



Report of Independent Auditors
and Consolidated Financial Statements

Portland State University Foundation

June 30, 2023 with Summarized
Comparative Information for 2022

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Report of Independent Auditors

The Board of Trustees
Portland State University Foundation

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Portland State University Foundation and its Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Portland State University Foundation and its Subsidiary as of June 30, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Portland State University Foundation and its Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Portland State University Foundation and its Subsidiary's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Portland State University Foundation and its Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Portland State University Foundation and its Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter – Prior Year Consolidated Financial Statements

The consolidated financial statements of Portland State University Foundation and its Subsidiary as of and for the year ended June 30, 2022, were audited by other auditors whose report thereon dated October 28, 2022, expressed an unmodified opinion. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Portland, Oregon
November 6, 2023

Consolidated Financial Statements

Portland State University Foundation
Consolidated Statements of Financial Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,631,590	\$ 8,453,161
Pledges, grants, and estates receivable, net	18,145,357	16,277,712
Rent and other receivables	58,034	98,869
Prepaid and other assets	1,134,751	1,119,252
Investments and split interest agreements	145,631,842	135,289,340
Property and equipment, net	<u>2,152,736</u>	<u>2,065,631</u>
Total current assets	<u>\$ 176,754,310</u>	<u>\$ 163,303,965</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 978,752	\$ 907,702
Payable to Portland State University	2,575,836	1,714,445
Note payable	1,639,393	1,715,799
Obligations to beneficiaries of split-interest agreements	1,820,504	2,124,246
Endowments held for Portland State University	<u>2,530,139</u>	<u>2,500,565</u>
Total current liabilities	<u>9,544,624</u>	<u>8,962,757</u>
NET ASSETS		
Without donor restrictions	11,056,465	10,018,601
With donor restrictions	<u>156,153,221</u>	<u>144,322,607</u>
Total net assets	<u>167,209,686</u>	<u>154,341,208</u>
Total liabilities and net assets	<u>\$ 176,754,310</u>	<u>\$ 163,303,965</u>

See accompanying notes.

Portland State University Foundation
Consolidated Statements of Activities
Year Ended June 30, 2023 with Summarized Comparative Information for 2022

	2023					2022
	Without Donor Restrictions			With Donor Restrictions	Total	
	Foundation Operations	Real Estate Activities	Total			
REVENUES						
Contributions and grants	\$ 2,496,341	\$ -	\$ 2,496,341	\$ 24,431,102	\$ 26,927,443	\$ 19,169,656
Special events	93,557	-	93,557	21,885	115,442	517,031
Portland State University contract revenue	6,777,265	-	6,777,265	-	6,777,265	6,760,997
Net investment return	267,761	-	267,761	6,449,945	6,717,706	(11,971,245)
Contribution of Portland State University						
Alumni Association	-	-	-	-	-	375,880
Rental income	-	159,000	159,000	-	159,000	386,475
Adjustments and other income	21,400	-	21,400	(377,339)	(355,939)	1,464,425
Total operating revenues and gains	9,656,324	159,000	9,815,324	30,525,593	40,340,917	16,703,219
Net assets released from restrictions for operating purposes and other transfers	18,694,979	-	18,694,979	(18,694,979)	-	-
Total revenues, gains, and other expenses	28,351,303	159,000	28,510,303	11,830,614	40,340,917	16,703,219
UNIVERSITY SUPPORT AND EXPENSES						
Program services						
Scholarships and fellowships	4,746,726	-	4,746,726	-	4,746,726	5,229,995
Capital projects	4,046,998	-	4,046,998	-	4,046,998	1,825,650
Academic program support	8,721,706	-	8,721,706	-	8,721,706	7,964,891
Other university support	804,267	-	804,267	-	804,267	848,372
Corbett property operations	-	326,561	326,561	-	326,561	267,869
Total program services	18,319,697	326,561	18,646,258	-	18,646,258	16,136,777
SUPPORTING SERVICES						
Foundation fund-raising	5,727,717	-	5,727,717	-	5,727,717	4,828,877
Foundation administration	2,851,925	-	2,851,925	-	2,851,925	2,631,225
Special events services	246,539	-	246,539	-	246,539	257,392
Total supporting services	8,826,181	-	8,826,181	-	8,826,181	7,717,494
Total university support and other expenses	27,145,878	326,561	27,472,439	-	27,472,439	23,854,271
Change in net assets	1,205,425	(167,561)	1,037,864	11,830,614	12,868,478	(7,151,052)
Net assets at beginning of year	9,175,965	842,636	10,018,601	144,322,607	154,341,208	161,492,260
Net assets at end of year	<u>\$ 10,381,390</u>	<u>\$ 675,075</u>	<u>\$ 11,056,465</u>	<u>\$ 156,153,221</u>	<u>\$ 167,209,686</u>	<u>\$ 154,341,208</u>

See accompanying notes.

Portland State University Foundation
Consolidated Statements of Functional Expenses
Year Ended June 30, 2023 with Summarized Comparative Information for 2022

	2023						2022
	Support Provided to Portland State University		Foundation Operations			Total	
	Foundation Operations	Real Estate Activities	Fundraising	General and Administrative	Special Events		
Scholarships and fellowships	\$ 4,746,726	\$ -	\$ -	\$ -	\$ -	\$ 4,746,726	\$ 5,229,995
Capital projects	4,046,998	-	-	-	-	4,046,998	1,825,650
Academic program support	8,721,706	-	-	-	-	8,721,706	7,964,891
University administrative support	156,698	-	-	-	-	156,698	82,638
Corbett property operations	-	169,883	-	-	-	169,883	119,106
Wages and benefits	550,903	-	4,874,310	2,152,852	49,472	7,627,537	6,862,155
Professional, legal, and other fees	24,395	-	139,377	295,490	300	459,562	377,648
Events	578	-	30,012	335	194,807	225,732	205,474
Cultivation and marketing	41,216	-	135,720	78,470	1,960	257,366	206,842
Travel and professional development	1,740	-	93,351	75,060	-	170,151	89,955
Occupancy and technology	26,809	-	381,670	215,925	-	624,404	636,834
Depreciation and amortization	1,928	156,678	73,277	33,793	-	265,676	253,083
Total functional expenses	<u>\$ 18,319,697</u>	<u>\$ 326,561</u>	<u>\$ 5,727,717</u>	<u>\$ 2,851,925</u>	<u>\$ 246,539</u>	<u>\$ 27,472,439</u>	<u>\$ 23,854,271</u>

See accompanying notes.

Portland State University Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 12,868,478	\$ (7,151,052)
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization costs	265,676	253,083
Contributions restricted for long-term investment	(4,774,929)	(3,445,670)
Change in contribution allowances and discounts	659,433	(394,424)
Net proceeds from sale of noncash contributions	25,275	198,145
Net realized and unrealized (gain) loss on investments	(6,707,192)	12,158,536
Contribution of Portland State University Alumni Association	-	(375,880)
Changes in operating assets and liabilities that provided (used) cash		
Rent and other receivables	40,835	(64,526)
Pledges, grants and estates receivable	(2,527,078)	174,894
Prepaid and other assets	(15,499)	(217,543)
Accounts payable and accrued liabilities	908,940	590,353
Other liabilities	53,074	(409,974)
Change in value of split-interest agreements	764,731	869,297
Change in beneficial interest in assets held by others	(15,651)	323,390
	<u>1,546,093</u>	<u>2,508,629</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash that was acquired from Portland State University Alumni Association	-	393,877
Proceeds from maturities/sales of investments	17,282,464	5,652,555
Purchases of investments	(21,312,204)	(14,645,397)
Purchase of property, plant, and equipment	(352,780)	(45,605)
	<u>(4,382,520)</u>	<u>(8,644,570)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	4,774,929	3,445,670
Proceeds from issuance of split-interest agreements	-	126,268
Payment of debt principal/capital lease obligations	(76,406)	(75,071)
Payments on split-interest agreements	(683,667)	(279,426)
	<u>4,014,856</u>	<u>3,217,441</u>
Net cash provided from financing activities		
	<u>4,014,856</u>	<u>3,217,441</u>
Net increase (decrease) from cash and cash activities	1,178,429	(2,918,500)
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,453,161</u>	<u>11,371,661</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 9,631,590</u>	<u>\$ 8,453,161</u>
SUPPLEMENTAL DISCLOSURES OF CASH		
Interest paid	<u>\$ 73,046</u>	<u>\$ 71,260</u>

See accompanying notes.

Portland State University Foundation

Notes to Financial Statements

Note 1 – Organization

Portland State University Foundation (the Foundation) is a nonprofit corporation organized in accordance with the laws of the state of Oregon and managed by an independent volunteer Board of Trustees. Created in 1963, the Foundation is responsible for raising and managing private resources to support the mission and priorities of Portland State University (the University) and contributes to institutional excellence.

The Foundation's fundraising efforts include: capital campaigns, endowments, scholarship funds, planned gifts, corporate and foundation partnerships, annual giving programs, academic research, campus development, and access and outreach for promising students with limited resources. In addition to fundraising efforts for the University, the Foundation provides donor stewardship, donor receipting and reporting, endowment and investment management, and maintenance of donor and accounting records. Contributions received by the Foundation may be in cash, marketable securities, real property, tangible personal property, gifts-in-kind, life insurance policies, and various deferred giving vehicles. Contributions received in forms other than cash, except gifts-in-kind and life insurance policies, are generally liquidated. The proceeds, together with cash gifts, are placed in investment pools or other investments consistent with the purpose of the gift or the requirements of the trust agreement. The Foundation employs investment professionals to manage the investment portfolio for the benefit of the University.

Note 2 – Subsidiary

During the year ended June 30, 2005, the Foundation organized 2828 Corbett, Inc. (Corbett) for the purpose of holding title to certain property and remitting the net income to the Foundation. The Foundation is the sole member of Corbett.

See notes 8 and 12 for additional information regarding Corbett.

Note 3 – Summary of Significant Accounting Policies

The significant accounting policies followed by the Foundation are described below to enhance the usefulness of the consolidated financial statements to the reader.

Basis of accounting – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Principles of consolidation – The accompanying consolidated financial statements include all accounts and activities of the Foundation and its wholly owned entity, Corbett, over which the Foundation has control and economic interest. All significant intra-organizational investments, accounts, and transactions have been eliminated upon consolidation.

Portland State University Foundation Notes to Consolidated Financial Statements

Net assets – Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets without donor restrictions represent resources which are not subject to donor-restrictions and over which the Trustees of the Foundation retain control to use the funds in order to achieve the Foundation’s purpose and enhance University operations.

Net Assets with Donor Restrictions – Net assets with donor restrictions represent resources subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time, those that are restricted by the donor for a particular purpose or other events specified by the donor.

Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity. This consists predominantly of endowment funds and charitable trusts. Donor-restricted endowment funds represent funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity.

Also included are trust funds that represent donor contributions of irrevocable trusts and other instruments wherein the Foundation has a remainder interest in the trust assets upon the death of the last surviving income beneficiary.

Use of estimates – The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires that management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The Foundation’s management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Contributions – Contributions are recognized as revenues in the period received. Unconditional promises to give (pledges) are recognized as revenues when the commitment is communicated to the Foundation. Conditional pledges are not recognized until they become unconditional, that is, when the donor-imposed conditions are substantially met. Bequests are recorded as revenue at the time the Foundation has an established right to the bequest and the proceeds are measurable.

Contributions of assets other than cash are recorded at their estimated fair value. Pledges for the support of future operations, programs, and activities are recorded at the present value of the estimated future cash flows. An allowance for uncollectible contributions receivable is provided based upon management’s judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Portland State University Foundation

Notes to Consolidated Financial Statements

Special events – The University conducts special fundraising events through the Foundation in which a portion of the gross proceeds paid by the participants represents payment for the fair value of the benefits received by participants at the event and a portion is a charitable contribution.

Cash and cash equivalents – The Foundation considers all liquid investments having initial maturities of three months or less to be cash equivalents, except for cash equivalents included in the investment portfolio. Cash equivalents included in the investment portfolio are excluded from the consolidated statements of cash flows.

Investments – The Foundation’s portfolio is managed by outside investment managers who invest according to the investment guidelines established by the Board of Trustees’ Investment Committee. The Foundation’s investment objective is to prudently invest its assets in order to achieve a long-term rate of return sufficient to maintain and grow the assets for the current and future benefit of the University. Investments in marketable debt and equity securities are carried at fair value. The fair value of all debt and equity securities with a readily determinable fair value are based on quoted market prices.

The fair value of alternative investments is generally based on information provided by the respective external investment manager at the most recent valuation date. Alternative investments in private equity are not readily marketable and involve assumptions and methods that are reviewed by management. A portion of the investments made by certain hedge funds is also not readily marketable; additionally, hedge fund managers may not provide the detail of their underlying marketable securities. The Foundation reviews and evaluates the values provided by the investment managers or other sources and estimates the fair value. Those estimated fair values may differ significantly from the values that would have been used had a ready market for those investments existed.

As described below, the Foundation utilized the net asset value per share for certain investments in alternative structures as a practical expedient for the estimation of the fair value of these investments.

Net investment return consists of the realized gains or losses, the unrealized appreciation (depreciation) of those investments, and investment income, which is accrued as earned, and is shown in the consolidated statements of activities, net of investment advisory fees. Security transactions are recorded on a trade-date basis.

The Foundation has significant exposure to a number of risks including interest, market, and credit risks for both marketable and nonmarketable securities. Due to the level of risk exposure, it is possible that near term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the consolidated financial statements.

Portland State University Foundation

Notes to Consolidated Financial Statements

Fair value measurements – The Foundation applies Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, for fair value measurement of financial assets and financial liabilities and for fair value measurement of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to 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 measurement involving significant unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 – Valuations based on unadjusted quoted market prices in active markets for identical securities. Level 1 category includes the Foundation's investments in cash equivalents, equity securities, and investments in mutual funds.

Level 2 – Valuations based on inputs other than quoted prices included within Level 1 that are observable in the market for the asset or liability, either directly or indirectly. The Level 2 category includes the Foundation's investments in split-interest agreements for which the Foundation serves as trustee.

Level 3 – Valuations based on inputs that are unobservable for an asset or liability.

Investments valued utilizing net asset value as a practical expedient are excluded from the hierarchy.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Property and equipment, net – Property and equipment are valued at cost when purchased, and at fair value at the date of donation when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally 20 to 50 years for buildings and 3 to 5 years for computers, equipment, and software.

Property and equipment are capitalized if the cost exceeds \$1,500 and it has a useful life of more than one year when acquired; expenditures for repairs and maintenance are expensed when incurred.

The Foundation reviews the carrying amount of its capital assets whenever events or circumstances provide evidence that suggests that the carrying amount may not be recoverable. As of June 30, 2023 and 2022, the Foundation does not believe there is any indication that the carrying value of its capital assets has been impaired.

Rental income – Rental income is recognized at the time performance obligations have been met over the rental period.

Outstanding legacies – The Foundation is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The Foundation's share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

Portland State University Foundation

Notes to Consolidated Financial Statements

Beneficial interest in trusts and other split-interest agreements – The Foundation receives contributions in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by either a trustee or the Foundation, and distributions are made to the beneficiaries during the term of the agreement. These funds are generally invested in fixed income and equity securities, and the Foundation records its interest in these trusts at fair value based on estimated future cash flows. Initial recognition and subsequent adjustments to the assets' carrying value are reported as a change in the actuarial value of split-interest agreements in the accompanying consolidated statements of activities (included in other revenues) and are classified as with donor restrictions or without donor restrictions dependent upon the existence of donor-imposed purpose or time restrictions, if any. The Foundation serves as trustee for substantially all charitable remainder trusts.

Obligations to beneficiaries of split-interest agreements – Obligations to beneficiaries of split-interest agreements, including charitable remainder trusts and charitable gift annuities, are recorded when incurred at the present value of the distributions to be made to the donor-designated beneficiaries. Distributions are paid over the lives of the beneficiaries or another specified period. Present values are determined using discount rates and expected lives that are actuarially determined. Obligations to beneficiaries of charitable trusts are revalued annually at June 30 to reflect actual experience; the discount rate is not changed. The net revaluations, together with any remaining recorded obligations after all trust or gift obligations under terminated agreements have been satisfied, are recorded as net changes in the value of split-interest agreements (included in other revenues).

Beneficial interest in perpetual trusts – The Foundation is the irrevocable beneficiary of a perpetual trust. The assets of the trust are held and managed by a third-party administrator (a bank). The beneficial interest in the trust is reported at fair value, which is the estimated fair value of the underlying trust assets. Distributions of income from the trust assets are restricted for use in accordance with the donors' wishes. The value of the beneficial interest in the perpetual trust is adjusted annually for the change in its estimated value. Those changes are reported as increases in net assets with donor restrictions because the trust assets will never be distributed to the Foundation. The Foundation is not the trustee of these assets. At June 30, 2023 and 2022, the Foundation's beneficial interest in the trust is \$526,593 and \$510,942, respectively, and is included in investments in the accompanying consolidated statements of financial position.

Functional allocation of expenses – The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. University program support generally pertains to activities initiated and conducted by schools, departments, and affiliates of the University in whole or in part. The consolidated statement of functional expenses presents expenses by both natural classification and functional classification. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses allocated include wages and benefits, which are allocated on the basis of time spent on fundraising or general and administrative tasks. Occupancy and depreciation are allocated based on full-time employee (FTE) count for fundraising and general and administrative staff. Other costs are classified in each functional category based on the underlying purpose of each transaction.

Portland State University support – University support is allocated annually through a Memorandum of Understanding between the Foundation and the University. University support is recorded as revenue by the Foundation when approved and unconditional.

Portland State University Foundation Notes to Consolidated Financial Statements

Endowment funds and interpretation of relevant law – Effective January 1, 2008, the state of Oregon adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which governs Oregon charitable institutions with respect to the management, investment, and expenditure of donor-restricted endowment funds.

The Board has interpreted Oregon's adoption of UPMIFA as requiring the Foundation to adopt investment and spending policies that preserve the fair value of the original gift as of the date of the gift, absent explicit donor stipulations to the contrary. Although the Foundation has a long-term fiduciary duty to the donor (and/or to others) for a fund of perpetual duration, the preservation of the endowment's purchasing power is only one of several factors that are considered in managing and investing these funds. Furthermore, in accordance with UPMIFA, a portion of the endowment's historic dollar value may be appropriated for expenditure in support of the restricted purposes of the endowment if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA.

As a result of this interpretation, the Foundation classified the following amounts as net assets with donor restrictions in the accompanying consolidated financial statements:

- The fair value of the gifts donated to the donor-restricted endowment
- Accumulations to the 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 funds which are not required to be held in perpetuity consisting of accumulated net earnings (realized and unrealized) on the investment of endowment assets are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the donors' stipulations.

In accordance with UPMIFA, the Board of Trustees has adopted investment and spending policies for endowment assets with the intent of providing a predictable stream of funding to the programs and operations supported by its endowment, while also seeking to maintain the long-term purchasing power of the endowment assets. Therefore, the Board considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Portland State University Foundation

Notes to Consolidated Financial Statements

Spending policy – The Foundation has a policy of annually appropriating for distribution between 1.0% and 4.0% of its endowment fund's average fair value over the prior 12 quarters through March 31 of the current fiscal year for the years ended June 30, 2023 and 2022. During the fiscal years ended June 30, 2023 and 2022, the Foundation's Board of Trustees appropriated endowment assets totaling \$2,944,231 and \$2,933,965. From time to time, the fair value of endowment funds associated with individual donor-restricted endowments may fall below the level that the donor or UPMIFA required the Foundation to retain as a fund of perpetual duration, underwater endowments. As of June 30, 2023 endowed funds with total historical gift value of \$15,485,000 and fair value of \$14,498,056 resulted in an amount of \$986,944 underwater. There were no underwater endowed funds at June 30, 2022.

Income taxes – The Foundation is exempt from federal and state income taxes under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code and comparable state law. Corbett, a title-holding corporation, is exempt from federal and state income taxes under Section 501(a) as an organization described in Section 501(c)(2) of the Internal Revenue Code and comparable state law. The Foundation is the direct controlling entity of two single member limited liability companies (LLCs), Broadway Housing, LLC and PSU Impact Ventures, LLC, which are disregarded entities for tax purposes. The Foundation is subject to unrelated business income tax (UBIT) on any unrelated business income, and management believes any UBIT would be immaterial to the financials. The Foundation does not have any uncertain tax positions.

Financial instruments with concentrations of credit risk – Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, receivables (note 5), and investments (note 6). On occasion, the Foundation maintains cash balances that may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC).

Certain receivables may also, from time to time, subject the Foundation to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, Foundation management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible accounts.

Recent accounting pronouncements – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), which requires lessees to recognize a lease liability and a right of use asset for all lease obligations with exception to short-term leases. The lease liability will represent the lessee's obligation to make lease payments arising from the lease measured on a discounted basis and the right of use asset will represent the lessee's right to use or control the use of a specified asset for a lease term. The lease guidance also simplifies accounting for sale-leaseback transactions.

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Notes to Consolidated Financial Statements

On July 1, 2022, the Foundation adopted *Leases* (Topic 842) and subsequent updates, collectively referred to as Topic 842, using the modified retrospective transition method which allowed it to continue to apply legacy guidance for periods prior to 2023. In addition, the Foundation adopted the package of practical expedients in transition, which permits them to not reassess their prior conclusions pertaining to lease identification, lease classification and initial direct costs on leases that commenced prior to the adoption of the new standard. The Foundation also elected the ongoing practical expedient to not recognize operating lease right-of-use assets and operating lease liabilities related to short-term leases. Upon management's assessment, the impact of applying Topic 842 was deemed to be immaterial and no right-of-use asset or lease liabilities were recorded at July 1, 2022, or during the year ended June 30, 2023.

Comparative totals – The consolidated financial statements and footnotes include certain prior-year summarized comparative financial information. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended June 30, 2022, from which the information was derived.

Note 4 – Liquidity and Availability

The Foundation exists to benefit the University and as such receives significant contributions to be used in accordance with donor restrictions for the benefit of the University. The majority of the financial assets recorded and managed by the Foundation are not available to support the Foundation's operating needs. Annually, the Foundation receives support from the University, interest income not subject to donor restrictions, contributions without donor restrictions, as well as gift and fund management fees appropriated in accordance with Foundation policies to support the operating activities of the Foundation.

The Foundation regularly monitors liquidity required to meet its operating needs, liabilities, and other obligations as they become due. The Foundation's budget for fiscal year 2024 includes approximately \$6,473,000 in University support and \$2,197,000 in gift and fund management fees. These amounts are available to be used for general expenditures and fundraising activities and could readily be made available.

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Notes to Consolidated Financial Statements

In addition, the following assets could readily be made available within one year of the date of the consolidated statements of financial position to meet general expenditures as of June 30, 2023 and 2022:

	2023	2022
Financial assets at year-end		
Cash and cash equivalents	\$ 9,631,590	\$ 8,453,161
Pledges, grants, and estates receivable, net	18,145,357	16,277,712
Rent and other receivables	58,034	98,869
Cash value of donated insurance policies	300,423	271,328
Investments	145,631,842	135,289,340
Total	173,767,246	160,390,410
Less those unavailable for general expenditure within one year		
Contributions receivable for gifts with donor restrictions, net	(18,145,357)	(16,277,712)
Endowment assets and accumulated earning subject to donor restrictions		(91,133,597)
Investments held in trusts subject to donor restrictions	(97,488,133)	(1,544,333)
Other investments subject to donor restrictions	(1,437,418)	(42,266,089)
Board-designated fund, primarily for long-term investing	(44,174,566)	(4,363,342)
Board-designated special projects fund	(4,991,779)	(400,000)
Total	(166,237,253)	(155,985,073)
Financial assets available to meet cash needs for general expenditures within one year	\$ 7,529,993	\$ 4,405,337

The Foundation's Board of Trustees has designated a portion of its unrestricted resources for endowment and other purposes. Those amounts are identified as board-designated in the table above. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board.

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Notes to Consolidated Financial Statements

Note 5 – Pledges, Grants, and Estates Receivable

Pledges, grants, and estates receivable, net are summarized as follows at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Unconditional promises to be collected in		
Less than one year	\$ 8,453,574	\$ 9,485,861
One year to five years	11,129,289	7,681,925
Greater than five years	<u>158,200</u>	<u>46,200</u>
	<u>19,741,063</u>	<u>17,213,986</u>
Less		
Allowance for doubtful accounts	(757,444)	(275,595)
Present value discount	<u>(838,262)</u>	<u>(660,679)</u>
	<u>(1,595,706)</u>	<u>(936,274)</u>
Pledges, grants, and estates receivable, net	<u><u>\$ 18,145,357</u></u>	<u><u>\$ 16,277,712</u></u>

Unconditional promises to give, due in greater than one year, are reflected at the present value of estimated future cash flows using discount rates in a range that were between 3.81-5.4% and 4-10% for fiscal years 2023 and 2022, respectively. As of June 30, 2023, 51% of pledges, grants, and estates receivable were from one donor. During the year ended June 30, 2023 one donor made 35% of all contributions. There were no pledges, grants, and estates receivable and contribution concentrations as of June 30, 2022.

The Foundation has received conditional promises of \$2,000,000 for building projects and \$510,000 for academic support. These conditional promises to give will be recognized as revenue when the conditions are met.

Gross pledges, grants, and estates receivable at June 30, 2023 and 2022 carry the following restrictions:

	<u>2023</u>	<u>2022</u>
Academic support and programs	\$ 9,592,166	\$ 9,661,457
Building construction	3,128,111	6,793,699
Endowment for university departments and programs	5,392,843	508,000
Endowment for scholarships	<u>1,627,943</u>	<u>250,830</u>
	<u><u>\$ 19,741,063</u></u>	<u><u>\$ 17,213,986</u></u>

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The change in valuation of Level 3 assets using significant unobservable inputs is as follows for the years ended June 30, 2023 and 2022:

	2023	2022
Fair value at beginning of year	\$ 558,778	\$ 882,168
(Decrease) increase in the carrying value of interest in charitable remainder unitrusts	-	(208,980)
Net change in value of assets held by third party	15,651	(114,410)
Total	\$ 574,429	\$ 558,778

In general, investments are reported at fair value, based primarily on market quotes. Investments in hedge funds and private investments are carried at estimated fair value using NAV as a practical expedient as determined by the external investment manager. The estimated values are reviewed and evaluated by the Foundation.

The majority of the Foundation's investments have daily liquidity with one to three business days' notice. The Foundation has one fixed income investment in the amount of \$2,537,807 that has quarterly liquidity. Certain funds have redemption restrictions at June 30, 2023. The following table summarizes investments measured at fair value based on net asset value (NAV) per share as of June 30, 2023 and 2022, respectively, and their redemption restrictions:

Category of Investment	Redemption Notice Period	Liquidity	Fair Value	
			2023	2022
Pooled investment fund – other	10 day notice	Monthly liquidity	\$ 2,347,414	\$ 2,393,478
			\$ 2,347,414	\$ 2,393,478

The Foundation holds investments in private equity limited partnerships where NAV is used as a practical expedient to measure fair value at June 30, 2023 and 2022. These partnerships do not allow for periodic redemptions, but rather liquidate upon the termination date as stated in the partnership agreement. Therefore, the private equity investments are considered illiquid investments. At June 30, 2023 and 2022, respectively, the Foundation held \$7,634,653 and \$8,433,746 of private equity limited partnerships that are in various stages of investment and liquidation. The termination dates range from current to 2033. Unfunded commitments related to private equity investments totaled \$4,290,002 at June 30, 2023.

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Note 7 – Property and Equipment, Net

A summary of property and equipment, net at June 30, 2023 and 2022 is as follows:

	2023	2022
Land	\$ 1,496,400	\$ 1,496,400
Buildings	2,975,246	2,975,246
Leasehold improvements	665,936	351,564
Computers, software, furniture, and office equipment	1,568,733	1,535,360
Construction in progress	-	25,969
	6,706,315	6,384,539
Less accumulated depreciation	(4,553,579)	(4,318,908)
Total	\$ 2,152,736	\$ 2,065,631

The land and buildings that are part of the Foundation’s property includes institutional real estate held by Corbett, a title-holding corporation established by the Foundation to hold its interest in the land and building located at 2828 Corbett Avenue in Portland, Oregon. This property is held for long-term investment purposes, but is used primarily to house the University’s Business Accelerator program. The property is owned by Corbett and is consolidated within these financial statements and shown at depreciated historical cost. The primary source of the Foundation’s funding for this investment came from cash from the endowment portfolio and debt financing as discussed in note 8.

Note 8 – Notes Payable

Commercial loan – At the request of the University, the Foundation holds a promissory note with Washington Trust Bank for the real property held by 2828 Corbett, Inc. entered into on December 11, 2019 for \$1,900,000. Terms of the note require monthly payments of principal and interest totaling \$11,572, with interest calculated at 4.00%. The note with Washington Trust Bank matures on December 5, 2029 and a balloon payment estimated at \$1,151,497 is due at that time. The note is secured by the underlying property.

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Aggregate maturities of note principal for the years subsequent to June 30, 2023 are as follows:

Year ending June 30	
2024	\$ 77,107
2025	80,248
2026	83,518
2027	86,921
2028	90,462
Thereafter	<u>1,231,319</u>
Less amortization of loan origin fee	<u>(10,182)</u>
	<u><u>\$ 1,639,393</u></u>

Interest expense associated with the above note totaled \$73,046 for the year ended June 30, 2023.

Note 9 – Obligations to Beneficiaries of Split-Interest Agreements

At June 30, 2023 and 2022, the Foundation reported the following obligations to beneficiaries of split-interest agreements:

	<u>2023</u>	<u>2022</u>
Charitable gift annuities	\$ 1,409,644	\$ 1,629,418
Charitable remainder unitrusts	<u>410,860</u>	<u>494,828</u>
	<u><u>\$ 1,820,504</u></u>	<u><u>\$ 2,124,246</u></u>

As of June 30, 2023 and 2022, the Foundation had entered into 40 and 50 charitable gift annuity agreements, respectively, whereby the Foundation has agreed, in return for the gifted assets, to make payments to gift beneficiaries for the balance of their lives. The liability represents the actuarially determined present value of the estimated future payments to be made to the beneficiaries using discount rates, which range from 4.1% to 9.0%. Upon the death of the beneficiary (and, in certain cases, the beneficiary's spouse), the Foundation will receive the balance of the remaining assets.

State law requires, among other things, that the issuer of charitable gift annuities maintain certain minimum reserves calculated in accordance with rules promulgated in Chapter 731.038 of the Oregon Revised Statutes. These rules also mandate that the reserves be held in separate investment accounts. The minimum reserves required by law at June 30, 2023 and 2022 totaled \$1,386,211 and \$1,597,259, respectively. At June 30, 2023 and 2022, the Foundation held \$2,577,761 and \$2,840,002 in assets associated with these gift annuities, which is included in investments in the consolidated statement of financial position.

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At both June 30, 2023 and 2022, the Foundation is the trustee and the remainderman of four charitable remainder unitrusts. The terms of the various trust agreements require that the income earned by the trusts' assets be paid annually to the trusts' current beneficiaries in amounts ranging from 5% to 6% of the fair market value of each trust. Upon the death of the current beneficiaries (and, in certain cases, the beneficiary's spouse), the remaining assets will revert to the Foundation. At June 30, 2023 and 2022, the Foundation held \$862,989 and \$985,555, respectively, in assets associated with these unitrusts, which is included in investments in the consolidated statements of financial position. The liability presented above represents the present value of the future payments to be made to current beneficiaries using a discount rate of 4.5%.

Note 10 – Restrictions and Limitations on Net Asset Balances

Net assets with donor restrictions – Net assets with donor restrictions are restricted for the following purposes or periods as of June 30:

	2023	2022
Endowments		
Donor-restricted endowments subject to spending policy and appropriation, to support the following purposes (including net accumulated earning)		
Scholarships and student support	\$ 51,415,923	\$ 44,179,735
Faculty and research	21,359,588	24,461,805
Academic support	11,488,644	9,401,314
Subject to expenditure for specified purposes (including net accumulated earnings)		
Scholarships and student support	7,524,704	7,031,754
Faculty and research	1,338,657	1,186,519
Academic support	4,418,423	4,102,487
Subject to passage of time, net	6,588,603	688,455
Perpetual trusts and split-interest agreements	1,636,329	1,717,394
Subject to expenditure for specified purposes		
Scholarships and student support	13,174,340	11,658,218
Faculty and research	6,202,243	5,864,859
Academic support	17,978,000	16,638,811
Capital projects	1,471,013	1,801,999
Subject to passage of time, net	11,556,754	15,589,257
	\$ 156,153,221	\$ 144,322,607

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Notes to Consolidated Financial Statements

Changes in endowment net assets – The following tables summarize the Foundation’s endowment-related activities for the years ended June 30, 2023 and 2022:

	Year ended June 30, 2023		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, June 30, 2022	\$ 4,363,342	\$ 92,238,687	\$ 96,602,029
Contributions and bequests	28,500	10,664,338	10,692,838
Investment return, net	224,937	4,581,028	4,805,965
Appropriation of endowment assets for expenditure	-	(2,944,231)	(2,944,231)
Change in the actuarial value of split-interests agreements	-	238,768	238,768
Other adjustments	-	268,910	268,910
Endowment net assets, June 30, 2023	<u>\$ 4,616,779</u>	<u>\$ 105,047,500</u>	<u>\$ 109,664,279</u>
	Year ended June 30, 2022		
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, June 30, 2021	\$ 617,375	\$ 102,109,140	\$ 102,726,515
Contributions and bequests	-	3,819,930	3,819,930
Investment return, net	(734,816)	(10,755,814)	(11,490,630)
Appropriation of endowment assets for expenditure	(19,217)	(2,914,748)	(2,933,965)
Change in the actuarial value of split-interests agreements	-	(368,194)	(368,194)
Board designation of quasi-endowments	4,500,000	-	4,500,000
Other adjustments	-	348,373	348,373
Endowment net assets, June 30, 2022	<u>\$ 4,363,342</u>	<u>\$ 92,238,687</u>	<u>\$ 96,602,029</u>

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Notes to Consolidated Financial Statements

Note 11 – Net Assets Released from Restrictions and Other Transfers

The Foundation released net assets from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2023 and 2022:

	2023	2022
Satisfaction of donor restrictions as to purpose		
Scholarships and fellowships	\$ 4,746,726	\$ 5,223,954
Capital projects	4,046,819	2,530,581
Academic and university administrative support	8,814,241	8,096,586
Endowment fees appropriated	1,427,313	1,203,952
Other transfers and adjustments	(340,120)	(19,848)
	\$ 18,694,979	\$ 17,035,225

Note 12 – Transactions of the Subsidiary

In order to help meet the University's growing classrooms and academic facilities, the Foundation has organized 2828 Corbett, Inc., to acquire property for this purpose. The University houses its Business Accelerator program at this facility. See note 2.

During the year ended June 30, 2022, the University extended the lease with Corbett for a fourth extended term through March 31, 2025. The terms of the lease require a monthly base rent of \$13,250 from April 1, 2022 through March 31, 2024, and \$50,975 from October 1, 2024 through March 31, 2025.

Note 13 – Administrative Assessments

The Foundation makes assessments on income-producing assets held for the benefit of the University to support the administration of philanthropic funds, to sustain fundraising activities, and to provide certain University support as follows:

Endowment assets – An assessment of 1.5% annually of the fair value of endowments.

Other income-producing assets – In lieu of fees, the Foundation collects the income earned on the investment of all other income-producing assets.

Gifts and Other Revenue – A one-time assessment of 5.0% on all cash gifts and other revenue.

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Note 14 – Retirement Plans

The Foundation has a defined contribution retirement plan covering all employees. Employees are eligible to make voluntary contributions to the plan once they have completed six months of service and are age 21 or over. Employees are eligible to receive employer contributions after working a minimum of 1,000 hours and upon completion of one year of service. To continue to retain eligibility for employer contributions, employees must work a minimum of 1,000 hours annually. Employer contributions of 3% vest immediately and additional employer contributions are fully vested upon completion of five years of service. During the years ended June 30, 2023 and 2022, the Foundation contributed at the rate of 9% of each eligible employee's total compensation, and matched employee contributions 1:1, up to 3% of an eligible employee's total compensation. The rate of contribution is adjusted periodically at the direction of the Foundation's Board of Trustees. During the years ended June 30, 2023 and 2022, the Foundation made contributions to the plan totaling \$518,485 and \$504,568, respectively.

The Foundation has a 457(b) salary deferral plan for key executives. The plan enables participants to defer income on a pre-tax basis and is not matched with contributions from the Foundation. As part of the plan, the Foundation reports assets and liabilities of equal amounts attributable to the amount deferred and the related investment earnings. The invested assets of the deferred compensation plan consist of equity and fixed income mutual funds, which are classified as level 1 securities in accordance with GAAP. The balance in the deferred compensation plan on June 30, 2023 and 2022 is \$0 and \$15,617, respectively.

Note 15 – Subsequent Events

The Foundation has evaluated subsequent events from the consolidated statements of financial position date through November 6, 2023, the date at which the consolidated financial statements were available to be issued.