

**Southern Oregon University
Foundation**

Financial Statements

**For the Years Ended
June 30, 2018 and 2017**

With

Independent Auditor's Report



Certified Public Accountants, LLP

audit | tax | advisory | wealth management | cfo

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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 (the Foundation), which comprise the statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, 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
October 24, 2018

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,378,360	\$ 687,759
Investments	28,842,382	27,146,172
Promises to give, net	228,542	205,463
Payments due from related entity	-	23,795
Total current assets	30,449,284	28,063,189
Other assets		
Long term promises to give, net	249,303	350,630
Assets held under split interest-agreements	884,076	998,949
Other assets	1,224,051	1,224,899
Total other assets	2,357,430	2,574,478
Total Assets	\$ 32,806,714	\$ 30,637,667
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 104,276	\$ 88,868
Scholarships payable	-	918,729
Deferred revenue	322,618	286,449
Payments due to related entity	2,912	-
Total current liabilities	429,806	1,294,046
Obligations under split-interest agreements	218,340	468,435
Total Liabilities	648,146	1,762,481
Net assets		
Unrestricted		
Available for general obligations and programs	2,380,751	1,508,284
Board designated - Endowment	130,539	130,539
Underwater endowments	(29,382)	(147,031)
Total unrestricted	2,481,908	1,491,792
Temporarily restricted	8,550,977	6,922,151
Permanently restricted	21,125,683	20,461,243
Total Net Assets	32,158,568	28,875,186
Total Liabilities and Net Assets	\$ 32,806,714	\$ 30,637,667

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statement of Activities
Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support, Revenue, and Gains				
Contributions	\$ 155,510	\$ 1,974,684	\$ 483,545	\$ 2,613,739
Contributed services support	626,011	-	-	626,011
Investment income, net of fees	378,292	770,501	-	1,148,793
Net unrealized gain (loss) on investments	512,672	679,335	-	1,192,007
Change in value of split-interest agreements	-	-	180,895	180,895
Fundraising activities and other income	27,360	522,339	-	549,699
Net assets released from restrictions	<u>2,318,033</u>	<u>(2,318,033)</u>	-	-
Total public support, revenue, and gains	<u>4,017,878</u>	<u>1,628,826</u>	<u>664,440</u>	<u>6,311,144</u>
Functional Expenses				
Program Services				
University support	927,741	-	-	927,741
Affiliate support	728,812	-	-	728,812
Scholarships, grants and awards	<u>223,505</u>	-	-	<u>223,505</u>
Total program services	<u>1,880,058</u>	-	-	<u>1,880,058</u>
Operating Expenses				
Management and general	382,702	-	-	382,702
Management and general - contributed	288,287	-	-	288,287
Fundraising	138,991	-	-	138,991
Fundraising - contributed	<u>337,724</u>	-	-	<u>337,724</u>
Total operating expenses	<u>1,147,704</u>	-	-	<u>1,147,704</u>
Total functional expenses	<u>3,027,762</u>	-	-	<u>3,027,762</u>
Change in Net Assets	990,116	1,628,826	664,440	3,283,382
Net Assets at Beginning of Year	<u>1,491,792</u>	<u>6,922,151</u>	<u>20,461,243</u>	<u>28,875,186</u>
Net Assets at End of Year	<u>\$ 2,481,908</u>	<u>\$ 8,550,977</u>	<u>\$ 21,125,683</u>	<u>\$ 32,158,568</u>

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	<u>4,329,399</u>	<u>(4,329,399)</u>	<u>-</u>	<u>-</u>
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	<u>1,139,032</u>	<u>-</u>	<u>-</u>	<u>1,139,032</u>
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	<u>336,965</u>	<u>-</u>	<u>-</u>	<u>336,965</u>
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>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ 3,283,382	\$ 2,372,437
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in value of split-interest agreements	(181,267)	(52,572)
Contributions restricted for long term investment	(599,623)	(995,611)
Investment income	(1,148,793)	(981,661)
Net unrealized (gain) loss on investments	(1,192,007)	(2,540,673)
Contributions of stock	(88,955)	-
(Increase) decrease in:		
Other assets	848	748,752
Promises to give	78,248	(3,451)
Assets held under split-interest agreements	84,578	18,619
Increase (decrease) in:		
Accounts payable and accrued liabilities	15,408	28,046
Scholarships payable	(918,729)	(67,188)
Related party due to/from	26,707	(55,463)
Deferred revenue	36,169	16,282
Net cash provided (used) by operating activities	<u>(604,034)</u>	<u>(1,512,483)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	695,012	500,000
Proceeds from contributions restricted for long term investment	599,623	995,611
Net cash provided (used) by investing activities	<u>1,294,635</u>	<u>1,495,611</u>
Net Increase (Decrease) in Cash and Cash Equivalents	690,601	(16,872)
Cash and Cash Equivalents, Beginning of Year	<u>687,759</u>	<u>704,631</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,378,360</u>	<u>\$ 687,759</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2018 and 2017

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 (the University) and programs and activities occurring on its campuses or in its facilities or undertaken by it in coordination with other educational, scientific or charitable institutions. Supporting and promoting includes activities to solicit, acquire, receive, own, manage, invest, and dispose of any real and personal property for the benefit of Southern Oregon University. The Foundation's exempt purpose includes maintaining a development program to encourage contributions to the Foundation for University support (academic programs, capital projects, athletics, student activities, etc.), and maintaining scholarships and grants 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, 2018 and 2017

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 Foundation 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 (FDIC) and the Securities Investor Protection Corporation (SIPC), 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, 2018 and 2017 the Foundation exceeded amounts insured by the FDIC by \$1,419,043 and \$1,133,430, respectively.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Account Policies (continued)

Contributed Services

The Foundation receives from the 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, 2018 and 2017, the Foundation recorded contributed management and general services of \$288,287 and \$301,579 and contributed fundraising services of \$337,786 and \$336,965 for a total \$626,073 and \$638,544, respectively, in contributed services support, from the University.

The amount receivable/payable or "due from/(to)" the University, including amounts in other current assets or other current liabilities, totaled (\$2,912) and \$23,795 as of June 30, 2018 and 2017, respectively.

The Foundation received no contributed services from other sources for the years ending June 30, 2018 and 2017.

Scholarships Payable

The scholarship recipients were not identified to the Foundation as of June 30, 2018. Therefore, no scholarships payable or the related expense has been recorded in these financial statements. The scholarship recipients were identified subsequent to year end. Scholarships payable was \$0 and \$918,729 for the years ended June 30, 2018 and 2017, respectively. Scholarship expense for the years ending June 30, 2018 and 2017 is \$223,505 and \$1,139,032, respectively. Cash paid by the Foundation for scholarships was \$1,131,497 and \$1,223,140 for the years ended June 30, 2018 and 2017, respectively.

Tax-Exempt Status

The 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, 2018 and 2017, there were no such uncertain tax positions.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Account Policies (continued)

Reclassifications

Certain reclassifications have been made to the June 30, 2017 financial statements to conform to the 2018 presentation.

3. Investments and Investment Income

Investments consisted of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents:	\$ 50,305	\$ 20,571
Mutual funds:		
Equities:		
U.S. Large company stocks	7,367,168	9,037,186
International large company stocks	3,638,760	4,524,101
U.S. Small company stocks	2,103,847	2,959,942
U.S. REITs	2,195,962	2,155,223
Emerging markets stocks	1,382,944	1,917,818
International REITs	1,315,903	1,394,360
International small company stocks	638,970	966,245
Fixed income:		
Ultrashort bonds	2,395,311	-
High quality bonds	2,692,175	2,629,419
Investment grade bonds	3,130,344	1,541,307
International bonds	1,395,353	-
High yield bonds	535,340	-
	<u>\$ 28,842,382</u>	<u>\$ 27,146,172</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>2018</u>	<u>2017</u>
Net realized gain/(loss) on investments	\$ 895,330	\$ 859,590
Dividends and interest	375,395	277,917
Total investment income	<u>1,270,725</u>	<u>1,137,507</u>
Less investment fees	<u>(121,932)</u>	<u>(110,343)</u>
Net investment income	<u>\$ 1,148,793</u>	<u>\$ 1,027,164</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2018 and 2017

4. Promises to Give

Promises to give at June 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Promises to give expected to be collected in less than one year	\$ 228,542	\$ 205,463
Promises to give expected to be collected in one to five years	<u>265,850</u>	<u>372,571</u>
Total promises to give	494,392	578,034
Less allowance for uncollectible promises	-	(5,227)
Less present value discount of long-term promises	<u>(16,547)</u>	<u>(16,714)</u>
Net promises to give	<u>\$ 477,845</u>	<u>\$ 556,093</u>

The allowance for uncollectible promises to give at June 30, 2018 and June 30, 2017 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 2.63 percent and 1.61 percent for the years ended June 30, 2018 and 2017, respectively.

Promises to give at June 30, 2018 and 2017 have purpose restrictions as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted	\$ 3,350	\$ 4,100
Temporarily restricted		
Capital projects	247,000	353,800
Scholarships	150,536	171,230
Academic programs	<u>62,506</u>	<u>8,000</u>
Total temporarily restricted	<u>460,042</u>	<u>533,030</u>
Permanently restricted		
Scholarships	<u>31,000</u>	<u>40,904</u>
Total permanently restricted	<u>31,000</u>	<u>40,904</u>
Total promises to give	<u>\$ 494,392</u>	<u>\$ 578,034</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2018 and 2017

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, 2018 and 2017 are stated at fair value summarized as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents:	\$ 18,604	\$ 19,980
Mutual funds:		
Equities:		
U.S. Large company stocks	248,905	280,000
International large company stocks	121,685	142,285
U.S. Small company stocks	71,388	79,571
U.S. REITs	73,766	78,841
Emerging markets stocks	44,633	55,367
International REITs	44,096	49,934
International small company stocks	21,306	26,025
Fixed income:		
Investment grade bonds	92,245	103,364
High quality bonds	88,922	98,568
International bonds	40,740	44,714
High yield bonds	17,786	20,300
Total assets held under split-interest agreements:	<u>884,076</u>	<u>998,949</u>
Obligations under split-interest agreements:	<u>(218,340)</u>	<u>(468,435)</u>
Net estimated value of split-interest agreements	<u>\$ 665,736</u>	<u>\$ 530,514</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2018 and 2017

6. Other Assets

Other assets consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Collections:		
Antique furniture and collectibles	\$ 58,341	\$ 58,341
Musical instrument collections	29,738	29,738
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	112	9,735
Other assets	<u>17,235</u>	<u>8,460</u>
Total other assets	<u>\$ 1,224,051</u>	<u>\$ 1,224,899</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. 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, 2018.

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 previously received a contribution of two timeshare units in Puerto Vallarta, Mexico and one in Orlando, Florida. As of June 30, 2018 and 2017, the resort property timeshares are carried at their donated value.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2018 and 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.

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

	2018			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 68,909	\$ -	\$ -	\$ 68,909
Mutual funds:				
Equities:				
U.S. Large company stocks	7,616,073	-	-	7,616,073
International large company stocks	3,760,445	-	-	3,760,445
U.S. Small company stocks	2,175,235	-	-	2,175,235
U.S. REITs	2,269,728	-	-	2,269,728
Emerging markets stocks	1,427,577	-	-	1,427,577
International REITs	1,359,999	-	-	1,359,999
International small company stocks	660,276	-	-	660,276
Fixed income:				
Ultrashort bonds	2,395,311	-	-	2,395,311
High quality bonds	2,784,420	-	-	2,784,420
Investment grade bonds	3,219,266	-	-	3,219,266
International bonds	1,436,093	-	-	1,436,093
High yield bonds	553,126	-	-	553,126
	<u>\$ 29,726,458</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,726,458</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
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7. Fair Values of Financial Instruments (continued)

	2017			Total
	Level 1	Level 2	Level 3	
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>

	2018	2017
Investments	\$ 28,842,382	\$ 27,146,172
Assets held under split interest-agreements	884,076	998,949
	<u>\$ 29,726,458</u>	<u>\$ 28,145,121</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, 2018 and 2017 are available for:

	2018	2017
Scholarships, grants and awards	\$ 4,286,041	\$ 2,657,106
Academic programs	1,395,913	1,280,361
Osher lifelong learning institute	922,118	622,472
Capital projects	295,831	597,890
Chamber music concert series	500,664	589,972
Other program support	439,339	549,615
Raider athletics	237,231	266,104
Alumni affairs	170,177	169,523
Schneider Museum of Art	222,526	159,677
Hannon library	81,137	29,431
	<u>\$ 8,550,977</u>	<u>\$ 6,922,151</u>
Total temporarily restricted net assets		

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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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Scholarships, grants and awards	\$ 13,400,797	\$ 12,978,302
Academic programs	2,274,785	2,183,437
Osher lifelong learning institute	2,016,616	2,011,416
Other program support	1,770,235	1,624,838
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
	<u>\$ 21,125,683</u>	<u>\$ 20,461,243</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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Capital projects	\$ 305,600	\$ 924,055
Academic programs	250,734	905,211
Scholarships, grants and awards	264,897	883,903
Raider athletics	695,177	719,661
Osher Lifelong Learning Institute	229,182	389,702
Chamber music concert series	322,401	223,963
Schneider Museum of Art	140,072	141,516
Other program support	46,811	87,272
Alumni affairs	38,864	41,963
Hannon Library	24,295	12,153
	<u>\$ 2,318,033</u>	<u>\$ 4,329,399</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.

SOUTHERN OREGON UNIVERSITY FOUNDATION
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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.

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 \$29,382 as of June 30, 2018 and \$147,031 as of June 30, 2017. 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, 2018 and 2017, the spendable amount calculated as a percentage of the quarterly beginning value of endowment funds was \$870,071 and \$818,304, respectively, and interest and dividends (current cash earnings) generated by endowment assets were \$390,201 and \$535,195, respectively.

Endowment net asset composition by type of fund as of June 30, 2018:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 4,152,722	\$ 20,922,258	\$ 25,074,980
Assets held under split-interest agreements	-	-	203,425	203,425
Fair value amount below permanent value	(29,382)	29,382	-	-
Donor restricted endowment funds - total	(29,382)	4,182,104	21,125,683	25,278,405
Quasi-endowment funds	130,539	2,006,124	-	2,136,663
Total endowment funds	<u>\$ 101,157</u>	<u>\$ 6,188,228</u>	<u>\$ 21,125,683</u>	<u>\$ 27,415,068</u>

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

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 3,084,065	\$ 20,483,773	\$ 23,567,838
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	20,461,243	23,545,308
Quasi-endowment funds	130,539	1,781,362	-	1,911,901
Total endowment funds	<u>\$ (16,492)</u>	<u>\$ 5,012,458</u>	<u>\$ 20,461,243</u>	<u>\$ 25,457,209</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, 2016	\$ (532,365)	\$ 3,075,083	\$ 19,853,547	\$ 22,396,265
Investment return:				
Investment income	56,697	478,498	-	535,195
Net appreciation (depreciation) (realized and unrealized)	9,358	2,974,737	-	2,984,095
Total investment return:	<u>66,055</u>	<u>3,453,235</u>	<u>-</u>	<u>3,519,290</u>
Change in fair value amount below permanent value				
Ending	(147,031)	147,031	-	-
Less: beginning	653,546	(653,546)	-	-
Change	<u>506,515</u>	<u>(506,515)</u>	<u>-</u>	<u>-</u>
Contributions and investments	-	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	<u>-</u>	<u>142,547</u>	<u>-</u>	<u>142,547</u>
Endowment net assets, end of the year, June 30, 2017	\$ (16,492)	\$ 5,012,458	\$ 20,461,243	\$ 25,457,209
Investment return:				
Investment income	68,554	321,647	-	390,201
Net appreciation (depreciation) (realized and unrealized)	-	1,880,691	-	1,880,691
Total investment return:	<u>68,554</u>	<u>2,202,338</u>	<u>-</u>	<u>2,270,892</u>
Change in fair value amount below permanent value				
Ending	(29,382)	29,382	-	-
Less: beginning	147,031	(147,031)	-	-
Change	<u>117,649</u>	<u>(117,649)</u>	<u>-</u>	<u>-</u>
Contributions	-	43,288	483,545	526,833
Appropriations of endowment assets for expenditure	(68,554)	(1,000,049)	-	(1,068,603)
Change in value of assets held under split-interest agreements	-	-	180,895	180,895
Other changes	<u>-</u>	<u>47,842</u>	<u>-</u>	<u>47,842</u>
Endowment net assets, end of the year, June 30, 2018	<u>\$ 101,157</u>	<u>\$ 6,188,228</u>	<u>\$ 21,125,683</u>	<u>\$ 27,415,068</u>

Subsequent Events

Management of the Southern Oregon University Foundation has evaluated events and transactions occurring after June 30, 2018 through the date the financial statements were available for issuance, for recognition and/or disclosure in the financial statements.