

Southern Oregon University Foundation

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

**For the Years Ended
June 30, 2010 and 2009**

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 – 17

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Southern Oregon University Foundation

We have audited the accompanying statements of financial position of the Southern Oregon University Foundation (a nonprofit organization) as of June 30, 2010 and 2009, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southern Oregon University Foundation as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Stewart C Farnelle CPA, Partner

Michael L. Piels CPAs, LLP
Medford, Oregon
September 9, 2010

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statements of Financial Position
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,436,307	\$ 1,868,205
Deposits with University	5,091	6,438
Accounts receivable	18,958	-
Other current assets	2,725	3,094
Promises to give, net	257,433	341,728
Advances to related nonprofit organization	22,504	22,504
Other assets	683,319	647,874
Long-term investments	14,573,576	13,152,015
Land and building, net	293,168	293,168
Other real property	1,118,625	1,118,625
	<u>18,411,706</u>	<u>17,453,651</u>
Total Assets	\$ 18,411,706	\$ 17,453,651
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 2,034	\$ 31,561
Accrued liabilities	9,995	3,223
Accrued interest	5,897	6,719
Scholarships payable	307,105	305,335
Unearned income	160,793	157,905
Line of credit note payable	1,435,000	1,635,000
Obligations under split-interest agreements	574,233	465,682
	<u>2,495,057</u>	<u>2,605,425</u>
Total Liabilities	2,495,057	2,605,425
<u>NET ASSETS:</u>		
Unrestricted:		
Available for general obligations and programs	3,346,107	3,316,199
Board designated - Endowment	(3,165,748)	(3,640,001)
Board designated - Capital projects	(2,410,000)	(2,635,000)
	<u>(2,229,641)</u>	<u>(2,958,802)</u>
Total unrestricted	(2,229,641)	(2,958,802)
Temporarily restricted	2,958,876	2,868,740
Permanently restricted	15,187,414	14,938,288
	<u>15,916,649</u>	<u>14,848,226</u>
Total Net Assets	15,916,649	14,848,226
Total Liabilities and Net Assets	\$ 18,411,706	\$ 17,453,651

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statement of Activities
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenue, and Gains				
Contributions	\$ 387,265	\$ 477,330	\$ 310,983	\$ 1,175,578
Contributed services support	421,467	-	-	421,467
Interest and dividend income	33,553	270,130	-	303,683
Net unrealized and realized gain (loss)				
on long term investments	664,971	468,891	23	1,133,885
Change in value of split-interest agreements	-	-	(61,880)	(61,880)
Net fundraising activities and other income	(2,123)	411,427	-	409,304
Net assets released from restrictions				
Satisfaction of program restrictions	<u>1,537,642</u>	<u>(1,537,642)</u>	<u>-</u>	<u>-</u>
Total public support, revenue, and gains	<u>3,042,775</u>	<u>90,136</u>	<u>249,126</u>	<u>3,382,037</u>
Functional Expenses				
Program Services				
Academic programs	143,003	-	-	143,003
Aumni Association	20,571	-	-	20,571
Friends of Schnieder Museum of Art	101,637	-	-	101,637
Raider Athletics	326,742	-	-	326,742
Friends of Hannon Library	7,218	-	-	7,218
Chamber Music Concert Series	224,282	-	-	224,282
Scholarships, grants and awards	441,090	-	-	441,090
Other program support	192,643	-	-	192,643
Capital projects	<u>110,317</u>	<u>-</u>	<u>-</u>	<u>110,317</u>
Total program services	<u>1,567,503</u>	<u>-</u>	<u>-</u>	<u>1,567,503</u>
Operating expenses				
Management and general	138,507	-	-	138,507
Management and general - contributed	203,075	-	-	203,075
Property management	9,816	-	-	9,816
Fundraising	191,528	-	-	191,528
Fundraising - contributed	<u>203,185</u>	<u>-</u>	<u>-</u>	<u>203,185</u>
Total operating expenses	<u>746,111</u>	<u>-</u>	<u>-</u>	<u>746,111</u>
Total functional expenses	<u>2,313,614</u>	<u>-</u>	<u>-</u>	<u>2,313,614</u>
Change in Net Assets	729,161	90,136	249,126	1,068,423
Net Assets at Beginning of Year	<u>(2,958,802)</u>	<u>2,868,740</u>	<u>14,938,288</u>	<u>14,848,226</u>
Net Assets at End of Year	<u>\$ (2,229,641)</u>	<u>\$ 2,958,876</u>	<u>\$ 15,187,414</u>	<u>\$ 15,916,649</u>

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statement of Activities
Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support, Revenue, and Gains				
Contributions	\$ 182,569	\$ 737,454	\$ 1,417,388	\$ 2,337,411
Contributed services support	434,381	-	-	434,381
Interest and dividend income	65,811	465,265	-	531,076
Rental income	24,050	-	-	24,050
Net unrealized and realized gain (loss)				
on long term investments	(3,553,731)	(1,457,156)	(557)	(5,011,444)
Change in value of split-interest agreements	-	-	(57,832)	(57,832)
Net fundraising activities and other income	(10,429)	561,377	-	550,948
Net assets released from restrictions				
Satisfaction of program restrictions	<u>1,511,914</u>	<u>(1,511,914)</u>	<u>-</u>	<u>-</u>
Total public support, revenue, and gains	<u>(1,345,435)</u>	<u>(1,204,974)</u>	<u>1,358,999</u>	<u>(1,191,410)</u>
Functional Expenses				
Program Services				
Academic programs	441,966	-	-	441,966
Aumni Association	28,201	-	-	28,201
Friends of Schnieder Museum of Art	79,632	-	-	79,632
Raider Athletics	119,934	-	-	119,934
Friends of Hannon Library	14,129	-	-	14,129
Chamber Music Concert Series	248,138	-	-	248,138
Scholarships, grants and awards	630,420	-	-	630,420
Student activities	<u>1,316</u>	<u>-</u>	<u>-</u>	<u>1,316</u>
Total program services	<u>1,563,736</u>	<u>-</u>	<u>-</u>	<u>1,563,736</u>
Operating expenses				
Management and general	192,425	-	-	192,425
Management and general - contributed	217,049	-	-	217,049
Property management	10,997	-	-	10,997
Fundraising	121,167	-	-	121,167
Fundraising - contributed	<u>172,675</u>	<u>-</u>	<u>-</u>	<u>172,675</u>
Total operating expenses	<u>714,313</u>	<u>-</u>	<u>-</u>	<u>714,313</u>
Total functional expenses	<u>2,278,049</u>	<u>-</u>	<u>-</u>	<u>2,278,049</u>
Change in Net Assets	(3,623,484)	(1,204,974)	1,358,999	(3,469,459)
Net Assets at Beginning of Year	<u>664,682</u>	<u>4,073,714</u>	<u>13,579,289</u>	<u>18,317,685</u>
Net Assets at End of Year	<u>\$ (2,958,802)</u>	<u>\$ 2,868,740</u>	<u>\$ 14,938,288</u>	<u>\$ 14,848,226</u>

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	\$ 1,068,423	\$ (3,469,459)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in value of split-interest agreements	61,880	57,832
Depreciation	-	2,225
Non-cash contributions	(477,928)	(537,426)
Non-cash expenses and support	413,460	422,574
Net unrealized and realized (gain) loss	(1,133,885)	5,011,444
(Increase) decrease in operating assets		
Deposit with University	1,347	11,546
Accounts receivable	(18,958)	-
Other current assets	369	669
Promises to give	84,295	40,173
Other assets	(35,445)	(38,645)
Increase (decrease) in operating liabilities		
Accounts payable	(29,527)	(1,839)
Accrued liabilities	6,772	(1,770)
Accrued interest	(822)	6,719
Scholarships payable	1,770	(113,936)
Unearned income	2,888	(59,788)
Contributions restricted for long-term investments	(310,983)	(1,417,388)
Net cash provided (used) by operating activities	(366,344)	(87,069)
 Cash Flows from Investing Activities		
Proceeds from sale of investments	820,978	1,301,907
Purchase of investments	(926,135)	(1,916,307)
Net cash used by investing activities	(105,157)	(614,400)
 Cash Flows from Financing Activities		
Proceeds from contributions restricted for investment in endowment	310,983	1,417,388
Other financing activities		
Payments on line of credit note payable	(200,000)	-
Payment of split-interest obligations	(71,380)	(67,047)
Net cash provided by financing activities	39,603	1,350,341
 Net Decrease in Cash and Cash Equivalents	(431,898)	648,872
 Cash and Cash Equivalents at Beginning of Year	1,868,205	1,219,333
Cash and Cash Equivalents at End of Year	\$ 1,436,307	\$ 1,868,205
 Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 67,167	\$ 73,562

See accompanying notes to the financial statements.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2010 and 2009

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

The Southern Oregon University Foundation (the Foundation) is a nonprofit corporation established by Southern Oregon University to support and promote the educational, scientific and charitable activities of the University and programs and activities occurring on its campuses or in its facilities or undertaken by it in coordination with other educational, scientific or charitable institutions. Supporting and promoting includes activities to solicit, acquire, receive, own, manage, invest, and dispose of any real and personal property for the benefit of Southern Oregon University. The Foundation's exempt purpose includes maintaining a development program to encourage contributions to the Foundation, and maintaining scholarships, grants, and loan funds for the benefit of students and faculty at Southern Oregon University.

Basis of Accounting

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

Basis of Presentation

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

Use of Estimates

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

Contributions

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

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

Cash and Cash Equivalents

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

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2010 and 2009

Note 1 – Summary of Significant Accounting Policies (continued)

Promises to Give

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

The Foundation estimates that future distributions from four trusts will total \$3.6 million, and the Foundation is aware of bequests totaling an additional \$2.6 million. These amounts are not reflected in the financial statements because the conditions necessary to recognize them have not been met.

Property and Equipment

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

Concentrations of Credit Risk

The Foundation frequently maintains cash balances greater than \$250,000 in a single financial institution. The Federal Deposit Insurance Corporation insures account balances at each institution for amounts up to \$250,000. At June 30, 2010 and 2009, the uninsured cash balances totaled \$101,645 and \$213,539, respectively.

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

Contributed Services

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

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

For the year ended June 30, 2010 and 2009, the Foundation recorded contributed management and general services of \$203,075 and \$217,049 and contributed fundraising services of \$203,185 and \$172,675 for a total \$406,260 and \$389,724, respectively, in contributed support services, from Southern Oregon University.

Tax Status

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

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2010 and 2009

Note 2 – Promises to Give

Promises to give at June 30, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Promises to give expected to be collected in less than one year	\$ 131,746	\$ 202,589
Promises to give expected to be collected in one to five years	<u>148,600</u>	<u>204,366</u>
Total promises to give	280,346	406,955
Less allowance for uncollectible promises	(19,250)	(56,175)
Less present value discount of long-term promises	<u>(3,663)</u>	<u>(9,052)</u>
Net promises to give	<u>\$ 257,433</u>	<u>\$ 341,728</u>

The allowance for uncollectible promises to give at June 30, 2010 was determined by providing for an uncollectible allowance equal to 50 percent of pledges receivable over one year past due, 100 percent of pledges receivable over two years past due, and 100 percent of the outstanding unrestricted pledges from annual phonathon campaigns. The present value discount of long-term promises to give was calculated using the average U.S. Treasury Daily Treasury Yield Curve Rates. The discount rates used were 1.13 percent at June 30, 2010, and 1.76 percent at June 30, 2009.

Promises to give at June 30, 2010 and 2009 have purpose restrictions as follows:

	<u>2010</u>	<u>2009</u>
Temporarily Restricted		
Academic programs	\$ 5,610	\$ 11,200
Raider Athletics	260	1,355
Scholarships	11,550	23,900
Other program support	20,000	-
Capital projects	228,736	369,900
Less allowance and discount	<u>(22,913)</u>	<u>(65,227)</u>
	<u>\$ 243,243</u>	<u>\$ 341,128</u>

Note 3 – Mary Phipps Center Building

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

On September 30, 2008, the University vacated the building to move into the completed Higher Education Center. From that date, the building has been vacant; resulting in no rental income or expense recognized in the financial statements for the year ended June 30, 2010. For the year ended June 30, 2009, the fair market rental value per square foot was determined to be \$10, which resulted in the recognition of \$24,050 in rental income and academic program support in the financial statements.

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

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2010 and 2009

Note 4 – Land and Building

Property held for use at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Mary Phipps Center building	\$ 356,000	\$ 356,000
Less accumulated depreciation	(107,625)	(107,625)
	248,375	248,375
Mary Phipps Center land, Medford, Oregon	44,793	44,793
Net land and building	\$ 293,168	\$ 293,168

Building depreciation charged to operating expense for the year ended June 30, 2009 was \$2,225. Depreciation is calculated using the straight-line method over a 40-year estimated useful life. The building had been used by Southern Oregon University until September 30, 2008 when it moved to the completed Higher Education Center. From that date, the building has been vacant. The Foundation is considering their options of continuing to lease the building, or to sell the building. The building is currently offered for sale for \$500,000. Accordingly, no annual depreciation has been recorded for the year ended June 30, 2010.

Note 5 – Split-Interest Agreements

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

The assets funding the split-interest agreements at June 30, 2010 and 2009 are stated at fair value summarized as follows:

	June 30, 2010		
	Cash	Long-term Investments	Total
Gift annuities pool	\$ 16,811	\$ 708,812	\$ 725,623
Gift annuity trusts	2,687	112,569	115,256
Total assets held in split-interest agreements	\$ 19,498	\$ 821,381	840,879
Obligations under split-interest agreements			(574,233)
Net estimated value of split-interest agreements			\$ 266,646
	June 30, 2009		
	Cash	Long-term Investments	Total
Gift annuities pool	\$ 27,118	\$ 668,467	\$ 695,585
Gift annuity trusts	297	104,737	105,034
Total assets held in split-interest agreements	\$ 27,415	\$ 773,204	800,619
Obligations under split-interest agreements			(465,682)
Net estimated value of split-interest agreements			\$ 334,937

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2010 and 2009

Note 6 – Other Assets

Other assets are comprised of the following at June 30, 2010 and 2009:

	2010	2009
Schuman musical instrument collection	\$ 557,633	\$ 557,633
Antique collection	34,752	-
Antique Furniture	11,089	10,300
Golf cart	4,250	4,250
18th century replica wood boat	2,200	2,200
Japanese bells collection	11,000	11,000
New England upright piano	1,500	1,500
Chippendale Model IV grand piano	20,000	20,000
Steinway Model L piano	27,500	27,500
Tokai Model MU-1 piano	3,500	3,500
Total contributed assets	673,424	637,883
Book inventory - History of SOU	9,895	9,991
Total other assets	\$ 683,319	\$ 647,874

Note 7 – Other Real Property

Other real property at June 30, 2010 and 2009 consisted of the following:

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

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

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

The Foundation received a contribution of two timeshare units in Puerto Vallarta, Mexico and one in Orlando, Florida. As of June 30, 2010 and 2009, the resort property timeshares are carried at their net estimated realizable value of \$13,500.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2010 and 2009

Note 8 – Long-Term Investments

Long-term investments at June 30, 2010 and 2009 are stated at fair value summarized as follows:

	June 30, 2010		
	Bond Funds	Equity Funds	Total
Foundation investment pool	\$ 1,601,252	\$ 12,150,943	\$ 13,752,195
Gift annuities pool	207,200	501,612	708,812
Gift annuity trusts	31,543	81,026	112,569
Total long-term investments	\$ 1,839,995	\$ 12,733,581	\$ 14,573,576
	June 30, 2009		
	Bond Funds	Equity Funds	Total
Foundation investment pool	\$ 1,350,188	\$ 11,028,622	\$ 12,378,810
Gift annuities pool	180,790	487,677	668,467
Gift annuity trusts	32,949	71,789	104,738
Total long-term investments	\$ 1,563,927	\$ 11,588,088	\$ 13,152,015

For the year ended June 30, 2010, the total return on the Foundation's long-term investments was a gain of \$1,421,808 after deduction of investment fees of \$38,150. For the year ended June 30, 2009, the total return on the Foundation's long-term investments was a loss of \$4,498,062 after deduction of investment fees of \$37,883.

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

Note 9 – Fair Values of Financial Instruments

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

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

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2010 and 2009

Note 9 – Fair Values of Financial Instruments (continued)

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

	Fair Value at June 30, 2010			Total
	Level 1	Level 2	Level 3	
Assets				
Long-term investments	14,573,576	-	-	14,573,576
Total assets				<u>\$ 14,573,576</u>

Note 10 – Restrictions on Net Assets

Temporarily restricted net assets were available for the following purposes as of June 30, 2010 and 2009:

	2010	2009
Academic programs	\$ 1,479,396	\$ 1,303,635
Alumni Affairs	105,049	101,626
Schneider Museum of Art	30,673	22,849
Athletics	104,751	189,725
Hannon Library	15,286	12,540
Chamber Music Concert Series	244,741	248,116
Scholarships, grants and awards	474,519	360,500
Other program support	251,171	159,419
Capital projects	253,290	470,330
	<u>\$ 2,958,876</u>	<u>\$ 2,868,740</u>

Permanently restricted net assets are invested in perpetuity, the income from which is expendable to support the following purposes as of June 30, 2010 and 2009:

	2010	2009
Academic programs	\$ 3,197,243	\$ 3,200,296
Alumni Affairs	268,512	268,512
Schneider Museum of Art	1,262,788	1,214,288
Athletics	20,576	20,576
Hannon Library	59,841	59,747
Chamber Music Concert Series	33,759	33,391
Scholarships, grants and awards	9,078,612	8,904,273
Other program support	1,266,083	1,237,205
	<u>\$ 15,187,414</u>	<u>\$ 14,938,288</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2010 and 2009

Note 11 – Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows as of June 30, 2010 and 2009:

	2010	2009
Academic programs	\$ 112,656	\$ 159,836
Alumni Affairs	20,571	28,381
Schneider Museum of Art	101,637	141,728
Athletics	326,742	302,129
Hannon Library	7,218	14,334
Chamber Music Concert Series	224,282	252,248
Scholarships, grants and awards	441,576	449,977
Other program support	192,643	72,984
Capital projects	110,317	90,297
	\$ 1,537,642	\$ 1,511,914

Note 12 – Line of Credit Notes Payable

On March 4, 2010, the Foundation renewed a line of credit from Bank of the Cascades for \$1,435,000. The note is collateralized by two Foundation properties: the Mary Phipps Center and real property on Fern Valley Road in Phoenix, Oregon. The balance represents bridge funding for completion of the Medford Higher Education Center, which opened in the autumn of 2009. The terms of the note provide for a required principal reduction of \$200,000 prior to the maturity of the note, February 5, 2011, and for a variable interest rate, calculated at the lender's prime lending rate plus 1 percent, with a floor of 5 percent. The note requires monthly payment of interest, and the entire balance including accrued interest is due at maturity of the note. At June 30, 2010, the interest rate was 5 percent.

Note 13 – Related Party Transaction

The Foundation is one of two members of Deer Creek Center for Field Research and Education, an Oregon nonprofit organization formed to own, operate and manage, for educational and scientific purposes, an 840-acre site near Selma, Oregon. The Foundation advanced funds to Deer Creek Center in 2008 for various out of pocket costs and legal expense incurred in the formation of the new organization. As of June 30, 2009 and 2010, the advances totaled \$22,504. The advanced amount is reflected in the Statements of Financial Position as an asset to be reimbursed by Deer Creek. There were no expenses for Deer Creek for the year ended June 30, 2010. There were \$12,095 of expenses for Deer Creek for the year ended June 30, 2009, which are reported as part of the academic program service expenses in the Statement of Activities.

Note 14 – Board Designated Net Assets

In order to construct a Higher Education Center in Medford, Oregon in 2009 and renovate the library on the Ashland campus two years earlier, the Foundation utilized temporarily restricted net assets donated for these purposes, along with unrestricted net assets. It is the policy of the Oregon University System, and therefore Southern Oregon University, not to allow construction to commence until all funds, both public and private, have been deposited in University capital construction accounts. Typically then, the Foundation's procedure has been to fund the project before all pledges have been collected or fundraising completed, and in some instances, even utilizing bank borrowings to provide the private funding portions of the project in order to begin construction as soon as possible. Accordingly, the Board of Trustees of the Foundation elected to use unrestricted net assets for these projects, in the amounts of

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2010 and 2009

Note 14 – Board Designated Net Assets (continued)

\$2,000,000 for the Higher Education Center and \$1,150,000 for the library enhancement project, and continue the capital campaigns and collection of restricted pledges after the completion of the projects in order for the Foundation to recoup its unrestricted funds used to complete the project. The Board of Trustees has elected to designate these net assets so that they may be separately identified from other Foundation unrestricted net assets. The amounts designated for the projects are \$(2,410,000) at June 30, 2010 and \$(2,635,000) at June 30, 2009.

Note 15 – Endowments

The Foundation's endowment consists of approximately 185 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

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

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 \$3,265,927 as of June 30, 2010, and \$3,736,512 as of June 30, 2009. 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.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2010 and 2009

Note 15 – Endowments (continued)

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

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, The Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a long-term policy of appropriating for distribution each fiscal year 4.5 percent of its endowment fund's average fair value over the prior 12 quarters preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3.5 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Because of unfavorable market fluctuations that occurred early in the year ended June 30, 2009, the spending policy was changed effective January 1, 2009 to 3.5 percent of the current fair value of the endowment fund assets.

For the years ended June 30, 2010 and 2009, the spendable amount calculated as a percentage of the quarterly beginning value of endowment funds was \$444,845 and \$525,151, respectively, and interest and dividends (current cash earnings) generated by endowment assets were \$276,717 and \$495,385, respectively.

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2010 and 2009

Note 15 – Endowments (continued)

Endowment net asset composition by type of fund as of June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ (2,622,457)	\$ 14,968,901	\$ 12,346,444
Fair value amount below permanent value	<u>(3,265,927)</u>	<u>3,265,927</u>	<u>-</u>	<u>-</u>
Total donor-restricted endowment funds	(3,265,927)	643,470	14,968,901	12,346,444
Board-designated endowment funds	<u>100,179</u>	<u>394,180</u>	<u>-</u>	<u>494,359</u>
Total funds	<u>\$ (3,165,748)</u>	<u>\$ 1,037,650</u>	<u>\$ 14,968,901</u>	<u>\$ 12,840,803</u>

Changes in endowment net assets for the fiscal year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (3,640,001)	\$ 829,909	\$ 14,682,711	\$ 11,872,619
Investment return				
Investment income	29,586	414,936	-	444,522
Net appreciation (depreciation) (realized and unrealized)	<u>3,668</u>	<u>852,091</u>	<u>-</u>	<u>855,759</u>
Total investment return	33,254	1,267,027	-	1,300,281
Change in fair value amount below permanent value:				
Ending	(3,265,927)	3,265,927	-	-
Less: Beginning	<u>3,736,512</u>	<u>(3,736,512)</u>	<u>-</u>	<u>-</u>
Change	470,585	(470,585)	-	-
Contributions	-	69,628	286,190	355,818
Appropriation of endowment assets for expenditure	(29,586)	(705,167)	-	(734,753)
Other changes	-	46,838	-	46,838
Endowment net assets, end of year	<u>\$ (3,165,748)</u>	<u>\$ 1,037,650</u>	<u>\$ 14,968,901</u>	<u>\$ 12,840,803</u>

SOUTHERN OREGON UNIVERSITY FOUNDATION
Notes to Financial Statements
June 30, 2010 and 2009

Note 15 – Endowments (continued)

Endowment net asset composition by type of fund as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ (3,237,271)	\$ 14,682,711	\$ 11,445,440
Fair value amount below permanent value	<u>(3,736,512)</u>	<u>3,736,512</u>	<u>-</u>	<u>-</u>
Total donor-restricted endowment funds	(3,736,512)	499,241	14,682,711	11,445,440
Board-designated endowment funds	<u>96,511</u>	<u>330,668</u>	<u>-</u>	<u>427,179</u>
Total funds	<u>\$ (3,640,001)</u>	<u>\$ 829,909</u>	<u>\$ 14,682,711</u>	<u>\$ 11,872,619</u>

Changes in endowment net assets for the fiscal year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 129,247	\$ 2,219,519	\$ 13,265,880	\$ 15,614,646
Investment return				
Investment income	35,685	492,589	-	528,274
Net appreciation (depreciation) (realized and unrealized)	<u>(32,736)</u>	<u>(5,026,671)</u>	<u>-</u>	<u>(5,059,407)</u>
Total investment return	2,949	(4,534,082)	-	(4,531,133)
Fair value amount below permanent value	(3,736,512)	3,736,512	-	-
Contributions	-	5,911	1,416,831	1,422,742
Appropriation of endowment assets for expenditure	(35,685)	(658,228)	-	(693,913)
Other changes	-	60,277	-	60,277
Endowment net assets, end of year	<u>\$ (3,640,001)</u>	<u>\$ 829,909</u>	<u>\$ 14,682,711</u>	<u>\$ 11,872,619</u>

Note 16 – Subsequent Event

SOU Foundation did not have any subsequent events through September 9, 2010, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended June 30, 2010.