KPMG

OREGON STATE UNIVERSITY FOUNDATION

Consolidated Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

OREGON STATE UNIVERSITY FOUNDATION

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

Independent Auditors' Report

The Board of Trustees
Oregon State University Foundation:

We have audited the accompanying consolidated financial statements of Oregon State University Foundation, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oregon State University Foundation as of June 30, 2016 and 2015, and the change in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Portland, Oregon
October 13, 2016

OREGON STATE UNIVERSITY FOUNDATION

Consolidated Statements of Financial Position

June 30, 2016 and 2015

Assets		2016	2015
Cash and cash equivalents	$	4,494,031	5,764,012
Investments (including assets held for Oregon State University of $42,475,685 and $0, respectively)		573,245,687	537,390,033
Pledges receivable, net		49,081,351	42,769,371
Property and equipment, net		4,824,448	4,716,088
Assets held-for-sale		4,298,827	5,427,401
Assets held under split-interest agreements		52,233,094	54,462,216
Charitable trusts held outside the Foundation		15,706,051	14,838,827
Other assets		2,913,029	2,064,342
Total assets	$	706,796,518	667,432,290
Liabilities and Net Assets			
Liabilities:			
Obligations under split-interest agreements	$	23,716,178	25,422,652
Endowment assets held for OSU		42,475,685	—
Other liabilities		7,097,405	12,282,867
Total liabilities		73,289,268	37,705,519
Net assets:			
Unrestricted:			
Other		16,968,414	18,632,524
Underwater endowments		(31,004,778)	(17,546,441)
Total unrestricted		(14,036,364)	1,086,083
Temporarily restricted		262,733,836	255,423,417
Permanently restricted		384,809,778	373,217,271
Total net assets		633,507,250	629,726,771
Total liabilities and net assets	$	706,796,518	667,432,290

See accompanying notes to consolidated financial statements.

OREGON STATE UNIVERSITY FOUNDATION

Consolidated Statements of Activities

Year ended June 30, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and other support:				
Contributions	$ 1,046,051	63,842,932	11,510,884	76,399,867
Interest and dividends	3,188,793	10,305,307	130,205	13,624,305
Other	15,546,067	7,498,165	149,431	23,193,663
Net (losses) gains on investments	(12,671,583)	72,743	(51,915)	(12,650,755)
Change in value of charitable annuities and trusts	—	(116,662)	(1,152,363)	(1,269,025)
Net assets released from restrictions and other transfers	73,285,801	(74,292,066)	1,006,265	—
	80,395,129	7,310,419	11,592,507	99,298,055
Expenses:				
Direct University support	64,035,134	—	—	64,035,134
Investment expenses	9,923,249	—	—	9,923,249
Management, general, and development expenses	21,559,193	—	—	21,559,193
	95,517,576	—	—	95,517,576
Change in net assets	(15,122,447)	7,310,419	11,592,507	3,780,479
Net assets, beginning of year	1,086,083	255,423,417	373,217,271	629,726,771
Net assets, end of year	$ (14,036,364)	262,733,836	384,809,778	633,507,250

See accompanying notes to consolidated financial statements.

OREGON STATE UNIVERSITY FOUNDATION

Consolidated Statements of Activities

Year ended June 30, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and other support:				
Contributions	$ 480,952	59,593,868	18,847,539	78,922,359
Interest and dividends	3,120,842	11,390,187	159,192	14,670,221
Other	14,785,606	8,422,851	46,070	23,254,527
Net losses on investments	(9,713,325)	(4,911,084)	(533,610)	(15,158,019)
Change in value of charitable annuities and trusts	—	(308,234)	(673,041)	(981,275)
Net assets released from restrictions and other transfers	90,930,422	(93,824,160)	2,893,738	—
	99,604,497	(19,636,572)	20,739,888	100,707,813
Expenses:				
Direct University support	81,934,050	—	—	81,934,050
Investment expenses	9,018,096	—	—	9,018,096
Management, general, and development expenses	20,884,940	—	—	20,884,940
	111,837,086	—	—	111,837,086
Change in net assets	(12,232,589)	(19,636,572)	20,739,888	(11,129,273)
Net assets, beginning of year	13,318,672	275,059,989	352,477,383	640,856,044
Net assets, end of year	$ 1,086,083	255,423,417	373,217,271	629,726,771

See accompanying notes to consolidated financial statements.

OREGON STATE UNIVERSITY FOUNDATION

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 3,780,479	(11,129,273)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Loss on investments	12,650,755	15,158,019
Noncash contributions	(15,059,679)	(13,069,082)
Proceeds from sale of noncash contributions	11,776,918	10,615,756
Investment earnings on charitable gift annuity and remainder trust agreements	5,402,600	3,973,775
Depreciation	318,766	245,590
Provision for unfulfilled pledges, net	(37,348)	(93,255)
Change in cash surrender value of life insurance	48,699	(7,062)
Net change in value of charitable gift annuities and trusts	(459,517)	1,374,791
Contributions restricted for permanent endowments	(11,510,884)	(18,847,539)
(Increase) decrease in cash due to changes in assets and liabilities:		
Charitable trusts held outside the Foundation	(499,411)	(2,254,726)
Endowment assets held for OSU	30,785,552	—
Pledges receivable	9,813,031	5,280,931
Other assets	(897,386)	3,194,723
Other liabilities	(5,185,462)	(2,505,479)
Net cash provided by (used in) operating activities	40,927,113	(8,062,831)
Cash flows from investing activities:		
Proceeds from sale of investments	73,317,809	95,480,778
Purchase of investments	(123,330,170)	(112,568,078)
Change in note receivable from sale of investments	404,779	385,503
Proceeds from disposal of property, equipment, and assets held-for-sale	463,163	2,264,400
Purchase of property, equipment, and assets held-for-sale	(1,170,593)	(530,470)
Net cash used in investing activities	(50,315,012)	(14,967,867)
Cash flows from financing activities:		
Additions to charitable gift annuity and remainder trust agreements	552,500	356,057
Payments on charitable gift annuity and remainder trust agreements	(3,945,466)	(4,101,440)
Contributions and income restricted for permanent endowments	11,510,884	18,847,539
Net cash provided by financing activities	8,117,918	15,102,156
Net decrease in cash and cash equivalents	(1,269,981)	(7,928,542)
Cash and cash equivalents, beginning of year	5,764,012	13,692,554
Cash and cash equivalents, end of year	$ 4,494,031	5,764,012
Non-cash investing and financing transactions:		
Receipt of securities transferred from OSU	$ 11,690,133	—

See accompanying notes to consolidated financial statements.

(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-three at June 30, 2016.

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, and stewardship.

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 Our Beaver Nation Fund, Oregon 4-H Foundation, Trysting Tree Golf Club, Inc., and 4238 Research Way, LLC.

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.
- *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.

Revenue is 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 revenue 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, 2016 and 2015, 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.

(f) Pooled Investment Program

The Foundation places certain investments with investment managers who invest the funds in an investment pool (Pooled Investment Program). 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.

(Continued)

(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, 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 group 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.

(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 years ended June 30, 2016 and 2015, the discount rate varied between 2.0% and 2.2%; during the year ended June 30, 2015, the discount rate varied between 2.0% and 2.4%. The discount rate varied between 1.2% and 10.6% for the Foundation's entire portfolio of gift annuities and remainder trusts at June 30, 2016 and 2015.

(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) Fundraising Costs

Fundraising costs totaled approximately $14,075,417 and $14,374,632 for the years ended June 30, 2016 and 2015, respectively, and are included in management, general, and development expenses in 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(m) Reclassifications

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to 2016 presentation.

(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:

		2016	2015
Cash in interest-bearing accounts	$	4,457,557	5,729,157
Commercial paper		36,474	34,855
Total cash and cash equivalents	$	4,494,031	5,764,012

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.

(3) Investments

At June 30, 2016 and 2015, the fair and cost values of investments were as follows:

	2016		2015	
	Fair value	Cost or amortized cost	Fair value	Cost or amortized cost
Marketable securities:				
Mutual funds:				
Large cap domestic equities	$ 22,827,763	20,607,916	21,322,298	15,466,072
Large cap international equities	70,423,741	70,099,844	67,511,486	59,882,603
Large cap blend	62,985,134	49,191,343	69,572,317	54,532,566
Natural resources	29,960,575	33,293,851	28,630,441	28,594,398
Intermediate term bonds	50,490,558	49,282,928	51,338,067	52,027,277
High yield bonds	8,750,844	9,401,037	7,770,495	8,075,723
Nontraditional bonds	18,753,082	19,762,169	13,040,432	13,622,357
Direct equity holdings:				
Small cap	—	—	429	2,303,336
Large cap	22,385,180	20,051,029	21,596,584	19,794,495
Other investments:				
Commingled funds:				
Global bonds	53,196,601	56,700,771	50,274,989	56,381,690
International equity	40,574,888	38,137,058	37,245,888	31,796,338
Limited partnerships:				
Hedge funds	80,892,036	70,533,031	80,468,733	65,307,110
Private equity	44,168,934	39,809,582	34,663,541	29,283,471
Real estate	29,090,529	27,832,597	22,952,048	23,049,768
Master Limited Partnership	13,603,324	13,646,633	13,830,055	11,992,127
Investment receivable	—	—	96,591	96,591
Investment income receivable	192,946	192,946	119,145	119,145
Real estate held for investment	14,939,655	13,797,210	6,675,000	6,675,000
Other	10,009,897	9,886,732	10,281,494	9,884,208
Total investments	$ 573,245,687	542,226,677	537,390,033	488,884,275

At June 30, 2016 and 2015, the Foundation had approximately $269,404,023 and $252,712,344, respectively, in investments with underlying investments that are not readily marketable. These investments, which the Foundation refers to as alternative investments, include diversified arbitrage, distressed and mezzanine debt, real estate, and private equity. Such investments represent approximately 47% and 47% of the total investments and approximately 43% and 40% of net assets at June 30, 2016 and 2015, respectively. 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 nonmarketable 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.

The following schedule summarizes the investment return and its presentation in the consolidated statements of activities at June 30, 2016 and 2015:

		2016	2015
Interest and dividends	$	13,624,305	14,670,221
Net realized gains		7,138,902	884,662
Net unrealized losses		(19,789,657)	(16,042,681)
Total net realized/unrealized loss		(12,650,755)	(15,158,019)
Total gain (loss) on investments, net	$	973,550	(487,798)

(4) Endowment and Quasi-Endowment Funds

The Foundation's endowment pool at June 30, 2016 and 2015 consists of 2,121 and 2,064 individual funds established for a variety of purposes, respectively. The Foundation's endowment 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, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) 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

Endowments by net asset classification by type of fund as of June 30, 2016 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (31,004,778)	134,294,484	344,554,130	447,843,836
Board-designated endowment funds	26,425,981	—	—	26,425,981
Assets held under split-interest agreements	—	—	23,313,181	23,313,181
Charitable trusts held outside the Foundation	—	—	8,787,368	8,787,368
Nonpooled investments	—	—	8,155,099	8,155,099
Total endowment funds	$ (4,578,797)	134,294,484	384,809,778	514,525,465

Endowments by net asset classification by type of fund as of June 30, 2015 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (17,546,441)	150,651,500	329,967,761	463,072,820
Board-designated endowment funds	28,485,095	—	—	28,485,095
Assets held under split-interest agreements	—	—	23,263,628	23,263,628
Charitable trusts held outside the Foundation	—	—	9,553,448	9,553,448
Nonpooled investments	—	—	10,432,434	10,432,434
Total endowment funds	$ 10,938,654	150,651,500	373,217,271	534,807,425

Changes in endowments by net asset classification for the fiscal years ended June 30, 2016 and 2015 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, end of the year, June 30, 2014	$ 19,658,902	169,484,379	352,477,383	541,620,664
Investment return:				
Interest and dividends	—	11,166,147	159,192	11,325,339
Realized and unrealized losses	(8,719,082)	(3,152,533)	(533,610)	(12,405,225)
Contributions	165,604	5,079,322	18,847,539	24,092,465
Appropriation of endowment assets for expenditure	(14,624)	(27,779,343)	—	(27,793,967)
Change in value of assets held under split-interest agreements	—	—	(673,041)	(673,041)
Other changes	(152,146)	(4,146,472)	2,939,808	(1,358,810)
Endowment net assets, end of the year, June 30, 2015	10,938,654	150,651,500	373,217,271	534,807,425
Investment return:				
Interest and dividends	—	10,237,738	130,205	10,367,943
Realized and unrealized losses	(15,519,873)	2,386,562	(51,915)	(13,185,226)
Contributions	779,160	6,210,944	11,510,884	18,500,988
Appropriation of endowment assets for expenditure	(1,167)	(30,118,547)	—	(30,119,714)
Change in value of assets held under split-interest agreements	—	—	(1,152,363)	(1,152,363)
Other changes	(775,571)	(5,073,713)	1,155,696	(4,693,588)
Endowment net assets, end of the year, June 30, 2016	$ (4,578,797)	134,294,484	384,809,778	514,525,465

Permanently restricted net assets of the Foundation comprise primarily 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.

(b) 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 over the past several years, the fair value of certain endowment assets was less than the related donor-restricted amounts. These deficiencies were determined to be $31,004,778 and $17,546,441 as of June 30, 2016 and 2015, 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.

(c) 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.

(d) 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.

(e) 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.

(5) Fair Value Measurements

Investments are reported at estimated fair value as determined by the Foundation, based upon a fair value hierarchy, adopted in July 2008, which prioritizes the input techniques used to measure fair value. The hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements:

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.

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.

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 estimate 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 estimate 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 the investments included on the consolidated statement of financial position by levels within valuation hierarchy as of June 30, 2016:

	Assets at fair value as of June 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Pooled investment program	$ 232,160,321	13,603,324	226,632,779	472,396,424
Assets held under split-interest agreements	51,186,043	—	1,047,051	52,233,094
Charitable trusts held outside the Foundation	—	—	15,706,051	15,706,051
Investment property	—	—	14,939,655	14,939,655
Mortgages and contracts	—	—	6,357,380	6,357,380
Other nonpooled investments	58,078,019	—	21,474,209	79,552,228
Total nonpooled investments	58,078,019	—	58,477,295	116,555,314
Total investments	$ 341,424,383	13,603,324	286,157,125	641,184,832

The following table presents the investments included on the consolidated statement of financial position by levels within valuation hierarchy as of June 30, 2015:

	Assets at fair value as of June 30, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Pooled investment program	$ 226,944,486	13,830,055	204,967,537	445,742,078
Assets held under split-interest agreements	53,415,165	—	1,047,051	54,462,216
Charitable trusts held outside the Foundation	—	—	14,838,827	14,838,827
Investment property	—	—	6,675,000	6,675,000
Mortgages and contracts	—	—	6,418,089	6,418,089
Other nonpooled investments	57,733,204	—	20,821,662	78,554,866
Total nonpooled investments	57,733,204	—	48,753,578	106,486,782
Total investments	$ 338,092,855	13,830,055	254,768,166	606,691,076

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

The following table presents a rollforward of the amounts for the year ended June 30, 2016 for the investments classified within Level 3:

Investments of the foundation:	
Balance at June 30, 2015	$ 254,768,166
Purchases/issuances	43,499,322
Sales/settlements	(7,708,117)
Total net losses for the period	(4,402,246)
Transfer out of Level 3	—
Balance at June 30, 2016	$ 286,157,125

The following table presents a rollforward of the amounts for the year ended June 30, 2015 for the investments classified within Level 3:

Investments of the foundation:	
Balance at June 30, 2014	$ 267,939,246
Purchases/issuances	26,129,482
Sales/settlements	(20,429,466)
Total net losses for the period	(5,041,041)
Transfer out of Level 3	(13,830,055)
Balance at June 30, 2015	$ 254,768,166

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at June 30, 2016 and 2015:

	Fair value		Redemption	Redemption notice
	2016	**2015**	**frequency**	**period**
Commingled funds	$ 93,771,489	87,520,877	daily – monthly	7–15 days
Limited partnerships	111,433,410	110,008,223	daily – biennially	2–180 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, 2016 and 2015. These partnerships do not allow for periodic redemptions, but rather liquidate upon the termination date as stated in the partnership agreement. At June 30, 2016, $44,168,934 of private equity limited partnerships and $12,152,479 of real asset partnerships had termination dates that ranged from 2016 to 2027. At June 30, 2015, $34,663,541 of private equity limited partnerships and $7,242,613 of real asset partnerships had termination dates that ranged from 2015 to 2025.

(6) Pledges Receivable

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.

Pledges receivable due in excess of one year are discounted between 0.63% and 6.69% depending upon the year and month the pledge receivable was recorded. The discounts on these accounts are computed using the five-year U.S. Treasury Securities interest rate applicable to the year and month in which the pledge is initially received. The schedule of payments at June 30, 2016 and 2015 is as follows:

	2016	**2015**
In one year or less	$ 17,856,430	19,284,027
Between one year and five years	29,762,312	23,511,503
More than five years	3,784,200	1,900,309
Total	51,402,942	44,695,839
Less:		
Allowance for uncollectible amounts	(413,065)	(450,413)
Discount to present value of future cash flows	(1,908,526)	(1,476,055)
Total reductions	(2,321,591)	(1,926,468)
Total pledges receivable, net	$ 49,081,351	42,769,371

(7) Property and Equipment

Property and equipment consist of the following at June 30:

		2016	2015
Operating assets:			
Land and structures	$	6,976,848	6,976,848
Equipment and other		1,690,324	1,400,447
		8,667,172	8,377,295
Less accumulated depreciation		(3,842,724)	(3,661,207)
Total property and equipment, net	$	4,824,448	4,716,088
Nonoperating assets:			
Land, structures, and timber held-for-sale	$	4,298,827	5,427,401
Total assets held-for-sale	$	4,298,827	5,427,401

Depreciation was $318,766 and $245,590 for the years ended June 30, 2016 and 2015, respectively.

(8) Lease Commitments

Leases as lessee:

The Foundation leases office space, event space, and land under non-cancelable 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:		
2017	$	573,923
2018		563,638
2019		577,013
2020		584,004
2021		591,204
Thereafter		136,000
Total lease commitments	$	3,025,782

Total rent expense amounted to approximately $568,000 and $555,000 for the years ended June 30, 2016 and 2015, respectively, which is included in either Direct University Support or management, general, and development expense depending on the intended use.

(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, 2016 and 2015 are available for the following:

		2016	2015
Facilities and equipment	$	31,165,723	23,220,364
Academic program support		101,758,549	93,248,546
Instruction and research		66,296,192	69,395,637
Student aid		54,348,396	60,334,927
Total University controlled activities		253,568,860	246,199,474
Foundation controlled activities		9,164,976	9,223,943
Total	$	262,733,836	255,423,417

(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.

Permanently restricted net assets at June 30, 2016 and 2015 are available for the following:

		2016	2015
Facilities and equipment	$	3,352,459	3,400,673
Academic program support		92,090,745	89,413,883
Instruction and research		131,700,956	128,865,149
Student aid		152,899,358	146,777,669
Total University controlled activities		380,043,518	368,457,374
Foundation controlled activities		4,766,260	4,759,897
Total	$	384,809,778	373,217,271

(Continued)

(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 $1,706,000 and $1,520,000 for the years ended June 30, 2016 and 2015, 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.

(Continued)

At June 30, 2016 and 2015, the fair value and cost of assets held under split-interest agreements were as follows:

	2016		2015	
	Fair value	**Cost**	**Fair value**	**Cost**
Gift annuities:				
Mutual funds:				
Small cap	$ 472,950	265,792	479,184	238,173
Large cap	3,790,087	3,122,971	3,268,337	2,114,345
International	1,658,104	1,722,823	2,300,003	2,202,314
Real estate	1,772,410	1,584,794	1,748,270	1,668,655
High-quality/intermediate bonds	4,412,991	4,441,965	4,538,839	4,543,149
Mid-quality/intermediate bonds	1,247,099	1,286,657	1,291,155	1,254,995
Total gift annuities	13,353,641	12,425,002	13,625,788	12,021,631
Remainder trusts:				
Mutual funds:				
Small cap	2,063,317	1,417,982	1,326,516	1,111,517
Large cap	10,075,306	8,365,284	9,194,117	6,253,633
International	4,376,525	4,782,134	6,309,419	6,193,810
Real estate	4,773,885	4,357,470	4,857,650	4,716,109
High-quality/intermediate bonds	12,958,763	12,639,776	14,298,148	13,358,264
Mid-quality/intermediate bonds	3,584,607	3,684,548	3,803,527	3,714,195
Other	1,047,050	1,047,051	1,047,051	1,047,051
Total remainder trusts	38,879,453	36,294,245	40,836,428	36,394,579
Total gift annuities and remainder trusts	$ 52,233,094	48,719,247	54,462,216	48,416,210

Obligations to beneficiaries under split-interest agreements at June 30, 2016 and 2015 are as follows:

	2016	**2015**
Gift annuities	$ 6,698,464	6,803,687
Remainder trusts	17,017,714	18,618,965
Total obligations under charitable gift annuities and remainder trusts	$ 23,716,178	25,422,652

(13) Other Liabilities

Other liabilities consist of the following at June 30, 2016 and 2015:

		2016	2015
Accounts payables	$	269,993	314,883
Overdrafts payable		—	6,010,966
Accrued expenses		4,225,949	3,184,826
Accrued payroll and related liabilities		1,831,663	1,871,644
Other foundation operational expenses		769,800	900,548
Total other liabilities	$	7,097,405	12,282,867

(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. The Foundation has continued to make investments in similar vehicles since that time. As of June 30, 2016 and 2015, a total of $76,384,527 and $63,295,591, respectively, has been invested and commitments in the amount of $48,408,483 and $40,704,049, respectively, are still outstanding. The remaining funds will be invested as calls are made by the partnerships. The Foundation has invested the remaining portion of the commitments, until required, in corporate obligations and marketable securities.

(15) Related Party

The University is a related party of the Foundation. During the years ended June 30, 2016 and 2015, the Foundation recorded $15,357,434 and $14,604,056, respectively, as other revenue for fundraising, 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:

		2016	2015
Awards and scholarships	$	9,532,736	8,076,573
Capital programs		15,765,670	35,369,011
Instruction and research support		5,305,133	4,287,405
Other program support		21,445,030	20,789,726
Development support		11,986,565	13,411,335
Total direct university support	$	64,035,134	81,934,050

The amount payable or "due to" the University, including amounts in accrued expenses, totaled $4,018,803 and $3,183,114 as of June 30, 2016 and 2015, respectively.

(16) Subsequent Events

The Foundation has evaluated subsequent events and transactions that occurred after June 30, 2016 through October 13, 2016, the date the consolidated financial statements were available to be issued.