

**Southern Oregon University  
Foundation**

**Financial Statements**

**For the Years Ended  
June 30, 2016 and 2015**

**With**

**Independent Auditor's Report**



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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, 2016 and 2015, 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, 2016 and 2015, 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.

*Stewart Parmele CPA, Partner*

Stewart Parmele CPA, Partner  
KDP Certified Public Accountants, LLP  
Medford, Oregon  
September 30, 2016

**SOUTHERN OREGON UNIVERSITY FOUNDATION**  
**Statements of Financial Position**  
**June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 704,631	\$ 830,187
Investments	24,123,838	24,862,488
Promises to give, net	392,104	105,556
Other current assets	-	8,796
<b>Total current assets</b>	25,220,573	25,807,027
<b>Other assets</b>		
Long term promises to give, net	160,538	26,847
Assets held under split interest-agreements	981,709	1,071,445
Other assets	1,973,651	1,971,960
<b>Total other assets</b>	3,115,898	3,070,252
<b>Total Assets</b>	\$ 28,336,471	\$ 28,877,279
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 92,490	\$ 14,516
Scholarships payable	985,917	674,147
Deferred revenue	270,167	210,037
<b>Total current liabilities</b>	1,348,574	898,700
<b>Obligations under split-interest agreements</b>	485,148	511,724
<b>Total liabilities</b>	1,833,722	1,410,424
<b>Net assets</b>		
Unrestricted		
Available for general obligations and programs	1,434,357	1,376,307
Board designated - Endowment	121,181	126,850
Underwater endowments	(643,546)	(223,793)
Total unrestricted	911,992	1,279,364
Temporarily restricted	5,737,210	6,681,617
Permanently restricted	19,853,547	19,505,874
<b>Total Net Assets</b>	26,502,749	27,466,855
<b>Total liabilities and net assets</b>	\$ 28,336,471	\$ 28,877,279

See accompanying notes to the financial statements.

**SOUTHERN OREGON UNIVERSITY FOUNDATION**  
**Statement of Activities**  
**Year Ended June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public Support, Revenue, and Gains</b>				
Contributions	\$ 77,099	\$ 1,858,112	\$ 401,565	\$ 2,336,776
Contributed services support	619,872	-	-	619,872
Investment income	430,053	595,464	140	1,025,657
Net unrealized gain (loss) on investments	(435,423)	(871,082)	-	(1,306,505)
Change in value of split-interest agreements	-	-	(54,032)	(54,032)
Fundraising activities and other income	15,648	653,655	-	669,303
Net assets released from restrictions	<u>3,180,556</u>	<u>(3,180,556)</u>	-	-
Total public support, revenue, and gains	<u>3,887,805</u>	<u>(944,407)</u>	<u>347,673</u>	<u>3,291,071</u>
<b>Functional Expenses</b>				
Program Services				
University support	489,317	-	-	489,317
Affiliate support	873,504	-	-	873,504
Scholarships, grants and awards	<u>1,819,316</u>	<u>-</u>	<u>-</u>	<u>1,819,316</u>
Total program services	<u>3,182,137</u>	<u>-</u>	<u>-</u>	<u>3,182,137</u>
Operating Expenses				
Management and general	311,383	-	-	311,383
Management and general - contributed	187,057	-	-	187,057
Fundraising	155,702	-	-	155,702
Fundraising - contributed	415,448	-	-	415,448
Loss on disposal of other assets	<u>3,450</u>	<u>-</u>	<u>-</u>	<u>3,450</u>
Total operating expenses	<u>1,073,040</u>	<u>-</u>	<u>-</u>	<u>1,073,040</u>
Total functional expenses	<u>4,255,177</u>	<u>-</u>	<u>-</u>	<u>4,255,177</u>
<b>Change in Net Assets</b>	(367,372)	(944,407)	347,673	(964,106)
<b>Net Assets at Beginning of Year</b>	<u>1,279,364</u>	<u>6,681,617</u>	<u>19,505,874</u>	<u>27,466,855</u>
<b>Net Assets at End of Year</b>	<u>\$ 911,992</u>	<u>\$ 5,737,210</u>	<u>\$ 19,853,547</u>	<u>\$ 26,502,749</u>

See accompanying notes to the financial statements.

**SOUTHERN OREGON UNIVERSITY FOUNDATION**  
**Statement of Activities**  
**Year Ended June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public Support, Revenue, and Gains</b>				
Contributions	\$ 125,747	\$ 1,406,934	\$ 322,083	\$ 1,854,764
Contributed services support	547,095	-	-	547,095
Investment income	343,706	1,027,825	(218)	1,371,313
Net unrealized gain (loss) on investments	(134,512)	(925,310)	-	(1,059,822)
Change in value of split-interest agreements	-	-	(50,555)	(50,555)
Fundraising activities and other income	10,951	614,255	-	625,206
Net assets released from restrictions	<u>2,442,244</u>	<u>(2,442,244)</u>	<u>-</u>	<u>-</u>
Total public support, revenue, and gains	<u>3,335,231</u>	<u>(318,540)</u>	<u>271,310</u>	<u>3,288,001</u>
<b>Functional Expenses</b>				
Program Services				
University support	386,657	-	-	386,657
Affiliate support	794,809	-	-	794,809
Scholarships, grants and awards	<u>1,264,949</u>	<u>-</u>	<u>-</u>	<u>1,264,949</u>
Total program services	<u>2,446,415</u>	<u>-</u>	<u>-</u>	<u>2,446,415</u>
Operating Expenses				
Management and general	220,884	-	-	220,884
Management and general - contributed	217,339	-	-	217,339
Property management	2,308	-	-	2,308
Fundraising	195,036	-	-	195,036
Fundraising - contributed	<u>329,733</u>	<u>-</u>	<u>-</u>	<u>329,733</u>
Total operating expenses	<u>965,300</u>	<u>-</u>	<u>-</u>	<u>965,300</u>
Total functional expenses	<u>3,411,715</u>	<u>-</u>	<u>-</u>	<u>3,411,715</u>
<b>Change in Net Assets</b>	(76,484)	(318,540)	271,310	(123,714)
<b>Net Assets at Beginning of Year</b>	<u>1,355,848</u>	<u>7,000,157</u>	<u>19,234,564</u>	<u>27,590,569</u>
<b>Net Assets at End of Year</b>	<u>\$ 1,279,364</u>	<u>\$ 6,681,617</u>	<u>\$ 19,505,874</u>	<u>\$ 27,466,855</u>

See accompanying notes to the financial statements.

**SOUTHERN OREGON UNIVERSITY FOUNDATION**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities</b>		
Changes in net assets	\$ (964,106)	\$ (123,714)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in value of obligations under split-interest agreements	54,032	50,555
Investment income	(966,982)	(1,367,658)
Net unrealized (gain) loss on investments	1,306,505	1,059,822
Contributions of other assets	-	(171,581)
Loss on sale of property and equipment	3,450	-
(Increase) decrease in:		
Other current assets	3,405	1,255
Promises to give	(420,239)	36,134
Assets held under split-interest agreements	88,564	88,391
Increase (decrease) in:		
Accounts payable and accrued liabilities	77,974	(2,138)
Scholarships payable	311,770	(21,261)
Deferred revenue	60,130	46,445
Obligations under split-interest agreements	(80,309)	(80,982)
<b>Net cash provided (used) by operating activities</b>	<b>(525,806)</b>	<b>(484,732)</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	400,000	1,074,413
Receipts from sale of other assets	250	-
<b>Net cash provided (used) by investing activities</b>	<b>400,250</b>	<b>1,074,413</b>
<b>Cash Flows from Financing Activities</b>		
Payments toward long-term debt	-	(385,000)
<b>Net cash provided (used) by financing activities</b>	<b>-</b>	<b>(385,000)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(125,556)	204,681
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>830,187</b>	<b>625,506</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 704,631</b>	<b>\$ 830,187</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ -	\$ 827
<b>Noncash gifts received:</b>		
Other Assets	\$ -	\$ 171,581

See accompanying notes to the financial statements.



**SOUTHERN OREGON UNIVERSITY FOUNDATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**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.

**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.

**SOUTHERN OREGON UNIVERSITY FOUNDATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**2. Summary of Significant Account Policies (continued)**

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

**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. At June 30, 2016 and 2015 the Foundation exceeded amounts insured by the FDIC by \$423,342 and \$309,869, respectively.

**SOUTHERN OREGON UNIVERSITY FOUNDATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**2. Summary of Significant Account Policies (continued)**

**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, 2016 and 2015, the Foundation recorded contributed management and general services of \$187,057 and \$217,339 and contributed fundraising services of \$415,448 and \$329,733 for a total \$602,505 and \$547,072, respectively, in contributed services support, from Southern Oregon University.

The amount receivable/payable or "due from/(to)" the University, including amounts in other current assets or other current liabilities, totaled (\$31,668) and \$8,796 as of June 30, 2016 and 2015, respectively.

The Foundation received contributed services from other sources that totaled \$17,367 and \$0 for the years ended June 30, 2016 and June 30, 2015.

**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, 2016 and 2015, there were no such uncertain tax positions.

**Reclassifications**

Certain reclassifications have been made to the June 30, 2015 financial statements to conform to the 2016 presentation.

**SOUTHERN OREGON UNIVERSITY FOUNDATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**3. Investments and Investment Income**

Investments consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 15,108	\$ 54,954
Mutual funds:		
Equities:		
U.S. Large company stocks	7,988,908	8,244,915
U.S. Small company stocks	2,664,080	2,743,825
International large company stocks	3,769,967	4,011,118
International small company stocks	795,442	869,957
Emerging markets stocks	1,700,777	1,760,480
U.S. REITs	2,090,255	1,968,867
International REITs	1,186,722	1,235,026
Fixed income:		
High quality bonds	2,478,055	2,515,904
Investment grade bonds	1,434,524	1,457,442
	<u>\$ 24,123,838</u>	<u>\$ 24,862,488</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>2016</u>	<u>2015</u>
Net realized gain/(loss) on investments	\$ 540,228	\$ 929,269
Dividends and interest	591,472	567,422
	<u>\$ 1,131,700</u>	<u>\$ 1,496,691</u>

Investment income is reported net of investment expenses of \$106,043 and \$125,378 for the years ended June 30, 2016 and 2015, respectively.

**4. Promises to Give**

Promises to give at June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Promises to give expected to be collected in less than one year	\$ 392,104	\$ 106,056
Promises to give expected to be collected in one to five years	164,121	29,800
Total promises to give	<u>556,225</u>	<u>135,856</u>
Less allowance for uncollectible promises	-	(2,700)
Less Present value discount of long-term promises	(3,583)	(753)
Net promises to give	<u>\$ 552,642</u>	<u>\$ 132,403</u>

**SOUTHERN OREGON UNIVERSITY FOUNDATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**4. Promises to Give (continued)**

The allowance for uncollectible promises to give at June 30, 2016 and June 30, 2015 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 .77 percent at June 30, 2016 and 1.09 percent at June 30, 2015.

Promises to give at June 30, 2016 and 2015 have purpose restrictions as follows:

	<u>2016</u>	<u>2015</u>
Unrestricted	\$ 4,010	\$ 3,505
Temporarily restricted		
Academic programs	8,000	25,225
Scholarships	261,739	103,126
Capital projects	282,476	4,000
Less allowance and discount	<u>(3,583)</u>	<u>(3,453)</u>
Total temporarily restricted	<u>548,632</u>	<u>128,898</u>
Total	<u>\$ 552,642</u>	<u>\$ 132,403</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, 2016 and 2015 are stated at fair value summarized as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 20,329	\$ 25,789
Mutual funds:		
Equities:		
U.S. Large company stocks	273,965	328,325
U.S. Small company stocks	79,517	55,758
International large company stocks	134,795	148,540
International small company stocks	23,450	26,708
Emerging markets stocks	55,318	59,582
U.S. REITs	81,054	83,180
International REITs	48,481	52,764
Fixed income:		
High quality bonds	97,513	108,186
Investment grade bonds	102,297	112,648
International bonds	45,021	49,233
High yield bonds	19,969	20,732
Total assets held under split-interest agreements	<u>981,709</u>	<u>1,071,445</u>
Obligations under split-interest agreements	<u>(485,148)</u>	<u>(511,724)</u>
Net estimated value of split-interest agreements	<u>\$ 496,561</u>	<u>\$ 559,721</u>

**SOUTHERN OREGON UNIVERSITY FOUNDATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**6. Other Assets**

Other assets consisted of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Collections:		
Musical instrument collections	\$ 784,560	\$ 784,560
Antique furniture and collectibles	55,340	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
Other assets	5,391	-
Total other assets	<u>\$ 1,973,651</u>	<u>\$ 1,971,960</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 Fern Valley Property was listed for sale at June 30, 2016.

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, 2016 and 2015, the resort property timeshares are carried at their donated value.

During the year ended June 30, 2016, the Foundation sold an item from the antique furniture collection. The result of this transaction is reflected in Loss on Disposal of Assets on the Statement of Activities for the year ended June 30, 2016.

During the year ended June 30, 2015, the Foundation was the recipient of a new Steinway Grand Piano, to be used during special musical performances. This transaction is reflected among contributions for the year ended June 30, 2015.

**SOUTHERN OREGON UNIVERSITY FOUNDATION**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**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 other current assets, accounts payable and accrued liabilities, scholarships payable and deferred revenue, approximates fair value due to the short maturity of such instruments.

Other assets are carried at their cost or, if donated, at the fair market value at the date of the donation.

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

	2016			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 740,067	\$ -	\$ -	\$ 740,067
Mutual funds:				
Equities:				
U.S. Large company stocks	8,262,872	-	-	8,262,872
U.S. Small company stocks	2,743,597	-	-	2,743,597
International large company stocks	3,904,762	-	-	3,904,762
International small company stocks	818,892	-	-	818,892
Emerging markets stocks	1,756,096	-	-	1,756,096
U.S. REITs	2,171,310	-	-	2,171,310
International REITs	1,235,203	-	-	1,235,203
Fixed income:				
High quality bonds	2,575,568	-	-	2,575,568
Investment grade bonds	1,536,821	-	-	1,536,821
International bonds	45,021	-	-	45,021
High yield bonds	19,969	-	-	19,969
	<u>\$ 25,810,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,810,178</u>

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**7. Fair Values of Financial Instruments (continued)**

	2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 910,930	\$ -	\$ -	\$ 910,930
Mutual funds:				
Equities:				
U.S. Large company stocks	8,573,240	-	-	8,573,240
U.S. Small company stocks	2,799,583	-	-	2,799,583
International large company stocks	4,159,658	-	-	4,159,658
International small company stocks	896,665	-	-	896,665
Emerging markets stocks	1,820,062	-	-	1,820,062
U.S. REITs	2,052,047	-	-	2,052,047
International REITs	1,287,790	-	-	1,287,790
Fixed income:				
High quality bonds	2,624,090	-	-	2,624,090
Investment grade bonds	1,570,090	-	-	1,570,090
International bonds	49,233	-	-	49,233
High yield bonds	20,732	-	-	20,732
	<u>\$ 26,764,120</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,764,120</u>

**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, 2016 and 2015 are available for:

	2016	2015
Academic programs	\$ 1,763,060	\$ 1,838,105
Alumni affairs	141,638	173,501
Schneider museum of art	108,451	84,815
Raider athletics	254,372	339,350
Hannon library	28,400	27,781
Chamber music concert series	453,832	487,332
Scholarships, grants and awards	1,485,622	2,480,145
Capital projects	669,473	165,754
Osher lifelong learning institute	413,778	624,301
Other program support	418,584	460,533
Total temporarily restricted net assets	<u>\$ 5,737,210</u>	<u>\$ 6,681,617</u>



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**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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Academic programs	\$ 2,184,944	\$ 2,189,806
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	51,484
Scholarships, grants and awards	12,418,802	12,164,818
Osher lifelong learning institute	2,006,142	2,001,115
Other program support	1,580,409	1,486,885
Total permanently restricted net assets	<u>\$ 19,853,547</u>	<u>\$ 19,505,874</u>

**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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Academic programs	\$ 122,189	\$ 140,024
Alumni affairs	41,770	28,595
Schneider museum of art	67,083	81,487
Raider athletics	738,420	561,278
Hannon library	19,489	10,467
Chamber music concert series	286,121	234,044
Scholarships, grants and awards	1,432,420	963,540
Capital projects	33,345	5,224
Osher lifelong learning institute	370,700	318,994
Other program support	69,019	98,591
Total temporarily restricted net assets	<u>\$ 3,180,556</u>	<u>\$ 2,442,244</u>

**11. Endowment and Quasi-Endowment Funds**

The Foundation's endowment consists of approximately 196 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

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**11. Endowment and Quasi-Endowment Funds (continued)**

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.

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 \$653,546 as of June 30, 2016 and \$223,793 as of June 30, 2015. 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.

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**11. Endowment and Quasi-Endowment Funds (continued)**

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 3.5 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. The revalue calculation is done annually at June 30, disbursing quarterly.

For the years ended June 30, 2016 and 2015, the spendable amount calculated as a percentage of the quarterly beginning value of endowment funds was \$797,026 and \$747,695, respectively, and interest and dividends (current cash earnings) generated by endowment assets were \$573,320 and \$544,622, respectively.

Endowment net asset composition by type of fund as of June 30, 2016:

	<b>2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$ 916,076	\$ 19,840,720	\$ 20,756,796
Assets held under split-interest agreements	-	-	12,827	12,827
Fair value amount below permanent value	(653,546)	653,546	-	-
Donor restricted endowment funds - total	(653,546)	1,569,622	19,853,547	20,769,623
Board designated endowment funds	121,181	1,505,461	-	1,626,642
Total endowment funds	<u>\$ (532,365)</u>	<u>\$ 3,075,083</u>	<u>\$ 19,853,547</u>	<u>\$ 22,396,265</u>

Endowment net asset composition by type of fund as of June 30, 2015:

	<b>2015</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$ 2,329,016	\$ 19,439,015	\$ 21,768,031
Assets held under split-interest agreements	-	-	66,859	66,859
Fair value amount below permanent value	(223,793)	223,793	-	-
Donor restricted endowment funds - total	(223,793)	2,552,809	19,505,874	21,834,890
Board designated endowment funds	126,850	1,125,946	-	1,252,796
Total endowment funds	<u>\$ (96,943)</u>	<u>\$ 3,678,755</u>	<u>\$ 19,505,874</u>	<u>\$ 23,087,686</u>

**SOUTHERN OREGON UNIVERSITY FOUNDATION**  
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**11. 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, 2014	\$ 37,570	\$ 4,230,709	\$ 19,234,564	\$ 23,502,843
Investment return:				
Investment income	48,385	496,237	-	544,622
Net appreciation (depreciation) (realized and unrealized)	(2,745)	(249,208)	-	(251,953)
Total investment return:	<u>45,640</u>	<u>247,029</u>	<u>-</u>	<u>292,669</u>
Change in fair value amount below permanent value				
Ending	(223,793)	223,793	-	-
Less: beginning	92,026	(92,026)	-	-
Change	<u>(131,767)</u>	<u>131,767</u>	<u>-</u>	<u>-</u>
Contributions	-	80,360	321,865	402,225
Appropriations of endowment assets for expenditure	(48,385)	(1,011,402)	-	(1,059,787)
Change in value of assets held under split-interest agreements	-	-	(50,555)	(50,555)
Other changes	-	292	-	292
Endowment net assets, end of the year, June 30, 2015	<u>\$ (96,942)</u>	<u>\$ 3,678,755</u>	<u>\$ 19,505,874</u>	<u>\$ 23,087,687</u>
Investment return:				
Investment income	53,802	519,518	-	573,320
Net appreciation (depreciation) (realized and unrealized)	(5,670)	(907,566)	-	(913,236)
Total investment return:	<u>48,132</u>	<u>(388,048)</u>	<u>-</u>	<u>(339,916)</u>
Change in fair value amount below permanent value				
Ending	(653,546)	653,546	-	-
Less: beginning	223,793	(223,793)	-	-
Change	<u>(429,753)</u>	<u>429,753</u>	<u>-</u>	<u>-</u>
Contributions	-	538,564	401,705	940,269
Appropriations of endowment assets for expenditure	(53,802)	(1,617,996)	-	(1,671,798)
Change in value of assets held under split-interest agreements	-	-	(54,032)	(54,032)
Other changes	-	434,055	-	434,055
Endowment net assets, end of the year, June 30, 2016	<u>\$ (532,365)</u>	<u>\$ 3,075,083</u>	<u>\$ 19,853,547</u>	<u>\$ 22,396,265</u>

**12. Subsequent Events**

Management of the Southern Oregon University Foundation has evaluated events and transactions occurring after June 30, 2016 through September 30, 2016, the date the financial statements were available for issuance, for recognition and/or disclosure in the financial statements.