investment return, offset by program services expense.

		Years ended June 30		
		2018	2017	2016
		(Dollars in thousands)		
Operating revenues:				
Contributions	$	48,061	74,425	539,630
Other income		3,387	3,678	3,353
Total operating revenues		51,448	78,103	542,983
Operating expenses:				
Program services		112,307	112,118	112,214
Supporting services		16,144	15,642	17,122
Total operating expenses		128,451	127,760	129,336
Operating (loss) income		(77,003)	(49,657)	413,647
Investment income (loss), net		62,031	76,513	(1,406)
Other nonoperating revenue		2,732	1,315	4,417
(Loss) income before other changes in net position		(12,240)	28,171	416,658
Nonexpendable donations		15,803	11,920	9,778
Change in net position		3,563	40,091	426,436
Beginning net position		1,297,729	1,257,638	831,202
Ending net position	$	1,301,292	1,297,729	1,257,638

The level of expendable and nonexpendable contributions raised totaled $63.9 million, $86.3 million, and $549.4 million in fiscal years 2018, 2017, and 2016, respectively. The foundation provided program services support to OHSU of $112.3 million in 2018, $112.1 million in 2017, and $112.2 million in 2016.

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

Statements of Net Position

June 30, 2018 and 2017

(Dollars in thousands)

Assets		**2018**	**2017 *(as adjusted)***
Current assets:			
Cash and cash equivalents	$	20,771	24,379
Short-term investments		409	480
Accrued interest on investments		1,203	914
Prepaid expenses		176	207
Pledges and estates receivable, current portion, net		127,672	59,301
Total current assets		150,231	85,281
Noncurrent assets:			
Restricted assets:			
Cash and long-term investments		750,436	804,832
Due from OHSU		6,237	4,552
Pledges, noncurrent, net		386,815	505,364
Total restricted assets		1,143,488	1,314,748
Long-term investments		223,670	103,640
Other receivables, net		1,433	1,406
Capital assets, net of accumulated depreciation of $1,748 and $1,639, respectively		263	383
Total noncurrent assets		1,368,854	1,420,177
Total assets	$	1,519,085	1,505,458
Liabilities, Deferred Inflows, and Net Position			
Current liabilities:			
Accounts payable and accrued liabilities	$	22,067	25,774
Due to OHSU		59,816	56,037
Leasehold incentives, current portion		47	47
Total current liabilities		81,930	81,858
Noncurrent liabilities:			
Due to other institutions		2,514	2,446
Leasehold incentives, noncurrent		106	153
Liability for life income agreements		22,358	22,283
Total noncurrent liabilities		24,978	24,882
Total liabilities		106,908	106,740
Deferred inflows:			
Pending fund		81,181	74,053
Life income agreements		29,704	26,936
Total deferred inflows		110,885	100,989
Net position:			
Net investment in capital assets		263	383
Restricted for:			
Nonexpendable:			
Research		28,822	25,676
Academic support		73,486	70,897
Instruction		55,770	48,308
Student aid		44,316	42,585
Other		18,667	17,033
Total nonexpendable restricted net position		221,061	204,499
Expendable:			
Research		711,265	753,485
Academic support		160,918	152,413
Instruction		41,799	36,883
Capital projects and planning		42,582	42,788
Student aid		26,273	23,371
Clinical support		8,615	7,567
Institutional support		13,554	11,798
Other		13,878	10,822
Total expendable restricted net position		1,018,884	1,039,127
Total restricted net position		1,239,945	1,243,626
Unrestricted net position		61,084	53,720
Total net position		1,301,292	1,297,729
Total liabilities, deferred inflows, and net position	$	1,519,085	1,505,458

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

(Dollars in thousands)

	2018	2017 *(as adjusted)*
Operating revenues:		
Contributions:		
Donations	$ 46,400	71,978
Life income agreements	1,661	2,447
Total contributions	48,061	74,425
Other income:		
Management fees	1,078	1,035
Other income	2,309	2,643
Total other income	3,387	3,678
Total operating revenues	51,448	78,103
Operating expenses:		
Program services:		
Research	48,229	70,236
Academic support	35,346	16,701
Instruction	6,373	6,633
Institutional support	355	846
Public service	2,551	2,952
Capital projects and planning	9,333	3,351
Student aid	3,254	3,029
Clinical support	6,823	8,180
Transfers to other institutions	43	190
Total program services	112,307	112,118
Supporting services:		
Salaries and other payroll expenses	12,771	13,312
Services and supplies	3,264	2,207
Depreciation	109	123
Total supporting services	16,144	15,642
Total operating expenses	128,451	127,760
Operating loss	(77,003)	(49,657)
Nonoperating activities:		
Investment income, net of investment fees of $8,318 and $9,547 in 2018 and 2017, respectively	62,031	76,513
Other nonoperating activities	2,732	1,315
Total nonoperating activities	64,763	77,828
(Loss) income before other changes in net position	(12,240)	28,171
Other changes in net position:		
Nonexpendable donations	15,480	11,895
Nonexpendable life income agreement donations	323	25
Total other changes in net position	15,803	11,920
Change in net position	3,563	40,091
Net position, beginning of year (as adjusted)	1,297,729	1,257,638
Net position, end of year	$ 1,301,292	1,297,729

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(Dollars in thousands)

	2018	2017 (as adjusted)
Cash flows from operating activities:		
Donations	$ 84,844	85,736
Life income agreement contributions	2,095	2,852
Management fee income	1,079	1,035
Other receipts	2,309	2,643
Salaries and other payroll expenses	(12,770)	(13,127)
Services and supplies expenses	(3,340)	(2,202)
Program services expenses	(111,408)	(110,567)
Net cash used by operating activities	(37,191)	(33,630)
Cash flows from noncapital financing activities:		
Annuity payments to beneficiaries	(1,880)	(1,787)
Nonexpendable donations and life income agreements	10,389	9,500
Other noncapital financing activities	(509)	26,736
Net cash provided by noncapital financing activities	8,000	34,449
Cash flows from capital and related financing activities:		
Purchase of capital assets	—	(384)
Proceeds from sale of capital assets	11	—
Net cash provided (used) by capital and related financing activities	11	(384)
Cash flows from investing activities:		
Purchases of investments	(89,026)	(498,099)
Proceeds from sales and maturities of investments	103,736	468,067
Interest and dividend income	4,752	5,909
Investment income on affiliated funds	14,428	17,365
Investment fees	(8,318)	(9,710)
Net cash provided (used) by investing activities	25,572	(16,468)
Net decrease in cash and cash equivalents	(3,608)	(16,033)
Cash and cash equivalents, beginning of year	24,379	40,412
Cash and cash equivalents, end of year	$ 20,771	24,379

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(Dollars in thousands)

		2018	2017 (as adjusted)
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	$	(77,003)	(49,657)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation		109	123
Noncash contributions		(10,928)	(34,324)
Decrease in pledges and estates receivable		50,178	48,776
(Increase) decrease in other receivables		(1,976)	2,588
Decrease (increase) in prepaid expenses		31	(149)
Increase in obligations for life income agreements		177	208
(Decrease) increase in obligations for leasehold incentives		(47)	193
Increase (decrease) in accounts payable and other liabilities		2,031	(1,575)
Increase in deferred inflows		237	187
Net cash used by operating activities	$	(37,191)	(33,630)
Schedule of noncash noncapital financial and investing activities:			
Noncash nonexpendable donations and life income agreements	$	9,248	3,948
Net change in fair value of investments		24,254	58,679

See accompanying notes to financial statements.

(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.

In March 2016, the GASB issued Statement No. 81 *Irrevocable Split-Interest Agreements* (GASB 81), which is effective for the current fiscal year ended June 30, 2018. Irrevocable split-interest agreements are a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments. GASB 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The foundation has lead income rights and remainder beneficiary rights in many internally and externally managed trusts. GASB 81 will require that the lead and remainder beneficial interest received be initially recorded at fair value as a deferred inflow of resources, and then revalued at the end of each financial reporting period with the change in fair value recognized as a change in deferred inflow. There is no change to the recording of any related remainder benefit liability owed by the Government where they are the trustee. Implementation of GASB 81 requires the foundation to record revenue in the period for which it receives lead interest payments and at termination of the agreement for remainder interest payments. The foundation previously reported revenue in the period where the irrevocable split-interest agreement is established. Retrospective application of GASB 81 is required. As a result of implementing GASB 81, the foundation recorded deferred inflows of $29.7 million and $26.9 million at June 30, 2018 and 2017, respectively. See note 11 for further discussion of the foundation’s irrevocable split-interest agreements.

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 positions 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 or (Loss) and Changes in Net Position

The statements of revenues, expenses, and changes in net position include operating income (loss). Changes in net position, which are excluded from operating income (loss), include net investment income (loss), nonexpendable donations and 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 the pledge is verifiable, 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 eight 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 4.54%.

(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 or its discretionary investment partner 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. 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 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 Board of Trustees authorized a 4.5% distribution rate to calculate the effective spending rate in the years ended June 30, 2018 and 2017.

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) Deferred Inflows

(i) Life Income Agreements

The foundation has been named as a beneficiary for various life income agreements, including charitable 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 deferred inflow during the period in which the eligibility requirements are met. 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 receivable for the fair value of the remainder interest assets discounted to present value and a deferred inflow during the period in which the trust is established.

(ii) Pending Fund

The foundation established a pending fund to record a deposit received in 2015. Per agreement with the donors, the pending fund may only be used to either satisfy existing pledge obligations with the foundation or to make a new gift in support of OHSU, as designated by the donors. The balance of the pending fund is held in the foundation's long-term investments.

(Continued)

(h) Capital Assets, Net

Capital assets are recorded at cost less accumulated depreciation, which is computed on a three to five year, straight-line basis for computer equipment, and a five to 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.

(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.

(3) Cash and Cash Equivalents

(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. The Federal Depository Insurance Commission (FDIC) 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 and cash equivalents including those held in restricted assets were $39.4 million and $26.3 million at June 30, 2018 and 2017, 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 investment managers for the endowment fund and the current fund. The Director of Finance and Investments in consultation with the CFO – Vice President Finance and Administration 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 is the repository for funds available for current operations. The current fund pool is comprised of four separate investment vehicles with varying objectives based on the liquidity needs of the foundation. These investment vehicles include operating cash used for daily liquidity needs; a reserve fund and a short duration 1–5 year separately managed account that are used for liquidity needs of less than one year; and a quasi endowment fund (C/F endowment) that invests liquidity needs of greater than one year in the endowment portfolio, discussed below. For all current funds not related to OHSU Practice Plan Reserve (OPPR) funds, it is the practice of the foundation's Board of Trustees to utilize investment income on these funds for operations. At June 30, 2018 and 2017, the fair value of the foundation's investments in the current fund was $342.6 million and $339.1 million, respectively.

The endowment fund investment pool 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. Assets of the endowment fund investment pool are held in the OHSU Foundation Endowment Fund, L.P. and managed by a discretionary investment partner under the terms of a partnership agreement and subject to the investment policies established by the Board of Trustees. The holdings of this investment pool are contained in a fund of one investment vehicle structure and a description of the underlying securities within the fund is included in the following tables of this note. Under normal circumstances, the foundation may withdraw funds from the partnership account by providing notice to the discretionary investment partner of up to 45 days. The withdrawal would then be paid within 30 days following the notice period. Distributions are effective as of the end of a calendar month unless otherwise agreed to by the partners.

Endowment accounts receive spending distributions subject to the 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, 2018 and 2017, the fair value of the foundation's investments in the endowment fund was $599.4 million and $543.9 million, respectively. Of these amounts, $55.7 million and $45.1 million as of June 30, 2018 and 2017, respectively, represent unspent earnings in excess of donor-restricted original contributions that are available for future designation to expenditure by the Board of Trustees.

At June 30, 2018 and 2017, accumulated loss of $100 and $30,900, respectively, 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 $53.2 million and $50.3 million at June 30, 2018 and 2017, 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 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 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. 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.

(a) Fair Value of Investments

Investments at June 30, 2018 and 2017 are as follows:

Asset classes		2018	2017
		(Dollars in thousands)	
Domestic equities	$	74,129	104,457
Non-U.S. equities		104,653	117,444
Global equities		58,413	51,831
Venture capital/private equity		235,226	124,940
Marketable alternative investments		180,722	175,837
Real estate investments and contracts		27,037	8,832
Mutual funds – nonfixed income		38,065	51,213
Annuity contracts		1,771	1,911
Insurance policies		1,006	984
Fixed income		253,493	271,503
	$	974,515	908,952

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 that prioritizes observable market inputs over unobservable inputs. 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. OHSUF 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.

The following table presents a categorization, based on the foregoing valuation hierarchy, of OHSUF's financial instruments measured at fair value as of June 30, 2018.

	Level 1	Level 2	Level 3	Fair value
		(Dollars in thousands)		
Domestic equities	$ 38,199	—	—	38,199
Non-U.S. equities	17,433	—	—	17,433
Global equities	19,326	—	—	19,326
Venture capital/private equity	—	—	39,772	39,772
Real estate investments and contracts	1,081	—	3,924	5,005
Mutual funds – nonfixed income	38,065	—	—	38,065
Annuity contracts	52	1,719	—	1,771
Insurance policies	—	—	1,006	1,006
Fixed income:				
U.S. government securities	—	59,714	—	59,714
U.S. agency securities	—	6,868	—	6,868
Corporate bonds	—	88,819	—	88,819
Asset-backed securities and collateralized mortgage obligations	—	14,017	—	14,017
Municipal bonds	—	5,201	—	5,201
Mutual funds – fixed income only	71,735	5,077	—	76,812
Bank debt	—	1,371	—	1,371
Certificates of deposit	—	691	—	691
Subtotal	$ 185,891	183,477	44,702	414,070
Investments measured using NAV per share or its equivalent:				
Domestic equities				35,930
Non-U.S. equities				87,220
Global equities				39,087
Venture capital/private equity				195,454
Marketable alternative investments				180,722
Real estate investments and contracts				22,032
Total investments				$ 974,515

The following table presents a categorization, based on the foregoing valuation hierarchy, of OHSUF's financial instruments measured at fair value as of June 30, 2017.

	Level 1	Level 2	Level 3	Fair value
		(Dollars in thousands)		
Domestic equities	$ 73,812	—	—	73,812
Non-U.S. equities	41,067	7,875	—	48,942
Global equities	18,081	—	—	18,081
Real estate investments and contracts	1,032	—	4,022	5,054
Mutual funds – nonfixed income	51,213	—	—	51,213
Annuity contracts	44	1,868	—	1,912
Insurance policies	—	—	984	984
Fixed income:				
U.S. government securities	—	69,738	—	69,738
U.S. agency securities	—	11,499	—	11,499
Corporate bonds	—	88,013	—	88,013
Asset-backed securities and collateralized mortgage obligations	—	10,298	—	10,298
Municipal bonds	—	3,287	—	3,287
Mutual funds – fixed income only	82,764	4,206	—	86,970
Bank debt	—	1,080	—	1,080
Certificates of deposit	—	600	—	600
Other fixed income	—	18	—	18
Subtotal	$ 268,013	198,482	5,006	471,501
Investments measured using NAV per share or its equivalent:				
Domestic equities				30,645
Non-U.S. equities				68,502
Global equities				33,750
Venture capital/private equity				124,939
Marketable alternative investments				175,837
Real estate investments and contracts				3,778
Total investments				$ 908,952

There were no transfers of financial instruments between Level 1 and Level 2 classifications either in 2018 or 2017. Changes in Level 3 financial instruments are as follows:

		Year ended June 30	
		2018	**2017**
		(Dollars in thousands)	
Balance at beginning of year	$	5,006	5,477
Net realized losses		(147)	(203)
Net unrealized gains		75	15
Purchases		39,784	27
Sales		(16)	(4,477)
Contributions		—	4,167
Balance at end of year	$	44,702	5,006

Net realized and unrealized gains and losses on financial instruments classified as Level 3 are reported in the statements of revenues, expenses, and changes in net position as investment income, net of investment fees.

The foundation initially records secondary purchases held within the OHSU Foundation Endowment Fund, L.P. at the purchase price for the transaction and then uses a practical expedient beginning with the first financial statement period following the close of the transaction.

OHSUF 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 OHSUF 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, 2018 and 2017:

	Redemption frequency	**Redemption notice period**
Domestic equities	Monthly	3–90 days
Non-U.S. equities	Weekly to every four years	3–90 days
Global equities	Monthly	3–90 days
Venture capital/private equity	Event-driven	N/A
Marketable alternative investments	Monthly to annually	15–95 days
Real estate investments and contracts	Event-driven	N/A

Domestic Equities, Non-U.S. Equities, Global Equities, and Natural Resources funds represent investments in equities, both U.S. and international, and may include investments in developed and emerging markets.

(i) 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, real estate investments and contracts, and marketable alternative investment categories in the tables 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 one year or more after the initial investment for 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 up 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 Risk and Credit Risk

As of June 30, 2018, 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:

Investment type	Maturity	Endowment	Current funds	Life Income	Total
			(Dollars in thousands)		
U.S. government securities	Less than 1 year	$ 2,621	548	—	3,169
	1–5 years	121	55,289	—	55,410
	6–10 years	99	21	—	120
	More than 10 years	840	175	—	1,015
U.S. agency securities	1–5 years	—	134	—	134
	6–10 years	—	3,027	—	3,027
	More than 10 years	—	3,707	—	3,707
Corporate bonds	Less than 1 year	267	10,990	100	11,357
	1–5 years	2,609	70,959	—	73,568
	6–10 years	1,894	396	—	2,290
	More than 10 years	1,327	277	—	1,604
Asset-backed securities and collateralized mortgage obligations	Less than 1 year	30	6	—	36
	1–5 years	122	2,351	—	2,473
	6–10 years	267	56	—	323
	More than 10 years	8,202	2,983	—	11,185
Municipal bonds	Less than 1 year	—	—	87	87
	1–5 years	—	2,601	1,037	3,638
	6–10 years	—	—	1,015	1,015
	More than 10 years	—	—	461	461
Mutual funds – fixed income only	Less than 1 year	17,069	7,270	3,062	27,401
	1–5 years	14,231	2,973	5,320	22,524
	6–10 years	11,157	3,195	3,800	18,152
	More than 10 years	7,225	1,510	—	8,735
Bank debt	1–5 years	902	189	—	1,091
	6–10 years	232	48	—	280
Certificate of deposit	Less than 1 year	—	—	199	199
	1–5 years	—	—	492	492
Total		$ 69,215	168,705	15,573	253,493

As of June 30, 2017, 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:

Investment type	Maturity	Endowment	Current funds	Other	Total
			(Dollars in thousands)		
U.S. government securities	Less than 1 year	$ 1,725	66,167	5	67,897
	1–5 years	—	1,821	6	1,827
	6–10 years	—	—	13	13
U.S. agency securities	1–5 years	—	423	29	452
	6–10 years	—	4,383	—	4,383
	More than 10 years	—	6,665	—	6,665
Corporate bonds	Less than 1 year	2,224	15,048	—	17,272
	1–5 years	244	66,585	101	66,930
	6–10 years	245	568	—	813
	More than 10 years	2,455	543	—	2,998
Asset-backed securities and collateralized mortgage obligations	Less than 1 year	1,342	297	—	1,639
	1–5 years	97	21	—	118
	6–10 years	60	13	—	73
	More than 10 years	5,758	2,711	—	8,469
Municipal bonds	Less than 1 year	—	—	52	52
	1–5 years	—	1,176	818	1,994
	6–10 years	—	—	911	911
	More than 10 years	—	—	330	330
Mutual funds – fixed income only	Less than 1 year	21,116	23,088	2,434	46,638
	1–5 years	10,239	2,264	3,475	15,978
	6–10 years	9,008	2,910	5,705	17,623
	More than 10 years	5,511	1,219	—	6,730
Bank debt	Less than 1 year	740	164	—	904
	1–5 years	87	19	—	106
	6–10 years	57	13	—	70
Certificate of deposit	Less than 1 year	—	—	400	400
	1–5 years	—	—	200	200
Other fixed income	Less than 1 year	15	3	—	18
Total		$ 60,923	196,101	14,479	271,503

As of June 30, 2018, 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:

Investment type	Credit quality	Endowment	Current funds	Other	Total
			(Dollars in thousands)		
U.S. government securities	AAA	$ 443	55,356	—	55,799
	AA	1,060	222	—	1,282
	B	2,178	455	—	2,633
U.S. agency securities	AAA	—	6,868	—	6,868
Corporate bonds	AAA	199	345	—	544
	AA	261	9,119	—	9,380
	A	928	42,807	100	43,835
	BBB	3,355	30,068	—	33,423
	BB	917	192	—	1,109
	B	226	47	—	273
	Below B	26	5	—	31
	Not rated	185	39	—	224
Asset-backed securities and collateralized mortgage obligations	AAA	4,826	4,602	—	9,428
	AA	1,623	339	—	1,962
	A	456	95	—	551
	BBB	108	23	—	131
	BB	32	7	—	39
	B	35	7	—	42
	Below B	950	198	—	1,148
	Not rated	592	124	—	716
Municipal bonds	AAA	—	1,503	127	1,630
	AA	—	—	2,235	2,235
	A	—	1,098	238	1,336
Mutual funds – fixed income only	A1/P1	515	108	—	623
	Below A1/P1	129	27	—	156
	AAA	33,396	8,831	6,208	48,435
	AA	2,484	991	685	4,160
	A	3,105	2,290	1,397	6,792
	BBB	4,174	1,419	1,781	7,374
	BB	1,687	374	654	2,715
	B	1,779	377	768	2,924
	Below B	1,318	303	333	1,954
	Not rated	1,094	229	356	1,679
Bank debt	BBB	237	50	—	287
	BB	528	110	—	638
	B	364	76	—	440
	Below B	4	1	—	5
	Not rated	1	—	—	1
Certificate of deposit	Not rated	—	—	691	691
Total		$ 69,215	168,705	15,573	253,493

As of June 30, 2017, 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:

Investment type	Credit quality		Endowment	Current funds	Other	Total
				(Dollars in thousands)		
U.S. government securities	AAA	$	1,725	67,989	24	69,738
U.S. agency securities	AAA		—	11,470	29	11,499
Corporate bonds	AAA		114	355	—	469
	AA		153	8,306	—	8,459
	A		724	41,589	101	42,414
	BBB		2,691	32,166	—	34,857
	BB		1,104	244	—	1,348
	B		272	60	—	332
	Below B		36	8	—	44
	Not rated		74	16	—	90
Asset-backed securities and collateralized mortgage obligations	AAA		4,213	2,370	—	6,583
	AA		1,536	340	—	1,876
	A		308	68	—	376
	BBB		85	19	—	104
	BB		19	4	—	23
	B		120	27	—	147
	Below B		412	91	—	503
	Not rated		562	124	—	686
Municipal bonds	AAA		—	—	114	114
	AA		—	—	1,838	1,838
	A		—	1,176	158	1,334
Mutual funds – fixed income only	AAA		34,337	10,923	6,110	51,370
	AA		1,374	3,543	489	5,406
	A		2,355	10,894	1,166	14,415
	BBB		2,992	2,946	1,600	7,538
	BB		1,815	416	838	3,069
	B		1,135	255	790	2,180
	Below B		1,110	269	382	1,761
	Not rated		758	235	240	1,233
Bank debt	BBB		92	20	—	112
	BB		444	98	—	542
	B		347	77	—	424
	Below B		1	—	—	1
	Not rated		1	—	—	1
Certificate of deposit	Not rated		—	—	600	600
Other fixed income	AAA		4	1	—	5
	Not rated		10	2	—	12
Total		$	60,923	196,101	14,479	271,503

(Continued)

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

The foundation holds $2.9 million of asset-backed securities collateralized primarily by auto loans, equipment, and credit card receivables, and $11.1 million of collateralized mortgage obligations as of June 30, 2018. The foundation holds $0.5 million of asset-backed securities collateralized primarily by auto loans, equipment, and credit card receivables, and $9.8 million of collateralized mortgage obligations as of June 30, 2017. 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 prepayments. These factors may increase the interest rate volatility of the foundation's investment portfolio.

(c) Credit Risk

The investment policy of the short duration 1–5 year separately managed account 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
U.S. 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.

(Continued)

(d) Concentration of Credit Risk

The investment policy of the short duration 1-5 year separately managed account limits investments in any issue or issuer as follows:

	Maximum concentration
U.S. 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

The foundation's policies relating to the 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 5%, except for issues of the U.S. government and its agencies or diversified mutual funds.

As of June 30, 2018 and 2017, the foundation held no individual investments or investments with an issuer that have balances in excess of the limits described above.

(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 for investments in international equities and in non-U.S. dollar-denominated bonds. The current fund allows up to 20% 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:

		Value (U.S. dollar)	
Foreign currency		2018	2017
		(Dollars in thousands)	
British pound sterling	$	4,317	—
Canadian dollar		5,944	3,696
Euro		3,563	3,596
Total	$	13,824	7,292

(f) Commitments

As of June 30, 2018 and 2017, the foundation had total accumulated commitments to nonmarketable private alternative investments, marketable private investments, private natural resources investments, and private real estate investments of $690.5 million and $495.1 million, respectively. As of June 30, 2018 and 2017, the foundation had funded $483.0 million and $323.3 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.

(5) Restricted Pledges and Estates Receivable

The foundation had the following restricted pledges and estates receivable as of June 30, 2018 and 2017:

		2018	2017
		(Dollars in thousands)	
Pledges maturing within 1 year	$	127,164	59,881
Pledges maturing within 2–9 years		413,273	542,018
		540,437	601,899
Less allowance for uncollectible pledges		(2,176)	(2,991)
		538,261	598,908
Less discount for net present value (rates of 0.30% to 4.54%)		(24,792)	(34,557)
Total net pledges receivable		513,469	564,351
Estates receivable		1,072	331
Less allowance for uncollectible estates receivable		(54)	(17)
Total net estates receivable		1,018	314
Total restricted pledges and estates receivable, net	$	514,487	564,665

(6) Trusts Held by Others

The foundation is the named beneficiary of 35 and 37 trusts held by outside trustees as of June 30, 2018 and 2017, respectively. The fair value reported to management of trust assets held by others was $47.8 million and $46.4 million as of June 30, 2018 and 2017, respectively and is included in long-term investments in the statements of net position. Trust distributions from these assets are recorded as contributions as they occur. Trust distributions of $1.7 million and $2.2 million were recorded as contributions during fiscal years 2018 and 2017, respectively.

(7) Commitments

The foundation leases its office on Salmon Street under a lease expiring as of the close of business on September 30, 2021. Doernbecher Children's Hospital Foundation (DCHF) shares office space and reimburses the foundation as part of the shared services agreement. The total obligation under this lease is as follows for the years ending June 30 (dollars in thousands):

Year ending June 30:		
2019	$	619
2020		694
2021		715
2022		180
	$	2,208

The foundation had net leasing costs of $0.6 million during each of the years ended June 30, 2018 and 2017.

(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, space, 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 $2.4 million and $2.5 million 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 years ended June 30, 2018 and 2017, respectively.

The foundation provides investment management services and administration services to DCHF for its current funds, which have a balance of $28.4 million at June 30, 2018 and balance of $20.8 million at June 30, 2017. The foundation retains 100.0% of the net earnings or losses on these funds. The C/F 1-5 year fund had a return of 0.0% for the year ended June 30, 2018 and net earnings of 0.3% for the year ended June 30, 2017. The C/F reserve fund had net earnings of 1.5% for the year ended June 30, 2018 and 1.1% for the year ended June 30, 2017. The endowment fund, which is also used as the investment vehicle for the C/F endowment, had net earnings of 9.9% for the year ended June 30, 2018 and net earnings of 15.7% for the year ended June 30, 2017. 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 $52.5 million at June 30, 2018 and $48.1 million at June 30, 2017. 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 approximately $0.6 million for each of the years ended June 30, 2018 and 2017 for the endowment management fee. These fees are included in the accompanying statements of revenues, expenses, and changes in net position related to investment management and administration services to DCHF for its endowment funds.

(Continued)

(b) OHSU Practice Plan Reserve Funds

In 2009, the OHSU Medical Group (the 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 OPPR 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 Medical Group. In exchange for providing this service, the foundation charges an annual fee of 0.6% of the fund balance.

In conjunction with this merger, the Medical Group transferred these OPPR funds to the foundation, and at June 30, 2018 and 2017, approximately $39.0 million and $40.0 million, respectively, was held. The foundation provided approximately $3.5 million and $1.2 million of funds received during the merger for OPPR funds to OHSU during the fiscal years ended June 30, 2018 and 2017, respectively.

Additionally, subsequent to the merger, departments within the Medical Group have deposited funds with the foundation. Approximately $48.8 million and $47.0 million of funds transferred subsequent to the merger are recorded in current liabilities due to OHSU at June 30, 2018 and 2017, respectively.

In total, the foundation held $87.8 million and $87.0 million of OPPR funds at June 30, 2018 and 2017, respectively.

(c) OHSU

The foundation provides investment management services to OHSU for its endowment fund. The fair value of the OHSU endowment was $93.8 million as of June 30, 2018 and $86.4 million as of June 30, 2017. 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, 2018 and 2017 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, 2018 and 2017 were $4.1 million and $6.2 million, respectively, for the School of Dentistry capital project. Fees related to this advance are currently assessed to OHSU at 1.86%.

(d) Oregon Rural Health Initiative

Created in fiscal year 2017, the purpose of ORHI is to provide a single entity through which individuals, public charities, and private foundations may collaborate on and implement projects to optimize the health of individuals who reside in Oregon rural communities. It is a collaboration among OHSU, the foundation, and Sky Lakes Medical Center, Inc. (Sky Lakes). The Board of Directors of ORHI are comprised entirely of representatives of OHSU, the foundation and Sky Lakes. During fiscal year 2017, Sky Lakes, OHSU, the foundation, and Oregon Institute of Technology agreed to support the construction of a new healthcare building and associated parking structure on the campus of Sky Lakes Medical Center and advance the OHSU Campus for Rural Health in Klamath Falls, the educational, research, and recruitment missions of which will be integrated throughout the new facility and the impact of which and any and all related programmatic efforts will be realized statewide. Sky Lakes agreed to transfer $32.0 million to ORHI toward the creation of the new healthcare building and parking structure. As of June 30, 2017, Sky Lakes has transferred $25.0 million to ORHI. During 2018 and 2017, $8.8 million and $2.8 million, respectively, has been returned to cover Sky Lakes' construction costs. It is intended that ORHI will raise additional funds to assist Sky Lakes in the construction of the new healthcare building and parking structure. It is not intended that ORHI will acquire any interest in the new healthcare building or parking structure or have any direct involvement in construction.

(9) Capital Assets

The following is a summary of capital assets for the fiscal years ended June 30, 2018 and 2017:

	June 30, 2017 balance	Increases	Decreases	June 30, 2018 balance
		(Dollars in thousands)		
Capital assets:				
Building lease improvements	$ 683	—	—	683
Computer equipment	1,082	—	(11)	1,071
Office equipment	256	—	—	256
Total capital assets	2,021	—	(11)	2,010
Less accumulated depreciation:				
Building lease improvements	(381)	(73)	—	(454)
Computer equipment	(1,039)	(22)	3	(1,058)
Office equipment	(218)	(17)	—	(235)
Total accumulated depreciation	(1,638)	(112)	3	(1,747)
Total capital assets, net	$ 383	(112)	(8)	263

	June 30, 2016 balance	Increases	Decreases	June 30, 2017 balance
		(Dollars in thousands)		
Capital assets:				
Building lease improvements	$ 318	365	—	683
Computer equipment	1,072	10	—	1,082
Office equipment	247	9	—	256
Total capital assets	1,637	384	—	2,021
Less accumulated depreciation:				
Building lease improvements	(314)	(67)	—	(381)
Computer equipment	(1,003)	(36)	—	(1,039)
Office equipment	(198)	(20)	—	(218)
Total accumulated depreciation	(1,515)	(123)	—	(1,638)
Total capital assets, net	$ 122	261	—	383

The foundation has recorded depreciation expense of $0.1 million for each of the years ended June 30, 2018 and 2017, which is included in supporting services in the accompanying statements of revenues, expenses, and changes in net position.

(10) Defined Contribution and 403(b) Plans

The foundation has a defined-contribution money purchase plan (the Plan) with investment options provided by 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 contribution to the Plan equal to 12.0% 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 $1.0 million during the year ended June 30, 2018 and $0.9 million during the year June 30, 2017.

The foundation also has a 403(b) plan administered by Standard Insurance Company. An employee may choose to make contributions 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 agreements established during the years ended June 30, 2018 and 2017 are as follows at the date of donation:

	2018				2017			
	Agreements		Asset	Liability	Agreements		Asset	Liability
			(Dollars in thousands)				(Dollars in thousands)	
Charitable remainder unitrusts	3	$	2,811	948	—	$	—	—
Charitable gift annuities	5		103	50	9		661	407
	8	$	2,914	998	9	$	661	407

Total life income instruments held at June 30, 2018 and 2017 are as follows:

	2018				2017			
	Agreements		Asset	Liability	Agreements		Asset	Liability
			(Dollars in thousands)				(Dollars in thousands)	
Charitable remainder unitrusts	54	$	21,516	7,693	55	$	19,110	7,457
Charitable lead unitrusts	2		21,096	8,935	2		19,879	8,644
Charitable remainder trust annuities	2		217	127	3		350	142
Charitable gift annuities	167		8,768	5,272	171		9,473	5,733
Life estate agreements	2		572	331	2		507	307
	227	$	52,169	22,358	233	$	49,319	22,283

Thirteen charitable gift annuities, included above, with a total gift value of $3.6 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.

(Continued)

Changes in OHSUF's liability for life income agreements during the fiscal years ended June 30, 2018 and 2017 are summarized below:

	2017 balance	Increases	Decreases	2018 balance
	(Dollars in thousands)			
Charitable remainder unitrusts	$ 7,457	2,324	(2,088)	7,693
Charitable lead unitrusts	8,644	2,681	(2,390)	8,935
Charitable remainder trust annuities	142	51	(66)	127
Charitable gift annuities	5,733	335	(796)	5,272
Life estate agreements	307	24	—	331
Total	$ 22,283	5,415	(5,340)	22,358

	2016 balance	Increases	Decreases	2017 balance
	(Dollars in thousands)			
Charitable remainder unitrusts	$ 7,703	1,964	(2,210)	7,457
Charitable lead unitrusts	8,683	2,298	(2,337)	8,644
Charitable remainder trust annuities	162	56	(76)	142
Charitable gift annuities	6,114	717	(1,098)	5,733
Life estate agreements	303	4	—	307
Total	$ 22,965	5,039	(5,721)	22,283

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

(12) Unrestricted Net Position

Designations for unrestricted and Board-designated net position for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
	(Dollars in thousands)	
Funds for current operations	$ 27,280	22,077
Designated for specific purposes	5,548	4,521
Designated for endowment	28,256	27,122
Total unrestricted net position	$ 61,084	53,720

(13) Supporting Services

Supporting services, which included administrative and fund-raising expenses, totaled approximately $16.1 million and $15.6 million for the years ended June 30, 2018 and 2017, 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 2016, the foundation began coordinating insurance coverage with OHSU's Risk Management. As a result, the foundation changed coverage limits by reducing the limit for Directors and Officers and Employment Practices Liability insurance coverage from $10 million to $1 million beginning November 1, 2015. Any additional claims between $1 million and $30 million will be covered under OHSU's policy.