



OREGON STATE UNIVERSITY FOUNDATION

Consolidated Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

OREGON STATE UNIVERSITY FOUNDATION

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Oregon State University Foundation:

We have audited the accompanying consolidated statements of financial position of Oregon State University Foundation (the Foundation) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oregon State University Foundation as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 19, 2011

OREGON STATE UNIVERSITY FOUNDATION

Consolidated Statements of Financial Position

June 30, 2011 and 2010

Assets	2011	2010
Cash and cash equivalents	\$ 13,160,682	10,324,330
Investments	417,791,077	344,590,211
Pledges receivable, net	54,215,432	47,802,995
Property and equipment, net	4,899,724	5,210,354
Assets held-for-sale	4,474,805	3,260,905
Assets held under split-interest agreements	56,194,871	49,685,964
Charitable trusts held outside the Foundation	11,158,853	13,764,170
Other assets	1,384,345	2,335,128
Total assets	\$ <u>563,279,789</u>	<u>476,974,057</u>
Liabilities and Net Assets		
Liabilities:		
Obligations under split-interest agreements	\$ 27,954,875	25,536,412
Other liabilities	9,242,147	10,851,300
Total liabilities	<u>37,197,022</u>	<u>36,387,712</u>
Net assets:		
Unrestricted:		
Other	20,101,208	17,581,580
Underwater endowments	(18,383,354)	(33,706,211)
Total unrestricted net assets (deficit)	1,717,854	(16,124,631)
Temporarily restricted	225,664,102	176,617,311
Permanently restricted	298,700,811	280,093,665
Total net assets	<u>526,082,767</u>	<u>440,586,345</u>
Total liabilities and net assets	\$ <u>563,279,789</u>	<u>476,974,057</u>

See accompanying notes to consolidated financial statements.

OREGON STATE UNIVERSITY FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions	\$ 601,786	48,224,266	18,018,226	66,844,278
Interest and dividends	1,383,074	8,981,324	116,309	10,480,707
Other	9,163,597	3,174,476	106,707	12,444,780
Net gains (losses) on investments	16,615,252	36,501,182	(126,094)	52,990,340
Change in value of charitable annuities and trusts	—	1,660,242	3,771,983	5,432,225
Net assets released from restrictions and other transfers	52,774,684	(49,494,699)	(3,279,985)	—
	<u>80,538,393</u>	<u>49,046,791</u>	<u>18,607,146</u>	<u>148,192,330</u>
Expenses:				
Direct University support	40,148,348	—	—	40,148,348
Investment expenses	6,385,142	—	—	6,385,142
Management, general, and development expenses	16,162,418	—	—	16,162,418
	<u>62,695,908</u>	<u>—</u>	<u>—</u>	<u>62,695,908</u>
Change in net assets	17,842,485	49,046,791	18,607,146	85,496,422
Net (deficit) assets, beginning of year	<u>(16,124,631)</u>	<u>176,617,311</u>	<u>280,093,665</u>	<u>440,586,345</u>
Net assets, end of year	\$ <u><u>1,717,854</u></u>	<u><u>225,664,102</u></u>	<u><u>298,700,811</u></u>	<u><u>526,082,767</u></u>

See accompanying notes to consolidated financial statements.

OREGON STATE UNIVERSITY FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Contributions	\$ 452,551	45,908,380	12,085,924	58,446,855
Interest and dividends	1,327,654	7,629,174	32,995	8,989,823
Other	9,251,593	3,359,675	114,728	12,725,996
Net gains on investments	6,831,728	16,813,215	2,125,425	25,770,368
Change in value of charitable annuities and trusts	—	2,050,088	2,106,568	4,156,656
Net assets released from restrictions and other transfers	59,582,003	(58,344,377)	(1,237,626)	—
	<u>77,445,529</u>	<u>17,416,155</u>	<u>15,228,014</u>	<u>110,089,698</u>
Expenses:				
Direct University support	48,559,711	—	—	48,559,711
Investment expenses	6,473,454	—	—	6,473,454
Management, general, and development expenses	15,598,233	—	—	15,598,233
	<u>70,631,398</u>	<u>—</u>	<u>—</u>	<u>70,631,398</u>
Change in net assets	6,814,131	17,416,155	15,228,014	39,458,300
Net (deficit) assets, beginning of year	<u>(22,938,762)</u>	<u>159,201,156</u>	<u>264,865,651</u>	<u>401,128,045</u>
Net (deficit) assets, end of year	\$ <u><u>(16,124,631)</u></u>	<u><u>176,617,311</u></u>	<u><u>280,093,665</u></u>	<u><u>440,586,345</u></u>

See accompanying notes to consolidated financial statements.

OREGON STATE UNIVERSITY FOUNDATION

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 85,496,422	39,458,300
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Gain on investments and property and equipment held-for-sale, net	(52,990,340)	(25,770,368)
Noncash contributions	(4,066,630)	(7,639,921)
Investment earnings on charitable gift annuity and remainder trust agreements	1,265,570	825,253
Depreciation	466,894	449,116
Provision for unfulfilled pledges	1,314,405	(369,020)
Change in cash surrender value of life insurance	(69,685)	(147,187)
Net change in value of charitable gift annuities and trusts	(5,687,659)	(660,088)
Contributions and income restricted for permanent endowments	(18,018,226)	(12,085,924)
Decrease (increase) in cash due to changes in assets and liabilities:		
Charitable trusts held outside the Foundation	3,275,243	(748,199)
Pledges receivable	(3,660,212)	3,772,775
Other assets	1,020,468	103,236
Other liabilities	(1,609,153)	2,700,312
Net cash provided by (used in) operating activities	6,737,097	(111,715)
Cash flows from investing activities:		
Proceeds from sale of investments	77,915,023	301,952,626
Purchase of investments	(98,253,675)	(305,830,288)
Proceeds from disposal of property, equipment, and assets held-for-sale	488,500	778,500
Purchase of property, equipment, and assets held-for-sale	(2,400,464)	(1,161,716)
Net cash used in investing activities	(22,250,616)	(4,260,878)
Cash flows from financing activities:		
Additions to charitable gift annuity and remainder trust agreements	3,266,540	703,963
Payments on charitable gift annuity and remainder trust agreements	(2,934,895)	(3,665,311)
Contributions and income restricted for permanent endowments	18,018,226	12,085,924
Net cash provided by financing activities	18,349,871	9,124,576
Net increase in cash and cash equivalents	2,836,352	4,751,983
Cash and cash equivalents, beginning of year	10,324,330	5,572,347
Cash and cash equivalents, end of year	\$ 13,160,682	10,324,330

See accompanying notes to consolidated financial statements.

OREGON STATE UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(1) Description of Organization and Summary of Significant Accounting Policies

(a) *General*

The Oregon State University Foundation (the Foundation) was incorporated in 1947 to encourage, receive, and administer gifts and bequests for the support of Oregon State University (the University). The Foundation is governed by a Board of Trustees with a membership of forty-one at June 30, 2011.

During 1999, the Foundation implemented an agreement with the University to assume all fundraising responsibilities for the University. As a result, the Foundation has added to its investment management and fiduciary responsibilities those fundraising and related services such as marketing, donor relations, stewardship, etc.

The Foundation is an organization exempt from taxation under Section 501(c)(3), 509(a)(1) and 170(b)(1)(a)(iv) of the Internal Revenue Code and is generally not subject to federal or state income taxes. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic financial statements taken as a whole.

(b) *Basis of Accounting*

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting.

(c) *Basis of Presentation and Principles of Consolidation*

The financial statements of the Foundation and operating affiliates and associates have been consolidated and all significant intercompany amounts and transactions have been eliminated. The operating affiliates and associates consist of the Beaver Athletic Student Fund, Oregon 4-H Foundation, Trysting Tree Golf Club, Inc., and Harvey Ranch, Inc.

In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- *Permanently Restricted* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Such assets consist primarily of the Foundation's permanent endowment funds. Generally, the donors of these assets permit the Foundation's use of all or part of the investment return on these assets.
- *Temporarily Restricted* – Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire with the passage of time.

OREGON STATE UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

- *Unrestricted* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes, such as board-designated or quasi-endowments, by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Unless otherwise designated, unrestricted net assets are used for the support of University programs.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations are reported as net assets released from restrictions.

(d) *Contributions and Pledges*

Contributions, including unconditional pledges, are recognized as revenues in the period received. Unconditional pledges that extend beyond one year are recorded at present value, which approximates fair value, and an allowance for doubtful accounts is established based on the prior collection history of pledged contributions. Conditional pledges are not recognized until they become unconditional; that is, when the donor-imposed conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value on the date of gift.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

(e) *Investments*

Investments are in marketable debt and equity securities, collateralized mortgage obligations, mutual funds, and investments in partnerships and are stated at fair value. Real estate is recorded at fair value on the date of the gift. Mortgage notes and contracts are initially recorded at face value and are collateralized by the associated real estate. Interest on mortgage notes receivable is recognized when earned. Mortgage notes and contracts are reviewed annually to assess credit risks. Uncollectible notes are written off upon approval of the Board of Trustees. As of June 30, 2011 and 2010, no mortgage notes or contracts were deemed to be uncollectible; therefore, no allowance for doubtful accounts was established.

Net gains and losses on investments include realized and unrealized gains and losses. Realized gains and losses from the sale of investments are computed based on the difference between the proceeds received and the carrying value of the asset. Unrealized gains and losses result from changes in the fair value of investments.

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(f) *Pooled Investment Program*

The Foundation places certain investments with investment managers who invest the funds in an investment pool (Pooled Investment Program). The Foundation is the only participant in the pool. Investment income and realized gains and losses on these pooled assets are allocated to the participating endowment funds. Each endowment fund is assigned a percentage of its prorated value to the market value of all assets at the time of entry into or liquidation from the pool.

(g) *Charitable Trusts Held outside the Foundation*

Charitable trusts held outside the Foundation are trusts established and administered by a donor or a third party. These trusts may be a lead, remainder or perpetual trust. Charitable lead trusts are trusts established and funded by donors that provide distributions to the Foundation over a specified period. Lead trusts are measured at the present value of the future distributions expected to be received by the Foundation. The Foundation is also the recipient for charitable remainder trusts. Upon termination of a charitable remainder trust, the assets of the trust are transferred to the Foundation. These trusts are measured at their fair value. Perpetual trusts provide the Foundation the right, in perpetuity, to the income earned on the assets of the trust. The Foundation's beneficial interest in a perpetual trust is measured at fair value. Donors may restrict the use of lead, remainder, and perpetual trust contributions.

(h) *Property, Equipment, and Assets Held-for-Sale*

Real property and equipment are capitalized if the asset is expected to provide a benefit for more than one year. Assets held-for-sale by the Foundation or its affiliates consists of real property, timber and livestock. Real property, equipment, and assets held-for-sale are recorded at cost except for donated assets, which are recorded at fair value on the date of donation. Depreciation is computed for purchased operating equipment of the Foundation based on the straight-line method over the estimated useful lives of the related assets of 3 to 7 years. Real property and equipment held-for-sale or held-for-transfer to the University are not depreciated.

The property and equipment held by the Trysting Tree Golf Club, Inc. are depreciated over the estimated useful lives of the related assets.

Management reviews the carrying value of capitalized assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. This review considers, among other factors, (1) the net realizable value of each major classification of assets, (2) the cash flow associated with the asset, and (3) significant changes in the extent or manner in which major assets are used. Management believes the carrying value of assets is less than the estimated fair value.

Realized gains and losses from the sale or disposal of real property, equipment, and other assets are computed based on the difference between the proceeds received and the net carrying value of the asset.

OREGON STATE UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(i) ***Assets Held under Split-Interest Agreements***

Charitable gift annuity and remainder trust agreements require periodic payment of either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate either at a specific time or upon the death of the designated individual. A liability for each gift annuity and remainder trust, where the Foundation is a trustee, is established and calculated as the present value of future payments to be made to the designated beneficiaries. Upon termination, the remaining assets of the annuity or remainder trust are then available for use by the Foundation to be used in accordance with the donor's intent. The Foundation uses an actuarial approach to determine both the contribution and liability amounts to be recognized. For gift annuities and remainder trusts entered into by the Foundation during the year ended June 30, 2011, the discount rate varied between 2.4% and 3.4%. The discount rate varied between 2.4% and 10.6% for the Foundation's entire portfolio of gift annuities and remainder trusts at June 30, 2011.

(j) ***Other Liabilities***

Other liabilities consist of accrued reimbursements payable to the University and payroll and related liabilities and other accrued operational expenses of the Foundation.

(k) ***Fund Raising Costs***

Fund raising costs totaled approximately \$9,561,229 and \$8,512,118 for the years ended June 30, 2011 and 2010, respectively, and are included in management, general, and development expenses on the consolidated statements of activities.

(l) ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) ***Reclassifications***

Certain amounts in the 2010 consolidated financial statements have been reclassified to conform to 2011 presentation in footnote 4.

(2) **Cash and Cash Equivalents**

Cash and cash equivalents, with original maturities of 90 days or less when purchased, consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Cash in interest-bearing accounts	\$ 5,405,260	2,310,486
Commercial paper	7,755,422	8,013,844
Total cash and cash equivalents	<u>\$ 13,160,682</u>	<u>10,324,330</u>

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Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(3) Investments

At June 30, 2011 and 2010, the fair and cost value of investments were:

	2011		2010	
	Fair value	Cost or amortized cost	Fair value	Cost or amortized cost
Marketable securities:				
Direct equity holdings:				
Small cap	\$ 118,422	2,830,961	1,120,516	2,838,443
Large cap	41,397,222	37,361,625	33,386,411	35,044,093
Mutual funds:				
Large cap equities	100,395,045	85,771,076	69,330,654	77,450,049
Mid-quality/long-term bonds	11,071,777	11,342,178	10,501,900	11,340,318
High-quality/intermediate bonds	94,293,183	92,757,106	81,253,797	78,482,667
Other investments:				
Commingled funds:				
Inflation hedge	10,471,716	11,093,955	7,884,193	11,060,707
Global bonds	28,023,358	28,470,415	25,828,178	27,940,512
International equity	31,125,853	28,365,716	23,857,214	26,143,340
Limited partnerships:				
Hedge fund of funds	25,801,982	18,600,000	23,980,348	18,600,000
Private equity	48,207,155	41,036,333	23,764,407	21,682,402
Real estate	13,393,408	17,923,688	11,406,345	17,799,818
Black Ball Transport, Inc.				
Voting Trust	8,818,976	6,934,000	9,077,544	6,934,000
Investment receivable	455,790	455,790	20,006,584	18,600,000
Investment income receivable	265,909	265,909	249,549	249,549
Other	3,951,281	3,722,208	2,942,571	3,113,625
Total investments	\$ 417,791,077	386,930,960	344,590,211	357,279,523

At June 30, 2011, the Foundation had approximately \$177,540,652 in investments with underlying investments that are not readily marketable. These investments in partnerships, which the Foundation refers to as alternative investments, include diversified arbitrage, distressed and mezzanine debt, real estate, and private equity. Such investments represent approximately 42% of the total investments and approximately 34% of net assets at June 30, 2011. These investment instruments may contain elements of both credit and market 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 non marketable investments), and nondisclosure of full portfolio composition. Because 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 differences could be significant.

OREGON STATE UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

The Foundation, on occasion, has short-term investments of cash, which may exceed depository insurance limits. The Foundation makes such investments with high credit quality entities and has not incurred any credit-related losses.

The following schedule summarizes the investment return and its presentation in the consolidated statements of activities at June 30:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 10,480,707	8,989,823
Net realized gains	9,441,577	11,529,881
Net unrealized gains	<u>43,548,763</u>	<u>14,240,487</u>
Total gain on investments	<u>\$ 63,471,047</u>	<u>34,760,191</u>

Investment restrictions and designation at June 30 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Unrestricted:		
Board designated	\$ 18,569,184	12,028,647
Temporarily restricted:		
Departmental programs and activities	60,141,988	48,918,642
Endowment earnings for departmental programs and activities	74,126,703	34,923,090
Other	<u>1,542,805</u>	<u>980,746</u>
	135,811,496	84,822,478
Permanently restricted:		
Endowment	<u>263,410,397</u>	<u>247,739,086</u>
Total investments	<u>\$ 417,791,077</u>	<u>344,590,211</u>

The Foundation is the beneficiary of the Black Ball Transport, Inc. Voting Trust (the Trust). The Trust, whose term is 10 years, was funded on August 29, 2004, with voting shares of Black Ball Transport, Inc. (Black Ball). The Foundation has an economic interest, not a vested ownership interest, in Black Ball. The Foundation can sell or transfer its interest in the Trust; however, the shares of Black Ball cannot be sold or disposed of during the term of the Trust without the written consent of the Foundation. At the end of the Trust term, the shares of Black Ball shall be distributed to the Foundation. As of June 30, 2011 and 2010, the Foundation's interest in the Trust holding Black Ball shares is valued at \$8,818,976 and \$9,077,544, respectively.

OREGON STATE UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(4) Endowment and Quasi-Endowment Funds

The Foundation's endowment pool consists of approximately 1,768 individual funds established for a variety of purposes. The Foundation's endowment investment pool includes contributed funds to be maintained in perpetuity, donor-restricted funds contributed for a specific purpose or term, and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Board Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as Permanently Restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in Permanently Restricted net assets is classified as Temporarily Restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the Foundation and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the Foundation
- g. The investment policies of the Foundation

OREGON STATE UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

Endowments by net asset classification by type of fund as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (18,383,354)	137,449,064	249,724,700	368,790,410
Board-designated endowment funds	28,052,293	—	—	28,052,293
Assets held under split-interest agreements	—	—	23,907,902	23,907,902
Charitable trusts held outside the Foundation	—	—	7,498,061	7,498,061
Nonpooled investments	—	—	8,751,172	8,751,172
Black Ball Transport, Inc.	—	—	8,818,976	8,818,976
Total endowment funds	<u>\$ 9,668,939</u>	<u>137,449,064</u>	<u>298,700,811</u>	<u>445,818,814</u>

Endowments by net asset classification by type of fund as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (33,706,211)	108,457,473	238,516,211	313,267,473
Board-designated endowment funds	24,756,679	—	—	24,756,679
Assets held under split-interest agreements	—	—	19,459,333	19,459,333
Charitable trusts held outside the Foundation	—	—	5,609,581	5,609,581
Nonpooled investments	—	—	7,430,996	7,430,996
Black Ball Transport, Inc.	—	—	9,077,544	9,077,544
Total endowment funds	<u>\$ (8,949,532)</u>	<u>108,457,473</u>	<u>280,093,665</u>	<u>379,601,606</u>

OREGON STATE UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

Changes in endowments by net asset classification for the fiscal years ended June 30, 2011 and 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, end of the year, June 30, 2009	\$ (13,937,384)	103,929,828	264,865,651	354,858,095
Investment return:				
Interest and dividends	—	7,455,805	32,995	7,488,800
Realized and unrealized gains (losses)	4,975,971	17,153,502	2,125,425	24,254,898
Contributions	52,055	3,587,990	12,085,924	15,725,969
Appropriation of endowment assets for expenditure	(315)	(18,146,689)	—	(18,147,004)
Change in value of assets held under split-interest agreements	—	—	2,106,568	2,106,568
Other changes	(39,859)	(5,522,963)	(1,122,898)	(6,685,720)
Endowment net assets, end of the year, June 30, 2010	(8,949,532)	108,457,473	280,093,665	379,601,606
Investment return:				
Interest and dividends	—	8,711,633	116,309	8,827,942
Realized and unrealized gains (losses)	18,590,027	34,228,553	(126,094)	52,692,486
Contributions	60,556	4,634,010	18,018,226	22,712,792
Appropriation of endowment assets for expenditure	(1,603)	(19,288,714)	—	(19,290,317)
Change in value of assets held under split-interest agreements	—	—	3,771,983	3,771,983
Other changes	(30,509)	706,109	(3,173,278)	(2,497,678)
Endowment net assets, end of the year, June 30, 2011	\$ <u>9,668,939</u>	<u>137,449,064</u>	<u>298,700,811</u>	<u>445,818,814</u>

Permanently Restricted net assets of the Foundation are comprised of donor-restricted endowment funds. The funds are consolidated under the Pooled Investment Program. In addition to these funds, Permanently Restricted net assets contain charitable gift annuities and remainder trusts where the Foundation is the trustee. At the point that these annuities and remainder trusts terminate, the proceeds realized will be transferred to the Pooled Investment Program. Donors may also donate to the Foundation physical assets such as property or funds held in trust outside the Foundation for Permanently Restricted purposes. The Foundation categorizes these assets as nonpooled investments. At the point proceeds are realized from these assets held outside the Foundation, they are transferred either to the Pooled Investment Program or a specific program as designated by the donor.

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Pooled Endowment Funds with Deficiencies (Underwater)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. As a result of the unfavorable financial market conditions in previous years, the fair value of certain endowment assets was less than the related donor-restricted amounts. These deficiencies were determined to be \$18,383,354 and \$33,706,211 for the years ended June 30, 2011 and 2010, respectively. The reporting of such deficiencies as a reduction of Foundation-controlled unrestricted net assets does not legally create an affirmative obligation of the Foundation to restore the fair value of those funds from Foundation-controlled unrestricted assets.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for pooled endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce above-average long-term total returns as measured against specific indexes within each investment asset allocation.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis monetarily on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Pooled Investment Program Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 4.5% of its pooled endowment fund's average fair value over the prior 12 quarters through the quarter-end that precedes the quarter in which the distribution occurs. In establishing this policy, the Foundation considered the long-term expected return on its endowment and its objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns. Spending distributions are monitored and potentially limited for individual endowment accounts if the fair value of that account is less than the corpus.

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Nature and Types of Restrictions of the Pooled Investment Program

Description of endowment investment amounts in the Pooled Investment Program classified as Permanently Restricted and Temporarily Restricted:

	2011	2010
Permanently restricted:		
The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation	\$ 249,724,700	238,516,211
Total endowment investments classified as permanently restricted	\$ 249,724,700	238,516,211
Temporarily restricted:		
Donor-restricted endowment funds	\$ 35,105,940	29,098,337
Term endowment funds	4,916,745	4,567,993
True endowment retained income funds	53,300,415	36,310,607
Total endowment investments classified as temporarily restricted	\$ 93,323,100	69,976,937

(5) Fair Value Measurements

Investments are reported at estimated fair value as determined by the Foundation, based upon a fair value hierarchy, that prioritizes the input techniques used to measure fair value.

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and

Level 3 – Inputs that are unobservable.

Inputs are used in applying valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. In addition to the underlying reported net asset values (NAV), which generally serve as the primary valuation input, other inputs may include liquidity factors and broad credit data. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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Specific investments in the Foundation's portfolio have been classified within Level 3 as their values are based on unobservable inputs and they trade infrequently or not at all. When observable prices are not available for these investments, the Foundation primarily uses the NAV as provided by the investment portfolio manager to evaluate the fair value of such Level 3 instruments. In addition, where no NAV is available for specific investments, the market approach or the income approach is used to evaluate the fair value of such Level 3 instruments. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of net present value of estimated future cash flows, adjusted as appropriate for market and/or other risk factors.

The following table presents all of the investments included on the consolidated statement of financial position by levels within valuation hierarchy as of June 30, 2011:

	Assets at fair value as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Pooled investment program	\$ 194,304,080	—	157,023,471	351,327,551
Assets held under split-interest agreements	55,562,195	—	632,676	56,194,871
Nonpooled investments	57,105,198	—	11,698,205	68,803,403
Black Ball Transport, Inc.	—	—	8,818,976	8,818,976
Total investments	\$ 306,971,473	—	178,173,328	485,144,801

The following table presents all of the investments included on the consolidated statement of financial position by levels within valuation hierarchy as of June 30, 2010:

	Assets at fair value as of June 30, 2010			
	Level 1	Level 2	Level 3	Total
Pooled investment program	\$ 179,775,675	—	116,720,684	296,496,359
Assets held under split-interest agreements	48,199,509	88,928	1,397,527	49,685,964
Nonpooled investments	38,863,667	—	13,916,811	52,780,478
Black Ball Transport, Inc.	—	—	9,077,544	9,077,544
Total investments	\$ 266,838,851	88,928	141,112,566	408,040,345

Charitable trusts held outside the Foundation are carried on the consolidated statement of financial position and are measured at fair value using Level 3 observable inputs.

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The following table presents a rollforward of the amounts for the year ended June 30, 2011 for the investment classified within Level 3:

Investments of the Foundation:	
Balance at June 30, 2010	\$ 141,112,566
Net purchases and sales	16,587,426
Total net gains for the period	<u>20,473,336</u>
Balance at June 30, 2011	<u><u>\$ 178,173,328</u></u>

The following table presents a rollforward of the amounts for the year ended June 30, 2010 for the investment classified within Level 3:

Investments of the Foundation:	
Balance at June 30, 2009	\$ 120,842,149
Net purchases and sales	13,869,854
Total net gains for the period	<u>6,400,563</u>
Balance at June 30, 2010	<u><u>\$ 141,112,566</u></u>

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2011 and 2010:

	Fair value		Redemption frequency	Redemption notice period
	2011	2010		
Commingled funds	\$ 69,620,927	\$ 57,569,585	daily – monthly	7 – 15 days
Limited partnerships	59,166,860	33,888,702	quarterly	45 – 100 days

The Foundation holds investments in private equity and real estate limited partnerships, where NAV was used as a practical expedient to measure fair value at June 30, 2011. These partnerships do not allow for periodic redemptions, but rather liquidate upon the termination date as stated in the partnership agreement. At June 30, 2011, \$26,653,560 of private equity limited partnerships and \$1,582,125 of real estate partnerships had termination dates that ranged from 2014 to 2020.

(6) **Pledges Receivable, net**

Unconditional promises are included in the consolidated financial statements as pledges receivable and revenue in the appropriate net asset category. The allowance for uncollectible pledges is charged to net assets in an amount sufficient to maintain the allowance for losses at a level considered adequate to cover estimated credit losses. Pledges are considered past due if payment is not received by the date due. Annual giving pledges are charged off upon the start of the subsequent year's campaign; the need for all other pledges is determined on a case-by-case basis.

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Pledges receivable due in excess of one year are discounted between 1.2% and 6.7% depending upon the year the contribution was recorded, the length of the pledge, and other factors. The schedule of payments at June 30 is as follows:

	2011	2010
In one year or less	\$ 23,989,572	17,062,126
Between one year and five years	31,397,075	30,803,864
More than five years	2,967,614	4,456,075
Total	58,354,261	52,322,065
Less allowance for uncollectible amounts	(832,385)	(385,542)
Less discount to present value of future cash flows	(3,306,444)	(4,133,528)
Total reductions	(4,138,829)	(4,519,070)
Total pledges receivable, net	\$ 54,215,432	47,802,995

(7) Property and Equipment, net

Property and equipment consist of the following at June 30:

	2011	2010
Operating assets:		
Land and structures	\$ 6,652,216	6,574,547
Equipment	2,949,332	2,938,238
Timber	19,447	19,447
	9,620,995	9,532,232
Less accumulated depreciation	(4,721,271)	(4,321,878)
Total property and equipment, net	\$ 4,899,724	5,210,354
Nonoperating assets:		
Land, structures, and timber held-for-sale	\$ 4,376,105	3,177,805
Livestock held-for-sale	98,700	83,100
Total assets held-for-sale	\$ 4,474,805	3,260,905

Depreciation expense was \$466,894 and \$449,116 for the years ended June 30, 2011 and 2010, respectively.

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(8) Lease Commitments

The Foundation leases office space and land under noncancelable operating leases expiring through October 2038. The Foundation has the option to renew certain leases at various terms and amounts. Future minimum lease payments under these leases are as follows:

Year ending June 30:		
2012	\$	522,000
2013		510,000
2014		518,000
2015		519,000
2016		526,000
Thereafter		<u>478,000</u>
Total lease commitments	\$	<u><u>3,073,000</u></u>

Total rent expense amounted to approximately \$517,000 and \$504,000 for years ended June 30, 2011 and 2010, respectively.

(9) Temporarily Restricted Net Assets

Temporarily Restricted net assets are restricted primarily for departmental programs and activities, including capital projects. Charitable gift annuities and remainder trusts may also be temporarily restricted. These assets are subject to donor imposed stipulations that may be or will be met either by the Foundation and/or the passage of time.

Temporarily restricted net assets at June 30, 2011 and 2010 are available for:

	<u>2011</u>	<u>2010</u>
Facilities and equipment	\$ 18,425,626	11,112,210
Academic program support	85,585,657	80,712,259
Instruction and research	55,579,880	32,223,264
Student aid	<u>57,788,744</u>	<u>45,584,260</u>
Total University controlled activities	217,379,907	169,631,993
Foundation controlled activities	<u>8,284,195</u>	<u>6,985,318</u>
Total	<u><u>\$ 225,664,102</u></u>	<u><u>176,617,311</u></u>

(10) Permanently Restricted Net Assets

Permanently Restricted net assets are primarily restricted for endowments, charitable gift annuities and remainder trusts. These net assets are subject to donor imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes, such as, scholarships or professorships.

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Permanently restricted net assets at June 30, 2011 and 2010 are restricted for:

	<u>2011</u>	<u>2010</u>
Facilities and equipment	\$ 2,609,738	1,837,083
Academic program support	77,244,785	73,270,517
Instruction and research	97,604,135	89,356,094
Student aid	<u>115,640,343</u>	<u>110,075,424</u>
Total University controlled activities	293,099,001	274,539,118
Foundation controlled activities	<u>5,601,810</u>	<u>5,554,547</u>
Total	<u>\$ 298,700,811</u>	<u>280,093,665</u>

(11) Retirement Plan

Employees of the Foundation participate in a money purchase retirement plan covering substantially all employees with at least one year of service, and vest generally after four years of service. The Foundation is obligated to contribute 17% of all eligible employees' salaries, including the six-month period prior to eligibility, up to federal limits. The Foundation's contributions to the employee-directed accounts amounted to approximately \$1,348,000 and \$1,217,000 for the years ended June 30, 2011 and 2010, respectively.

(12) Assets Held under Split-Interest Agreements

The Foundation receives certain planned gift donations in the form of charitable gift annuities and remainder trusts. A charitable gift annuity is an arrangement between a donor and the Foundation in which the assets contributed by the donor are provided in exchange for a promise by the Foundation to pay a fixed amount for a period of time to the donor or designated beneficiary. Upon completion of the agreed term (usually the beneficiary's death), the remaining value of the gift annuity reverts to the Foundation to be used in accordance with the original annuity agreement.

The Foundation is also a remainderman and trustee to certain charitable remainder trusts. Assets contributed are established in a trust and invested. During the term of the trust, distributions are made to a designated beneficiary (or beneficiaries). Upon the death of the beneficiary, the remaining assets revert to the Foundation to be used according to the donor's wishes.

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At June 30, the fair value and cost of assets held under split-interest agreements were as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Gift annuities:				
Mutual funds:				
Small cap	\$ 476,274	365,373	374,184	385,965
Large cap	3,234,948	2,936,515	2,490,096	2,900,941
International	2,285,744	2,449,807	1,635,372	2,293,907
Real estate	1,752,288	1,869,595	1,256,660	1,803,279
High-quality/intermediate bonds	4,823,253	4,699,623	3,950,127	3,748,138
Mid-quality/intermediate bonds	778,997	688,392	620,749	573,999
Other	149,255	149,255	149,255	149,255
Total gift annuities	<u>13,500,759</u>	<u>13,158,560</u>	<u>10,476,443</u>	<u>11,855,484</u>
Remainder trusts:				
Mutual funds:				
Small cap	1,544,152	1,434,823	1,486,006	1,575,627
Large cap	8,977,397	8,198,703	7,660,232	9,016,821
International	6,093,854	6,646,005	4,992,451	7,036,560
Real estate	4,825,209	5,056,770	3,989,503	5,509,306
High-quality/intermediate bonds	18,226,187	16,950,701	17,378,505	16,117,920
Mid-quality/intermediate bonds	2,483,065	2,148,485	2,376,621	2,170,197
Other	544,248	514,509	1,326,203	1,331,568
Total remainder trusts	<u>42,694,112</u>	<u>40,949,996</u>	<u>39,209,521</u>	<u>42,757,999</u>
Total gift annuities and remainder trusts	<u>\$ 56,194,871</u>	<u>54,108,556</u>	<u>49,685,964</u>	<u>54,613,483</u>

Obligations to beneficiaries under split-interest agreements at June 30:

	<u>2011</u>	<u>2010</u>
Gift annuities	\$ 7,514,352	6,757,510
Remainder trusts	<u>20,440,523</u>	<u>18,778,902</u>
Total obligations under charitable gift annuities and remainder trusts	<u>\$ 27,954,875</u>	<u>25,536,412</u>

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(13) Other Liabilities

Other liabilities consist of the following at June 30:

	2011	2010
Accounts payables	\$ 285,058	258,409
Overdrafts payable	1,336,750	8,347,970
Accrued expenses	6,195,793	997,569
Accrued payroll and related liabilities	1,164,580	1,192,675
Other foundation operational expenses	259,966	54,677
Total other liabilities	\$ 9,242,147	10,851,300

(14) Commitments

During the year ended June 30, 2002, the Foundation entered into a commitment to invest \$10,000,000 into domestic and international private equity partnerships. As of June 30, 2011, \$8,996,250 has been invested. The Foundation also entered into commitments in the fiscal years 2008 and 2007 to invest \$41,500,000 into additional domestic and international private equity partnerships. As of June 30, 2011, \$9,362,294 in commitments are still outstanding to be invested. The Foundation also committed \$3,000,000 during the year ended June 30, 2011, to a distressed debt fund, of which the entire amount is still outstanding. The remaining funds will be invested as calls are made by the partnerships. The Foundation has invested the remaining portion of the commitment, until required, in various corporate obligations and marketable securities.

(15) Related Party

The University is a related party of the Foundation. During 2011 and 2010, the Foundation recorded \$8,998,247 and \$9,176,533, respectively, as other revenue for fund raising, investment management, and other related services performed for the University.

Direct University support, included in expenses, consisted of the following for the years ended June 30:

	2011	2010
Awards and scholarships	\$ 7,335,066	5,572,500
Capital programs	4,524,422	6,941,827
Instruction and research support	4,270,112	14,275,474
Other program support	12,506,164	18,576,556
Development support	11,512,584	3,193,354
Total direct university support	\$ 40,148,348	48,559,711

The amount payable or “due to” the University, including amounts in accrued expenses, totaled \$6,140,111 and \$991,000 for the years ended June 30, 2011 and 2010, respectively.

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(16) Subsequent Events

Subsequent to June 30, 2011, the Black Ball Transport, Inc. Voting Trust received a formal offer to purchase the voting shares of their ownership in Black Ball Transport, Inc. Approval of the Foundation's Board of Trustees is required prior to consummation of the sale. The purchase price included in the formal offer does not materially differ from the value reported by the Foundation at June 30, 2011.

The Foundation has evaluated subsequent events through September 19, 2011, which was the date the financial statements were available to be issued.