

**Southern Oregon University
Foundation**

Financial Statements

**For the Years Ended
June 30, 2017 and 2016**

With

Independent Auditor's Report

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

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, 2017 and 2016, 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, 2017 and 2016, 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 C. Parmele, CPA, Partner

Stewart Parmele CPA, Partner
KDP Certified Public Accountants, LLP
Medford, Oregon
October 10, 2017

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 687,759	\$ 704,631
Investments	27,146,172	24,123,838
Promises to give, net	205,463	392,104
Payments due from related entity	23,795	-
Total current assets	28,063,189	25,220,573
Other assets		
Long term promises to give, net	350,630	160,538
Assets held under split interest-agreements	998,949	981,709
Other assets	1,224,899	1,973,651
Total other assets	2,574,478	3,115,898
Total Assets	\$ 30,637,667	\$ 28,336,471
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 88,868	\$ 60,822
Scholarships payable	918,729	985,917
Deferred revenue	286,449	270,167
Payments due to related entity	-	31,668
Total current liabilities	1,294,046	1,348,574
Obligations under split-interest agreements	468,435	485,148
Total liabilities	1,762,481	1,833,722
Net assets		
Unrestricted		
Available for general obligations and programs	1,508,284	1,434,357
Board designated - Endowment	130,539	121,181
Underwater endowments	(147,031)	(643,546)
Total unrestricted	1,491,792	911,992
Temporarily restricted	6,922,151	5,737,210
Permanently restricted	20,461,243	19,853,547
Total Net Assets	28,875,186	26,502,749
Total liabilities and net assets	\$ 30,637,667	\$ 28,336,471

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support, Revenue, and Gains				
Contributions	\$ 49,455	\$ 2,159,775	\$ 643,053	\$ 2,852,283
Contributed services support	638,544	-	-	638,544
Investment income, net of fees	386,141	641,023	-	1,027,164
Net unrealized gain (loss) on investments	506,935	2,065,136	-	2,572,071
Change in value of split-interest agreements	-	-	(35,357)	(35,357)
Fundraising activities and other income	7,180	648,406	-	655,586
Net assets released from restrictions	4,329,399	(4,329,399)	-	-
Total public support, revenue, and gains	<u>5,917,654</u>	<u>1,184,941</u>	<u>607,696</u>	<u>7,710,291</u>
Functional Expenses				
Program Services				
University support	2,281,818	-	-	2,281,818
Affiliate support	837,155	-	-	837,155
Scholarships, grants and awards	1,139,032	-	-	1,139,032
Total program services	<u>4,258,005</u>	<u>-</u>	<u>-</u>	<u>4,258,005</u>
Operating Expenses				
Management and general	330,258	-	-	330,258
Management and general - contributed	301,579	-	-	301,579
Fundraising	111,047	-	-	111,047
Fundraising - contributed	336,965	-	-	336,965
Total operating expenses	<u>1,079,849</u>	<u>-</u>	<u>-</u>	<u>1,079,849</u>
Total functional expenses	<u>5,337,854</u>	<u>-</u>	<u>-</u>	<u>5,337,854</u>
Change in Net Assets	579,800	1,184,941	607,696	2,372,437
Net Assets at Beginning of Year	<u>911,992</u>	<u>5,737,210</u>	<u>19,853,547</u>	<u>26,502,749</u>
Net Assets at End of Year	<u>\$ 1,491,792</u>	<u>\$ 6,922,151</u>	<u>\$ 20,461,243</u>	<u>\$ 28,875,186</u>

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>
Public Support, Revenue, and Gains				
Contributions	\$ 77,099	\$ 1,858,112	\$ 401,565	\$ 2,336,776
Contributed services support	619,872	-	-	619,872
Investment income, net of fees	372,079	595,464	140	967,683
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	3,180,556	(3,180,556)	-	-
Total public support, revenue, and gains	<u>3,829,831</u>	<u>(944,407)</u>	<u>347,673</u>	<u>3,233,097</u>
Functional Expenses				
Program Services				
University support	450,515	-	-	450,515
Affiliate support	863,127	-	-	863,127
Scholarships, grants and awards	1,819,316	-	-	1,819,316
Total program services	<u>3,132,958</u>	<u>-</u>	<u>-</u>	<u>3,132,958</u>
Operating Expenses				
Management and general	302,588	-	-	302,588
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	3,450	-	-	3,450
Total operating expenses	<u>1,064,245</u>	<u>-</u>	<u>-</u>	<u>1,064,245</u>
Total functional expenses	<u>4,197,203</u>	<u>-</u>	<u>-</u>	<u>4,197,203</u>
Change in Net Assets	(367,372)	(944,407)	347,673	(964,106)
Net Assets at Beginning of Year	<u>1,279,364</u>	<u>6,681,617</u>	<u>19,505,874</u>	<u>27,466,855</u>
Net Assets at End of Year	<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
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Changes in net assets	\$ 2,372,437	\$ (964,106)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in value of split-interest agreements	(52,572)	63,160
Contributions restricted for long term investment	(995,611)	(372,518)
Investment income	(981,661)	(916,837)
Net unrealized (gain) loss on investments	(2,540,673)	1,255,487
Loss on sale of property and equipment	-	3,450
(Increase) decrease in:		
Other assets	748,752	3,405
Promises to give	(3,451)	(420,239)
Assets held under split-interest agreements	18,619	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	28,046	46,306
Scholarships payable	(67,188)	311,770
Related party due to/from	(55,463)	31,668
Deferred revenue	16,282	60,130
Net cash provided (used) by operating activities	(1,512,483)	(898,324)
Cash Flows from Investing Activities		
Proceeds from sale of investments	500,000	400,000
Proceeds from sale of other assets	-	250
Proceeds from contributions restricted for long term investment	995,611	372,518
Net cash provided (used) by investing activities	1,495,611	772,768
Net Increase (Decrease) in Cash and Cash Equivalents	(16,872)	(125,556)
Cash and Cash Equivalents, Beginning of Year	704,631	830,187
Cash and Cash Equivalents, End of Year	\$ 687,759	\$ 704,631

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016 the Foundation exceeded amounts insured by the FDIC by \$1,133,430 and \$423,342, respectively.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016, the Foundation recorded contributed management and general services of \$301,579 and \$187,057 and contributed fundraising services of \$336,965 and \$415,448 for a total \$638,544 and \$602,505, 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 \$23,795 and (\$31,668) as of June 30, 2017 and 2016, respectively.

The Foundation received contributed services from other sources that was zero for the year ending June 30, 2017 and totaled \$17,367 for the year ended June 30, 2016.

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, 2017 and 2016, there were no such uncertain tax positions.

Reclassifications

Certain reclassifications have been made to the June 30, 2016 financial statements to conform to the 2017 presentation.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2017 and 2016

3. Investments and Investment Income

Investments consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 20,571	\$ 15,108
Mutual funds:		
Equities:		
U.S. Large company stocks	9,037,186	7,988,908
International large company stocks	4,524,101	3,769,967
U.S. Small company stocks	2,959,942	2,664,080
U.S. REITs	2,155,223	2,090,255
Emerging markets stocks	1,917,818	1,700,777
International REITs	1,394,360	1,186,722
International small company stocks	966,245	795,442
Fixed income:		
High quality bonds	2,629,419	2,478,055
Investment grade bonds	1,541,307	1,434,524
	<u>\$ 27,146,172</u>	<u>\$ 24,123,838</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>2017</u>	<u>2016</u>
Net realized gain/(loss) on investments	\$ 941,358	\$ 540,228
Dividends and interest	277,917	591,472
Total investment income	1,219,275	1,131,700
Less investment fees	(110,343)	(106,043)
Net investment income	<u>\$ 1,108,932</u>	<u>\$ 1,025,657</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2017 and 2016

4. Promises to Give

Promises to give at June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Promises to give expected to be collected in less than one year	\$ 205,463	\$ 392,104
Promises to give expected to be collected in one to five years	<u>372,571</u>	<u>164,121</u>
Total promises to give	578,034	556,225
Less allowance for uncollectible promises	(5,227)	-
Less present value discount of long-term promises	<u>(16,714)</u>	<u>(3,583)</u>
Net promises to give	<u>\$ 556,093</u>	<u>\$ 552,642</u>

The allowance for uncollectible promises to give at June 30, 2017 and June 30, 2016 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 1.61 percent at June 30, 2017 and .77 percent at June 30, 2016.

Promises to give at June 30, 2017 and 2016 have purpose restrictions as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted	<u>\$ 4,100</u>	<u>\$ 4,010</u>
Temporarily restricted		
Capital projects	353,800	282,476
Scholarships	212,134	261,739
Academic programs	8,000	8,000
Less allowance and discount	<u>(21,941)</u>	<u>(3,583)</u>
Total temporarily restricted	<u>551,993</u>	<u>548,632</u>
Total	<u>\$ 556,093</u>	<u>\$ 552,642</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016 are stated at fair value summarized as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 19,980	\$ 20,329
Mutual funds:		
Equities:		
U.S. Large company stocks	280,000	273,965
International large company stocks	142,285	134,795
U.S. Small company stocks	79,571	79,517
U.S. REITs	78,841	81,054
Emerging markets stocks	55,367	55,318
International REITs	49,934	48,481
International small company stocks	26,025	23,450
Fixed income:		
Investment grade bonds	103,364	102,297
High quality bonds	98,568	97,513
International bonds	44,714	45,021
High yield bonds	20,300	19,969
Total assets held under split-interest agreements	<u>998,949</u>	<u>981,709</u>
Obligations under split-interest agreements	<u>(468,435)</u>	<u>(485,148)</u>
Net estimated value of split-interest agreements	<u>\$ 530,514</u>	<u>\$ 496,561</u>

6. Other Assets

Other assets consisted of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Collections:		
Antique furniture and collectibles	\$ 58,341	\$ 55,340
Musical instrument collections	29,738	784,560
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	8,460	5,391
Total other assets	<u>\$ 1,224,899</u>	<u>\$ 1,973,651</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2017 and 2016

6. Other Assets (continued)

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. Additionally, the Foundation incurred \$15,125 in land survey costs subsequent to receipt of the real property. 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, 2017.

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, 2017 and 2016, the resort property timeshares are carried at their donated value.

During the year ended June 30, 2017, the Foundation transferred items from the musical instruments collection recorded at \$753,320 to Southern Oregon University. This transaction is reflected among University support expenses for the year ended June 30, 2017.

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 - Unadjusted inputs using quoted prices in active markets for identical investments.
- Level 2 - Other significant observable inputs other than level 1 prices, including, but are not limited to, quoted prices for similar investments, inputs other than quoted prices that are observable for investments (such as interest rates, prepayment speeds, credit risk, etc.) or other market corroborated inputs.
- Level 3 - Significant inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

The carrying values of promises to give, payments due from related entity, accounts payable and accrued liabilities, scholarships payable, deferred revenue, and payments due to related entity, 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.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2017 and 2016

7. 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 as of June 30:

	2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 40,551	\$ -	\$ -	\$ 40,551
Mutual funds:				
Equities:				
U.S. Large company stocks	9,317,186	-	-	9,317,186
International large company stocks	4,666,386	-	-	4,666,386
U.S. Small company stocks	3,039,513	-	-	3,039,513
U.S. REITs	2,234,064	-	-	2,234,064
Emerging markets stocks	1,973,185	-	-	1,973,185
International REITs	1,444,294	-	-	1,444,294
International small company stocks	992,270	-	-	992,270
Fixed income:				
High quality bonds	2,727,987	-	-	2,727,987
Investment grade bonds	1,644,671	-	-	1,644,671
International bonds	44,714	-	-	44,714
High yield bonds	20,300	-	-	20,300
	<u>\$ 28,145,121</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,145,121</u>

	2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 35,436	\$ -	\$ -	\$ 35,436
Mutual funds:				
Equities:				
U.S. Large company stocks	8,262,872	-	-	8,262,872
International large company stocks	3,904,762	-	-	3,904,762
U.S. Small company stocks	2,743,597	-	-	2,743,597
U.S. REITs	2,171,310	-	-	2,171,310
Emerging markets stocks	1,756,096	-	-	1,756,096
International REITs	1,235,203	-	-	1,235,203
International small company stocks	818,892	-	-	818,892
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>\$ 25,105,547</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,105,547</u>

	2017	2016
Investments	\$ 27,146,172	\$ 24,123,838
Assets held under split interest-agreements	998,949	981,709
	<u>\$ 28,145,121</u>	<u>\$ 25,105,547</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016 are available for:

	<u>2017</u>	<u>2016</u>
Scholarships, grants and awards	\$ 2,657,106	\$ 1,485,622
Academic programs	1,280,361	1,763,060
Osher lifelong learning institute	622,472	413,778
Capital projects	597,890	669,473
Chamber music concert series	589,972	453,832
Other program support	549,615	418,584
Raider athletics	266,104	254,372
Alumni affairs	169,523	141,638
Schneider museum of art	159,677	108,451
Hannon library	29,431	28,400
Total temporarily restricted net assets	<u>\$ 6,922,151</u>	<u>\$ 5,737,210</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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Scholarships, grants and awards	\$ 12,978,302	\$ 12,418,802
Academic programs	2,183,437	2,184,944
Osher lifelong learning institute	2,011,416	2,006,142
Other program support	1,624,838	1,580,409
Schneider museum of art	1,262,788	1,262,788
Alumni affairs	268,512	268,512
Hannon library	59,890	59,890
Chamber music concert series	51,484	51,484
Raider athletics	20,576	20,576
Total permanently restricted net assets	<u>\$ 20,461,243</u>	<u>\$ 19,853,547</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2017 and 2016

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, 2017 and 2016:

	2017	2016
Capital projects	\$ 924,055	\$ 33,345
Academic programs	905,211	122,189
Scholarships, grants and awards	883,903	1,432,420
Raider athletics	719,661	738,420
Osher lifelong learning institute	389,702	370,700
Chamber music concert series	223,963	286,121
Schneider museum of art	141,516	67,083
Other program support	87,272	69,019
Alumni affairs	41,963	41,770
Hannon library	12,153	19,489
Total temporarily restricted net assets	\$ 4,329,399	\$ 3,180,556

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 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, 2017 and 2016

11. 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 \$147,031 as of June 30, 2017 and \$653,546 as of June 30, 2016. 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 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, 2017 and 2016, the spendable amount calculated as a percentage of the quarterly beginning value of endowment funds was \$818,304 and \$797,026, respectively, and interest and dividends (current cash earnings) generated by endowment assets were \$535,195 and \$573,320, respectively.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2017 and 2016

11. Endowment and Quasi-Endowment Funds (continued)

Endowment net asset composition by type of fund as of June 30, 2017:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted endowment funds	\$ -	\$ 3,084,065	\$ 20,483,774	\$ 23,567,839
Assets held under split-interest agreements	-	-	(22,530)	(22,530)
Fair value amount below permanent value	(147,031)	147,031	-	-
Donor restricted endowment funds - total	(147,031)	3,231,096	20,461,244	23,545,309
Quasi-endowment funds	130,539	1,781,362	-	1,911,901
Total endowment funds	<u>\$ (16,492)</u>	<u>\$ 5,012,458</u>	<u>\$ 20,461,244</u>	<u>\$ 25,457,210</u>

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

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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
Quasi-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>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2017 and 2016

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, 2015	\$ (96,942)	\$ 3,678,755	\$ 19,505,874	\$ 23,087,687
Investment return:				
Investment income	53,802	519,518	-	573,320
Net appreciation (depreciation) (realized and unrealized)	<u>(5,670)</u>	<u>(907,566)</u>	<u>-</u>	<u>(913,236)</u>
Total investment return:	48,132	(388,048)	-	(339,916)
Change in fair value amount below permanent value				
Ending	(653,546)	653,546	-	-
Less: beginning	<u>223,793</u>	<u>(223,793)</u>	<u>-</u>	<u>-</u>
Change	(429,753)	429,753	-	-
Contributions and investments	-	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>
Investment return:				
Investment income	56,697	478,498	-	535,195
Net appreciation (depreciation) (realized and unrealized)	<u>9,358</u>	<u>2,974,737</u>	<u>-</u>	<u>2,984,095</u>
Total investment return:	66,055	3,453,235	-	3,519,290
Change in fair value amount below permanent value				
Ending	(147,031)	147,031	-	-
Less: beginning	<u>653,546</u>	<u>(653,546)</u>	<u>-</u>	<u>-</u>
Change	506,515	(506,515)	-	-
Contributions	-	48,839	643,053	691,892
Appropriations of endowment assets for expenditure	(56,697)	(1,200,731)	-	(1,257,428)
Change in value of assets held under split-interest agreements	-	-	(35,357)	(35,357)
Other changes	-	142,547	-	142,547
Endowment net assets, end of the year, June 30, 2017	<u>\$ (16,492)</u>	<u>\$ 5,012,458</u>	<u>\$ 20,461,243</u>	<u>\$ 25,457,209</u>

12. Subsequent Events

Management of the Southern Oregon University Foundation has evaluated events and transactions occurring after June 30, 2017 through October 10, 2017, the date the financial statements were available for issuance, for recognition and/or disclosure in the financial statements.