



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

Financial Statements and Required Supplementary Information

June 30, 2021

(With Independent Auditors' Report Thereon)

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

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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 the business-type activities and fiduciary activities of the Oregon Health & Science University Foundation (the Foundation), a component unit of Oregon Health & Science University, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements for the year then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type and fiduciary activities of Oregon Health & Science University Foundation as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in Note 2 to the financial statements, in fiscal year 2021, the Foundation adopted new accounting guidance GASB Statement No. 84 Fiduciary Activities, which establishes criteria for identifying and reporting fiduciary activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that U.S. generally accepted accounting principles requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

KPMG LLP

Portland, Oregon
October 27, 2021

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

Statement of Net Position

June 30, 2021

(Dollars in thousands)

Assets	
	2021
Current assets:	
Cash and cash equivalents	\$ 43,360
Short-term investments	3
Accrued interest on investments	441
Prepaid expenses	611
Pledges and estates receivable, current portion, net	<u>114,502</u>
Total current assets	<u>158,917</u>
Noncurrent assets:	
Restricted assets:	
Cash and long-term investments	1,128,562
Due from OHSU	4,607
Pledges, noncurrent, net	<u>248,218</u>
Total restricted assets	1,381,387
Long-term investments	138,747
Other receivables, net	3,459
Capital assets, net of accumulated depreciation of \$1,859	<u>168</u>
Total noncurrent assets	<u>1,523,761</u>
Total assets	<u>\$ 1,682,678</u>
Liabilities, Deferred Inflows, and Net Position	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 7,085
Due to OHSU	7,411
Leasehold incentives, current portion	<u>12</u>
Total current liabilities	<u>14,508</u>
Noncurrent liabilities:	
Due to other institutions	3,122
Liability for life income agreements	23,492
Other noncurrent liabilities	<u>151</u>
Total noncurrent liabilities	<u>26,765</u>
Total liabilities	<u>41,273</u>
Deferred inflows:	
Life income agreements	<u>39,086</u>
Total deferred inflows	<u>39,086</u>
Net position:	
Net investment in capital assets	168
Restricted for:	
Nonexpendable:	
Research	42,307
Academic support	101,134
Instruction	82,527
Student aid	48,484
Other	<u>30,244</u>
Total nonexpendable restricted net position	<u>304,696</u>
Expendable:	
Research	664,843
Academic support	236,699
Instruction	80,273
Capital projects and planning	20,506
Student aid	46,106
Clinical support	20,634
Institutional support	14,874
Other	<u>36,799</u>
Total expendable restricted net position	<u>1,120,734</u>
Total restricted net position	<u>1,425,430</u>
Unrestricted net position	<u>176,721</u>
Total net position	<u>1,602,319</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,682,678</u>

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2021

(Dollars in thousands)

	2021
Operating revenues:	
Contributions:	
Donations	\$ 67,177
Life income agreements	5,400
Total contributions	72,577
Other income:	
Management fees	1,072
Other income	251
Total other income	1,323
Total operating revenues	73,900
Operating expenses:	
Program services:	
Research	55,070
Academic support	12,357
Instruction	3,680
Institutional support	1,955
Public service	3,875
Capital projects and planning	9,401
Student aid	2,971
Clinical support	5,766
Transfers to other institutions	4,524
Total program services	99,599
Supporting services:	
Foundation administration	15,097
Services and supplies	5,599
Depreciation	84
Total supporting services	20,780
Total operating expenses	120,379
Operating loss	(46,479)
Nonoperating activities:	
Investment income, net of investment fees of \$21,854	291,733
Other nonoperating activities	4,205
Total nonoperating activities	295,938
Income before other changes in net position	249,459
Other changes in net position:	
Nonexpendable donations	11,274
Nonexpendable life income agreement donations	75
Total other changes in net position	11,349
Change in net position	260,808
Net position, beginning of year	1,341,511
Net position, end of year	\$ 1,602,319

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2021

(Dollars in thousands)

	2021
Cash flows from operating activities:	
Donations	\$ 79,526
Life income agreement contributions	5,400
Management fee income	1,072
Other revenue	251
Salaries and other payroll expenses	(14,453)
Services and supplies expenses	(6,111)
Program services expenses	(101,742)
Net cash used by operating activities	(36,057)
Cash flows from noncapital financing activities:	
Annuity payments to beneficiaries	(1,904)
Nonexpendable donations and life income agreements	16,935
Other noncapital financing activities	4,359
Net cash provided by noncapital financing activities	19,390
Cash flows from capital and related financing activities:	
Purchase of capital assets	(148)
Net cash used by capital and related financing activities	(148)
Cash flows from investing activities:	
Purchases of investments	(153,078)
Proceeds from sales and maturities of investments	202,371
Interest and dividend income	7,570
Investment income on affiliated funds	1,905
Investment fees	(21,854)
Net cash provided by investing activities	36,914
Net increase in cash and cash equivalents	20,099
Cash and cash equivalents, beginning of year	23,261
Cash and cash equivalents, end of year	\$ 43,360

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Statement of Cash Flows

Year ended June 30, 2021

(Dollars in thousands)

	<u>2021</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (46,479)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	84
Noncash contributions	(10,169)
Decrease in pledges and estates receivable	22,747
Increase in other receivables	(2,579)
Increase in prepaid expenses	(243)
Decrease in obligations for leasehold incentives	(47)
Increase in accounts payable and other liabilities	629
Net cash used by operating activities	\$ <u>(36,057)</u>
Schedule of noncash noncapital financing and investing activities:	
Noncash nonexpendable donations and life income agreements	\$ 3,331
Net change in fair value of investments	186,452

See accompanying notes to financial statements.

OREGON HEALTH & SCIENCE UNIVERSITY FOUNDATION
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Statement of Fiduciary Net Position

June 30, 2021

(Dollars in thousands)

Assets	Custodial funds
Investments, at fair value:	
Units in OHSUF endowment pool	\$ 215,300
Allocation to OHSUF current fund pool	<u>24,917</u>
Total investments, at fair value	240,217
Pledges receivable	<u>7,000</u>
Total assets	<u><u>\$ 247,217</u></u>
Liabilities and Net Position	
Liabilities:	
Current liabilities	\$ 174,762
Net position:	
Restricted for pool participants	<u>72,455</u>
Total liabilities and net position	<u><u>\$ 247,217</u></u>

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Statement of Changes in Fiduciary Net Position

Year ended June 30, 2021

(Dollars in thousands)

	Custodial funds
Additions:	
Contributions from OHSU	\$ —
Investment earnings:	
Dividends and interest income, net	3,207
Net appreciation in fair value of investments	14,243
OHSUF management fee	<u>(129)</u>
Total investment earnings	<u>17,321</u>
Total additions	<u>17,321</u>
Deductions:	
Distributions to OHSU	—
Other deductions	<u>—</u>
Total deductions	<u>—</u>
Change in net position	17,321
Net position, beginning of year	<u>55,134</u>
Net position, end of year	<u><u>\$ 72,455</u></u>

See accompanying notes to financial statements.

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June 30, 2021

(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. Doernbecher Children's Hospital Foundation (DCHF), an Oregon nonprofit corporation originally established in 1944 promoting an interest in and support for Doernbecher Children's Hospital, a functional unit of OHSU specializing in healthcare services to children, merged on January 1, 2021 with OHSUF. OHSUF continued as the surviving corporation following the merger. The combined financial position and results of OHSUF and DCHF are presented as if the entities merged on July 1, 2020 in accordance with applicable accounting guidance. 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.

During the year ended June 30, 2021, the Foundation adopted new accounting guidance by implementing the provisions of GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying and reporting fiduciary activities. Fiduciary funds are used to account for resources held for the benefit of other related-party entities. The foundation maintains custodial funds for these entities as presented in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position, which are further discussed in note 8.

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.

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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 statement 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 statement of revenues, expenses, and changes in net position until the contribution is received.

Pledges are generally received within seven 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 0.13% to 4.88%.

(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

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statement 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 statement of net position as restricted long-term investments. The foundation's spending policy for endowment funds is determined by the Executive Committee of the Board of Trustees (Executive Committee) and is calculated using a weighted average methodology comprised of an eight quarter moving average of the fair value of the endowment fund adjusted for inflation, and of the previous year's actual spending distribution adjusted for inflation. The resulting effective spending rate payout is then banded to be between 4.0% and 5.5% each year. The Executive Committee authorized a 4.5% distribution rate to calculate the effective spending rate for the year ended June 30, 2021. Spending distributions of \$40.0 million were made into foundation endowment income accounts to be utilized in support of OHSU during the fiscal year ended June 30, 2021.

The foundation's management and investment of donor-restricted endowment funds are subject to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted by the state of Oregon in January 2008.

(g) Life Income Agreements

The foundation has been named as a 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.

(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.

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(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 allowances for uncollectible pledges and estates receivable, 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 \$72.0 million at June 30, 2021.

(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

Cash and investments as of June 30, 2021 are classified in the accompanying financial statements as follows (dollars in thousands):

<u>Cash and investments</u>	
Pooled cash and investments	\$ 1,441,421
Nonpooled cash and investments	<u>66,108</u>
Total cash and investments	<u>\$ 1,507,529</u>

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Cash and investments as of June 30, 2021 consist of the following:

Cash and deposits	\$	34,029
Investments		<u>1,473,500</u>
Total cash and investments	\$	<u><u>1,507,529</u></u>

A summary of cash and investments between the basic financial statements and the fair value of the investment portfolio at June 30, 2021 is as follows:

	<u>Business-type activities</u>	<u>Fiduciary funds</u>	<u>Total</u>
	(Dollars in thousands)		
Pooled cash and investments	\$ 1,201,204	240,217	1,441,421
Nonpooled cash and investments	<u>66,108</u>	<u>—</u>	<u>66,108</u>
Total cash and investments	<u><u>\$ 1,267,312</u></u>	<u><u>240,217</u></u>	<u><u>1,507,529</u></u>

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, 2021, the fair value of the foundation’s investments in the current fund was \$363.6 million.

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 authorized by the Executive 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.

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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, 2021, the fair value of the foundation's investments in the endowment fund was \$884.5 million. Of these amounts, \$148.6 million as of June 30, 2021, represent unspent earnings in excess of donor-restricted original contributions that are available for future designation to expenditure by the Board of Trustees.

There were no endowment accounts with market value below corpus at June 30, 2021.

The foundation also has investments with a fair value of \$62.5 million at June 30, 2021, 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

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June 30, 2021

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, 2021 are as follows (dollars in thousands):

Asset classes	2021
Domestic equities	\$ 57,012
Non-U.S. equities	124,322
Global equities	33,169
Venture capital/private equity	532,071
Marketable alternative investments	204,269
Real estate investments and contracts	43,491
Mutual funds – nonfixed income	15,194
Annuity contracts	1,514
Insurance policies	869
Promissory note	11,896
Fixed income	243,505
	\$ 1,267,312

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.

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June 30, 2021

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, 2021.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value</u>
	(Dollars in thousands)			
Domestic equities	\$ 20,076	—	—	20,076
Non-U.S. equities	40,680	—	—	40,680
Global equities	13,469	—	—	13,469
Venture capital/private equity	—	—	21,494	21,494
Marketable alternative investments	—	—	521	521
Real estate investments and contracts	1,323	—	2,146	3,469
Mutual funds – nonfixed income	15,194	—	—	15,194
Annuity contracts	77	1,437	—	1,514
Insurance policies	—	—	869	869
Promissory note	—	—	11,896	11,896
Fixed income:				
U.S. government securities	—	49,845	—	49,845
U.S. agency securities	—	7,435	—	7,435
Corporate bonds	—	45,644	—	45,644
Asset-backed securities and collateralized mortgage obligations	—	14,477	—	14,477
Municipal bonds	—	3,883	—	3,883
Mutual funds – fixed income only	120,848	—	—	120,848
Bank debt	—	273	—	273
Certificates of deposit	—	1,100	—	1,100
Subtotal	<u>\$ 211,667</u>	<u>124,094</u>	<u>36,926</u>	372,687
Investments measured using NAV per share or its equivalent:				
Domestic equities				36,936
Non-U.S. equities				83,642
Global equities				19,700
Venture capital/private equity				510,577
Marketable alternative investments				203,748
Real estate investments and contracts				<u>40,022</u>
Total investments				<u>\$ 1,267,312</u>

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There were no transfers of financial instruments between Level 1 and Level 2 classifications in 2021. Changes in Level 3 financial instruments during 2021 are as follows (dollars in thousands):

		<u>2021</u>
Balance at beginning of year	\$	27,730
Net realized gains		23
Net unrealized gains		537
Purchases		22,019
Sales		(553)
Contributions		732
Transfers to NAV per share, or its equivalent, classification		<u>(13,562)</u>
Balance at end of year	\$	<u><u>36,926</u></u>

Net realized and unrealized gains and losses on financial instruments classified as Level 3 are reported in the statement 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.

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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, 2021:

	<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	15–180 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

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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 180 days, to transact a redemption of an investment after the expiration of any lockup provisions, and the establishment of gates that 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, 2021, 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	\$ 1,308	242	—	1,550
	1–5 years	400	44,694	—	45,094
	6–10 years	720	1,317	—	2,037
	More than 10 years	982	182	—	1,164
U.S. agency securities	1–5 years	—	94	—	94
	6–10 years	—	1,415	—	1,415
	More than 10 years	—	5,926	—	5,926
Corporate bonds	Less than 1 year	106	5,365	—	5,471
	1–5 years	1,405	35,480	—	36,885
	6–10 years	1,513	414	—	1,927
	More than 10 years	1,148	213	—	1,361
Asset-backed securities and collateralized mortgage obligations	Less than 1 year	14	289	—	303
	1–5 years	955	690	—	1,645
	6–10 years	970	180	—	1,150
	More than 10 years	9,332	2,047	—	11,379
	Less than 1 year	—	—	225	225
Municipal bonds	1–5 years	—	179	1,755	1,934
	6–10 years	88	16	1,541	1,645
	More than 10 years	67	12	—	79
	Less than 1 year	24,012	30,814	1,839	56,665
Mutual funds – fixed income only	1–5 years	19,515	3,617	6,776	29,908
	6–10 years	14,048	3,464	4,810	22,322
	More than 10 years	10,071	1,866	16	11,953
	1–5 years	167	31	—	198
Bank debt	6–10 years	63	12	—	75
	Less than 1 year	—	—	324	324
Certificate of deposit	1–5 years	—	—	776	776
		<u>\$ 86,884</u>	<u>138,559</u>	<u>18,062</u>	<u>243,505</u>

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As of June 30, 2021, the foundation had the following fixed-income investments disclosed by credit quality in the current fund, endowment fund, and life income agreement portfolios, stated at fair value:

<u>Investment type</u>	<u>Credit quality</u>	<u>Endowment</u>	<u>Current funds</u>	<u>Life income</u>	<u>Total</u>
			(Dollars in thousands)		
U.S. government securities	AAA	\$ 2,755	46,314	—	49,069
	AA	655	121	—	776
U.S. agency securities	AAA	—	7,435	—	7,435
Corporate bonds	AAA	82	15	—	97
	AA	29	1,260	—	1,289
	A	425	20,402	—	20,827
	BBB	1,864	19,467	—	21,331
	BB	969	180	—	1,149
	B	379	70	—	449
	Below B	109	20	—	129
	Not rated	315	58	—	373
Asset-backed securities and collateralized mortgage obligations	AAA	6,307	2,286	—	8,593
	AA	793	147	—	940
	A	359	66	—	425
	BBB	495	92	—	587
	BB	118	22	—	140
	B	96	18	—	114
	Below B	1,244	231	—	1,475
	Not rated	1,859	344	—	2,203
Municipal bonds	AAA	—	—	390	390
	AA	18	3	2,996	3,017
	A	—	179	135	314
	BBB	55	10	—	65
	BB	63	12	—	75
	Not rated	19	3	—	22
Mutual funds – fixed income only	AAA	38,427	11,458	7,927	57,812
	AA	9,020	3,975	569	13,564
	A	4,113	12,087	1,222	17,422
	BBB	6,502	10,412	2,153	19,067
	BB	3,719	713	420	4,852
	B	2,769	519	331	3,619
	Below B	1,820	360	229	2,409
	Not rated	1,276	237	590	2,103
Bank debt	BBB	28	5	—	33
	BB	49	9	—	58
	B	137	26	—	163
	Below B	13	2	—	15
	Not rated	3	1	—	4
Certificate of deposit	Not rated	—	—	1,100	1,100
Total		\$ 86,884	138,559	18,062	243,505

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

The foundation holds \$1.9 million of asset-backed securities collateralized primarily by auto loans, equipment, and credit card receivables, and \$12.6 million of collateralized mortgage obligations as of June 30, 2021. 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 and 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.

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(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, 2021, 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, 2021 (dollars in thousands):

Foreign currency	Value (U.S. dollar)
	2021
British pound sterling	\$ 12,614
Canadian dollar	827
Euro	19,077
Total	\$ 32,518

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(f) Commitments

As of June 30, 2021, the foundation had total accumulated commitments to nonmarketable private alternative investments, marketable private investments, private natural resources investments, and private real estate investments of \$1.0 billion. As of June 30, 2021, the foundation had funded \$0.9 billion 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, 2021 (dollars in thousands):

		2021
Pledges maturing within 1 year	\$	114,862
Pledges maturing within 2–7 years		252,048
		366,910
Less allowance for uncollectible pledges		(920)
		365,990
Less discount for net present value (rates of 0.13% to 4.88%)		(9,542)
Total net pledges receivable		356,448
Estates receivable		6,512
Less allowance for uncollectible estates receivable		(1)
		6,511
Less discount for net present value (rates of 0.22% to 0.98%)		(239)
Total net estates receivable		6,272
Total restricted pledges and estates receivable, net	\$	362,720

(6) Trusts Held by Others

The foundation is the named beneficiary of 39 trusts held by outside trustees at June 30, 2021. The fair value reported to management of trust assets held by others was \$59.5 million. Trust distributions from these assets are recorded as contributions as they occur. Trust distributions of \$1.8 million were recorded as contributions during fiscal year 2021.

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(7) Commitments

The foundation leases its office on Salmon Street under a lease expiring as of the close of business on September 30, 2021. This lease is not being renewed and will be month-to-month beginning October 1, 2021. The total obligation under this lease is as follows for the years ending June 30 (dollars in thousands):

Year ending June 30:		
2022	\$	180
2023		—
		—
	\$	180

The foundation had net leasing costs of \$0.6 million during the year ended June 30, 2021.

The foundation will be moving to a new office space at the Jacobs Center under a new lease estimated to begin December 1, 2021. The total obligation under this lease is as follows for the years ending June 30 (dollars in thousands):

Year ending June 30:		
2022	\$	52
2023		641
2024		660
2025		680
2026		700
Thereafter		5,582
		5,582
	\$	8,315

(8) Related-Party Transactions

(a) 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 at June 30, 2021, approximately \$41.3 million, was held. The foundation provided approximately \$1.0 million of funds received during the merger for OPFR funds to OHSU during the fiscal year ended June 30, 2021.

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Additionally, subsequent to the merger, departments within the Medical Group have deposited funds with the foundation. Approximately \$52.5 million of funds transferred subsequent to the merger are recorded as fiduciary funds for benefit of OHSU at June 30, 2021.

In total, the foundation held \$93.8 million of OPPR funds at June 30, 2021.

(b) OHSU

The foundation provides investment management services to OHSU for its endowment fund. The fair value of the OHSU endowment was \$122.3 million as of June 30, 2021. OHSU retains ownership of these funds and they are recorded as fiduciary funds for benefit of OHSU. The foundation has recorded revenues of approximately \$1.5 million during fiscal year 2021 included in the accompanying statement of revenues, expenses, and changes in net position related to investment management services performed for OHSU.

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, when designated by the donors. The foundation held \$65.5 million, recorded as fiduciary funds for the benefit of OHSU, in the pending fund at June 30, 2021.

(c) 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, and the foundation 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 \$33.4 million to ORHI toward the creation of the new healthcare building and parking structure. As of June 30, 2021, there is an outstanding pledge of \$7.0 million to be paid for this commitment to ORHI and this is recorded as fiduciary funds for benefit of Sky Lakes, as it will be paid out to them when the pledge is satisfied. ORHI did not acquire any interest in the new healthcare building or parking structure or have any direct involvement in construction. The new healthcare building and parking structure construction was completed on December 12, 2019.

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(9) Capital Assets

The following is a summary of capital assets for the fiscal year ended June 30, 2021:

	<u>June 30, 2020</u> <u>balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2021</u> <u>balance</u>
		(Dollars in thousands)		
Capital assets:				
Building lease improvements	\$ 684	100	—	784
Computer equipment	966	48	—	1,014
Office equipment	229	—	—	229
Total capital assets	<u>1,879</u>	<u>148</u>	<u>—</u>	<u>2,027</u>
Less accumulated depreciation:				
Building lease improvements	(595)	(71)	—	(666)
Computer equipment	(951)	(13)	—	(964)
Office equipment	(229)	—	—	(229)
Total accumulated depreciation	<u>(1,775)</u>	<u>(84)</u>	<u>—</u>	<u>(1,859)</u>
Total capital assets, net	<u>\$ 104</u>	<u>64</u>	<u>—</u>	<u>168</u>

The foundation has recorded depreciation expense of \$0.1 million for the year ended June 30, 2021, which is included in supporting services in the accompanying statement 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 the plan year, the foundation has made a contribution to the Plan equal to 12.0% of each participant's eligible compensation during the plan year. Contributions are fully vested after five years. The foundation's contributions to the Plan were \$1.3 million for the year ended June 30, 2021.

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.

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(11) Life Income Funds

Life income agreements established during the year ended June 30, 2021 are as follows at the date of donation:

	<u>Agreements</u>	2021	
		<u>Asset</u>	<u>Liability</u>
		(Dollars in thousands)	
Charitable remainder unitrusts	3	\$ 781	2
Charitable gift annuities	7	1,805	1,045
Life estate agreements	1	535	55
	<u>11</u>	<u>\$ 3,121</u>	<u>1,102</u>

Total life income instruments held at June 30, 2021 are as follows:

	<u>Agreements</u>	2021	
		<u>Asset</u>	<u>Liability</u>
		(Dollars in thousands)	
Charitable remainder unitrusts	47	\$ 22,405	6,958
Charitable lead trusts	3	26,143	9,116
Charitable remainder trust annuities	1	79	59
Charitable gift annuities	168	12,021	6,586
Life estate agreements	4	2,031	773
	<u>223</u>	<u>\$ 62,679</u>	<u>23,492</u>

Thirteen charitable gift annuities, included above, with a total gift value of \$3.5 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.

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Changes in OHSUF's liability for life income agreements during the fiscal year ended June 30, 2021 are summarized below:

	2020 balance	Increases	Decreases	2021 balance
		(Dollars in thousands)		
Charitable remainder unitrusts	\$ 6,336	1,999	(1,377)	6,958
Charitable lead unitrusts	7,857	1,259	—	9,116
Charitable remainder trust annuities	67	32	(40)	59
Charitable gift annuities	5,905	1,767	(1,086)	6,586
Life estate agreements	576	197	—	773
Total	\$ 20,741	5,254	(2,503)	23,492

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

(12) Unrestricted Net Position

Designations for unrestricted and Board-designated net position for the year ended June 30, 2021 are as follows (dollars in thousands):

	2021
Funds for current operations	\$ 84,986
Designated for specific purposes	19,215
Designated for endowment	72,520
Total unrestricted net position	\$ 176,721

(13) Supporting Services

Supporting services, which included administrative and fund-raising expenses, totaled approximately \$20.8 million for the year ended June 30, 2021.

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 under the Directors and Officers coverage between \$1 million and \$70 million will be covered under OHSU's policy and additional claims under the Employment Practices Liability coverage between \$1 million and \$40 million will be covered under OHSU's policy.

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(14) COVID-19 Pandemic

In accordance with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect reported amounts. Accordingly, the impact of COVID-19 has increased the uncertainty associated with several of the assumptions underlying management's inputs used in significant accounting estimates, including estimated contribution receivable reserves, alternative investment valuations, and valuation of split-interest agreements liabilities and assets. The overall impact of COVID-19 on the foundation will be driven primarily by the severity and duration of the pandemic; the pandemic's impact on the economy; and the timing, scope, and effectiveness of federal, state, and local governmental responses to the pandemic. Those primary drivers are uncertain and beyond management's control or ability to forecast and may adversely impact contribution revenue and investments of OHSUF among other aspects of the organization; such as program services expenditures to OHSU. Because of these uncertainties, management cannot estimate the length or severity of the impact of the pandemic on our business. The foundation's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. Management has taken precautionary steps to enhance operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to operations.

(15) Subsequent Events

The foundation has evaluated subsequent events through October 27, 2021, the date on which the financial statements were issued, noting none.