

**OREGON STATE UNIVERSITY  
FOUNDATION**

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**INDEPENDENT AUDITOR'S REPORT  
AND  
CONSOLIDATED FINANCIAL STATEMENTS**

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**JUNE 30, 2009 and 2008**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Oregon State University Foundation

We have audited the accompanying consolidated statements of financial position of the Oregon State University Foundation (the Foundation) as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the year 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 audit.

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 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 controls 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 the Foundation as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Moss Adams, LLP*

September 18, 2009  
Eugene, Oregon

**OREGON STATE UNIVERSITY FOUNDATION**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2009 AND 2008**

**ASSETS**

	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 5,572,347	\$ 18,744,980
Investments	360,380,855	493,288,722
Pledges receivable, net	43,566,829	45,726,980
Property and equipment, net	4,627,869	3,857,650
Assets held-for-sale	4,210,677	2,502,150
Charitable trusts held outside the Foundation	12,583,336	2,114,687
Other assets	2,291,177	1,207,085
	<u>\$ 433,233,090</u>	<u>\$ 567,442,254</u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Obligations under charitable gift annuity and remainder trust agreements	\$ 23,954,057	\$ 28,494,928
Other liabilities	8,150,988	12,684,184
	<u>32,105,045</u>	<u>41,179,112</u>

**NET ASSETS**

Unrestricted:		
Board designated	14,953,743	34,919,716
Underwater endowments	(37,892,505)	-
	<u>(22,938,762)</u>	<u>34,919,716</u>
Temporarily restricted	159,201,156	240,659,857
Permanently restricted	264,865,651	250,683,569
	<u>401,128,045</u>	<u>526,263,142</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 433,233,090</b>	<b>\$ 567,442,254</b>
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**OREGON STATE UNIVERSITY FOUNDATION  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 579,803	\$ 41,110,052	\$ 16,690,145	\$ 58,380,000
Interest and dividends	510,970	8,366,102	35,774	8,912,846
Other	8,366,191	3,310,057	411,350	12,087,598
Net losses on investments	(43,643,268)	(55,242,281)	(251,995)	(99,137,544)
Change in value of charitable annuities and trusts	-	(3,126,806)	(3,045,602)	(6,172,408)
Net assets released from restrictions and other transfers	75,533,415	(75,875,825)	342,410	-
	<u>41,347,111</u>	<u>(81,458,701)</u>	<u>14,182,082</u>	<u>(25,929,508)</u>
<b>EXPENSES</b>				
Direct University support	75,509,183	-	-	75,509,183
Investment expenses	6,974,348	-	-	6,974,348
Management, general, and development expenses	16,722,058	-	-	16,722,058
	<u>99,205,589</u>	<u>-</u>	<u>-</u>	<u>99,205,589</u>
<b>CHANGE IN NET ASSETS</b>	(57,858,478)	(81,458,701)	14,182,082	(125,135,097)
<b>NET ASSETS, beginning of year</b>	<u>34,919,716</u>	<u>240,659,857</u>	<u>250,683,569</u>	<u>526,263,142</u>
<b>NET ASSETS, end of year</b>	<u>\$ (22,938,762)</u>	<u>\$ 159,201,156</u>	<u>\$ 264,865,651</u>	<u>\$ 401,128,045</u>

**OREGON STATE UNIVERSITY FOUNDATION  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 1,657,291	\$ 56,779,976	\$ 30,950,540	\$ 89,387,807
Interest and dividends	543,940	8,643,373	33,516	9,220,829
Other	10,824,817	3,031,164	93,041	13,949,022
Net gains (losses) on investments	(513,005)	(26,942,948)	45,362	(27,410,591)
Change in value of charitable annuities and trusts	-	(1,457,733)	577,349	(880,384)
Net assets released from restrictions and other transfers	75,477,374	(63,269,812)	(12,207,562)	-
	<u>87,990,417</u>	<u>(23,215,980)</u>	<u>19,492,246</u>	<u>84,266,683</u>
<b>EXPENSES</b>				
Direct University support	69,410,219	-	-	69,410,219
Investment expenses	8,557,415	-	-	8,557,415
Management, general, and development expenses	17,005,985	-	-	17,005,985
	<u>94,973,619</u>	<u>-</u>	<u>-</u>	<u>94,973,619</u>
<b>CHANGE IN NET ASSETS</b>	(6,983,202)	(23,215,980)	19,492,246	(10,706,936)
<b>NET ASSETS, beginning of year</b>	<u>41,902,918</u>	<u>263,875,837</u>	<u>231,191,323</u>	<u>536,970,078</u>
<b>NET ASSETS, end of year</b>	<u>\$ 34,919,716</u>	<u>\$ 240,659,857</u>	<u>\$ 250,683,569</u>	<u>\$ 526,263,142</u>

**OREGON STATE UNIVERSITY FOUNDATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (125,135,097)	\$ (10,706,936)
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Loss on investments and property and equipment held-for-sale, net	99,137,544	27,410,591
Noncash contributions	(145,593)	(892,160)
Depreciation	503,951	516,346
Provision for unfulfilled pledges	469,351	(439,450)
Change in cash surrender value of life insurance	(10,426)	(447)
Net change in value of charitable gift annuities and trusts	6,172,408	880,346
(Increase) decrease in cash due to changes in assets and liabilities		
Charitable trusts held outside the Foundation	(10,468,649)	(653,719)
Pledges receivable	2,160,151	(12,021,604)
Other assets	(1,084,092)	30,067
Other liabilities	(4,533,196)	11,510,766
Contributions and income restricted for permanent endowments	(18,146,825)	(31,214,604)
Net cash from operating activities	<u>\$ (51,080,473)</u>	<u>\$ (15,580,804)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	185,933,287	113,699,008
Purchase of investments	(162,795,174)	(153,458,658)
Proceeds from disposal of property, equipment, and assets held-for-sale	958,750	2,867,975
Purchase of property, equipment, and assets held-for-sale	(4,151,587)	(2,120,990)
Net cash from investing activities	<u>\$ 19,945,276</u>	<u>\$ (39,012,665)</u>

**OREGON STATE UNIVERSITY FOUNDATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Investment earnings on charitable gift annuity and remainder trust agreements	884,368	6,619,028
Additions to charitable gift annuity and remainder trust agreements	2,098,594	433,955
Payments on charitable gift annuity and remainder trust agreements	(3,167,223)	(4,433,724)
Contributions and income restricted for permanent endowments	18,146,825	31,214,604
	<u>\$ 17,962,564</u>	<u>\$ 33,833,863</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(13,172,633)</b>	<b>(20,759,606)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>18,744,980</b>	<b>39,504,586</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 5,572,347</u></b>	<b><u>\$ 18,744,980</u></b>

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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).

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.

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

**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, Cascade Campus 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 include primarily 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.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

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.

**Board of Trustees** - The Foundation is governed by a Board of Trustees with a membership of forty-eight at June 30, 2009.

**Contributions and pledges** – Contributions, including unconditional pledges, are recognized as revenues in the period received. Unconditional pledges that extend beyond one year are discounted to present 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 statements of activities as net assets released from restrictions.

**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 Board approval. As of June 30, 2009 and 2008 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.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**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 funds. Each 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.

**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 a remainderman 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.

**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 and exceeds \$5,000 in cost. Real property, equipment, and assets held-for-sale are stated at cost except for donated assets which are stated at fair market 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 is not depreciated.

The property and equipment held by the Trysting Tree Golf Club, Inc. is depreciated on an accelerated method over the estimated useful lives of the related assets. Management reviews the carrying value of capitalized assets to reach a judgment concerning possible permanent impairment of value. 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 (including accumulated depreciation, if applicable) of the asset.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Charitable gift annuities and remainder trusts** – 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 actuarial assumptions defined by IRS Regulation 1.72 (tables 5 and 6) 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, 2009 the discount rate varied between 2.4% and 4.2%. 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, 2009.

**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.

**Fund raising costs** – Fund raising costs totaled approximately \$9,586,685 and \$11,613,344 for the years ended June 30, 2009 and 2008, respectively, and are included in management, general, and development expenses on the statement of activities.

**Income tax status** – The Foundation is exempt from federal and state income taxes on the excess of revenues over expenses from nonprofit related activities under Sections 501(c)(3), 509 (a)(1), and 170(b)(1)(a)(iv) of the Internal Revenue Code.

The Foundation has elected to defer the application of Financial Accounting Standards Board (“FASB”) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, to its fiscal year beginning after December 15, 2008 in accordance with FASB Staff Position FIN 48-3. The Foundation generally evaluates any uncertain tax positions consistent with the accounting and disclosure requirements of FASB Statement No., 5, Accounting for Contingencies.

**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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2 – 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 requires the Foundation to retain as a fund of perpetual duration. In accordance with Financial Accounting Standards No. 124 “Accounting for Certain Investments Held by Not-For-Profit Organizations” (“FAS 124”), which establishes in the absence of donor stipulations or law to the contrary, deficiencies on the investments of a donor-restricted endowment fund shall reduce unrestricted net assets to the extent that the losses fall below historical book value. As a result of the unfavorable financial market conditions over the past year these deficiencies were determined to be \$37,892,505 as of June 30, 2009.

**NOTE 3 – 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:

	<b>2009</b>	<b>2008</b>
Cash in interest-bearing accounts	\$ 1,559,036	\$ 7,467,173
Commercial paper	<u>4,013,311</u>	<u>11,277,807</u>
Total cash and cash equivalents	<u>\$ 5,572,347</u>	<u>\$ 18,744,980</u>

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)**

Cash and cash equivalents have the following restrictions at June 30:

	2009	2008
Unrestricted:		
Designated for University programs	\$ 177,525	\$ 292,559
Designated for quasi-endowment	348,462	430,608
	<u>525,987</u>	<u>723,167</u>
Temporarily restricted:		
Departmental programs and activities	(454,202)	9,423,414
Endowment earnings for departmental programs and activities	409,153	2,027,182
Gift annuity and remainder trust agreements	272,658	119,243
Trysting Tree Golf Club, Inc.	750,190	914,500
Other	26,753	430,538
	<u>1,004,552</u>	<u>12,914,877</u>
Permanently restricted:		
Endowment	3,258,134	3,840,200
Gift annuity and remainder trust agreements	783,674	1,266,736
	<u>4,041,808</u>	<u>5,106,936</u>
Total cash and cash equivalents	<u>\$ 5,572,347</u>	<u>\$ 18,744,980</u>

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 – INVESTMENTS**

At June 30, 2009 and 2008 the fair and cost value of investments were:

	<b>2009</b>		<b>2008</b>	
	<u>Fair Value</u>	<u>Cost or Amortized Cost</u>	<u>Fair Value</u>	<u>Cost or Amortized Cost</u>
Marketable securities:				
Collateralized mortgage obligations	\$ 4,161,852	\$ 8,135,484	\$ 6,108,278	\$ 7,796,498
Corporate obligations	43,820,544	43,160,269	38,547,273	37,252,177
Government obligations	93,108	87,851	452,678	447,726
Marketable equity securities	94,398,794	101,546,149	142,804,106	152,984,351
Equity mutual funds	138,681,724	161,314,261	211,991,984	191,020,334
Total marketable securities	<u>281,156,022</u>	<u>314,244,014</u>	<u>399,904,319</u>	<u>389,501,086</u>
Other securities:				
Investment income receivable	611,607	611,607	361,020	361,020
Mortgage notes and contracts	1,563,298	1,563,298	1,732,254	1,732,254
Partnerships	70,115,928	75,286,017	84,357,129	68,215,768
Black Ball Transport, Inc. voting trust	6,934,000	6,934,000	6,934,000	6,934,000
Total other securities	<u>79,224,833</u>	<u>84,394,922</u>	<u>93,384,403</u>	<u>77,243,042</u>
Total investments	<u>\$ 360,380,855</u>	<u>\$ 398,638,936</u>	<u>\$ 493,288,722</u>	<u>\$ 466,744,128</u>

Partnerships investments include diversified arbitrage, distressed and mezzanine debt, real estate, and private equity.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4 – INVESTMENTS – (continued)**

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:

	2009	2008
Interest and dividends	\$ 8,912,846	\$ 9,220,829
Net realized gains/(losses)	(45,234,850)	88,462
Net unrealized (losses)	<u>(53,902,694)</u>	<u>(26,390,037)</u>
Total loss on investments	<u>\$ (90,224,698)</u>	<u>\$ (17,080,746)</u>

The Foundation is the beneficiary of the Black Ball Transport, Inc. Voting Trust (the Trust). The Trust, whose term is ten 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, 2009, Black Ball is valued at \$6,934,000. The valuation is based on an independent appraisal dated August 29, 2004, and appears to be a reasonable estimate.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4 – INVESTMENTS – (continued)**

Investments restrictions at June 30 are summarized as follows:

	<b>2009</b>	<b>2008</b>
Unrestricted:		
Board designated	\$ 8,675,599	\$ 34,388,321
Temporarily restricted:		
Departmental programs and activities	38,896,164	51,213,767
Endowment earnings for departmental programs and activities	28,087,488	124,652,869
Gift annuity and remainder trust agreements	10,997,512	14,281,305
Other	2,000,915	2,096,615
	<u>79,982,079</u>	<u>192,244,556</u>
Permanently restricted:		
Endowment	237,408,236	226,168,527
Gift annuity and remainder trust agreements	34,314,941	40,487,318
	<u>271,723,177</u>	<u>266,655,845</u>
Total investments	<u>\$360,380,855</u>	<u>\$493,288,722</u>

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4 – INVESTMENTS – (continued)**

Board Interpretation of Relevant Law – UPMIFA enacted by Oregon – FMV preservation:

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

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 non-pooled investments. At the point proceeds are realized from these assets held outside the Foundation, they are either transferred to the Pooled Investment Program or a specific program as designated by the donor.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4 – INVESTMENTS** – (continued)

Permanently restricted funds held as charitable gift annuities are pooled for investment purposes. The investment strategy of the gift annuity pool is to minimize funding risks to the Foundation while ensuring an effective payout rate to annuitants. Charitable remainder trusts held by the Foundation are invested based on the unique attributes of each trust such as the payout rate and the age of the beneficiary(s). The Foundation seeks to both prudently maximize the returns of each trust for both the beneficiary and the Foundation and to protect the portfolio in difficult economic environments. Non-pooled permanently restricted assets are generally held beyond the direct control of the Foundation. In instances where the Foundation is able to manage the investment, even partially, the Foundation seeks to prudently maximize the value of the asset to the point of liquidation.

Pooled Investment Program Spending Policy, Investing Policy, and Strategy:

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:

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 – INVESTMENTS – (continued)**

The Foundation has a policy of appropriating for distribution each year four and a half percent of its pooled endowment fund's average fair value over the prior twelve 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. This is consistent with the Foundation's 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.

Endowment investment by net asset classification by type of fund as of June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 147,373,497	\$ 213,041,851	\$ 360,415,348
Board-designated endowment funds	38,201,543	-	-	38,201,543
Charitable gift annuities and remainder trusts	-	-	13,473,885	13,473,885
Non-pooled investments	-	-	17,233,833	17,233,833
Black Ball Transport, Inc.	-	-	6,934,000	6,934,000
Total investment funds	<u>\$ 38,201,543</u>	<u>\$ 147,373,497</u>	<u>\$ 250,683,569</u>	<u>\$ 436,258,609</u>

Endowment investment by net asset classification by type of fund as of June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (37,892,505)	\$ 77,756,082	\$ 226,072,617	\$ 265,936,194
Board-designated endowment funds	23,955,121	-	-	23,955,121
Charitable gift annuities and remainder trusts	-	-	10,709,893	10,709,893
Non-pooled investments	-	-	21,149,141	21,149,141
Black Ball Transport, Inc.	-	-	6,934,000	6,934,000
Total investment funds	<u>\$ (13,937,384)</u>	<u>\$ 77,756,082</u>	<u>\$ 264,865,651</u>	<u>\$ 328,684,349</u>

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4 – INVESTMENTS – (continued)**

Reconciliation of beginning and ending balance of Endowment investments:

Changes in Endowment investments by net asset classification for the fiscal years ended June 30, 2009 and 2008:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Investment net assets, beginning of the year, 7/1/2007	\$ 40,306,659	\$ 199,331,477	\$ 231,191,323	\$ 470,829,459
Investment return:				
Interest and dividends	716,902	7,254,075	33,516	8,004,493
Realized and unrealized losses	(4,238,456)	(42,887,418)	45,362	(47,080,512)
Contributions	85,937	1,158,734	30,950,540	32,195,211
Appropriation of endowment assets for expenditure	(4,591)	(16,079,053)	-	(16,083,644)
Change in value of charitable annuities and trusts	-	-	577,349	577,349
Other changes	1,335,092	(1,404,318)	(12,114,521)	(12,183,747)
Investment net assets, end of the year, 6/30/2008	<u>\$ 38,201,543</u>	<u>\$ 147,373,497</u>	<u>\$ 250,683,569</u>	<u>\$ 436,258,609</u>
Investment return:				
Interest and dividends	668,671	7,046,195	35,774	7,750,640
Realized and unrealized losses	(47,954,886)	(68,141,024)	(251,995)	(116,347,905)
Contributions	134,689	4,540,323	16,690,145	21,365,157
Appropriation of endowment assets for expenditure	(15,828)	(12,960,719)	-	(12,976,547)
Change in value of charitable annuities and trusts	-	-	(3,045,602)	(3,045,602)
Other changes	(4,971,573)	(102,190)	753,760	(4,320,003)
Investment net assets, end of the year, 6/30/2009	<u>\$ (13,937,384)</u>	<u>\$ 77,756,082</u>	<u>\$ 264,865,651</u>	<u>\$ 328,684,349</u>

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4 – INVESTMENTS – (continued)**

Nature and Types of Restrictions:

Pooled Endowments

The Foundation's endowment pool consists of approximately 1,707 individual funds established for a variety of purposes. Its 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, 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.

Description of endowment investment amounts classified as Permanently Restricted and Temporarily Restricted:

	2009	2008
Permanently Restricted		
The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation	\$226,072,617	\$213,041,851
Charitable gift annuities and remainder trusts	10,709,893	13,473,885
Non-pooled investments, including trusts held outside the Foundation	<u>28,083,141</u>	<u>24,167,833</u>
Total endowment investments classified as permanently restricted	<u>\$264,865,651</u>	<u>\$250,683,569</u>
Temporarily Restricted		
Donor restricted endowment funds	\$ 38,066,857	\$ 58,201,294
Term endowment funds	5,005,438	6,134,993
True endowment retained income funds	<u>34,683,787</u>	<u>83,037,210</u>
Total endowment investments classified as temporarily restricted	<u>\$ 77,756,082</u>	<u>\$147,373,497</u>

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5 – FAIR VALUE MEASUREMENTS**

Statement of Financial Accounting Standards No. 157 “Fair Value Measurements” (“FAS 157”) establishes a fair value hierarchy that prioritizes the inputs for valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are as follows:

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, 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 net asset value “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, as defined by FAS 157, 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.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5 - FAIR VALUE MEASUREMENTS - (continued)**

The following table presents the investments included on the statement of Financial Position by level within valuation hierarchy as of June 30, 2009:

	<b>Assets at Fair Value as of June 30, 2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Pooled Investment Program	\$ 202,908,371	\$ -	\$ 78,427,976	\$ 281,336,347
Charitable gift annuities and remainder trusts	43,790,609	93,108	1,423,709	45,307,426
Non-pooled investments	26,513,603	-	289,479	26,803,082
Black Ball Transport, Inc.	-	-	6,934,000	6,934,000
Total Investments	<u>\$ 273,212,583</u>	<u>\$ 93,108</u>	<u>\$ 87,075,164</u>	<u>\$ 360,380,855</u>

Charitable trusts held outside the Foundation are carried on the Statement of Financial Position and are measured at fair value using Level 1 observable inputs. These trusts are discounted for future cash flow assumptions as described in Note 1.

The following table presents a roll-forward of the amounts for the year ended June 30, 2009 for the investment classified within Level 3:

<b>Investments of the Foundation</b>	
Balance at June 30, 2008	\$ 111,042,176
Net purchases and sales	8,205,916
Total net losses for the period	<u>(32,172,928)</u>
Balance at June 30, 2009	<u>\$ 87,075,164</u>

Losses for Level 3 investments are recorded on the Statement of Activities and included in net losses on investments. The losses for the period described above are attributable to unrealized losses on Level 3 classified investments that were held by the Foundation at June 30, 2009.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5 - FAIR VALUE MEASUREMENTS - (continued)**

Assets and liabilities measured at fair value on a nonrecurring basis (measurement occurs only upon initial recognition) at June 30, 2009, are as follows:

Contributions – SFAS No.157 requires a fair value measurement only at the time of initial recognition of a promise to give. The fair value of contribution receivables are determined based upon discounted future cash flows. Contribution receivables were adjusted to their estimated fair value, which resulted in a discount of \$369,440.

Charitable gift annuities and remainder trusts - SFAS No.157 also requires a fair value measurement of liabilities associated with the agreements at the time of initial recognition. For gift annuities and remainder trusts where the Foundation is the trustee, the fair values of liabilities are determined based upon a discounted cash flow analysis, which resulted in a \$18,194 increase in liabilities recognized under split interest agreements.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 6 – PLEDGES RECEIVABLE**

Unconditional promises are included in the 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; all other pledges are determined on a case by case basis.

Pledges receivable are summarized as follows at June 30:

	<b>2009</b>	<b>2008</b>
In one year or less	\$ 15,807,425	\$ 15,776,693
Between one year and five years	30,862,027	33,273,038
More than five years	<u>1,938,575</u>	<u>2,577,775</u>
Total	<u>48,608,027</u>	<u>51,627,506</u>
Less allowance for uncollectible amounts	(754,562)	(285,211)
Less discount to present value of future cash flows	<u>(4,286,636)</u>	<u>(5,615,315)</u>
Total reductions	<u>(5,041,198)</u>	<u>(5,900,526)</u>
Total pledges receivable, net	<u>\$ 43,566,829</u>	<u>\$ 45,726,980</u>

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 7 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<b>2009</b>	<b>2008</b>
Operating assets:		
Land and structures	\$ 3,755,292	\$ 2,999,106
Equipment	4,859,469	5,427,823
Timber	19,447	19,447
	8,634,208	8,446,376
Less accumulated depreciation	(4,006,339)	(4,588,726)
	\$ 4,627,869	\$ 3,857,650
Nonoperating assets:		
Land, structures and timber held-for-sale	3,979,777	2,450,950
Land, structures and timber held-for-transfer to the University	164,200	-
Livestock held-for-sale	66,700	51,200
	4,210,677	2,502,150
Total property and equipment, net	\$ 8,838,546	\$ 6,359,800

Depreciation was \$503,951 and \$516,346 for the years ended June 30, 2009 and 2008, respectively.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8 – LEASE COMMITMENTS**

The Foundation leases office space and land under noncancellable operating leases expiring through October 2038. The Foundation has the option to renew certain leases at various terms and amounts. In addition, the Foundation rents office equipment on month-to-month leases. Future minimum lease payments under these leases are as follows:

Years ending June 30, 2010	\$ 499,000
2011	490,000
2012	498,000
2013	509,000
2014	522,000
Thereafter	<u>629,000</u>
Total lease commitments	<u>\$ 3,147,000</u>

Total rent expense amounted to approximately \$476,000 and \$469,000 for years ended June 30, 2009 and 2008, respectively.

**NOTE 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.

**NOTE 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.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 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 \$1,208,000 and \$1,116,000 for the years ended June 30, 2009 and 2008, respectively.

**NOTE 12 – CHARITABLE GIFT ANNUITIES AND REMAINDER TRUSTS**

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.

The asset values for both charitable gift annuities and remainder trusts are included in cash, investments, and real property on the statement of financial position. At June 30, the fair value and cost of charitable gift annuities and remainder trusts, where the Foundation is trustee, were as follows:

	<b>2009</b>		<b>2008</b>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Gift annuities	\$ 9,077,546	\$ 12,305,002	\$ 11,456,276	\$ 12,119,631
Remainder trusts	<u>37,286,272</u>	<u>45,609,722</u>	<u>46,119,359</u>	<u>47,713,011</u>
Total gift annuities & remainder trusts	<u>\$ 46,363,818</u>	<u>\$ 57,914,724</u>	<u>\$ 57,575,635</u>	<u>\$ 59,832,642</u>

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 12 – ANNUITIES AND TRUSTS – (continued)**

Liability obligations to beneficiaries under charitable gift annuities and remainder trust agreements at June 30:

	<b>2009</b>	<b>2008</b>
Gift annuities	\$ 6,696,490	\$ 6,650,313
Remainder trusts	<u>17,257,567</u>	<u>21,844,615</u>
Total obligations under charitable gift annuities and remainder trusts	<u>\$ 23,954,057</u>	<u>\$ 28,494,928</u>

**NOTE 13 – OTHER LIABILITIES**

Other liabilities consist of the following at June 30:

	<b>2009</b>	<b>2008</b>
Accounts payables	\$ 498,422	\$ 11,206,627
Accrued expenses	6,403,635	601,070
Accrued payroll and related liabilities	1,197,960	825,887
Other Foundation operational expenses	<u>50,971</u>	<u>50,600</u>
Total other liabilities	<u>\$ 8,150,988</u>	<u>\$ 12,684,184</u>

The amount payable or “due to” the University, including amounts in accrued expenses, totaled \$6,415,000 and \$11,192,000 for the years ended June 30, 2009 and 2008, respectively.

**NOTE 14 – COMMITMENTS**

During the year ended June 30, 2002, the Foundation entered into a commitment to invest \$10,000,000 into a domestic and international private equity partnership over a period of approximately five years. As of June 30, 2009, \$8,118,164 has been invested. The Foundation has also entered into new commitments in the fiscal years 2009 and 2008 to invest \$41,500,000 into additional domestic and international private equity partnerships. As of June 30, 2009, \$14,025,166 in new commitments are still outstanding to be invested. 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 corporate obligations and marketable securities.

**OREGON STATE UNIVERSITY FOUNDATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 15 – DIRECT UNIVERSITY SUPPORT**

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

	<b>2009</b>	<b>2008</b>
Awards and scholarships	\$ 6,740,315	\$ 10,937,514
Capital programs	38,308,595	15,354,191
Instruction and research support	14,095,583	15,356,410
Other program support	12,331,736	21,528,271
Development support	<u>4,032,954</u>	<u>6,233,833</u>
Total direct University support	<u>\$ 75,509,183</u>	<u>\$ 69,410,219</u>

**NOTE 16 - SUBSEQUENT EVENTS**

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("FAS 165"). FAS 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires disclosure of the date through which Management of the Foundation has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. We have evaluated subsequent events through September 18, 2009, which is the date the financial statements were issued.

In July 2009, the University was granted a building permit to begin construction of the new Linus Pauling Science Center. Securing the building permit by the University enabled the Foundation to record a \$10,000,000 previously conditional pledge associated with the construction of the building.