



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

Financial Statements and Required Supplementary Information

June 30, 2019 and 2018

(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 financial statements of Oregon Health & Science University Foundation (the Foundation), a component unit of Oregon Health & Science University, which comprise the statements of net position as of June 30, 2019 and 2018, 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, 2019 and 2018, 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 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.

KPMG LLP

Portland, Oregon
October 23, 2019

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

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 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, 2019 and 2018. 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 2019 totaled \$78.4 million. When compared to the prior year, 2019 contribution levels increased by \$14.5 million or 22.8%, due primarily to a \$5.5 million gift funding the Serial Measurements of Molecular and Architectural Responses to Therapy (SMMART) Treatment program; a \$3.5 million gift to establish an endowment for cancer research scholars; and a \$2.8 million gift to establish an endowment for leukemia and lymphoma research. Total contributions to OHSUF in fiscal 2018 totaled \$63.9 million. When compared to the

OREGON HEALTH & SCIENCE UNIVERSITY FOUNDATION

(A Component Unit of Oregon Health & Science University)

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

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 previous year.

Program services provided to OHSU in fiscal year 2019 totaled \$153.3 million. This level of program support was 36.5% higher than the \$112.3 million provided in fiscal year 2018, an increase of \$41.0 million. During 2019, program support for capital projects was increased by \$36.2 million, from \$9.3 million to \$45.5 million, primarily related to construction expenditures for the Knight Cancer Research Building and the Rood Family Pavilion. Program services for 2018 increased by \$0.2 million as compared to 2017.

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 2019 investment returns resulted in a net gain of \$58.4 million. Fiscal year 2018 investment returns resulted in a net gain of \$62.0 million. The 2019 investment performance of the endowment fund, which is a fully diversified investment portfolio, resulted in a 6.9% net investment gain, which exceeded the benchmark return for the portfolio of 6.3%. The 2018 investment performance of the endowment fund resulted in a 9.9% net investment gain, which exceeded the benchmark return for the portfolio of 7.5%. The fiscal year 2019 investment return of the current fund's reserve fund (C/F reserve) was 3.3%, which exceeded the benchmark return of 2.3% for the portfolio. The fiscal year 2019 investment return of the short duration 1-5 year separately managed account (C/F 1-5 year) within the current fund pool was 5.5%, which exceeded the benchmark return of 5.3% for the portfolio. During fiscal year 2018, the investment return of the C/F reserve and C/F 1-5 year accounts was 1.5% (exceeding the benchmark return of 1.4% for the portfolio) and 0.0% (exceeding the benchmark return of -0.2% for the portfolio), respectively. In fiscal year 2019, the fair value of OHSUF's endowment fund increased by \$117.1 million or 19.5%, \$71.2 million of this increase is directly attributable to an advance for a pledge in support of the Knight Cancer Institute. The fair value of the current fund decreased by \$56.0 million or 16.3% in fiscal year 2019. 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%.

Operating expenses, less donations and investment gains, contributed to a decrease of \$24.7 million in total net position in fiscal year 2019. As of June 30, 2019, 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, are being recognized in current and 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.

OREGON HEALTH & SCIENCE UNIVERSITY FOUNDATION

(A Component Unit of Oregon Health & Science University)

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

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, 2019 totaled \$21.0 million. Cash and cash equivalents and short-term investments totaled \$21.1 million and \$24.9 million on June 30, 2018 and 2017, 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, 2019, the foundation had net pledges receivable of \$419.5 million and estates receivable of \$1.2 million. The current portion of net pledges and estates receivable is \$72.1 million at June 30, 2019. 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. The value of the outstanding pledges in 2019, 2018, and 2017 includes \$395.0 million, \$420.0 million, and \$460.0 million, respectively, which is the remaining balance of the \$500.0 million pledge received in 2016 for the Knight Cancer Challenge.

- 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 \$1.0 billion as of June 30, 2019, an increase of \$60.3 million over the prior fiscal year. During 2019, the OHSUF portion of the endowment pool increased by \$117.1 million and the OHSUF portion of the current fund decreased by \$56.0 million. Changes in the value of long-term investments during 2019 for the endowment pool resulted primarily from new contributions and pledge payments, and changes for the current fund resulted primarily from program services expenditures in support of OHSU. As of June 30, 2018, long-term and restricted investments totaled \$974.1 million, an increase of \$65.6 million from 2017. Changes in the value of long-term investments during 2018 resulted primarily from investment gains.

Pledges, noncurrent net of discounts total \$348.6 million at June 30, 2019, \$386.8 million at June 30, 2018, and \$505.4 million at June 30, 2017. For further information on pledges receivable, refer to the information provided above and in note 5.

Capital assets, net of accumulated depreciation totaled \$0.2 million at the end of 2019, \$0.3 million at the end of 2018, and \$0.4 million at the end of 2017.

Total assets were \$1.5 billion for each of the years ended June 30, 2019, 2018, and 2017.

OREGON HEALTH & SCIENCE UNIVERSITY FOUNDATION

(A Component Unit of Oregon Health & Science University)

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

Liabilities

- Current liabilities consist of accounts payable and accrued liabilities, a significant portion of which is due to OHSU and Oregon Rural Health Initiative (ORHI), and the current portion of leasehold incentives related to the Salmon Street office location. Current liabilities totaled \$66.6 million on June 30, 2019, \$81.9 million on June 30, 2018, and \$81.9 million on June 30, 2017. The 2019 balance is a decrease of \$15.3 million from 2018, primarily as a result of the transfer made from ORHI for reimbursement of construction costs incurred by Sky Lakes, see further discussion at note 8(d). The 2018 balance is in line with 2017.
- Noncurrent liabilities of \$24.4 million, \$25.0 million, and \$24.9 million at June 30, 2019, 2018, and 2017, 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 6.1%, 7.0%, and 7.1% of foundation assets as of June 30, 2019, 2018, and 2017, 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 \$117.9 million, \$110.9 million, and \$101.0 million at June 30, 2019, 2018, and 2017, respectively. The increases in deferred inflows of \$7.0 million in 2019 and \$9.9 million in 2018 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 \$244.7 million, \$221.1 million, and \$204.5 million as of June 30, 2019, 2018, and 2017, respectively. The increase of \$23.6 million from 2018 to 2019 is primarily related to new contributions and the increase of \$16.6 million from 2017 to 2018 resulted primarily from new contributions and investment gains.
- Expendable restricted net position totaled \$1.0 billion for each of the years ended June 30, 2019, 2018, and 2017.
- Unrestricted net position totaled \$72.0 million at June 30, 2019, \$61.1 million at June 30, 2018, and \$53.7 million at June 30, 2017. The increases in 2019 and 2018 are primarily related to new contributions, investment gains, and management fees received on the endowment fund; offset by supporting services.
- Overall net position totaled \$1.3 billion for each of the years ended June 30, 2019, 2018, and 2017.

OREGON HEALTH & SCIENCE UNIVERSITY FOUNDATION

(A Component Unit of Oregon Health & Science University)

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

Foundation Summary Schedule of Net Position

	June 30		
	2019	2018	2017
	(Dollars in thousands)		
Noncapital assets	\$ 1,485,337	1,518,822	1,505,075
Capital assets	167	263	383
Total assets	<u>\$ 1,485,504</u>	<u>1,519,085</u>	<u>1,505,458</u>
Current liabilities	\$ 66,636	81,930	81,858
Noncurrent liabilities	24,373	24,978	24,882
Total liabilities	<u>\$ 91,009</u>	<u>106,908</u>	<u>106,740</u>
Deferred inflows	\$ 117,944	110,885	100,989
Net position:			
Net investment in capital assets	\$ 167	263	383
Restricted net position	1,204,413	1,239,945	1,243,626
Unrestricted net position	<u>71,971</u>	<u>61,084</u>	<u>53,720</u>
Total net position	<u>\$ 1,276,551</u>	<u>1,301,292</u>	<u>1,297,729</u>

Operating Revenues

Operating revenues for fiscal year 2019 totaled \$58.7 million, compared to \$51.4 million in fiscal year 2018 and \$78.1 million in fiscal year 2017. The primary component of operating revenues was contributions, which for 2019 totaled \$55.2 million. For fiscal year 2019, this represents an increase in operating revenues of \$7.3 million or 14.2% from 2018 and for fiscal year 2018, a decrease of \$26.7 million or 34.1% from 2017.

Total contributions, including nonexpendable contributions for 2019, primarily included new cash gifts of \$31.2 million, new pledges of \$33.3 million, bequests of \$6.4 million, and deferred irrevocable gifts of \$6.3 million. 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. Contribution levels increased in 2019, when compared to the prior year, primarily due to a \$5.5 million gift funding the SMMART Treatment program; a \$3.5 million gift to establish an endowment for cancer research scholars; and a \$2.8 million gift to establish an endowment for leukemia and lymphoma research. Contribution levels decreased in 2018, when compared to the prior year, primarily due to a \$20.0 million gift for the Knight Cardiovascular Institute that was recorded in 2017.

Operating Expenses

Program services expense provided to OHSU totaled \$153.3 million in fiscal year 2019, \$112.3 million in fiscal year 2018, and \$112.1 million in fiscal year 2017. During 2019, program support for capital projects increased by \$36.2 million, from \$9.3 million to \$45.5 million, primarily related to construction expenditures for Knight Cancer Research Building and the Rood Family Pavilion. Program services expense for 2018 was in line with 2017.

OREGON HEALTH & SCIENCE UNIVERSITY FOUNDATION

(A Component Unit of Oregon Health & Science University)

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

Supporting services expense totaled \$16.8 million for fiscal year 2019, \$16.1 million for fiscal year 2018, and \$15.6 million for fiscal year 2017. The level of expense in fiscal year 2019 reflects an increase of \$0.7 million or 4.0% from fiscal year 2018. 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 2019 is primarily due to a rise in personnel costs. The increase during fiscal year 2018 is primarily due to computer replacements, which were postponed in 2017.

Total operating expenses were \$170.1 million in 2019, \$128.5 million in 2018, and \$127.8 million in 2017. Higher expenses in 2019 were primarily related to increased program services expenditures for construction costs. Higher expenses in 2018 were primarily related to the increased level of supporting services expense. Operating expenses for 2018 was in line with 2017.

Operating revenues less operating expenses resulted in an operating loss of \$111.3 million in 2019, \$77.0 million in 2018, and \$49.7 million in 2017. During each of these periods, program services and supporting services expenses exceeded contributions, resulting in an operating loss. 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 \$58.4 million in fiscal year 2019, \$62.0 million in fiscal year 2018, and \$76.5 million in fiscal year 2017. The fiscal year 2019 activities reflected a 6.9% gain on the endowment fund, compared to a 9.9% investment gain in 2018, and a 15.7% investment gain in 2017. Endowment investment performance and exceeded its total asset benchmark by 0.6% in 2019, by 2.4% in 2018, and by 3.1% in 2017. The fiscal year 2019 activities reflect a 3.3% gain on the C/F reserve, compared to a 1.5% investment gain in 2018, and a 1.1% investment gain in 2017. The fiscal year 2019 activities reflect a 5.5% gain on the C/F 1-5 year account, compared to a 0.0% return in 2018, and a 0.3% investment gain in 2017.

Other nonoperating activities totaled \$5.0 million in 2018, \$2.7 million in 2017, and \$1.3 million in 2016.

Other Changes in Net Position

Other changes in net position consist of nonexpendable donations and life income agreement donations of \$23.2 million in 2019, \$15.8 million in 2018, and \$11.9 million in 2017.

OREGON HEALTH & SCIENCE UNIVERSITY FOUNDATION

(A Component Unit of Oregon Health & Science University)

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

Changes in Net Position

In fiscal year 2019, there was a decrease in net position of \$24.7 million compared to increase in net position of \$3.6 million in 2018 and an increase in net position of \$40.1 million in 2017. 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		
	2019	2018	2017
	(Dollars in thousands)		
Operating revenues:			
Contributions	\$ 55,217	48,061	74,425
Other income	3,516	3,387	3,678
Total operating revenues	<u>58,733</u>	<u>51,448</u>	<u>78,103</u>
Operating expenses:			
Program services	153,289	112,307	112,118
Supporting services	16,793	16,144	15,642
Total operating expenses	<u>170,082</u>	<u>128,451</u>	<u>127,760</u>
Operating loss	(111,349)	(77,003)	(49,657)
Investment income, net	58,410	62,031	76,513
Other nonoperating revenue	5,006	2,732	1,315
(Loss) income before other changes in net position	(47,933)	(12,240)	28,171
Nonexpendable donations	23,192	15,803	11,920
Change in net position	(24,741)	3,563	40,091
Beginning net position	<u>1,301,292</u>	<u>1,297,729</u>	<u>1,257,638</u>
Ending net position	<u>\$ 1,276,551</u>	<u>1,301,292</u>	<u>1,297,729</u>

The level of expendable and nonexpendable contributions raised totaled \$78.4 million, \$63.9 million, and \$86.3 million in fiscal years 2019, 2018, and 2017, respectively. The foundation provided program services support to OHSU of \$153.3 million in 2019, \$112.3 million in 2018, and \$112.1 million in 2017.

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

Statements of Net Position

June 30, 2019 and 2018

(Dollars in thousands)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 20,611	20,771
Short-term investments	423	409
Accrued interest on investments	911	1,203
Prepaid expenses	208	176
Pledges and estates receivable, current portion, net	<u>72,066</u>	<u>127,672</u>
Total current assets	<u>94,219</u>	<u>150,231</u>
Noncurrent assets:		
Restricted assets:		
Cash and long-term investments	926,057	750,436
Due from OHSU	4,693	6,237
Pledges, noncurrent, net	<u>348,608</u>	<u>386,815</u>
Total restricted assets	<u>1,279,358</u>	<u>1,143,488</u>
Long-term investments	108,301	223,670
Other receivables, net	3,459	1,433
Capital assets, net of accumulated depreciation of \$1,847 and \$1,748, respectively	<u>167</u>	<u>263</u>
Total noncurrent assets	<u>1,391,285</u>	<u>1,368,854</u>
Total assets	<u>\$ 1,485,504</u>	<u>1,519,085</u>
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,403	22,067
Due to OHSU	56,186	59,816
Leasehold incentives, current portion	<u>47</u>	<u>47</u>
Total current liabilities	<u>66,636</u>	<u>81,930</u>
Noncurrent liabilities:		
Due to other institutions	2,587	2,514
Leasehold incentives, noncurrent	59	106
Liability for life income agreements	<u>21,727</u>	<u>22,358</u>
Total noncurrent liabilities	<u>24,373</u>	<u>24,978</u>
Total liabilities	<u>91,009</u>	<u>106,908</u>
Deferred inflows:		
Pending fund	86,457	81,181
Life income agreements	<u>31,487</u>	<u>29,704</u>
Total deferred inflows	<u>117,944</u>	<u>110,885</u>
Net position:		
Net investment in capital assets	167	263
Restricted for:		
Nonexpendable:		
Research	35,001	28,822
Academic support	80,712	73,486
Instruction	61,278	55,770
Student aid	45,760	44,316
Other	<u>21,899</u>	<u>18,667</u>
Total nonexpendable restricted net position	<u>244,650</u>	<u>221,061</u>
Expendable:		
Research	649,259	711,265
Academic support	174,290	160,918
Instruction	43,451	41,799
Capital projects and planning	26,115	42,582
Student aid	28,032	26,273
Clinical support	8,217	8,615
Institutional support	13,933	13,554
Other	<u>16,466</u>	<u>13,878</u>
Total expendable restricted net position	<u>959,763</u>	<u>1,018,884</u>
Total restricted net position	<u>1,204,413</u>	<u>1,239,945</u>
Unrestricted net position	<u>71,971</u>	<u>61,084</u>
Total net position	<u>1,276,551</u>	<u>1,301,292</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,485,504</u>	<u>1,519,085</u>

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, 2019 and 2018

(Dollars in thousands)

	2019	2018
Operating revenues:		
Contributions:		
Donations	\$ 53,163	46,400
Life income agreements	2,054	1,661
Total contributions	55,217	48,061
Other income:		
Management fees	1,007	1,078
Other income	2,509	2,309
Total other income	3,516	3,387
Total operating revenues	58,733	51,448
Operating expenses:		
Program services:		
Research	51,581	48,229
Academic support	36,296	35,346
Instruction	7,266	6,373
Institutional support	559	355
Public service	3,842	2,551
Capital projects and planning	45,490	9,333
Student aid	3,082	3,254
Clinical support	4,987	6,823
Transfers to other institutions	186	43
Total program services	153,289	112,307
Supporting services:		
Salaries and other payroll expenses	13,622	12,771
Services and supplies	3,072	3,264
Depreciation	99	109
Total supporting services	16,793	16,144
Total operating expenses	170,082	128,451
Operating loss	(111,349)	(77,003)
Nonoperating activities:		
Investment income, net of investment fees of \$7,927 and \$8,318 in 2019 and 2018, respectively	58,410	62,031
Other nonoperating activities	5,006	2,732
Total nonoperating activities	63,416	64,763
Loss before other changes in net position	(47,933)	(12,240)
Other changes in net position:		
Nonexpendable donations	23,023	15,480
Nonexpendable life income agreement donations	169	323
Total other changes in net position	23,192	15,803
Change in net position	(24,741)	3,563
Net position, beginning of year	1,301,292	1,297,729
Net position, end of year	\$ 1,276,551	1,301,292

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, 2019 and 2018

(Dollars in thousands)

	2019	2018
Cash flows from operating activities:		
Donations	\$ 73,984	84,844
Life income agreement contributions	2,054	2,095
Management fee income	1,007	1,079
Other receipts	2,509	2,309
Salaries and other payroll expenses	(13,550)	(12,770)
Services and supplies expenses	(3,034)	(3,340)
Program services expenses	(154,483)	(111,408)
Net cash used by operating activities	(91,513)	(37,191)
Cash flows from noncapital financing activities:		
Annuity payments to beneficiaries	(1,863)	(1,880)
Nonexpendable donations and life income agreements	12,783	10,389
Other noncapital financing activities	(11,376)	(509)
Net cash (used) provided by noncapital financing activities	(456)	8,000
Cash flows from capital and related financing activities:		
Purchase of capital assets	(4)	—
Proceeds from sale of capital assets	—	11
Net cash (used) provided by capital and related financing activities	(4)	11
Cash flows from investing activities:		
Purchases of investments	(100,591)	(89,026)
Proceeds from sales and maturities of investments	185,759	103,736
Interest and dividend income	4,872	4,752
Investment income on affiliated funds	9,700	14,428
Investment fees	(7,927)	(8,318)
Net cash provided by investing activities	91,813	25,572
Net decrease in cash and cash equivalents	(160)	(3,608)
Cash and cash equivalents, beginning of year	20,771	24,379
Cash and cash equivalents, end of year	\$ 20,611	20,771

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

Statements of Cash Flows

Years ended June 30, 2019 and 2018

(Dollars in thousands)

	2019	2018
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (111,349)	(77,003)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	99	109
Noncash contributions	(72,538)	(10,928)
Decrease in pledges and estates receivable	93,813	50,178
Increase in other receivables	(493)	(1,976)
(Increase) decrease in prepaid expenses	(33)	31
Increase in obligations for life income agreements	—	177
Decrease in obligations for leasehold incentives	(47)	(47)
(Decrease) increase in accounts payable and other liabilities	(965)	2,031
Increase in deferred inflows	—	237
Net cash used by operating activities	\$ (91,513)	(37,191)
Schedule of noncash noncapital financial and investing activities:		
Noncash nonexpendable donations and life income agreements	\$ 10,360	9,248
Net change in fair value of investments	7,464	24,254

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2019 and 2018

(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 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.

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

Notes to Financial Statements

June 30, 2019 and 2018

(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 Executive Committee of the Board of Trustees (Executive Committee) and is calculated using a weighted average methodology comprised of an eight quarter moving average of the fair value of the endowment fund adjusted for inflation, and of the previous year's actual spending distribution adjusted for inflation. The resulting effective spending rate payout is then banded to be between 4.0% and 5.5% each year. The Executive Committee authorized a 4.5% distribution rate to calculate the effective spending rate in the years ended June 30,

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

Notes to Financial Statements

June 30, 2019 and 2018

2019 and 2018. Spending distributions of \$37.2 million and \$31.9 million were made into foundation endowment income accounts to be utilized in support of OHSU during the fiscal years ended June 30, 2019 and 2018, respectively.

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.

(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.

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

Notes to Financial Statements

June 30, 2019 and 2018

(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.

(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 \$44.5 million and \$39.4 million at June 30, 2019 and 2018, respectively.

(b) Investments

Through its Investment Committee, the Board of Trustees of OHSUF is responsible for the management of the foundation's investments. The Investment Committee 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 of Finance directs the implementation of actions designated by the Investment Committee.

(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, 2019 and 2018, the fair value of the foundation's investments in the current fund was \$286.7 million and \$342.6 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

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

Notes to Financial Statements

June 30, 2019 and 2018

investment partner under the terms of a partnership agreement and subject to the investment policies established by the Investment Committee. 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 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, 2019 and 2018, the fair value of the foundation's investments in the endowment fund was \$716.6 million and \$599.4 million, respectively. Of these amounts, \$58.5 million and \$55.7 million as of June 30, 2019 and 2018, 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, accumulated loss of \$100 related to endowment accounts with market value below corpus was reflected in nonexpendable restricted net position. There were no endowment accounts with market value below corpus at June 30, 2019.

The foundation also has investments with a fair value of \$52.2 million and \$53.2 million at June 30, 2019 and 2018, 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.

Investment policies are established based on the investment objectives of the portfolio. Each portfolio has its own asset allocation guideline which has been authorized by the Executive Committee. 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

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

Notes to Financial Statements

June 30, 2019 and 2018

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, 2019 and 2018 are as follows:

<u>Asset classes</u>	<u>2019</u>	<u>2018</u>
	(Dollars in thousands)	
Domestic equities	\$ 71,762	74,129
Non-U.S. equities	130,114	104,653
Global equities	38,326	58,413
Venture capital/private equity	289,522	235,226
Marketable alternative investments	171,865	180,722
Real estate investments and contracts	35,661	27,037
Mutual funds – nonfixed income	36,216	38,065
Annuity contracts	1,591	1,771
Insurance policies	1,004	1,006
Fixed income	258,720	253,493
	<u>\$ 1,034,781</u>	<u>974,515</u>

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.

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

Notes to Financial Statements

June 30, 2019 and 2018

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, 2019.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
	(Dollars in thousands)			
Domestic equities	\$ 46,284	—	—	46,284
Non-U.S. equities	49,285	—	—	49,285
Global equities	13,183	—	—	13,183
Venture capital/private equity	—	—	7,201	7,201
Real estate investments and contracts	1,141	—	790	1,931
Mutual funds – nonfixed income	36,216	—	—	36,216
Annuity contracts	59	1,532	—	1,591
Insurance policies	—	—	1,004	1,004
Fixed income:				
U.S. government securities	—	48,767	—	48,767
U.S. agency securities	—	7,614	—	7,614
Corporate bonds	—	64,028	—	64,028
Asset-backed securities and collateralized mortgage obligations	—	21,652	—	21,652
Municipal bonds	—	2,326	—	2,326
Mutual funds – fixed income only	108,696	4,519	—	113,215
Bank debt	—	505	—	505
Certificates of deposit	—	613	—	613
Subtotal	<u>\$ 254,864</u>	<u>151,556</u>	<u>8,995</u>	415,415
Investments measured using NAV per share or its equivalent:				
Domestic equities				25,478
Non-U.S. equities				80,829
Global equities				25,143
Venture capital/private equity				282,321
Marketable alternative investments				171,865
Real estate investments and contracts				33,730
Total investments				<u>\$ 1,034,781</u>

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

Notes to Financial Statements

June 30, 2019 and 2018

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.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
	(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	<u>\$ 185,891</u>	<u>183,477</u>	<u>44,702</u>	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				<u>22,032</u>
Total investments				<u>\$ 974,515</u>

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

Notes to Financial Statements

June 30, 2019 and 2018

There were no transfers of financial instruments between Level 1 and Level 2 classifications either in 2019 or 2018. Changes in Level 3 financial instruments are as follows:

	Year ended June 30	
	2019	2018
	(Dollars in thousands)	
Balance at beginning of year	\$ 44,702	5,006
Net realized losses	(112)	(147)
Net unrealized gains	133	75
Purchases	7,212	39,784
Sales	(3,168)	(16)
Transfers to NAV per share, or its equivalent, classification	(39,772)	—
Balance at end of year	\$ 8,995	44,702

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.

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

Notes to Financial Statements

June 30, 2019 and 2018

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, 2019 and 2018:

	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Domestic equities	Quarterly	3–90 days
Non-U.S. equities	Weekly to every four years	3–90 days
Global equities	Quarterly	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

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

Notes to Financial Statements

June 30, 2019 and 2018

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, 2019, 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>Life Income</u>	<u>Total</u>
			(Dollars in thousands)		
U.S. government securities	Less than 1 year	\$ 636	113	129	878
	1–5 years	71	44,779	—	44,850
	6–10 years	313	1,538	—	1,851
	More than 10 years	1,008	180	—	1,188
U.S. agency securities	1–5 years	—	99	—	99
	6–10 years	—	449	—	449
	More than 10 years	—	7,066	—	7,066
Corporate bonds	Less than 1 year	372	8,897	—	9,269
	1–5 years	2,472	48,293	—	50,765
	6–10 years	2,017	360	—	2,377
	More than 10 years	1,069	548	—	1,617
Asset-backed securities and collateralized mortgage obligations	1–5 years	404	4,094	—	4,498
	6–10 years	548	98	—	646
	More than 10 years	12,959	3,549	—	16,508
Municipal bonds	Less than 1 year	—	—	71	71
	1–5 years	—	—	994	994
	6–10 years	—	—	1,037	1,037
	More than 10 years	—	—	224	224
Mutual funds – fixed income only	Less than 1 year	20,526	14,851	2,118	37,495
	1–5 years	31,011	5,530	6,390	42,931
	6–10 years	14,484	3,472	3,790	21,746
	More than 10 years	9,372	1,671	—	11,043
Bank debt	1–5 years	383	68	—	451
	6–10 years	46	8	—	54
Certificate of deposit	Less than 1 year	—	—	312	312
	1–5 years	—	—	301	301
Total		<u>\$ 97,691</u>	<u>145,663</u>	<u>15,366</u>	<u>258,720</u>

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

Notes to Financial Statements

June 30, 2019 and 2018

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:

<u>Investment type</u>	<u>Maturity</u>	<u>Endowment</u>	<u>Current funds</u>	<u>Life Income</u>	<u>Total</u>
			(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		\$ <u>69,215</u>	<u>168,705</u>	<u>15,573</u>	<u>253,493</u>

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

Notes to Financial Statements

June 30, 2019 and 2018

As of June 30, 2019, 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	\$ 1,141	46,452	129	47,722
	AA	887	158	—	1,045
U.S. agency securities	AAA	—	7,614	—	7,614
Corporate bonds	AAA	164	387	—	551
	AA	121	7,794	—	7,915
	A	1,225	27,457	—	28,682
	BBB	2,879	22,185	—	25,064
	BB	831	148	—	979
	B	244	44	—	288
	Below B	32	6	—	38
	Not rated	434	77	—	511
Asset-backed securities and collateralized mortgage obligations	AAA	6,867	6,485	—	13,352
	AA	3,121	556	—	3,677
	A	538	96	—	634
	BBB	200	36	—	236
	BB	128	23	—	151
	B	44	8	—	52
	Below B	1,097	195	—	1,292
	Not rated	1,916	342	—	2,258
Municipal bonds	AAA	—	—	163	163
	AA	—	—	1,995	1,995
	A	—	—	168	168
Mutual funds – fixed income only	A1/P1	74	13	—	87
	Below A1/P1	7	1	—	8
	AAA	53,301	12,157	6,723	72,181
	AA	2,998	2,028	486	5,512
	A	4,349	6,649	1,296	12,294
	BBB	6,161	3,106	1,603	10,870
	BB	2,004	375	720	3,099
	B	2,567	465	801	3,833
	Below B	1,811	351	248	2,410
	Not rated	2,121	379	421	2,921
Bank debt	BBB	190	34	—	224
	BB	138	24	—	162
	B	88	16	—	104
	Below B	5	1	—	6
	Not rated	8	1	—	9
Certificate of deposit	Not rated	—	—	613	613
Total		\$ 97,691	145,663	15,366	258,720

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

Notes to Financial Statements

June 30, 2019 and 2018

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

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

Notes to Financial Statements

June 30, 2019 and 2018

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

The foundation holds \$4.9 million of asset-backed securities collateralized primarily by auto loans, equipment, and credit card receivables, and \$16.8 million of collateralized mortgage obligations as of June 30, 2019. 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. 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:

	<u>Minimum Standard & Poor's rating</u>	<u>Minimum Moody's rating</u>	<u>Minimum Fitch rating</u>
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.

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

Notes to Financial Statements

June 30, 2019 and 2018

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

As of June 30, 2019 and 2018, 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 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:

Foreign currency	Value (U.S. dollar)	
	2019	2018
	(Dollars in thousands)	
British pound sterling	\$ 8,127	4,317
Canadian dollar	6,837	5,944
Euro	16,362	3,563
Total	\$ 31,326	13,824

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

Notes to Financial Statements

June 30, 2019 and 2018

(f) Commitments

As of June 30, 2019 and 2018, the foundation had total accumulated commitments to nonmarketable private alternative investments, marketable private investments, private natural resources investments, and private real estate investments of \$847.6 million and \$690.5 million, respectively. As of June 30, 2019 and 2018, the foundation had funded \$635.1 million and \$483.0 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, 2019 and 2018:

	2019	2018
	(Dollars in thousands)	
Pledges maturing within 1 year	\$ 71,367	127,164
Pledges maturing within 2–8 years	369,788	413,273
	441,155	540,437
Less allowance for uncollectible pledges	(1,960)	(2,176)
	439,195	538,261
Less discount for net present value (rates of 0.30% to 4.54%)	(19,689)	(24,792)
Total net pledges receivable	419,506	513,469
Estates receivable	1,230	1,072
Less allowance for uncollectible estates receivable	(62)	(54)
Total net estates receivable	1,168	1,018
Total restricted pledges and estates receivable, net	\$ 420,674	514,487

(6) Trusts Held by Others

The foundation is the named beneficiary of 35 trusts held by outside trustees at each of the years ended June 30, 2019 and 2018. The fair value reported to management of trust assets held by others was \$48.1 million and \$47.8 million as of June 30, 2019 and 2018, respectively. Trust distributions from these assets are recorded as contributions as they occur. Trust distributions of \$2.3 million and \$1.7 million were recorded as contributions during fiscal years 2019 and 2018, respectively.

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

Notes to Financial Statements

June 30, 2019 and 2018

(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:			
2020	\$	694	
2021		715	
2022		180	
	\$	1,589	

The foundation had net leasing costs of \$0.6 million during each of the years ended June 30, 2019 and 2018.

(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 \$2.5 million and \$2.4 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, 2019 and 2018, respectively.

The foundation provides investment management services and administration services to DCHF for its current funds, which have a balance of \$19.9 million at June 30, 2019 and balance of \$28.4 million at June 30, 2018. The foundation retains 100.0% of the net earnings or losses on these funds. The C/F 1-5 year fund had net earnings of 5.5% for the year ended June 30, 2019 and a return of 0.0% for the year ended June 30, 2018. The C/F reserve fund had net earnings of 3.3% for the year ended June 30, 2019 and 1.5% for the year ended June 30, 2018. The endowment fund, which is also used as the investment vehicle for the C/F endowment, had net earnings of 6.9% for the year ended June 30, 2019 and net earnings of 9.9% for the year ended June 30, 2018. 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 \$62.5 million at June 30, 2019 and \$52.5 million at June 30, 2018. 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 \$0.8 million and \$0.6 million related to investment management and administration services of the DCHF endowment funds for the years ended June 30, 2019 and 2018, respectively. 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.

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

Notes to Financial Statements

June 30, 2019 and 2018

(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 OPFR 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 OPFR funds to the foundation, and approximately \$39.0 million was held at each of the years ended June 30, 2019 and 2018. The foundation provided approximately \$2.2 million and \$3.5 million of funds received during the merger for OPFR funds to OHSU during the fiscal years ended June 30, 2019 and 2018, respectively.

Additionally, subsequent to the merger, departments within the Medical Group have deposited funds with the foundation. Approximately \$46.3 million and \$48.8 million of funds transferred subsequent to the merger are recorded in current liabilities due to OHSU at June 30, 2019 and 2018, respectively.

In total, the foundation held \$85.3 million and \$87.8 million of OPFR funds at June 30, 2019 and 2018, respectively.

(c) OHSU

The foundation provides investment management services to OHSU for its endowment fund. The fair value of the OHSU endowment was \$98.6 million as of June 30, 2019 and \$93.8 million as of June 30, 2018. 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, 2019 and 2018 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, 2019 and 2018 were \$0.7 million and \$4.1 million, respectively, for the School of Dentistry capital project. Fees related to this advance are currently assessed to OHSU at 4.59%.

(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,

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

Notes to Financial Statements

June 30, 2019 and 2018

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 \$33.4 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 2019 and 2018, \$13.4 million and \$8.8 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, 2019 and 2018:

	<u>June 30, 2018</u> <u>balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u> <u>balance</u>
		(Dollars in thousands)		
Capital assets:				
Building lease improvements	\$ 683	—	—	683
Computer equipment	1,071	3	—	1,074
Office equipment	256	—	—	256
Total capital assets	<u>2,010</u>	<u>3</u>	<u>—</u>	<u>2,013</u>
Less accumulated depreciation:				
Building lease improvements	(454)	—	(70)	(524)
Computer equipment	(1,058)	—	(12)	(1,070)
Office equipment	(235)	—	(17)	(252)
Total accumulated depreciation	<u>(1,747)</u>	<u>—</u>	<u>(99)</u>	<u>(1,846)</u>
Total capital assets, net	<u>\$ 263</u>	<u>3</u>	<u>(99)</u>	<u>167</u>

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

Notes to Financial Statements

June 30, 2019 and 2018

	<u>June 30, 2017</u> <u>balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u> <u>balance</u>
		(Dollars in thousands)		
Capital assets:				
Building lease improvements	\$ 683	—	—	683
Computer equipment	1,082	—	(11)	1,071
Office equipment	256	—	—	256
Total capital assets	<u>2,021</u>	<u>—</u>	<u>(11)</u>	<u>2,010</u>
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	<u>(1,638)</u>	<u>(112)</u>	<u>3</u>	<u>(1,747)</u>
Total capital assets, net	<u>\$ 383</u>	<u>(112)</u>	<u>(8)</u>	<u>263</u>

The foundation has recorded depreciation expense of \$0.1 million for each of the years ended June 30, 2019 and 2018, 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 for each of the years ended June 30, 2019 and 2018.

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.

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

Notes to Financial Statements

June 30, 2019 and 2018

(11) Life Income Funds

Life income agreements established during the years ended June 30, 2019 and 2018 are as follows at the date of donation:

	2019			2018		
	<u>Agreements</u>	<u>Asset</u>	<u>Liability</u>	<u>Agreements</u>	<u>Asset</u>	<u>Liability</u>
		(Dollars in thousands)			(Dollars in thousands)	
Charitable remainder unitrusts	1	\$ 2	1	3	\$ 2,811	948
Charitable lead trusts	1	1,011	299	—	—	—
Charitable gift annuities	12	1,545	902	5	103	50
	<u>14</u>	<u>\$ 2,558</u>	<u>1,202</u>	<u>8</u>	<u>\$ 2,914</u>	<u>998</u>

Total life income instruments held at June 30, 2019 and 2018 are as follows:

	2019			2018		
	<u>Agreements</u>	<u>Asset</u>	<u>Liability</u>	<u>Agreements</u>	<u>Asset</u>	<u>Liability</u>
		(Dollars in thousands)			(Dollars in thousands)	
Charitable remainder unitrusts	50	\$ 21,261	6,992	54	\$ 21,516	7,693
Charitable lead trusts	3	21,615	8,450	2	21,096	8,935
Charitable remainder trust annuities	1	117	79	2	217	127
Charitable gift annuities	173	9,609	5,815	167	8,768	5,272
Life estate agreements	2	691	391	2	572	331
	<u>229</u>	<u>\$ 53,293</u>	<u>21,727</u>	<u>227</u>	<u>\$ 52,169</u>	<u>22,358</u>

Twelve charitable gift annuities, included above, with a total gift value of \$3.4 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.

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

Notes to Financial Statements

June 30, 2019 and 2018

Changes in OHSUF's liability for life income agreements during the fiscal years ended June 30, 2019 and 2018 are summarized below:

	2018 balance	Increases	Decreases	2019 balance
	(Dollars in thousands)			
Charitable remainder unitrusts	\$ 7,693	749	(1,450)	6,992
Charitable lead unitrusts	8,935	308	(793)	8,450
Charitable remainder trust annuities	127	24	(72)	79
Charitable gift annuities	5,272	1,303	(760)	5,815
Life estate agreements	331	60	—	391
Total	\$ 22,358	2,444	(3,075)	21,727

	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

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

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

Notes to Financial Statements

June 30, 2019 and 2018

(12) Unrestricted Net Position

Designations for unrestricted and Board-designated net position for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
	(Dollars in thousands)	
Funds for current operations	\$ 36,558	27,280
Designated for specific purposes	6,194	5,548
Designated for endowment	<u>29,219</u>	<u>28,256</u>
Total unrestricted net position	<u>\$ 71,971</u>	<u>61,084</u>

(13) Supporting Services

Supporting services, which included administrative and fund-raising expenses, totaled approximately \$16.8 million and \$16.1 million for the years ended June 30, 2019 and 2018, 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. The foundation coordinates insurance coverage with OHSU's Risk Management. As a result, the coverage limits for Directors and Officers and Employment Practices Liability insurance coverage are \$1 million. Any additional claims between \$1 million and \$30 million will be covered under OHSU's policy.

(14) Subsequent Events

The foundation has evaluated subsequent events through October 23, 2019, the date on which the financial statements were issued, noting none.