

Southern Oregon University Foundation

Independent Auditor's Report
and
Financial Statements

For the Years Ended
June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Southern Oregon University Foundation
Ashland, Oregon

We have audited the accompanying financial statements of Southern Oregon University Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Oregon University Foundation as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Stewart Parmele CPA, Partner". The signature is written in a cursive, flowing style.

Stewart Parmele CPA, Partner
KDCO Piels, Certified Public Accountants, LLP
Medford, Oregon
September 17, 2014

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statements of Financial Position
June 30, 2014 and 2013

| | 2014 | 2013 |
|--|---------------|---------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 625,506 | \$ 513,234 |
| Investments | 25,641,108 | 21,633,131 |
| Promises to give, net | 92,132 | 70,780 |
| Other current assets | 10,051 | 13,190 |
| Total current assets | 26,368,797 | 22,230,335 |
| Other assets | | |
| Long term promises to give, net | 76,405 | 80,307 |
| Assets held under split interest-agreements | 1,141,854 | 1,060,397 |
| Other assets | 1,800,379 | 1,822,883 |
| Total other assets | 3,018,638 | 2,963,587 |
| Total Assets | \$ 29,387,435 | \$ 25,193,922 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 16,654 | \$ 25,832 |
| Scholarships payable | 695,408 | 447,444 |
| Deferred revenue | 163,592 | 179,849 |
| Note payable, current portion | 385,000 | - |
| Total current liabilities | 1,260,654 | 653,125 |
| Long term note payable | - | 385,000 |
| Obligations under split-interest agreements | 536,212 | 525,102 |
| Total liabilities | 1,796,866 | 1,563,227 |
| Net assets | | |
| Unrestricted | | |
| Available for general obligations and programs | 3,518,278 | 3,456,796 |
| Board designated - Endowment | 37,570 | (1,075,196) |
| Board designated - Capital projects | (2,200,000) | (2,200,000) |
| Total unrestricted | 1,355,848 | 181,600 |
| Temporarily restricted | 7,000,157 | 4,740,157 |
| Permanently restricted | 19,234,564 | 18,708,938 |
| Total Net Assets | 27,590,569 | 23,630,695 |
| Total liabilities and net assets | \$ 29,387,435 | \$ 25,193,922 |

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statement of Activities
Year Ended June 30, 2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Public Support, Revenue, and Gains | | | | |
| Contributions | \$ 146,422 | \$ 1,373,695 | \$ 413,590 | \$ 1,933,707 |
| Contributed services support | 590,375 | - | - | 590,375 |
| Investment income | 184,695 | 3,647,950 | 141,768 | 3,974,413 |
| Net unrealized gain (loss) on investments | 1,112,766 | (599,035) | - | 513,731 |
| Change in value of split-interest agreements | - | - | (29,732) | (29,732) |
| Fundraising activities and other income | 7,461 | 550,562 | - | 558,023 |
| Net assets released from restrictions | <u>2,713,172</u> | <u>(2,713,172)</u> | <u>-</u> | <u>-</u> |
| Total public support, revenue, and gains | <u>4,754,891</u> | <u>2,260,000</u> | <u>525,626</u> | <u>7,540,517</u> |
| Functional Expenses | | | | |
| Program Services | | | | |
| University support | 627,356 | - | - | 627,356 |
| Affiliate support | 690,330 | - | - | 690,330 |
| Scholarships, grants and awards | <u>1,242,947</u> | <u>-</u> | <u>-</u> | <u>1,242,947</u> |
| Total program services | <u>2,560,633</u> | <u>-</u> | <u>-</u> | <u>2,560,633</u> |
| Operating Expenses | | | | |
| Management and general | 198,022 | - | - | 198,022 |
| Management and general - contributed | 209,126 | - | - | 209,126 |
| Property management | 2,054 | - | - | 2,054 |
| Fundraising | 214,263 | - | - | 214,263 |
| Fundraising - contributed | 374,041 | - | - | 374,041 |
| Loss on disposal of property and equipment | <u>22,504</u> | <u>-</u> | <u>-</u> | <u>22,504</u> |
| Total operating expenses | <u>1,020,010</u> | <u>-</u> | <u>-</u> | <u>1,020,010</u> |
| Total functional expenses | <u>3,580,643</u> | <u>-</u> | <u>-</u> | <u>3,580,643</u> |
| Change in Net Assets | 1,174,248 | 2,260,000 | 525,626 | 3,959,874 |
| Net Assets at Beginning of Year | <u>181,600</u> | <u>4,740,157</u> | <u>18,708,938</u> | <u>23,630,695</u> |
| Net Assets at End of Year | <u>\$ 1,355,848</u> | <u>\$ 7,000,157</u> | <u>\$ 19,234,564</u> | <u>\$ 27,590,569</u> |

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statement of Activities
Year Ended June 30, 2013

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Public Support, Revenue, and Gains | | | | |
| Contributions | \$ 154,323 | \$ 1,274,889 | \$ 218,761 | \$ 1,647,973 |
| Contributed services support | 553,081 | - | - | 553,081 |
| Investment income | 316,843 | 1,004,364 | - | 1,321,207 |
| Net unrealized gain (loss) on investments | 428,987 | 189,977 | - | 618,964 |
| Change in value of split-interest agreements | - | - | (64,023) | (64,023) |
| Fundraising activities and other income | 4,500 | 551,611 | - | 556,111 |
| Net assets released from restrictions | <u>2,103,938</u> | <u>(2,103,938)</u> | <u>-</u> | <u>-</u> |
| Total public support, revenue, and gains | <u>3,561,672</u> | <u>916,903</u> | <u>154,738</u> | <u>4,633,313</u> |
| Functional Expenses | | | | |
| Program Services | | | | |
| University support | 537,855 | - | - | 537,855 |
| Affiliate support | 700,499 | - | - | 700,499 |
| Scholarships, grants and awards | <u>903,260</u> | <u>-</u> | <u>-</u> | <u>903,260</u> |
| Total program services | <u>2,141,614</u> | <u>-</u> | <u>-</u> | <u>2,141,614</u> |
| Operating Expenses | | | | |
| Management and general | 198,849 | - | - | 198,849 |
| Management and general - contributed | 201,976 | - | - | 201,976 |
| Property management | 8,300 | - | - | 8,300 |
| Fundraising | 183,500 | - | - | 183,500 |
| Fundraising - contributed | 343,905 | - | - | 343,905 |
| Loss on disposal of property and equipment | <u>24,773</u> | <u>-</u> | <u>-</u> | <u>24,773</u> |
| Total operating expenses | <u>961,303</u> | <u>-</u> | <u>-</u> | <u>961,303</u> |
| Total functional expenses | <u>3,102,917</u> | <u>-</u> | <u>-</u> | <u>3,102,917</u> |
| Change in Net Assets | 458,755 | 916,903 | 154,738 | 1,530,396 |
| Net Assets at Beginning of Year | <u>(277,155)</u> | <u>3,823,254</u> | <u>18,554,200</u> | <u>22,100,299</u> |
| Net Assets at End of Year | <u>\$ 181,600</u> | <u>\$ 4,740,157</u> | <u>\$ 18,708,938</u> | <u>\$ 23,630,695</u> |

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Changes in net assets | \$ 3,959,874 | \$ 1,530,396 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Change in value of obligations under split-interest agreements | 29,732 | 64,023 |
| Investment income | (3,974,413) | (1,311,863) |
| Net unrealized (gain) loss on investments | (513,731) | (618,965) |
| Contributions of stock | (4,413) | - |
| Loss on sale of property and equipment | 22,504 | 24,773 |
| (Increase) decrease in: | | |
| Other current assets | 3,139 | 13,512 |
| Promises to give | (17,450) | (65,967) |
| Assets held under split-interest agreements | 81,457 | 145,228 |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | (9,178) | 955 |
| Scholarships payable | 247,964 | 84,319 |
| Deferred revenue | (16,257) | 12,408 |
| Obligations under split-interest agreements | 11,110 | (74,762) |
| Net cash provided (used) by operating activities | (179,662) | (195,943) |
| Cash Flows from Investing Activities | | |
| Proceeds from sale of investments | 350,000 | - |
| Reinvestment of dividends in assets held under split-interest agreements | (58,066) | - |
| Receipts from note receivable | - | - |
| Proceeds from sale of property and equipment | - | 268,395 |
| Receipts from sale of other assets | - | 81 |
| Net cash provided (used) by investing activities | 291,934 | 268,476 |
| Cash Flows from Financing Activities | | |
| Proceeds from issuance of long-term debt | - | 635,000 |
| Payments toward long-term debt | - | (1,085,000) |
| Net cash provided (used) by financing activities | - | (450,000) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 112,272 | (377,467) |
| Cash and Cash Equivalents, Beginning of Year | 513,234 | 890,701 |
| Cash and Cash Equivalents, End of Year | \$ 625,506 | \$ 513,234 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$ 7,893 | \$ 34,227 |

See accompanying notes to the financial statements.

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

1. Organization

The Southern Oregon University Foundation (the Foundation) is a nonprofit corporation established in 1959 to support and promote the educational, scientific and charitable activities of Southern Oregon 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 (not separately organized) 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.

2. Summary of Significant Account Policies

Basis of Accounting

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

Basis of Presentation

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

Unrestricted Net Assets – represent unrestricted resources available to support the Foundation's operations and temporarily restricted resources which have become available for use by the Foundation in accordance with the intention of the donor. Unrestricted net assets may also be designated for specific purposes, such as board-designated or quasi-endowments, by action of the Board of Trustees.

Temporarily Restricted Net Assets – represent contributions that are limited in use by the Foundation in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Foundation according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

Permanently Restricted Net Assets – represent net assets subject to donor-imposed stipulations that they be maintained by the Foundation in perpetuity. Generally, the donors of these assets permit the Foundation to use all or part of the investment return on these assets.

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

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

2. Summary of Significant Account Policies (continued)

Contributions and Promises to Give

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

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market accounts, and commercial paper with maturities of three months or less at the date of acquisition that are not otherwise held by an investment advisor.

Investments

Investments are stated at fair value based on quoted market prices. Investments acquired by gift are recorded at fair value on the date received. Gains or losses are calculated based on specific identification of the investments. Dividend, interest, and other investment income are recorded net of related custodial and advisory fees. Unrealized gains and losses result from changes in the fair value of investments.

Artwork

Collections, works of art and historical treasures of significance that are owned by the Organization and meet all of the required conditions, are capitalized and recorded based on cost or, if donated, at the fair market value at the date of the donation. Required conditions for capitalizing are:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- Protected, kept unencumbered, cared for, and preserved.
- Subject to an organizational policy that required the proceeds from sales of collection items to be used to acquire other items for collections.

Inexhaustible collections, works of art and historical treasures where the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long are not depreciated. Because of their cultural, aesthetic, or historical value, these assets are protected and preserved in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

2. Summary of Significant Account Policies (continued)

Concentrations of Risk

The Foundation's cash, cash equivalents and investments consist of various financial instruments. These financial instruments may subject the Foundation to concentrations of risk as, from time to time, cash and investment balances may exceed amounts insured by the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation, the fair value of debt securities are dependent on the ability of the issuer to honor its contractual commitments, and the fair value of the investments are subject to change.

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, 2014 and 2013, the Foundation recorded contributed management and general services of \$209,126 and \$201,976 and contributed fundraising services of \$374,041 and \$343,905 for a total \$583,167 and \$545,881, respectively, in contributed services support, from Southern Oregon University.

The amount receivable or "due from" the University, including amounts in other current assets, totaled \$10,051 and \$6,014 as of June 30, 2014 and 2013, respectively.

The Foundation received contributed services from other sources that totaled \$7,208 and \$7,200 for the years ended June 30, 2014 and June 30, 2013.

Tax-Exempt Status

The Southern Oregon University Foundation has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(3) of the U.S. Internal Revenue Code and is exempt from federal and state income taxes on related activities. No tax provision has been made in the accompanying statements of activities and changes in net assets. 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).

The Foundation recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The foundation recognizes interest and penalties related to income tax matters in operating expenses. At June 30, 2014 and 2013, there were no such uncertain tax positions. The Foundation is no longer subject to examinations by major tax jurisdictions prior to 2010.

Reclassifications

Certain reclassifications have been made to the June 30, 2013 financial statements to conform to the 2014 presentation.

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

3. Investments and Investment Income

Investments consisted of the following as of June 30, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|---------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 45,312 | \$ 374,960 |
| Equity securities | 21,679,945 | 16,352,197 |
| Fixed income securities | 3,915,851 | 2,292,548 |
| Mutual funds | - | 2,613,426 |
| | <u>\$ 25,641,108</u> | <u>\$ 21,633,131</u> |

Investment income from cash and cash equivalents, investments and assets held under split-interest agreements for the years ended June 30 consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Net realized gain/(loss) on investments | \$ 3,558,895 | \$ 889,316 |
| Dividends and interest | 477,819 | 545,338 |
| | <u>\$ 4,036,714</u> | <u>\$ 1,434,654</u> |

Investment income is reported net of investment expenses of \$62,301 and \$113,447 for the years ended June 30, 2014 and 2013, respectively.

4. Promises to Give

Promises to give at June 30, 2014 and 2013 are summarized as follows:

| | <u>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|
| Promises to give expected to be collected in less than one year | \$ 109,957 | \$ 70,780 |
| Promises to give expected to be collected in one to five years | 82,237 | 85,980 |
| Total promises to give | 192,194 | 156,760 |
| Less allowance for uncollectible promises | (21,725) | (3,975) |
| Less Present value discount of long-term promises | (1,932) | (1,698) |
| Net promises to give | <u>\$ 168,537</u> | <u>\$ 151,087</u> |

The allowance for uncollectible promises to give at June 30, 2014 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 identification of specific accounts. 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 0.99 percent at June 30, 2014 and 0.81 percent at June 30, 2013.

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

4. Promises to Give (continued)

Promises to give at June 30, 2014 and 2013 have purpose restrictions as follows:

| | <u>2014</u> | <u>2013</u> |
|------------------------------|-------------------|-------------------|
| Unrestricted | \$ 7,065 | \$ 10,950 |
| Temporarily restricted | | |
| Academic programs | 650 | 105 |
| Scholarships | 162,329 | 122,405 |
| Capital projects | 22,150 | 23,300 |
| Less allowance and discount | <u>(23,657)</u> | <u>(5,673)</u> |
| Total temporarily restricted | <u>161,472</u> | <u>140,137</u> |
| Total | <u>\$ 168,537</u> | <u>\$ 151,087</u> |

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 as of June 30, 2014 and 2013 are stated at fair value summarized as follows:

| | <u>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|
| Cash and cash equivalents | \$ 18,902 | \$ 31,692 |
| Mutual funds | 1,122,952 | 1,028,705 |
| Total assets held under split-interest agreements | <u>1,141,854</u> | <u>1,060,397</u> |
| Obligations under split-interest agreements | <u>(536,212)</u> | <u>(525,102)</u> |
| Net estimated value of split-interest agreements | <u>\$ 605,642</u> | <u>\$ 535,295</u> |

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

6. Other Assets

Other assets consisted of the following as of June 30:

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Collections: | | |
| Musical instrument collections | \$ 612,979 | \$ 612,979 |
| Antique furniture and collectibles | 59,040 | 59,040 |
| Real Property: | | |
| Fern Valley Road, Phoenix, Oregon | 1,015,125 | 1,015,125 |
| Guiley property, Klamath County, Oregon | 90,000 | 90,000 |
| Resort property timeshares | 13,500 | 13,500 |
| Book inventory - History of SOU | 9,735 | 9,735 |
| Deer Creek Center (advanced funds) see Note 12 | - | 22,504 |
| Total other assets | <u>\$ 1,800,379</u> | <u>\$ 1,822,883</u> |

Works of art, historical treasures and other similar assets held by the Foundation meet the definition of collections as they are: held for public exhibition, education, or research in furtherance of public service rather than financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that if they were to be sold, the proceeds of items sold are to be used to purchase other items for collections.

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, 2014 and 2013, the resort property timeshares are carried at their donated value.

During the period ended June 30, 2014, the Board of Trustees chose to resign as a member from the Deer Creek Center for Field Research and Education (Deer Creek), an Oregon nonprofit corporation. In doing so, the Board elected to allow Deer Creek's assets to be subsequently transferred to the remaining member, Siskiyou Field Institute, for no value in exchange. The result of this transaction is reflected in Loss on Disposal of Assets on the Statement of Activities.

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

7. 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.

The carrying values of promises to give receivable and other current assets, accounts payable and accrued liabilities, scholarships payable and deferred revenue, approximates fair value due to the short maturity of such instruments.

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30:

| | 2014 | | | |
|---------------------------|----------------------|----------------|----------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | \$ 689,720 | \$ - | \$ - | \$ 689,720 |
| Equity securities | 21,679,945 | - | - | 21,679,945 |
| Fixed income securities | 3,915,851 | - | - | 3,915,851 |
| Mutual funds | 1,122,952 | - | - | 1,122,952 |
| | <u>\$ 27,408,468</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 27,408,468</u> |
| | 2013 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | \$ 919,886 | \$ - | \$ - | \$ 919,886 |
| Equity securities | 16,352,197 | - | - | 16,352,197 |
| Fixed income securities | 2,292,548 | - | - | 2,292,548 |
| Mutual funds | 3,642,131 | - | - | 3,642,131 |
| | <u>\$ 23,206,762</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 23,206,762</u> |

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

8. Temporarily Restricted Net Assets

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

Temporarily restricted net assets as of June 30, 2014 and 2013 are available for:

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Academic programs | \$ 1,729,939 | \$ 1,538,442 |
| Alumni affairs | 182,991 | 127,721 |
| Schneider museum of art | 124,105 | 25,148 |
| Raider athletics | 187,211 | 141,643 |
| Hannon library | 29,582 | 19,221 |
| Chamber music concert series | 476,964 | 408,476 |
| Scholarships, grants and awards | 2,875,179 | 1,482,363 |
| Capital projects | 195,529 | 207,411 |
| Osher lifelong learning institute | 734,431 | 402,357 |
| Other program support | 464,226 | 387,375 |
| Total temporarily restricted net assets | <u>\$ 7,000,157</u> | <u>\$ 4,740,157</u> |

9. Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor imposed restrictions that they be maintained permanently by the Foundation. These assets are invested in perpetuity, the income from which is expendable to support the following purposes as of June 30, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|
| Academic programs | \$ 2,194,121 | \$ 2,183,650 |
| Alumni affairs | 268,512 | 268,512 |
| Schneider museum of art | 1,262,788 | 1,262,788 |
| Raider athletics | 20,576 | 20,576 |
| Hannon library | 59,890 | 59,890 |
| Chamber music concert series | 51,484 | 51,391 |
| Scholarships, grants and awards | 11,916,837 | 11,510,009 |
| Osher lifelong learning institute | 2,000,873 | 2,000,679 |
| Other program support | 1,459,483 | 1,351,443 |
| Total permanently restricted net assets | <u>\$ 19,234,564</u> | <u>\$ 18,708,938</u> |

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

10. 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, 2014 and 2013:

| | 2014 | 2013 |
|---|--------------|--------------|
| Academic programs | \$ 258,034 | \$ 188,134 |
| Alumni affairs | 28,685 | 28,595 |
| Schneider museum of art | 49,581 | 122,998 |
| Raider athletics | 480,262 | 481,775 |
| Hannon library | 28,601 | 17,440 |
| Chamber music concert series | 244,152 | 215,485 |
| Scholarships, grants and awards | 1,063,467 | 607,246 |
| Capital projects | 48,275 | 57,505 |
| Osher lifelong learning institute | 336,488 | 299,267 |
| Other program support | 175,627 | 85,493 |
| Total temporarily restricted net assets | \$ 2,713,172 | \$ 2,103,938 |

11. Note Payable

On February 27, 2013 the Foundation entered into an unsecured promissory note agreement with Lithia Holdings, LLC for \$635, 000. The funds were used to pay off and refinance the line of credit with Bank of the Cascades. The terms of the note require monthly payments of interest calculated on a daily basis at an annual interest rate equal to 1.75% over 30 day LIBOR Funding Rate, no principal is due until the note matures on August 25, 2015. The interest rate was 3.27% and 3.69% at June 30, 2014 and June 30, 2013, respectively. On June 13, 2013, the Foundation made a principal payment of \$250,000 with the proceeds from the sale of the Mary Phipps Center land and building. Subsequent to June 30, 2014, the Foundation paid off the note in its entirety with cash.

Amounts charged to interest expense at June 30, 2014 and 2013 were \$7,741 and \$31,478, respectively.

12. Related Party Transactions

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, 2013, 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 at June 30, 2013. There were no expenses for Deer Creek for the years ended June 30, 2014 and 2013.

During the period ended June 30, 2014, the Board of Trustees chose to resign as a member from the Deer Creek Center for Field Research and Education (Deer Creek), an Oregon nonprofit corporation. In doing so, the Board elected to allow Deer Creek's assets to be subsequently transferred to the remaining member, Siskiyou Field Institute, for no value in exchange. The result of this transaction is reflected in Loss on Disposal of Assets on the Statement of Activities.

The Foundation entered into a promissory note agreement on February 27, 2013 with Lithia Holdings, LLC, a privately held company owned by a member of the Foundation's Board of Trustees.

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

13. 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, 2014 and 2013.

14. Endowment and Quasi-Endowment Funds

The Foundation's endowment consists of approximately 190 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) 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, 2014 and 2013

14. Endowment and Quasi-Endowment Funds (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 \$92,026 as of June 30, 2014 and \$1,190,442 as of June 30, 2013. 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, 2014 and 2013, the spendable amount calculated as a percentage of the quarterly beginning value of endowment funds was \$698,375 and \$633,903, respectively, and interest and dividends (current cash earnings) generated by endowment assets were \$319,531 and \$516,058, respectively.

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

14. Endowment and Quasi-Endowment Funds (continued)

Endowment net asset composition by type of fund as of June 30, 2014:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Donor restricted endowment funds | \$ - | \$ 3,009,376 | \$ 19,234,564 | \$ 22,243,940 |
| Fair value amount below permanent value | (92,026) | 92,026 | - | - |
| Donor restricted endowment funds - total | (92,026) | 3,101,402 | 19,234,564 | 22,243,940 |
| Board designated endowment funds | 129,596 | 1,129,307 | - | 1,258,903 |
| Total endowment funds | <u>\$ 37,570</u> | <u>\$ 4,230,709</u> | <u>\$ 19,234,564</u> | <u>\$ 23,502,843</u> |

Endowment net asset composition by type of fund as of June 30, 2013:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|-----------------------|-----------------------------------|-----------------------------------|----------------------|
| Donor restricted endowment funds | \$ - | \$ (233,384) | \$ 18,708,938 | \$ 18,475,554 |
| Fair value amount below permanent value | (1,190,442) | 1,190,442 | - | - |
| Donor restricted endowment funds - total | (1,190,442) | 957,058 | 18,708,938 | 18,475,554 |
| Board designated endowment funds | 115,246 | 962,269 | - | 1,077,515 |
| Total endowment funds | <u>\$ (1,075,196)</u> | <u>\$ 1,919,327</u> | <u>\$ 18,708,938</u> | <u>\$ 19,553,069</u> |

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

14. Endowment and Quasi-Endowment Funds (continued)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|-----------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, end of the year, June 30, 2012 | \$ (1,504,183) | \$ 1,431,707 | \$ 18,416,871 | \$ 18,344,395 |
| Investment return: | | | | |
| Investment income | 43,622 | 472,436 | - | 516,058 |
| Net appreciation (depreciation) (realized and unrealized) | <u>3,816</u> | <u>1,279,985</u> | <u>-</u> | <u>1,283,801</u> |
| Total investment return: | 47,438 | 1,752,421 | - | 1,799,859 |
| Change in fair value amount below permanent value | | | | |
| Ending | (1,190,442) | 1,190,442 | - | - |
| Less: beginning | <u>(1,615,614)</u> | <u>1,615,614</u> | <u>-</u> | <u>-</u> |
| Change | 425,172 | (425,172) | - | - |
| Contributions | - | 18,054 | 286,705 | 304,759 |
| Appropriations of endowment assets for expenditure | (43,623) | (941,176) | - | (984,799) |
| Change in value of assets held under split-interest agreements | - | - | 5,362 | 5,362 |
| Other changes | - | 83,493 | - | 83,493 |
| Endowment net assets, end of the year, June 30, 2013 | <u>\$ (1,075,196)</u> | <u>\$ 1,919,327</u> | <u>\$ 18,708,938</u> | <u>\$ 19,553,069</u> |
| Investment return: | | | | |
| Investment income | 45,410 | 407,500 | 141,768 | 594,678 |
| Net appreciation (depreciation) (realized and unrealized) | <u>14,350</u> | <u>3,897,521</u> | <u>-</u> | <u>3,911,871</u> |
| Total investment return: | 59,760 | 4,305,021 | 141,768 | 4,506,549 |
| Change in fair value amount below permanent value | | | | |
| Ending | (92,026) | 92,026 | - | - |
| Less: beginning | <u>(1,190,442)</u> | <u>1,190,442</u> | <u>-</u> | <u>-</u> |
| Change | 1,098,416 | (1,098,416) | - | - |
| Contributions | - | 62,866 | 413,590 | 476,456 |
| Appropriations of endowment assets for expenditure | (45,410) | (961,219) | - | (1,006,629) |
| Change in value of assets held under split-interest agreements | - | - | (29,732) | (29,732) |
| Other changes | - | 3,130 | - | 3,130 |
| Endowment net assets, end of the year, June 30, 2014 | <u>\$ 37,570</u> | <u>\$ 4,230,709</u> | <u>\$ 19,234,564</u> | <u>\$ 23,502,843</u> |

Southern Oregon University Foundation

Notes to Financial Statements

June 30, 2014 and 2013

15. Subsequent Events

Management of the Southern Oregon University Foundation has evaluated events and transactions occurring after June 30, 2014 through September 17, 2014, the date the financial statements were available for issuance, for recognition and/or disclosure in the financial statements.

On July 9, 2014 the Foundation paid off the note payable to Lithia Holdings, LLC in its entirety.