

Southern Oregon University Foundation

**Independent Auditor's Report
and
Financial Statements**

**For the Years Ended
June 30, 2012 and 2011**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3 – 4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 18

**MICHAEL L. PIELS** CERTIFIED PUBLIC ACCOUNTANTS, LLP

940 Town Centre Drive, Medford, Oregon 97504-6100
(541) 779-8261 FAX (541) 779-4245 www.mlpcpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Southern Oregon University Foundation

We have audited the accompanying statements of financial position of the Southern Oregon University Foundation (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southern Oregon University Foundation as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Stewart C. Armelle CPA, Partner

Michael L. Piels CPAs, LLP
Medford, Oregon
September 6, 2012

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statements of Financial Position
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 3,630,589	\$ 1,067,531
Deposits with University	1,487	90,836
Current portion of notes receivable	-	6,387
Prepaid expenses	25,214	21,505
Promises to give, net	85,120	72,314
Advances to related nonprofit organization	22,504	22,504
Other assets	681,835	685,585
Long-term investments	18,168,041	18,886,200
Note receivable, net of current portion	-	406,028
Land and building, net	293,168	293,168
Other real property	1,118,625	1,118,625
	<hr/>	<hr/>
Total Assets	<u>\$ 24,026,583</u>	<u>\$ 22,670,683</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 18,924	\$ 2,508
Accrued liabilities	2,522	4,795
Accrued interest	3,431	5,075
Scholarships payable	363,125	278,020
Unearned income	167,441	179,045
Line of credit note payable	835,000	1,235,000
Obligations under split-interest agreements	535,841	596,598
	<hr/>	<hr/>
Total Liabilities	<u>1,926,284</u>	<u>2,301,041</u>
 <u>NET ASSETS:</u>		
Unrestricted:		
Available for general obligations and programs	3,427,028	3,351,737
Board designated - Endowment	(1,504,183)	(1,047,919)
Board designated - Capital projects	(2,200,000)	(2,410,000)
	<hr/>	<hr/>
Total unrestricted	(277,155)	(106,182)
Temporarily restricted	3,823,254	4,102,760
Permanently restricted	18,554,200	16,373,064
	<hr/>	<hr/>
Total Net Assets	<u>22,100,299</u>	<u>20,369,642</u>
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 24,026,583</u>	<u>\$ 22,670,683</u>

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statement of Activities
Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support, Revenue, and Gains				
Contributions	\$ 369,338	\$ 879,093	\$ 2,201,335	\$ 3,449,766
Contributed services support	476,782	-	-	476,782
Interest and dividend income	41,244	449,784	-	491,028
Other income	-	2,294	-	2,294
Net unrealized and realized gain (loss)				
on long term investments	(231,656)	(344,786)	-	(576,442)
Change in value of split-interest agreements	-	-	(20,199)	(20,199)
Net fundraising activities and other income	(946)	504,925	-	503,979
Net assets released from restrictions				
Satisfaction of program restrictions	<u>1,770,816</u>	<u>(1,770,816)</u>	<u>-</u>	<u>-</u>
Total public support, revenue, and gains	<u>2,425,578</u>	<u>(279,506)</u>	<u>2,181,136</u>	<u>4,327,208</u>
Functional Expenses				
Program Services				
University Support	269,156	-	-	269,156
Affiliate Support	1,038,776	-	-	1,038,776
Scholarships, grants and awards	<u>492,043</u>	<u>-</u>	<u>-</u>	<u>492,043</u>
Total program services	<u>1,799,975</u>	<u>-</u>	<u>-</u>	<u>1,799,975</u>
Operating expenses				
Management and general	161,057	-	-	161,057
Management and general - contributed	213,142	-	-	213,142
Property management	13,035	-	-	13,035
Fundraising	174,752	-	-	174,752
Fundraising - contributed	<u>234,590</u>	<u>-</u>	<u>-</u>	<u>234,590</u>
Total operating expenses	<u>796,576</u>	<u>-</u>	<u>-</u>	<u>796,576</u>
Total functional expenses	<u>2,596,551</u>	<u>-</u>	<u>-</u>	<u>2,596,551</u>
Change in Net Assets	(170,973)	(279,506)	2,181,136	1,730,657
Net Assets at Beginning of Year	<u>(106,182)</u>	<u>4,102,760</u>	<u>16,373,064</u>	<u>20,369,642</u>
Net Assets at End of Year	<u>\$ (277,155)</u>	<u>\$ 3,823,254</u>	<u>\$ 18,554,200</u>	<u>\$ 22,100,299</u>

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statement of Activities
Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support, Revenue, and Gains				
Contributions	\$ 132,340	\$ 791,362	\$ 1,252,113	\$ 2,175,815
Contributed services support	439,643	-	-	439,643
Interest and dividend income	36,489	406,201	-	442,690
Other income	-	-	-	-
Net unrealized and realized gain (loss)				
on long term investments	2,330,604	1,091,602	4,171	3,426,377
Change in value of split-interest agreements	-	-	(70,634)	(70,634)
Net fundraising activities and other income	1,099	480,095	-	481,194
Net assets released from restrictions				
Satisfaction of program restrictions	<u>1,625,376</u>	<u>(1,625,376)</u>	-	-
Total public support, revenue, and gains	<u>4,565,551</u>	<u>1,143,884</u>	<u>1,185,650</u>	<u>6,895,085</u>
Functional Expenses				
Program Services				
University Support	382,033	-	-	382,033
Affiliate Support	606,431	-	-	606,431
Scholarships, grants and awards	<u>663,818</u>	-	-	<u>663,818</u>
Total program services	<u>1,652,282</u>	-	-	<u>1,652,282</u>
Operating expenses				
Management and general	167,181	-	-	167,181
Management and general - contributed	216,716	-	-	216,716
Property management	9,793	-	-	9,793
Fundraising	198,163	-	-	198,163
Fundraising - contributed	<u>197,957</u>	-	-	<u>197,957</u>
Total operating expenses	<u>789,810</u>	-	-	<u>789,810</u>
Total functional expenses	<u>2,442,092</u>	-	-	<u>2,442,092</u>
Change in Net Assets	2,123,459	1,143,884	1,185,650	4,452,993
Net Assets at Beginning of Year	<u>(2,229,641)</u>	<u>2,958,876</u>	<u>15,187,414</u>	<u>15,916,649</u>
Net Assets at End of Year	<u>\$ (106,182)</u>	<u>\$ 4,102,760</u>	<u>\$ 16,373,064</u>	<u>\$ 20,369,642</u>

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ 1,730,657	\$ 4,452,993
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in value of split-interest agreements	20,199	70,634
Non-cash contributions	(482,428)	(1,388,610)
Non-cash expenses and support	454,932	421,873
Net unrealized and realized (gain) loss	576,442	(3,426,377)
Proceeds from note receivable	(412,415)	(4,585)
(Increase) decrease in operating assets		
Deposit with University	89,349	(85,745)
Accounts receivable	-	18,958
Prepaid expenses	(3,709)	(18,780)
Promises to give	(12,806)	185,119
Other assets	3,750	(2,266)
Increase (decrease) in operating liabilities		
Accounts payable	16,416	474
Accrued liabilities	(2,273)	(5,200)
Accrued interest	(1,644)	(822)
Scholarships payable	85,105	(29,085)
Unearned income	(11,604)	18,252
Contributions restricted for long-term investments	(2,201,335)	(1,252,113)
Net cash provided (used) by operating activities	(151,364)	(1,045,280)
 Cash Flows from Investing Activities		
Proceeds from sale of investments	4,257,386	16,987,905
Purchase of investments	(3,659,422)	(17,270,677)
Proceeds from note receivable	412,415	4,585
Net cash provided (used) by investing activities	1,010,379	(278,187)
 Cash Flows from Financing Activities		
Proceeds from contributions restricted for investment in endowment	2,201,335	1,252,113
Other financing activities		
Payments on line of credit note payable	(400,000)	(200,000)
Payment of split-interest obligations	(97,292)	(97,422)
Net cash provided (used) by financing activities	1,704,043	954,691
 Net Decrease in Cash and Cash Equivalents	2,563,058	(368,776)
 Cash and Cash Equivalents at Beginning of Year	1,067,531	1,436,307
 Cash and Cash Equivalents at End of Year	\$ 3,630,589	\$ 1,067,531
 Supplemental disclosure of cash flow information:		
 Cash paid for interest	\$ 46,138	\$ 67,539

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

The Southern Oregon University Foundation (the Foundation) is a nonprofit corporation established by Southern Oregon University to support and promote the educational, scientific and charitable activities of the University and programs and activities occurring on its campuses or in its facilities or undertaken by it in coordination with other educational, scientific or charitable institutions. Supporting and promoting includes activities to solicit, acquire, receive, own, manage, invest, and dispose of any real and personal property for the benefit of Southern Oregon University. The Foundation's exempt purpose includes maintaining a development program to encourage contributions to the Foundation for University Support (academic programs, capital projects, athletics, student activities, etc.), and maintaining scholarships, grants, and loan funds for the benefit of students and faculty at Southern Oregon University. The Foundation also includes six affiliate organizations that support and promote a specific unit or activity of Southern Oregon University and are comprised of the Alumni Association, Chamber Music Concerts, Friends of the Hannon Library, Friends of the Schneider Museum of Art, Osher Lifelong Learning Institute, and Raider Club.

Basis of Accounting

The financial statements of the Foundation are presented on the accrual basis of accounting.

Basis of Presentation

In accordance with accounting principles generally accepted in the United States of America, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

In accordance with accounting principles generally accepted in the United States of America, contributions received by the Foundation are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 1 – Summary of Significant Accounting Policies (continued)

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is made and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized as contributed income when the conditions on which they depend are substantially met.

The Foundation estimates that future distributions from four trusts will total \$4.0 million, and the Foundation is aware of bequests totaling an additional \$4.9 million. These amounts are not reflected in the financial statements because the conditions necessary to recognize them have not been met.

Property and Equipment

The Foundation records purchased property and equipment at cost. The Foundation records donated property and equipment at estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Concentrations of Credit Risk

The Foundation frequently maintains cash balances greater than \$250,000 in a single financial institution. The Federal Deposit Insurance Corporation insures interest bearing account balances at each institution for amounts up to \$250,000 and noninterest bearing account balances are fully insured. At June 30, 2012 and 2011, the uninsured cash balances totaled \$0 and \$185,592, respectively.

The Foundation maintains accounts with stock brokerage firms. The accounts contain cash and securities. The Securities Investor Protection Corporation insures account balances for amounts up to \$500,000 (with a limit of \$100,000 for cash).

Contributed Services

The Foundation receives from Southern Oregon University certain administrative services and the use of office space at no cost under the terms of an agreement revised in 1998. The Foundation offices are located in a building on campus that was remodeled using funds raised by the Foundation. No contribution from the University is recorded for use of the facility.

The Foundation records a contribution for services provided by University personnel with specialized skills that the Foundation would need to hire if the services were not contributed.

For the year ended June 30, 2012 and 2011, the Foundation recorded contributed management and general services of \$213,142 and \$216,716 and contributed fundraising services of \$234,590 and \$197,957 for a total \$447,732 and \$414,673, respectively, in contributed support services, from Southern Oregon University.

Tax Status

The Southern Oregon University Foundation is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. Therefore, no provision for income taxes is necessary. In addition, the Foundation has been determined by the Internal Revenue Service not to be a "private foundation" as defined in Code Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1).

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 2 – Promises to Give

Promises to give at June 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Promises to give expected to be collected in less than one year	\$ 47,598	\$ 54,626
Promises to give expected to be collected in one to five years	<u>52,750</u>	<u>37,600</u>
Total promises to give	100,348	92,226
Less allowance for uncollectible promises	(14,475)	(18,860)
Less present value discount of long-term promises	<u>(753)</u>	<u>(1,052)</u>
Net promises to give	<u>\$ 85,120</u>	<u>\$ 72,314</u>

The allowance for uncollectible promises to give at June 30, 2012 was determined by providing for an uncollectible allowance equal to 50 percent of pledges receivable over one year past due, 100 percent of pledges receivable over two years past due, and 100 percent of the outstanding unrestricted pledges from annual phonathon campaigns. The present value discount of long-term promises to give was calculated using the average U.S. Treasury Daily Treasury Yield Curve Rates. The discount rates used were 0.49 percent at June 30, 2012, and 1.01 percent at June 30, 2011.

Promises to give at June 30, 2012 and 2011 have purpose restrictions as follows:

	<u>2012</u>	<u>2011</u>
Unrestricted	\$ 11,250	\$ 6,555
Temporarily restricted		
Academic programs	1,963	-
Raider athletics	-	1,691
Scholarships	34,310	6,980
Capital projects	52,825	77,000
Less allowance and discount	<u>(15,228)</u>	<u>(19,912)</u>
Total temporarily restricted	<u>73,870</u>	<u>65,759</u>
Total	<u>\$ 85,120</u>	<u>\$ 72,314</u>

Note 3 – Mary Phipps Center Building

The Foundation owns a building in Medford, Oregon that was received from the Girls Community Club of Medford, Oregon, Inc. The Foundation has leased the facility to Southern Oregon University to provide a base for the University's educational programs in Medford. The lease provides for rental at \$1 per year under the terms of a lease agreement entered into in 1984 when the building was leased by the Foundation from the donor.

On September 30, 2008, the University vacated the building to move into the completed Higher Education Center. From that date, the building has been vacant; resulting in no rental income or expense recognized in the financial statements for the year ended June 30, 2012 or 2011.

The building had an underground storage tank that has been removed. Any future liability for cleanup costs is dependent on several factors including the extent of contamination, assistance and cooperation from neighboring landowners, and the intended future use of the property.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 4 – Land and Building

Property held for use at June 30, 2012 and 2011 consisted of the following:

	2012	2011
Mary Phipps Center building	\$ 356,000	\$ 356,000
Less accumulated depreciation	(107,625)	(107,625)
	248,375	248,375
Mary Phipps Center land, Medford, Oregon	44,793	44,793
Net land and building	\$ 293,168	\$ 293,168

Depreciation is calculated using the straight-line method over a 40-year estimated useful life. The building had been used by Southern Oregon University until September 30, 2008 when it moved to the completed Higher Education Center. From that date, the building has been vacant. The Foundation is considering their options of continuing to lease the building, or to sell the building. The building is currently offered for sale for \$350,000. Accordingly, no annual depreciation has been recorded for the year ended June 30, 2012 or 2011.

Note 5 – Split-Interest Agreements

The Foundation has an interest in various split-interest agreements (gift annuities) which are held in a separate investment account and administered by an outside fiscal agent. These agreements provide for payments to donor-determined beneficiaries for their life, with the remaining assets reverting to the Foundation upon the death of the beneficiaries. Assets held under split-interest agreements are carried at market value. The related remainder trust obligation is calculated as the present value of the annuity due to the beneficiaries over their estimated lives, discounted at a rate determined at the date of contribution.

The assets funding the split-interest agreements at June 30, 2012 and 2011 are stated at fair value summarized as follows:

	June 30, 2012		
	Cash	Long-term Investments	Total
Gift annuities pool	\$ 8,597	\$ 732,999	\$ 741,596
Gift annuity trusts	3,923	326,042	329,965
Total assets held in split-interest agreements	\$ 12,520	\$ 1,059,042	1,071,562
Obligations under split-interest agreements			(535,841)
Net estimated value of split-interest agreements			\$ 535,721
	June 30, 2011		
	Cash	Long-term Investments	Total
Gift annuities pool	\$ 16,095	\$ 801,516	\$ 817,611
Gift annuity trusts	12,321	338,284	350,605
Total assets held in split-interest agreements	\$ 28,416	\$ 1,139,800	1,168,216
Obligations under split-interest agreements			(596,598)
Net estimated value of split-interest agreements			\$ 571,618

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 6 – Other Assets

Other assets are comprised of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Schuman musical instrument collection	\$ 560,479	\$ 559,979
Antique collection	34,752	34,752
Antique Furniture	11,089	11,089
Golf cart	-	4,250
18th century replica wood boat	2,200	2,200
Japanese bells collection	11,000	11,000
New England upright piano	1,500	1,500
Chippendale Model IV grand piano	20,000	20,000
Steinway Model L piano	27,500	27,500
Tokai Model MU-1 piano	3,500	3,500
Total contributed assets	<u>672,020</u>	<u>675,770</u>
Book inventory - History of SOU	9,815	9,815
Total other assets	<u>\$ 681,835</u>	<u>\$ 685,585</u>

Note 7 – Other Real Property

Other real property at June 30, 2012 and 2011 consisted of the following:

Fern Valley Road, Phoenix, Oregon real property	\$ 1,015,125
Guiley property, Klamath County, Oregon	90,000
Resort property timeshares	13,500
Total other real property	<u>\$ 1,118,625</u>

The real property on Fern Valley Road in Phoenix, Oregon is a twenty-seven acre undeveloped parcel that was appraised at \$1,000,000 when the Foundation received the property as a contribution in 1995. The City of Phoenix had been granted an easement for use of up to two acres of the parcel for a community water reservoir. The City of Phoenix and the Foundation negotiated an agreement regarding the property. The effect of the agreement on the value of the property has not been determined and no adjustment has been made in the value of the property in the financial statement.

The Guiley property is 120 acres of vacant land suitable for recreational, agricultural and forestry uses. The land was received December 29, 1999, as a contribution at an appraised value of \$90,000. The Foundation, in accordance with the intent of the donor, has made the property available to Southern Oregon University for use as a science field site. Should the property be sold, the net proceeds are to be credited to the Guiley Scholarship endowment administered by the Foundation.

The Foundation received a contribution of two timeshare units in Puerto Vallarta, Mexico and one in Orlando, Florida. As of June 30, 2012 and 2011, the resort property timeshares are carried at their net estimated realizable value of \$13,500.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 8 – Long-Term Investments

Long-term investments at June 30, 2012 and 2011 are stated at fair value summarized as follows:

	June 30, 2012			
	Bond Funds	Equity Funds	Annuities	Total
Foundation investment pool	\$ 2,304,431	\$ 14,804,568	\$ -	\$ 17,108,999
Gift annuities pool	204,982	528,018	-	733,000
Gift annuity trusts	85,265	240,777	-	326,042
Total long-term investments	\$ 2,594,678	\$ 15,573,363	\$ -	\$ 18,168,041

	June 30, 2011			
	Bond Funds	Equity Funds	Annuities	Total
Foundation investment pool	\$ 2,081,184	\$ 15,645,462	\$ 19,754	\$ 17,746,400
Gift annuities pool	220,475	581,041	-	801,516
Gift annuity trusts	88,358	249,926	-	338,284
Total long-term investments	\$ 2,390,017	\$ 16,476,429	\$ 19,754	\$ 18,886,200

For the year ended June 30, 2012, the total return on the Foundation's long-term investments was a loss of \$116,028 after deduction of investment fees of \$123,464. For the year ended June 30, 2011, the total return on the Foundation's long-term investments was a gain of \$3,836,929 after deduction of investment fees of \$81,557.

The Board of Trustees adopted a revised Statement of Investment Policy on November 27, 2001 which states, in part, that the primary investment objective of the Foundation is to produce a return on capital assets consistent with SOU Foundation Statement of Investment Policy while at the same time controlling the volatility of capital assets, referred to as the Foundation's Total Investment Pool. The adopted statement set the Total Return Objective as a rate of return that exceeds the All Urban Consumer Price Index (CPI) by 5.0 percent.

Note 9 – Fair Values of Financial Instruments

The Foundation records assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels is as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs, other than the quoted price in active markets, that are observable either directly or indirectly.
- Level 3 - Unobservable inputs based on our own assumptions.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 9 – Fair Values of Financial Instruments (continued)

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis:

	Fair Value at June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Bond funds	\$ 2,304,431	\$ -	\$ -	\$ 2,304,431
Equity funds	15,863,610	-	-	15,863,610
Annuities	-	-	-	-
Total assets				\$ 18,168,041

	Fair Value at June 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Bond funds	\$ 2,390,017	\$ -	\$ -	\$ 2,390,017
Equity funds	16,476,429	-	-	16,476,429
Annuities	-	19,754	-	19,754
Total assets				\$ 18,886,200

Note 10 – Restrictions on Net Assets

Temporarily restricted net assets were available for the following purposes as of June 30, 2012 and 2011:

	2012	2011
Academic programs	\$ 1,466,932	\$ 1,222,139
Alumni Affairs	125,398	113,875
Schneider Museum of Art	55,444	29,786
Raider Athletics	145,888	205,851
Hannon Library	25,697	20,809
Chamber Music Concert Series	351,463	329,693
Scholarships, grants and awards	883,515	920,696
Capital projects	127,837	384,462
Osher Lifelong Learning Institute	335,586	553,065
Other program support	305,494	322,384
	\$ 3,823,254	\$ 4,102,760

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 10 – Restrictions on Net Assets (continued)

Permanently restricted net assets are invested in perpetuity, the income from which is expendable to support the following purposes as of June 30, 2012 and 2011:

	2012	2011
Academic programs	\$ 2,195,380	\$ 2,192,183
Alumni Affairs	268,512	268,512
Schneider Museum of Art	1,262,788	1,262,788
Raider Athletics	20,576	20,576
Hannon Library	59,841	59,841
Chamber Music Concert Series	51,391	33,759
Scholarships, grants and awards	11,373,166	10,244,840
Osher Lifelong Learning Institute	2,000,194	1,000,000
Other program support	1,322,352	1,290,565
	\$ 18,554,200	\$ 16,373,064

Note 11 – Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows as of June 30, 2012 and 2011:

	2012	2011
Academic programs	\$ 100,788	\$ 120,172
Alumni Affairs	13,348	30,432
Schneider Museum of Art	78,545	112,120
Raider Athletics	417,173	404,468
Hannon Library	10,924	10,590
Chamber Music Concert Series	228,224	200,902
Scholarships, grants and awards	496,505	373,965
Capital projects	84,322	111,912
Osher Lifelong Learning Institute	290,563	208,844
Other program support	50,424	51,971
	\$ 1,770,816	\$ 1,625,376

Note 12 – Line of Credit Notes Payable

On February 22, 2011, the Foundation renewed a line of credit from Bank of the Cascades for \$1,235,000. The note is collateralized by two Foundation properties: the Mary Phipps Center and real property on Fern Valley Road in Phoenix, Oregon. The balance represents bridge funding for completion of the Medford Higher Education Center, which opened in the autumn of 2009. The terms of the note provide for a required principal reduction of \$400,000 prior to the maturity of the note, February 5, 2013, and for a variable interest rate, calculated at the lender's prime lending rate plus 1 percent, with a floor of 5 percent. The note requires monthly payment of interest, and the entire balance including accrued interest is due at maturity of the note. At June 30, 2012, the interest rate was 5 percent. The required principal payment was made during August of 2011.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 13 – Related Party Transaction

The Foundation is one of two members of Deer Creek Center for Field Research and Education, an Oregon nonprofit organization formed to own, operate and manage, for educational and scientific purposes, an 840-acre site near Selma, Oregon. The Foundation advanced funds to Deer Creek Center in 2008 for various out of pocket costs and legal expense incurred in the formation of the new organization. As of June 30, 2012 and 2011, the advances totaled \$22,504. The advanced amount is reflected in the Statements of Financial Position as an asset to be reimbursed by Deer Creek. There were no expenses for Deer Creek for the year ended June 30, 2012. There was \$3,454 of management and general expenses for Deer Creek for the year ended June 30, 2011.

Note 14 – Board Designated Net Assets

In order to construct a Higher Education Center in Medford, Oregon in 2009 and renovate the library on the Ashland campus two years earlier, the Foundation utilized temporarily restricted net assets donated for these purposes, along with unrestricted net assets. It is the policy of the Oregon University System, and therefore Southern Oregon University, not to allow construction to commence until all funds, both public and private, have been deposited in University capital construction accounts. Typically then, the Foundation's procedure has been to fund the project before all pledges have been collected or fundraising completed, and in some instances, even utilizing bank borrowings to provide the private funding portions of the project in order to begin construction as soon as possible. Accordingly, the Board of Trustees of the Foundation elected to use unrestricted net assets for these projects, in the amounts of \$2,000,000 for the Higher Education Center and \$1,150,000 for the library enhancement project, and continue the capital campaigns and collection of restricted pledges after the completion of the projects in order for the Foundation to recoup its unrestricted funds used to complete the project. The Board of Trustees has elected to designate these net assets so that they may be separately identified from other Foundation unrestricted net assets. The amounts designated for the projects are \$(2,200,000) at June 30, 2012 and \$(2,410,000) at June 30, 2011.

Note 15 – Endowments

The Foundation's endowment consists of approximately 183 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, 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.

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted the State of Oregon Uniform Prudent Management of Institutional Funds Act (SPMIFA), adopted January 1, 2008, as allowing the Foundation, absent of any donor stipulations to the contrary, to appropriate so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted until appropriated for expenditure by the Foundation. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the SOU Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 15 – Endowments (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$1,615,614 as of June 30, 2012, and \$1,163,209 as of June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for 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 the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) 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 results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 9 percent annually. Actual returns in any given year may vary from this amount.

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 on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a long-term policy of appropriating for distribution each fiscal year 4.5 percent of its endowment fund's average fair value over the prior 12 quarters preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3.5 percent annually. 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 return. Because of unfavorable market fluctuations that occurred early in the year ended June 30, 2009, the spending policy was changed effective January 1, 2009 to 3.5 percent of the current fair value of the endowment fund assets.

For the years ended June 30, 2012 and 2011, the spendable amount calculated as a percentage of the quarterly beginning value of endowment funds was \$523,301 and \$496,609, respectively, and interest and dividends (current cash earnings) generated by endowment assets were \$453,522 and \$398,623, respectively.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 15 – Endowments (continued)

Endowment net asset composition by type of fund as of June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ (1,013,091)	\$ 18,416,871	\$ 17,403,780
Fair value amount below permanent value	<u>(1,615,614)</u>	<u>1,615,614</u>	<u>-</u>	<u>-</u>
Total donor-restricted endowment funds	(1,615,614)	602,523	18,416,871	17,403,780
Board-designated endowment funds	<u>111,431</u>	<u>829,184</u>	<u>-</u>	<u>940,615</u>
Total funds	<u>\$ (1,504,183)</u>	<u>\$ 1,431,707</u>	<u>\$ 18,416,871</u>	<u>\$ 18,344,395</u>

Changes in endowment net assets for the fiscal year ended June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (1,047,919)	\$ 1,775,322	\$ 16,215,661	\$ 16,943,064
Investment return				
Investment income	40,648	410,288	-	450,936
Net appreciation (depreciation) (realized and unrealized)	<u>(3,859)</u>	<u>(548,501)</u>	<u>-</u>	<u>(552,360)</u>
Total investment return	36,789	(138,213)	-	(101,424)
Change in fair value amount below permanent value:				
Ending	(1,615,614)	1,615,614	-	-
Less: Beginning	<u>(1,163,209)</u>	<u>1,163,209</u>	<u>-</u>	<u>-</u>
Change	(452,405)	452,405	-	-
Contributions	-	27,140	2,201,210	2,228,350
Appropriation of endowment assets for expenditure	(40,648)	(776,242)	-	(816,890)
Other changes	-	91,295	-	91,295
Endowment net assets, end of year	<u>\$ (1,504,183)</u>	<u>\$ 1,431,707</u>	<u>\$ 18,416,871</u>	<u>\$ 18,344,395</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 15 – Endowments (continued)

Endowment net asset composition by type of fund as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ (157,527)	\$ 16,215,661	\$ 16,058,134
Fair value amount below permanent value	<u>(1,163,209)</u>	<u>1,163,209</u>	<u>-</u>	<u>-</u>
Total donor-restricted endowment funds	(1,163,209)	1,005,682	16,215,661	16,058,134
Board-designated endowment funds	<u>115,290</u>	<u>769,640</u>	<u>-</u>	<u>884,930</u>
Total funds	<u>\$ (1,047,919)</u>	<u>\$ 1,775,322</u>	<u>\$ 16,215,661</u>	<u>\$ 16,943,064</u>

Changes in endowment net assets for the fiscal year ended June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (3,165,748)	\$ 1,037,650	\$ 14,968,901	\$ 12,840,803
Investment return				
Investment income	33,487	365,136	-	398,623
Net appreciation (depreciation) (realized and unrealized)	<u>15,111</u>	<u>3,215,521</u>	<u>-</u>	<u>3,230,632</u>
Total investment return	48,598	3,580,657	-	3,629,255
Fair value amount below permanent value:				
Ending	(1,163,209)	1,163,209	-	-
Less: Beginning	<u>3,265,927</u>	<u>(3,265,927)</u>	<u>-</u>	<u>-</u>
Change	2,102,718	(2,102,718)	-	-
Contributions	-	29,465	1,246,760	1,276,225
Appropriation of endowment assets for expenditure	(33,487)	(885,132)	-	(918,619)
Other changes	-	115,400	-	115,400
Endowment net assets, end of year	<u>\$ (1,047,919)</u>	<u>\$ 1,775,322</u>	<u>\$ 16,215,661</u>	<u>\$ 16,943,064</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2012 and 2011

Note 16 – Subsequent Event

Management of the Southern Oregon University Foundation has evaluated events and transactions occurring after June 30, 2012 through the date of the financial statements were available for issuance, for recognition and/or disclosure in the financial statements. There were no additional events and/or transactions that required recognition and disclosure in the financial statements.