# SOUTHERN OREGON UNIVERSITY

# 2015 ANNUAL FINANCIAL REPORT

Southern OREGON UNIVERSITY

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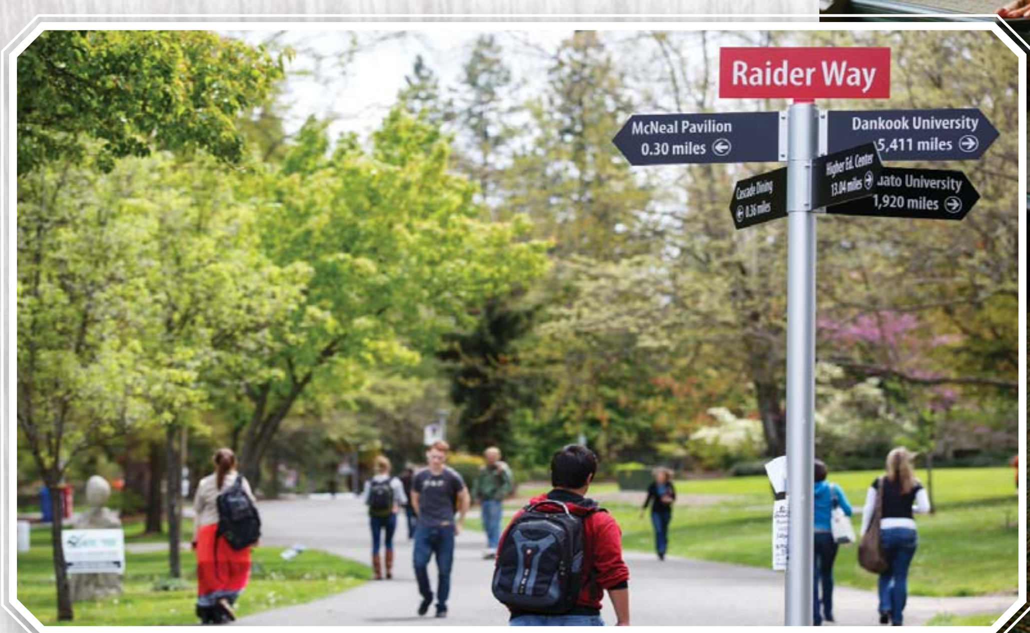

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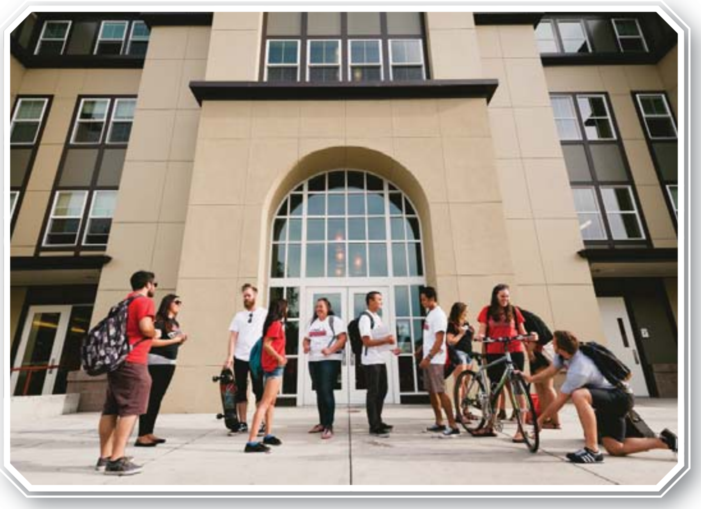


It is my pleasure to report that fiscal year 2014-2015 comes to a conclusion with Southern Oregon University in better financial standing than it has been in some time. Thanks to the collective efforts and sacrifices of many, SOU is now well into our second year under retrenchment restrictions and I am happy to report that we have at least met every condition while exceeding many. Our retrenchment plan called for a fund balance of 7.6 percent to end the 2014-2015 fiscal year. I'm pleased to announce that our ending fund balance exceeded that requirement and reached 9.1 percent.

This is an exciting time for SOU, as we spent considerable time and energy during the 2014-2015 year working with the state to ensure that the SOU Board of Trustees was prepared to take over a governance role for the University on July 1 of this year. In an effort to better understand the University's finances and budget process, the Board's Finance Committee met numerous times during the 2014-2015 year with SOU Vice President of Finance and Administration Craig Morris and key members of his staff. Due to this hard work and diligence, the Board was fully prepared for their role as fiduciary trustees when they took over governance on July 1.

College affordability remains a top priority for SOU, our students, and their families. With additional funds made available from the Oregon Legislature during its 2015 session, we have prioritized tuition remissions and additional student services designed to increase retention and graduation rates.

In order to help reach the state's ambitious 40-40-20 goals, SOU continues to serve a large number of first-generation and low-income students. We also saw an increase in the number of minority students on campus during 2014-2015 compared to the previous year. Our enrollment of transfer students from Oregon community colleges increased from the previous year as well, illustrating our commitment to educating all Oregonians who wish to pursue a bachelor's or master's degree at SOU.

SOU continues to evaluate course and program offerings to ensure that we are helping to meet the state's educational and workforce development needs. In response to workforce demands of our region as well as student input, SOU has launched new degree programs in the past year, including an Innovation and Leadership degree completion program. This multidisciplinary bachelor's degree program for working professionals is designed with those who are emerging leaders within their organizations and communities. During the 2014-2015 year we also developed a new Bachelor of Fine Arts in Creative Writing program which was launched in fall 2015. This program expands upon what was previously a minor offering.

The 2014-2015 fiscal year was also a strong year for philanthropy, as the SOU Foundation received a total of $1.9 million in charitable giving. The SOU Foundation also transferred $3.2 million in endowment distribution and program support.

Regarding facilities, we continue to remodel and upgrade the University's physical plant. The construction boom that we have been experiencing in recent years continued, as most of the construction on a $22 million remodel of our Science Building was completed. After being closed during the construction phase, students began learning and researching in new, state-of-the-art laboratories and classrooms when classes began this fall. Additionally, our national champion football team and other outdoor sports programs are now competing on a new playing surface and track, which were installed at Raider Stadium in fiscal year 2014-2015. Three additional large capital construction projects are in various stages of planning and are scheduled to break ground in 2016 and 2017.

With strong financial management by our administration and Board, SOU will continue to work to maintain affordability. As Southern Oregon's choice for post-secondary education for 143 years, we look to our strong record of service to the state, students, and community, as well as our exciting and promising future as we plan and build for the next 143 years.

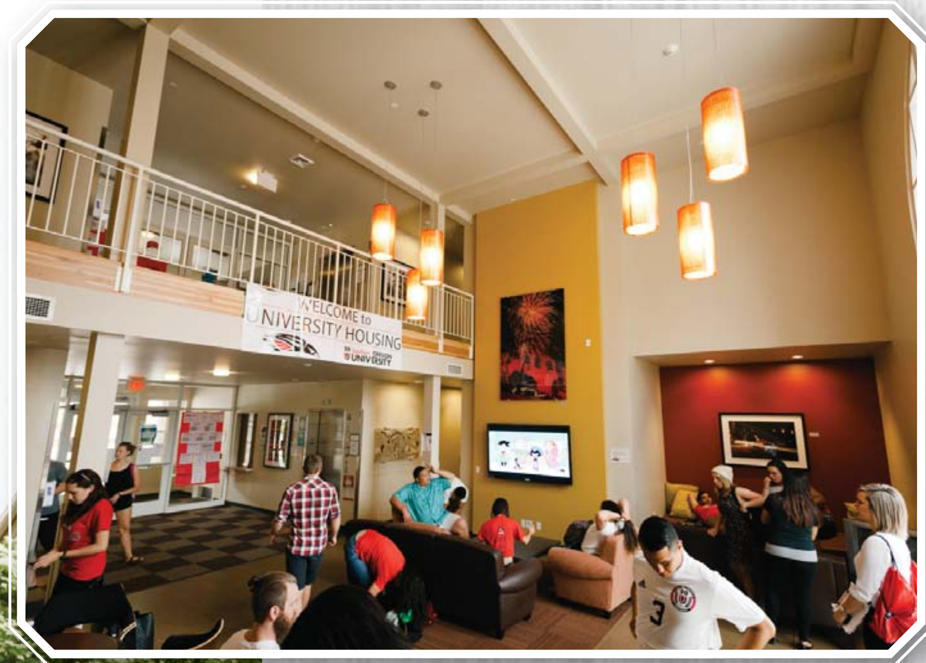
## Southern Oregon University

During the 2014-15 fiscal year, SOU continued to benefit from private philanthropic contributions. Gifts and pledges to the SOU Foundation totaled just shy of $2 million. Nearly 60% of all gifts came from foundations and other individuals in the region who believe in the future of Southern Oregon University. Commitments from alumni and corporations made up the balance of support. The foundation's endowment also grew, surpassing the $25 million mark for the first time in its history.

Highlights of the year in philanthropy include:

- The SOU Foundation distributed more than $3.2 million to the university through earnings on its endowment as well as program support. In just five years, this amount has increased by nearly $1 million.
- The inaugural Count Me In campaign to create new scholarships for students raised more than $214,000 in just 100 hours. The campaign's success was the result of a social media campaign that quickly turned into a calling for SOU students, faculty members, community leaders, alumni, and businesses. Nearly 450 donors participated, creating 100 scholarships for students with high financial need. Funds raised during the campaign immediately helped 40 students during the 2014-15 academic year. Another 50 students were to benefit in the 2015-16 academic year.
- More than $1 million in scholarship support was distributed by the SOU Foundation to students for the first time in history. Donors continue to see scholarships as a critical way to help students succeed and have prioritized gifts to support them.
- Among the foundation's largest gifts during the year was a new Concert Steinway D (with two actions) valued at more than $150,000. The concert piano was dedicated during the university's annual Tutunov Piano Series.
- Chamber Music Concerts was heavily supported by donors during the year, with more than $250,000 going to one of the university's oldest musical series.
- 2014-15 was a watershed year for SOU athletics, finishing sixth of 252 member schools in the NAIA Learfield Sports Directors' Cup standings. Fans supported SOU athletes on the field and in the classroom, providing more than $700,000 in support. The most significant support came from the annual Lithia/Raider Club Golf Shootout, which brought in more than $300,000 for the first time.

- The number of applications and admitted students both reached three-year highs for fall 2014, as did the percent of admitted students. The University also experienced a three-year high in fall 2014 in the number of minority students enrolled as well as the number of new admits from Oregon community colleges, illustrating our commitment to providing access to quality higher education for all Oregonians.
- During the fiscal year 2014-2015, SOU graduated another large class, conferring nearly 1,000 degrees, including more than 220 master's degrees.
- Worked with regional high schools and community colleges to develop creative strategic partnerships and opportunities to effectively and efficiently deliver higher education services throughout our region.
- Welcomed the institution's inaugural Board of Trustees.
- In 2014, we embarked on a retrenchment plan in order to better ensure the financial stability of Southern Oregon University. Our fiscal year 2014-2015 ending fund balance as a percent of revenues exceeded earlier retrenchment plan projections.
- Fall to fall retention of first-time, full-time students increased year-over-year from 68 percent to 74 percent. Retaining our students is not only a top academic priority, but also saves substantial money, as it costs much more to recruit and attract a new student than to keep a student once they are already on campus.
- Launched the "Count Me In" campaign, a new, 100-hour social media-driven initiative that raised more than $210,000 in new scholarships for students while attracting donations from more than 400 alumni, faculty, staff, students, and community members, many of whom were first-time donors. The campaign also raised awareness of SOU's distinctive programs and commitment to student success.
- The Honors College program had an extremely successful year, generating approximately 100 qualified applicants for just 25 open positions. Those who were not in the top 25 were offered partial scholarships. Of 34 students who were contacted about a partial scholarship when their Honors College application was denied, 33 responded positively and attended SOU.
- Launched the Oregon Center for the Arts at Southern Oregon University. The Oregon Center for the Arts brings creatives together to practice their individual artistic passions while inspiring one another across the disciplines. The Oregon Center for the Arts is home to multiple academic programs, including Creative Writing, Dance and Movement, Music, Theatre, and Emerging Media and Digital Arts.
- Won the NAIA National Championship in football and had SOU's highest-ever ranking in the NAIA Director's Cup, which is awarded annually to the nation's best overall collegiate athletics program.
- Named one of the top 25 LGBTQ-Friendly campuses in the United States by Campus Pride.



## Capital Projects Update

**Student Recreation Center (under construction)**

- The Student Recreation Center will provide approximately 47,000 square feet of space, including two multipurpose courts, fitness area, suspended running track, climbing wall, and offices and space for SOU's Outdoor Program. It was created by a referendum of the student body and funded with student fees.

**McNeal Pavilion (under construction)**

- McNeal Pavilion is home to SOU's Physical Education and Athletics departments. This project will include classrooms, competition gymnasium, locker rooms, sports medicine facilities, ticket office, and offices for the Physical Activity and Leadership program and Athletic department. This project is being funded by the State of Oregon. In order to realize efficiencies and cost savings, construction of the Student Recreation Center and McNeal Pavilion remodel will take place simultaneously and on a shared footprint.

**Theatre Building (planning has begun)**

- This project includes an addition and remodel to the existing facility. It features two new teaching studios and new offices. Existing classrooms and lobby area will receive significant improvements. This project is being funded by the State of Oregon.
- Jefferson Public Radio (JPR), a department of SOU, will construct a 4,500 foot addition to the Theatre Building in order to relocate from its current space and expand educational opportunities for students. The JPR section of this project is being funded by supporters of Jefferson Public Radio.

## INDEPENDENT AUDITORS' REPORT

Members of the Board

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Southern Oregon University (the University), an institution of higher education of the Oregon University System (the System), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### *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.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Southern Oregon University Foundation (the Foundation), which represents 100 percent of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 University'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 University'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 opinions.

### *Opinions*

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matters*

As discussed in Note 1 (A), the financial statements present only the University, and do not purport to, and do not, present fairly the financial position of the System as of June 30, 2015, the changes in its financial position, or its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1(B), to the financial statements, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, for the year ended June 30, 2015, which represents a change in accounting principle. As of July 1, 2014, the University's net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note 1(S).

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Schedule of the University's Contributions, the Schedule of the University's Proportionate Share of the Net Pension Asset, and the Schedule of Funding Status of Other Postemployment Benefits listed as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

The Message from the President has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Greenwood Village, Colorado
December 15, 2015

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| As of June 30, | | 2015 |
|---|---|---|
| | | (In thousands) |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and Cash Equivalents (Note 2) | $ | 7,133 |
| Collateral from Securities Lending (Note 2) | | 1,695 |
| Accounts Receivable, Net (Note 3) | | 5,698 |
| Notes Receivable, Net (Note 4) | | 986 |
| Inventories | | 28 |
| Prepaid Expenses | | 316 |
| **Total Current Assets** | | 15,856 |
| **Noncurrent Assets** | | |
| Cash and Cash Equivalents (Note 2) | | 42,351 |
| Investments (Note 2) | | 20,751 |
| Notes Receivable, Net (Note 4) | | 17,154 |
| Net Pension Asset (Note 13) | | 4,707 |
| Capital Assets, Net of Accumulated Depreciation (Note 5) | | 96,864 |
| **Total Noncurrent Assets** | | 181,827 |
| **Total Assets** | $ | 197,683 |
| **DEFERRED OUTFLOWS OF RESOURCES** | $ | 3,434 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts Payable and Accrued Liabilities (Note 6) | $ | 9,064 |
| Deposits | | 3,186 |
| Obligations Under Securities Lending (Note 2) | | 1,695 |
| Current Portion of Long-Term Liabilities (Note 8) | | 7,227 |
| Unearned Revenues | | 3,771 |
| **Total Current Liabilites** | | 24,943 |
| **Noncurrent Liabilities** | | |
| Long-Term Liabilities (Note 8) | | 140,309 |
| **Total Noncurrent Liabilities** | | 140,309 |
| **Total Liabilities** | $ | 165,252 |
| **DEFERRED INFLOWS OF RESOURCES** | $ | 9,082 |
| **NET POSITION** | | |
| Net Investment in Capital Assets | $ | 12,173 |
| Restricted For: | | |
| Nonexpendable Endowments | | 1,812 |
| Expendable: | | |
| Gifts, Grants and Contracts | | 1,595 |
| Student Loans | | 3,180 |
| Capital Projects | | 3,544 |
| Debt Service | | 2,825 |
| Unrestricted | | 1,654 |
| **Total Net Position** | $ | 26,783 |

The accompanying notes are an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

## SOUTHERN OREGON UNIVERSITY FOUNDATION - COMPONENT UNIT

| As of June 30, | | 2015 |
|---|---|---|
| | | (In thousands) |
| **ASSETS** | | |
| Cash and Cash Equivalents | $ | **830** |
| Contributions, Pledges and Grants Receivable, Net | | **106** |
| Investments (Note 2) | | **25,934** |
| Prepaid Expenses and Other Assets | | **36** |
| Property and Equipment, Net | | **1,972** |
| **Total Assets** | **$** | **28,878** |
| **LIABILITIES** | | |
| Accounts Payable and Accrued Liabilities | $ | **15** |
| Accounts Payable to University | | **674** |
| Obligations to Beneficiaries of Split-Interest Agreements | | **512** |
| Deposits and Unearned Revenue | | **210** |
| **Total Liabilities** | **$** | **1,411** |
| **NET ASSETS** | | |
| Unrestricted | $ | **1,279** |
| Temporarily Restricted | | **6,682** |
| Permanently Restricted | | **19,506** |
| **Total Net Assets** | **$** | **27,467** |

The accompanying notes are an integral part of these financial statements.

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

## SOUTHERN OREGON UNIVERSITY

| For the Year Ended June 30, | 2015 |
|---|---|
| | (In thousands) |
| **OPERATING REVENUES** | |
| Student Tuition and Fees (Net of Allowances of $9,592) | $ 28,043 |
| Federal Grants and Contracts | 1,488 |
| State and Local Grants and Contracts | 748 |
| Nongovernmental Grants and Contracts | 3,821 |
| Educational Department Sales and Services | 2,457 |
| Auxiliary Enterprises Revenues (Net of Allowances of $586) | 10,765 |
| Other Operating Revenues | 1,019 |
| **Total Operating Revenues** | 48,341 |
| **OPERATING EXPENSES** | |
| Instruction | 25,942 |
| Research | 679 |
| Public Service | 2,995 |
| Academic Support | 5,683 |
| Student Services | 4,448 |
| Auxiliary Programs | 14,675 |
| Institutional Support | 7,582 |
| Operation and Maintenance of Plant | 3,979 |
| Student Aid | 7,522 |
| Other Operating Expenses | 4,384 |
| **Total Operating Expenses** (Note 11) | 77,889 |
| **Operating Loss** | (29,548) |
| **NONOPERATING REVENUES (EXPENSES)** | |
| Government Appropriations (Note 12) | 17,332 |
| Financial Aid Grants | 10,556 |
| Investment Activity (Note 10) | 440 |
| Gain (Loss) on Sale of Assets, Net | 11 |
| Interest Expense | (4,558) |
| Other Nonoperating Items | 4,227 |
| **Net Nonoperating Revenues** | 28,008 |
| **Income (Loss) Before Other Nonoperating Revenues** | (1,540) |
| Debt Service Appropriations (Note 12) | 2,852 |
| Capital Grants and Gifts | 96 |
| Transfers within OUS | 749 |
| **Total Other Nonoperating Revenues** | 3,697 |
| **Increase In Net Position Prior to Special/ Extraordinary Items** | 2,157 |
| **SPECIAL AND EXTRAORDINARY ITEMS** | |
| Special Item - Change in Entity (Note 9) | 11,244 |
| **Increase In Net Position After Special/ Extraordinary Items** | 13,401 |
| **NET POSITION** | |
| Beginning Balance | 21,976 |
| Change in Accounting Principle | (8,594) |
| Beginning Balance, Restated | 13,382 |
| **Ending Balance** | $ 26,783 |

The accompanying notes are an integral part of these financial statements.

## STATEMENT OF ACTIVITIES
## SOUTHERN OREGON UNIVERSITY FOUNDATION - COMPONENT UNIT

| For the Year Ended June 30, | | 2015 |
|---|---|---|
| | | (In thousands) |
| **CHANGE IN UNRESTRICTED NET ASSETS** | | |
| **REVENUES** | | |
| Grants, Bequests and Gifts | $ | 673 |
| Investment Income, Net | | 209 |
| Net Assets Released From Restrictions | | 2,442 |
| Other Revenues | | 11 |
| **Total Revenues** | | **3,335** |
| **EXPENSES** | | |
| University Support | | 2,447 |
| General and Administrative | | 438 |
| Fundraising | | 525 |
| Other Expenses | | 2 |
| **Total Expenses** | | **3,412** |
| **Increase (Decrease) In Unrestricted Net Assets** | | **(77)** |
| **CHANGE IN TEMPORARILY RESTRICTED NET ASSETS** | | |
| **REVENUES** | | |
| Grants, Bequests and Gifts | | 1,407 |
| Investment Income, Net | | 103 |
| Other Revenues | | 614 |
| Net Assets Released From Restrictions | | (2,442) |
| **Increase (Decrease) In Temporarily Restricted Net Assets** | | **(318)** |
| **CHANGE IN PERMANENTLY RESTRICTED NET ASSETS** | | |
| **REVENUES** | | |
| Grants, Bequests and Gifts | | 322 |
| Change in Value of Life Income Agreements | | (50) |
| **Increase (Decrease) In Permanently Restricted Net Assets** | | **272** |
| **Increase (Decrease) In Total Net Assets** | | **(123)** |
| Beginning Balance | | **27,467** |
| **Ending Balance** | **$** | **27,344** |

The accompanying notes are an integral part of these financial statements.

| For the Year Ended June 30, | 2015 |
|---|---|
| | (In thousands) |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Tuition and Fees | $ 27,878 |
| Grants and Contracts | 6,082 |
| Educational Department Sales and Services | 2,457 |
| Auxiliary Enterprises Operations | 10,762 |
| Payments to Employees for Compensation and Benefits | (53,078) |
| Payments to Suppliers | (14,988) |
| Student Financial Aid | (7,394) |
| Other Operating Receipts | 2,304 |
| Net Cash Provided (Used) by Operating Activities | (25,977) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Government Appropriations | 17,332 |
| Financial Aid Grants | 10,556 |
| Other Gifts and Private Contracts | 4,227 |
| Net Internal Agency Fund Receipts (Payments) | 144 |
| Net Transfers Within OUS | 749 |
| Cash Transfers Due to Change in Entity | 9,797 |
| Net Cash Provided (Used) by Noncapital Financing Activities | 42,805 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Debt Service Appropriations | 1,909 |
| Capital Grants and Gifts | 8 |
| Bond Proceeds from Capital Debt | 45,482 |
| Sales of and Adjustments to Capital Assets | (61) |
| Purchases of Capital Assets | (18,576) |
| Interest Payments on Capital Debt | (4,271) |
| Principal Payments on Capital Debt | (13,404) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | 11,087 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Net Sales (Purchases) of Investments | (12,078) |
| Income on Investments and Cash Balances | 167 |
| Net Cash Provided (Used) by Investing Activities | (11,911) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 16,004 |
| CASH AND CASH EQUIVALENTS | |
| Beginning Balance | 33,480 |
| Ending Balance | $ 49,484 |

The accompanying notes are an integral part of these financial statements.

| For the Year Ended June 30, | | 2015 |
|---|---|---|
| | | (In thousands) |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating Loss | $ | (29,548) |
| Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation Expense | | 4,161 |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | | 1,571 |
| Notes Receivable | | (823) |
| Inventories | | 114 |
| Prepaid Expenses | | (222) |
| Accounts Payable and Accrued Liabilities | | 4,297 |
| Long-Term Liabilities | | (31) |
| Unearned Revenue | | 394 |
| Pension Expense Related to Net Pension Liability | | (5,890) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | $ | (25,977) |
| NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS | | |
| Capital Assets Acquired by Gifts-in-Kind | $ | 88 |
| Increase in Fair Value of Investments Recognized as a Component of Investment Activity | | 273 |

The accompanying notes are an integral part of these financial statements.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

The Oregon State Board of Higher Education (Board), a citizen board appointed by the Governor with confirmation by the State Senate, governs the four state-supported institutions of higher learning (institutions) in Oregon. These institutions are known as the Oregon University System (OUS). The law creating the Board was passed in 1929 by the Oregon Legislature and went into effect July 1, 1931. Southern Oregon University (SOU) is one of the four universities that make up the OUS.

The SOU financial reporting entity is reported under the heading of University on the Basic Financial Statements. SOU is located in Ashland, Oregon. The SOU reporting entity also includes one university foundation which is reported as a discretely presented component unit in the SOU Financial Statements. See "Note 19. University Foundation" for additional information relating to this component unit. Organizations that are not financially accountable to SOU, such as booster and alumni organizations, are not included in the reporting entity.

SOU is also reported as one of the four universities that make up OUS and is reported as part of the OUS Annual Financial Report. OUS is a part of the primary government of the State of Oregon (State) and is included as a proprietary (enterprise) fund in the Comprehensive Annual Financial Report issued by the State.

These financial statements present only SOU, including the discretely presented component unit described above, and are not intended to present the financial position, changes in financial position, or, where applicable, the cash flows of the OUS as a whole in conformity with accounting principles generally accepted in the United States of America.

Senate Bill 270 was passed by the Oregon Legislature during fiscal year 2013 which established a pathway for SOU to become an independent public body legally separate from OUS. The State Board of Higher Education conditionally endorsed SOU to become a separate legal entity with an independent governing board effective July 1, 2015. SOU will not be included in the OUS financial reporting entity starting with the fiscal year 2016 financial report. SOU will be included as a component unit in the Comprehensive Annual Financial Report issued by the State starting with the fiscal year 2016 financial report.

### B. Financial Statement Presentation

SOU financial accounting records are maintained in accordance with U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB). The financial statement presentation required by GASB No. 35 provides a comprehensive, entity-wide perspective of SOU assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

In preparing the financial statements, significant interfund transactions and balances between university funds have been eliminated. Unless otherwise stated, dollars are presented in thousands.

Financial statements of the university foundation are presented in accordance with generally accepted accounting principles prescribed by the Financial Accounting Standards Board (FASB).

**NEWLY IMPLEMENTED ACCOUNTING STANDARDS**

SOU implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for the fiscal year ended June 30, 2015. GASB No. 68 improves accounting and financial reporting by state and local governments for pensions. Concurrently, SOU implemented GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective for the fiscal year ended June 30, 2015. GASB No. 71 updates GASB No. 68 and refers to contributions, if any, made to a defined benefit pension plan after the measurement date of the beginning net pension liability. As a result of the implementation of GASB Nos. 68 and 71, SOU restated beginning net position on the Statement of Revenues, Expenses and Changes in Net Position by ($8,594) and reduced Pension Expense by $5,890 resulting in a change in Unrestricted Net Position of $2,704. Ending Net Pension Asset as of June 30, 2015 is $4,707.

SOU implemented GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for the fiscal year ended June 30, 2015. The objective of this statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The adoption of GASB No. 69 did not materially impact the SOU financial statements.

**UPCOMING ACCOUNTING STANDARDS**

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements and is effective for the fiscal year ending June 30, 2016. The adoption of GASB No. 72 is not expected to have a material impact on the SOU financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. GASB No. 73 improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability and is effective for the fiscal year ending June 30, 2017. SOU is analyzing the effects of the adoption of GASB 73 and is uncertain of the impact on the financial statements and related reporting requirements at this time.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability and is effective for the fiscal year ending June 30, 2017. GASB No. 74 is not applicable to SOU.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB No. 75 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability and is effective for the fiscal year ending June 30, 2018. SOU is analyzing the effects of the adoption of GASB No. 75 and is uncertain of the impact on the financial statements and related reporting requirements at this time.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB No. 76 identifies, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP) and is effective for the fiscal year ending June 30, 2016. The adoption of GASB No. 76 is not expected to have a material impact on the SOU financial statements.

## C. Basis of Accounting

For financial reporting purposes, SOU is considered a special-purpose government engaged only in business-type activities. Accordingly, the SOU financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when incurred.

## D. Cash and Cash Equivalents

Cash and cash equivalents includes highly liquid investments with original maturities of three months or less. Cash and cash equivalents consists of: cash on hand, cash and investments held by the State of Oregon in the Oregon Short-Term Fund (OSTF), cash and cash equivalents restricted for the payment of the current portion of debt service, and cash deposits, if any, of debt proceeds in investment funds held by a trustee.

## E. Investments

Investments are reported at fair value as determined by market prices. Unrealized gains or losses on investments are reported as investment activity in the Statement of Revenues, Expenses, and Changes in Net Position.

Investments are classified as noncurrent assets in the Statement of Net Position.

## F. Inventories

Inventories are recorded at the lower of average cost or market and consist primarily of supplies in storerooms and physical plant stores.

## G. Capital Assets

Capital assets are recorded at cost on the date acquired or at fair market value on the date donated. SOU capitalizes equipment with unit costs of five thousand dollars or more and an estimated useful life of greater than one year. SOU capitalizes real property expenditures that increase the functionality and/or extend the useful life of the real property if total expenditures exceed the capitalization thresholds of $50 to $100, depending on the type of real property. Intangible assets valued in excess of $100 are capitalized. Expenditures below the capitalization threshold and repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

SOU capitalizes interest expense on projects exceeding $20,000 that are partially or fully funded by XI-F(1) debt or internally generated funds. For the fiscal year ended 2015, SOU capitalized $75 of interest.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings, 10 to 20 years for infrastructure and land improvements, 10 years for library books and 5 to 11 years for equipment. Amortization terms of intangible assets vary depending on the factors relating to the specific asset. Depreciation is not applied to museum collections, works of art or historical treasures, or library special collections.

## H. Unearned Revenues

Unearned revenues include amounts received for tuition and fees, grants and contracts, lease income and auxiliary enterprises activities in which cash has been received, but revenues will be earned in subsequent fiscal year(s).

## I. Compensated Absences

SOU accrues a liability for vacation leave and other compensated absences that were earned but not used during the current or prior fiscal year for which employees can receive compensation in a future period. Sick leave is recorded as an expense when paid. There is no payout provision for unused sick leave and no liability exists for terminated employees.

## J. Net Pension

The net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense are actuarially determined at the system-wide Plan level and are allocated to employers based on their proportionate share. SOU is included in the proportionate share for all state agencies. The SOU proportionate share of all state agencies is allocated by the Oregon State Department of Administrative Services. The system-wide Plan uses the accrual basis of accounting. For more information, see "*Basis of Accounting*" in Note 13 on page 28.

## K. Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources represent the consumption of net position in one period that is applicable to future periods. Deferred inflows of resources represent the acquisition of net position that is applicable to future periods. Deferred outflows and inflows are related to defined benefit pension plans, and to economic loss on refunding of various bonds which is a result of the difference in the carrying value of the refunded debt and its reacquisition price.

## L. Net Position

SOU's net position is classified as follows:

### NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets represents the total investment in capital assets, net of accumulated depreciation and amortization, and outstanding debt obligations related to those capital assets.

### RESTRICTED – NONEXPENDABLE

Restricted nonexpendable consists of endowment funds in which donors have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income. The income may either be expended or, depending on the terms of the gift instrument, added to principal.

### RESTRICTED – EXPENDABLE

Restricted expendable includes resources which SOU is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

### UNRESTRICTED

Unrestricted are resources that may be used at the discretion of the Board. When an expense is incurred that can be paid using either restricted or unrestricted resources, restricted resources are applied first.

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### M. Endowments

Oregon Revised Statutes (ORS) Section 351.130 gives SOU the authority to use the interest, income, dividends, or profits of endowments. Current OUS Board policy is to annually distribute, for spending purposes, four percent of the preceding 20 quarter moving average of the market value of the endowment funds and to maintain the purchasing power of the funds as nearly as prudent investment permits. In accordance with current board policy, the amount available for distribution during fiscal year 2016 is estimated to be $78. For the year ended June 30, 2015, the net amount of appreciation available for authorization for expenditure was $385.

Nonexpendable Endowments on the Statement of Net Position of $1,812 at June 30, 2015, represent the original corpus of true endowment funds and does not include the accumulated gains of those endowments.

In June 2015, $2,300 in cash and securities were transferred from the Higher Education Endowment Fund into a separately managed account managed by the State Treasury for the benefit of SOU.

### N. Income Taxes

SOU is treated as a governmental entity for tax purposes. As such, SOU is generally not subject to federal and state income taxes. However, SOU remains subject to income taxes on any income that is derived from a trade or business regularly carried on and not in furtherance of the purpose for which it was granted exemption from income taxes. No income tax is recorded for the year ended June 30, 2015, because there is no significant amount of taxes on such unrelated business income for SOU.

### O. Revenues and Expenses

SOU has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

Operating revenues and expenses generally have the characteristics of exchange transactions. These transactions can be defined as an exchange in which two or more entities both receive and sacrifice value, such as purchases and sales of goods or services. Examples of operating revenues include student tuition and fees, sales and services of auxiliary enterprises, most federal, state and local grants and contracts, and other operating revenues. Examples of operating expenses include employee compensation and benefits, scholarships and fellowships, utilities, supplies and other services, professional fees, and depreciation expenses of capital assets.

Nonoperating revenues generally have the characteristics of nonexchange transactions. In a nonexchange transaction, SOU receives value without directly giving equal value in exchange. Examples of nonoperating revenues include state appropriations, nonexchange grants, gifts, and contributions. Nonoperating expenses are defined in GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments*. Examples of nonoperating expenses include interest on capital asset related debt and bond expenses.

### P. Allowances

Student tuition and fees and campus housing revenues included in auxiliary enterprises revenues are reported net of scholarship allowances. A scholarship allowance is the difference between the revenues charged to students and the amounts actually paid. SOU has two types of scholarship allowances that net into tuition and fees. Tuition and housing waivers, provided directly by SOU, amounted to $3,288 for the fiscal year ended 2015. Revenues from financial aid programs (e.g., Pell Grants, Supplemental Educational Opportunity Grants, and Oregon Opportunity Grants) used for paying student tuition and fees and campus housing was estimated to be $6,401 for the fiscal year ended 2015. Bad debt expense is included as an allowance to operating revenues and is estimated to be $489 for the fiscal year ended 2015.

### Q. Federal Student Loan Programs

SOU receives proceeds from the Federal Direct Student Loan Program. Since SOU transmits these grantor supplied moneys without having administrative or direct financial involvement in the program, these loans are reported in an agency fund. Federal student loans received by SOU students but not reported in operations was $30,090 for the fiscal year ended 2015.

### R. Use of Estimates

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

### S. Change in Accounting Principle

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, are effective for fiscal year 2015. The State of Oregon Public Employees Retirement System did not determine the amounts as of June 30, 2013 so restatement of all prior periods presented is not possible. The cumulative effect of applying GASB Nos. 68 and 71 is reported as a restatement of beginning net position as of July 1, 2014 as follows:

| | | July 1, 2014 |
|---|---|---|
| Beginning Net Position | $ | 21,976 |
| Less Beginning Net Pension Liability | | (10,597) |
| Plus Beginning Deferred Outflows | | 2,003 |
| Total Change in Accounting Principle | $ | (8,594) |
| Restated Beginning Net Position | $ | 13,382 |

## 2. CASH AND INVESTMENTS

Substantially all of SOU's current cash and investments were held in custody with the Oregon State Treasury (State Treasury) during fiscal year 2015. These invested assets are managed through several commingled investment pools at the State Treasury. The operating funds of SOU are commingled with cash from other public universities in Oregon and referred to collectively as the Public University Fund (PUF). The investments held in the PUF are managed by the State Treasury and administered by the statutorily defined Designated University, currently Oregon State University. SOU is a participant in the PUF investment pool, along with other public universities from the State of Oregon. Each underlying investment pool has an investment policy and set of objectives identifying risk and return parameters. The Oregon Investment Council (OIC) provides oversight and counsel on the investment policies for each investment pool held in the PUF.

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In general, deposits and investment securities as described below, are exposed to various risks such as credit, concentration of credit, custodial credit, interest rate and foreign currency. Although the objective of each investment pool is to preserve capital within defined risk parameters, it is likely that the value of the investment securities will fluctuate during short periods of time, and it is possible that such changes could materially affect the amounts reported in the financial statements. For more information on the investment risk exposures, see note 2B below.

For full disclosure regarding cash and investments held at the State Treasury, a copy of the State Treasury audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St. NE, Suite 100, Salem, OR 97301 or via the internet at www.oregon.gov/treasury/Reports/Pages/Annual-Reports.aspx.

## A. Cash and Cash Equivalents

**DEPOSITS WITH STATE TREASURY**

SOU maintains a portion of its current cash balances on deposit with the State Treasury. These deposits are held on a pooled basis as described above in the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool for use by all state and related agencies. The State Treasurer invests these deposits in high-grade short-term investment securities. At the fiscal year ended June 30, 2015, SOU cash and cash equivalents on deposit at the State Treasury was $15,242.

Cash and Cash Equivalents are classified as current and noncurrent which include both restricted and unrestricted cash. The current portion includes $2,493 in funds held for payroll liabilities and $333 held for debt service payments. The noncurrent portion includes $61 in funds held for SOU student groups and campus organizations and $4,281 held for debt service payments.

**CUSTODIAL CREDIT RISK—DEPOSITS**

Custodial credit risk is the risk that, in the event of a financial institution failure, cash balances will not be returned to a depositor. Since SOU cash balances held on deposit at the State Treasury are invested consistently, custodial credit risk exposure to the State Treasury is low.

**FOREIGN CURRENCY RISK—DEPOSITS**

Deposits in foreign currency run the risk of changing value due to fluctuations in foreign exchange rates. State Treasury deposits are in U.S. currency and therefore not exposed to foreign currency risk.

**OTHER DEPOSITS**

For the year ended June 30, 2015, SOU had vault and petty cash balances of $14 and cash held by trustee related to capital construction bonds in the amount of $34,229 for the fiscal year ended June 30, 2015. Cash held by trustee is included in noncurrent cash in the Statement of Net Position.

## B. Investments

SOU operating funds are invested in the PUF and managed by the State Treasury. The SOU endowment assets are managed separately by the State Treasury. See Note 1.M for additional information regarding SOU endowments. The investment policies are governed by statute, the Oregon Investment Council (OIC), and the Board. In accordance with ORS, investments of those funds are managed as a prudent investor would do, exercising reasonable care, skill and caution. While the State Treasury is authorized to utilize demand deposit accounts and fixed-income investments, equity investments must be directed by external investment managers who are under contract to the OIC .

Investments are all classified as noncurrent and include both restricted and unrestricted funds. At June 30, 2015, of the total $20,751 in investments, $2,060 are restricted endowments, which include both true and quasi endowments. Of the $18,692 invested in the PUF, $2,982 are funds held for payroll liabilities and undistributed student loans and $5,579 are held for debt service payments.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and such changes could materially affect the amounts reported in the Statement of Net Position.

Significant events in domestic and international investment markets or aggressive action by the Federal Open Market Committee to influence both short and long-term interest rates contribute to price volatility. Consequently, the fair value of SOU's portion of PUF pooled investments is exposed to price volatility which could result in a substantial change in the fair value of certain investments from the amounts reported as of June 30, 2015.

OUS monitors endowment investments to identify any accounts for which estimated fair value is less than historical value. As of June 30, 2015, SOU had no individually named permanent endowment funds with estimated fair values that, in total, were less than their permanently restricted or historical value.

Of SOU's total assets invested in the PUF investment pools, $11,632 are invested in an intermediate term fixed income pool managed by the State Treasury and $7,060 was invested in a long-term fixed income pool managed by the State Treasury. SOU follows the OUS endowment investment policy and follows State Treasury policy for investments of unspent bond proceeds.

Investments of the SOU discretely presented component units are summarized at June 30, 2015 as follows:

### COMPONENT UNIT

| Fair Value at June 30, | | 2015 |
|---|---|---|
| Investment Type: | | |
| Marketable Securities | $ | 24,808 |
| Money Market Funds and Cash | | 55 |
| Remainder Trusts, Unitrusts and Gift Anı | | 1,071 |
| Total Investments | $ | 25,934 |

**CREDIT RISK**

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. OUS has an investment policy for each segment of its investment portfolio. Of these, the policy on the endowment has the least restrictive credit requirements. The policy requires fixed income securities to have an average credit quality of A/Aa or better and limits below investment grade bonds to no more than 15 percent of the bond portfolio, exclusive of guaranteed investment contracts. The policy also permits holding unrated investments such as common stock, venture capital funds, and real estate.

Based on these parameters, as of June 30, 2015 approximately 35.7 percent of investments in the PUF pools and 34.5 percent of SOU endowments managed by the State Treasury are subject to credit risk reporting. Fixed income securities rated by the credit agencies as lower medium to high quality, indicating the issuer has a strong capacity to pay principal and interest when due, totaled $99,945 for investments in the PUF pools and $687 for SOU endowments managed by the State Treasury in fiscal year 2015. Fixed income securities which have not been evaluated by the rating agencies totaled $10,759 for investments in PUF pools and $25 for SOU endowments managed by the State Treasury in fiscal year 2015. The PUF Investment Pools totaled $307,454 at June 30, 2015, of which SOU owned $18,692 or 6.1 percent.

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#### CUSTODIAL CREDIT RISK

Custodial credit risk refers to OUS investments that are held by others and not registered in OUS's or the State Treasury's name. This risk typically occurs in repurchase agreements where cash is transferred to a broker-dealer in exchange for securities, but the securities are held by a separate trustee in the name of the broker-dealer. There are policy provisions around securities lending to control this risk. See "C. Securities Lending" in this footnote for additional information.

#### CONCENTRATION OF CREDIT RISK

Concentration of credit risk refers to potential losses if total investments are concentrated with one or few issuers. OUS policy for reducing this risk in fixed income securities is that, with the exception of U.S. Government and Agency issues, no more than 10 percent of the bond portfolio, at market value, will be invested in securities of a single issuer or no more than five percent of the individual issue. For all other types of fixed income investments, not more than five percent of the market value of any investment fund will be invested in any single security, unless part of an index fund.

#### FOREIGN CURRENCY RISK

Foreign currency risk is the risk that investments may lose value due to fluctuations in foreign exchange rates. No amounts of any SOU investments were primarily invested in international debt or equities at June 30, 2015.

#### INTEREST RATE RISK

Investments in fixed income securities are subject to the risk that changes in interest rates will adversely affect the fair value of the investments. As of June 30, 2015, securities in the PUF Investment Pool held subject to interest rate risk totaling $110,017 had an average duration of 3.38 years. Duration measures the change in the value of a fixed income security that will result from a 1 percent change in interest rates.

### C. Securities Lending

In accordance with the State investment policies, the State Treasurer participates in securities lending transactions. The State Treasurer has authorized its custodian to act as its agent in the lending of SOU and OSTF's securities pursuant to a form of loan agreement, in accordance with OSTF investment policies. There were no significant violations of the provisions of securities lending agreements during the year ended June 30, 2015. Amounts reported on SOU's Statement of Net Position as Collateral From and Obligations Under Securities Lending are a percent share of the amount owned by the public universities in total.

The State Treasurer's securities lending agent lent short-term and fixed income securities and received as collateral U.S. dollar cash. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security. The State Treasurer did not impose any restrictions during the year on the amount of the loans that the securities lending agent made on its behalf. The State Treasurer is fully indemnified by its securities lending agent against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

The Custodian is authorized by the Securities Lending Agreement to invest cash collateral received for SOU securities on loan in the OSTF. At June 30, 2015, the OSTF comprised commercial paper, U.S. agency securities, time certificates of deposit, and corporate notes. The funds' rules provide that broker/dealers meet certain qualifications and that investments are delivered to and held by a third party custodian, which holds the funds' securities in the State of Oregon's name.

The cash collateral of OSTF securities on loan was invested in a short-term investment fund (STIF) maintained by the custodial agent, into U.S. agency securities, and corporate notes. The investments were held by a third-party custodian in the State of Oregon's name. The STIF is not rated by a nationally recognized statistical rating organization, although the STIF's portfolio rules provide minimum requirements with respect to the credit quality of the STIF.

The State Treasurer and borrowers maintain the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with the cash collateral generally do not match the maturities of the securities loans.

## 3. ACCOUNTS RECEIVABLE

Accounts Receivable, including amounts due from component units, comprised the following:

| | June 30, 2015 |
|---|---|
| Student Tuition and Fees | $ 4,775 |
| Other | 1,659 |
| Federal Grants and Contracts | 286 |
| Auxiliary Enterprises and Other Operating Activities | 1,965 |
| State, Other Government, and Private Gifts, Grants and Contracts | 445 |
| Component Units | 30 |
| | 9,160 |
| Less: Allowance for Doubtful Accounts | (3,462) |
| Accounts Receivable, Net | $ 5,698 |

## 4. NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2015. The program is funded through interest earnings and repayment of loans. Under certain conditions, the repayment of loans can be forgiven at differing annual rates ranging from 10 to 100 percent.

Federal Perkins loans deemed uncollectable are assigned to the U.S. Department of Education for collection. SOU has provided an allowance for uncollectible loans which in management's opinion, will absorb loans that will ultimately be written off. Notes Receivable comprised the following:

| | June 30, 2015 | | |
|---|---|---|---|
| | Current | Noncurrent | Total |
| Institutional and Other Student Loans | $ 479 | $ 1,209 | $ 1,688 |
| Federal Student Loans | 618 | 2,781 | 3,399 |
| Receivable for Construction Reimbursements | - | 13,700 | 13,700 |
| | 1,097 | 17,690 | 18,787 |
| Less: Allowance for Doubtful Accounts | (111) | (536) | (647) |
| Notes Receivable, Net | $ 986 | $ 17,154 | $ 18,140 |

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

## 5. CAPITAL ASSETS

The following schedule reflects the changes in capital assets:

| | Balance July 1, 2014 | Additions | Transfer Completed Assets | Retire. And Adjust. | Balance June 30, 2015 |
|---|---|---|---|---|---|
| **Capital Assets, Non-depreciable/Non-amortizable:** | | | | | |
| Land | $ 3,556 | $ - | $ - | $ - | $ 3,556 |
| Capitalized Collections | 1,491 | 70 | - | - | 1,561 |
| Construction in Progress | 1,546 | 18,641 | - | 72 | 20,259 |
| **Total Capital Assets, Non-depreciable/Non-amortizable** | 6,593 | 18,711 | - | 72 | 25,376 |
| **Capital Assets, Depreciable/ Amortizable:** | | | | | |
| Equipment | 10,101 | 351 | - | (19) | 10,433 |
| Library Materials | 14,456 | 238 | - | (54) | 14,640 |
| Buildings | 132,125 | 45 | - | - | 132,170 |
| Land Improvements | 1,779 | 38 | - | - | 1,817 |
| Improvements Other Than Buildings | 836 | - | - | - | 836 |
| Infrastructure | 2,995 | - | - | - | 2,995 |
| Intangible Assets | 2,091 | - | - | - | 2,091 |
| **Total Capital Assets, Depreciable/Amortizable** | 164,383 | 672 | - | (73) | 164,982 |
| **Less Accumulated Depreciation/ Amortization for:** | | | | | |
| Equipment | (7,704) | (643) | - | 19 | (8,328) |
| Library Materials | (12,949) | (364) | - | 54 | (13,259) |
| Buildings | (61,651) | (2,994) | - | - | (64,645) |
| Land Improvements | (1,710) | (31) | - | - | (1,741) |
| Improvements Other Than Buildings | (647) | (28) | - | - | (675) |
| Infrastructure | (2,867) | (23) | - | - | (2,890) |
| Intangible Assets | (1,878) | (78) | - | - | (1,956) |
| **Total Accumulated Depreciation/ Amortization** | (89,406) | (4,161) | - | 73 | (93,494) |
| **Total Capital Assets, Net** | $ 81,570 | $ 15,222 | $ - | $ 72 | $ 96,864 |
| **Capital Assets Summary** | | | | | |
| Capital Assets, Non-depreciable/ Non-amortizable | $ 6,593 | $ 18,711 | $ - | $ 72 | $ 25,376 |
| Capital Assets, Depreciable/ Amortizable | 164,383 | 672 | - | (73) | 164,982 |
| Total Cost of Capital Assets | 170,976 | 19,383 | - | (1) | 190,358 |
| Less Accumulated Depreciation/ Amortization | (89,406) | (4,161) | - | 73 | (93,494) |
| **Total Capital Assets, Net** | $ 81,570 | $ 15,222 | $ - | $ 72 | $ 96,864 |

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities comprised the following:

| | June 30, 2015 | |
|---|---|---|
| Services and Supplies | $ | 2,811 |
| Accrued Interest | | 1,580 |
| Salaries and Wages | | 4,011 |
| Contract Retainage Payable | | 661 |
| Other | | 1 |
| Total | $ | 9,064 |

## 7. OPERATING LEASES

### A. Receivables/Revenues

SOU receives income for land and property that is leased to non-state entities. Rental income received from leases was $614 for the year ended June 30, 2015. The original cost of assets leased, net of depreciation, was $3,141 for the year ended June 30, 2015. Minimum future lease revenue from noncancelable operating leases at June 30,2015 were:

| For the year ending June 30, | | |
|---|---|---|
| 2016 | $ | 254 |
| 2017 | | 343 |
| 2018 | | 433 |
| 2019 | | 550 |
| 2020 | | 735 |
| 2021-2025 | | 4,233 |
| 2026-2030 | | 7,113 |
| 2031-2035 | | 10,249 |
| 2036-2040 | | 11,985 |
| 2041-2045 | | 4,144 |
| Total Minimum Operating Lease Revenues | $ | 40,039 |

### B. Payables/Expenses

SOU leases building and office facilities and other equipment under non-cancelable operating leases. Total costs for such leases and rents were $359 for the year ended June 30, 2015. Minimum future lease payments on operating leases at June 30, 2015 were:

| For the year ending June 30, | | |
|---|---|---|
| 2016 | $ | 392 |
| 2017 | | 373 |
| 2018 | | 286 |
| 2019 | | 74 |
| Total Minimum Operating Lease Payments | $ | 1,125 |

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## 8. LONG-TERM LIABILITIES

Long-term liability activity was as follows:

| | Balance June 30, 2014 | Additions | Reductions | Balance June 30, 2015 | Amount Due Within One Year | Long-Term Portion |
|---|---|---|---|---|---|---|
| Long-Term Debt | | | | | | |
| Due to OUS: | | | | | | |
| General Obligation Bonds XI-F(1) | $ 34,743 | $ 14,947 | $ (2,724) | $ 46,966 | $ 1,809 | $ 45,157 |
| General Obligation Bonds XI-G | 22,347 | 6,062 | (6,503) | 21,906 | 1,032 | 20,874 |
| General Obligation Bonds XI-Q | 3,792 | 35,193 | (384) | 38,601 | 1,398 | 37,203 |
| Certificates of Participation (COPs) | 1,610 | - | (884) | 726 | 79 | 647 |
| Lottery Bonds | 29,693 | 2,980 | (3,801) | 28,872 | 1,189 | 27,683 |
| Oregon Department of Energy Loans (SELP) | 3,328 | - | (283) | 3,045 | 254 | 2,791 |
| Installment Purchase | 355 | - | (117) | 238 | 95 | 143 |
| Total Long-Term Debt | 95,868 | 59,182 | (14,696) | 140,354 | 5,856 | 134,498 |
| Other Noncurrent Liabilities | | | | | | |
| PERS pre-SLGRP pooled Liability | 4,291 | - | (187) | 4,104 | 165 | 3,939 |
| Compensated Absences | 1,645 | 1,124 | (1,013) | 1,756 | 1,109 | 647 |
| Other Postemployment Benefits | 1,031 | 55 | - | 1,086 | - | 1,086 |
| Employee Deferred Compensation | - | | | - | | - |
| Employee Termination Liabilities | - | | | - | | - |
| Early Retirement Liability | 246 | 98 | (108) | 236 | 97 | 139 |
| Total Other Noncurrent Liabilities | 7,213 | 1,277 | (1,308) | 7,182 | 1,371 | 5,811 |
| **Total Long-Term Liabilities** | $ 103,081 | $ 60,459 | $ (16,004) | $ 147,536 | $ 7,227 | $ 140,309 |

The schedule of principal and interest payments for SOU debt is as follows:

| | General Obligation Bonds | | | | Lottery | | Other | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|
| For the Year Ending June 30, | XI-F(1) | XI-G | XI-Q | COPs | Bonds | SELP | Borrowings | Payments | Principal | Interest |
| 2016 | $ 3,308 | $ 1,624 | $ 2,839 | $ 109 | $ 2,075 | $ 380 | $ 95 | $ 10,430 | $ 4,563 | $ 5,867 |
| 2017 | 3,645 | 1,627 | 2,842 | 109 | 2,076 | 236 | 95 | 10,630 | 4,748 | 5,882 |
| 2018 | 3,700 | 1,619 | 2,836 | 110 | 2,085 | 235 | 28 | 10,613 | 5,022 | 5,591 |
| 2019 | 3,521 | 1,513 | 2,831 | 110 | 1,591 | 236 | 20 | 9,822 | 4,709 | 5,113 |
| 2020 | 3,281 | 1,508 | 2,839 | 110 | 1,945 | 236 | - | 9,919 | 4,967 | 4,952 |
| 2021-2025 | 15,143 | 7,932 | 13,141 | 69 | 11,423 | 1,179 | - | 48,887 | 28,190 | 20,697 |
| 2026-2030 | 14,129 | 7,514 | 11,282 | 322 | 10,648 | 1,159 | - | 45,054 | 31,228 | 13,826 |
| 2031-2035 | 11,692 | 4,117 | 11,027 | - | 5,989 | 601 | - | 33,426 | 26,695 | 6,731 |
| 2036-2040 | 6,576 | 910 | 2,792 | - | - | - | - | 10,278 | 7,975 | 2,303 |
| 2041-2045 | 5,538 | - | - | - | - | - | - | 5,538 | 4,770 | 768 |
| 2046-2050 | 774 | - | - | - | - | - | - | 774 | 755 | 19 |
| Accreted Interest | | | | | | | | | 1,384 | (1,384) |
| | | | | | | | | | $ 125,006 | $ 70,365 |
| **Total Future Debt Service** | **71,307** | **28,364** | **52,429** | **939** | **37,832** | **4,262** | **238** | **195,371** | | |
| Less: Interest Component of Future Payments | (27,963) | (8,306) | (19,763) | (242) | (12,874) | (1,217) | - | (70,365) | | |
| **Principal Portion of Future Payments** | **43,344** | **20,058** | **32,666** | **697** | **24,958** | **3,045** | **238** | **125,006** | | |
| Adjusted by: | | | | | | | | | | |
| Unamortized Bond Premiums | 3,622 | 1,848 | 5,935 | 29 | 3,914 | - | - | 15,348 | | |
| **Total Long-Term Debt** | **$ 46,966** | **$ 21,906** | **$ 38,601** | **$ 726** | **$ 28,872** | **$ 3,045** | **$ 238** | **$ 140,354** | | |

The State of Oregon and the OUS Board issue various debt instruments to fund capital projects at all OUS institutions, including SOU. These debt instruments include General Obligation Bonds under articles XI-F(1), XI-G, and XI-Q of the Oregon Constitution, Certificates of Participation (COPs) and Lottery Bonds. Principal and interest amounts due relating to SOU's share of these debt issuances are payable to OUS. In addition, SOU also borrows funds from the Oregon Department of Energy. This debt obligation is paid directly to Oregon Department of Energy.

## A. General Obligation Bonds XI-F(1)

XI-F(1) bonds, with effective yields ranging from 0.14 percent to 7.0 percent, are due serially through 2046. During the fiscal year ended June 30, 2015, the OUS Board issued XI-F(1) bonded indebtedness on behalf of SOU as follows:

- $12,660 of Series 2015M XI-F(1) Tax Exempt bonds with an effective rate of 3.83 percent, due serially through 2046.
- $860 of Series 2015B XI-F(1) Tax Exempt bonds with an effective rate of 4.68 percent, due serially through 2034 for refunding.

## B. General Obligation Bonds XI-G

XI-G bonds, with effective yields ranging from 0.41 percent to 7.0 percent, are due serially through 2038. During the fiscal year ended June 30, 2015, the State issued XI-G bonded indebtedness on behalf of SOU as follows:

- $4,975 of Series 2015A XI-G Tax Exempt bonds with an effective rate of 4.8 percent, due serially through 2038 for refunding.

## C. General Obligation Bonds XI-Q

XI-Q bonds, with effective yields ranging from 0.19 percent to 4.4 percent, are due serially through fiscal year 2039. During the fiscal year ended June 30, 2015, the State issued XI-Q bonded indebtedness on behalf of SOU as follows:

- $28,885 of Series 2015FG XI-Q Tax Exempt bonds with an effective rate of 1.91 percent, due serially through 2039 for capital construction.
- $732 of Series 2015H XI-Q Tax Exempt bonds with an effective rate of 4.83 percent, due serially through 2027 for refunding.

## D. Certificates of Participation

COPs, with effective yields ranging from 2.69 percent to 5.0 percent, are due through fiscal year 2029. The State has not issued COPs on behalf of OUS since fiscal year 2010.

## E. Lottery Bonds

Lottery Bonds, with effective yields ranging from 0.25 percent to 4.57 percent, are due through fiscal year 2033. During the fiscal year ended June 30, 2015, the State issued Lottery Bonds on SOU's behalf as follows:

- $606 of 2014 Series B Taxable and Tax Exempt bonds with an average interest rate of 5.0 percent, due serially through 2027, for refunding.
- $1,877 of 2015 Series C Tax Exempt bonds with an average interest rate of 4.73 percent, due serially through 2028, for refunding.

## F. Oregon Department of Energy Loans (SELP)

SOU has entered into loan agreements with the State of Oregon Department of Energy (DOE) Small Scale Energy Loan Program (SELP) for energy conservation projects at SOU. SOU makes monthly loan payments (principal and interest) to the DOE in accordance with the loan agreements. SELP loans, with interest rates ranging from 3.83 percent to 5.7 percent, are due through 2033.

## G. Defeased Debt

SOU participates in a debt portfolio managed by the OUS. From time to time and when fiscally appropriate, OUS will sell bonds and use the proceeds to defease other debt.

During the year ended June 30, 2015, the State issued on behalf of SOU $860 in XI-F(1) Bonds with an average interest rate of 4.68 percent to refund $971 in XI-F(1) Bonds with an average interest rate of 4.76 percent. The net proceeds of the bonds were $1,035 (after payment of $6 in underwriting costs and bond premium of $180).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $52. The refunding was undertaken to reduce total debt service payments of principal and interest over the next 23 years by $242 and resulted in an economic gain of $191.

During the year ended June 30, 2015, the State issued on behalf of SOU $4,975 in XI-G Bonds with an average interest rate of 4.80 percent to refund $5,519 in XI-G Bonds with an average interest rate of 4.76 percent. The net proceeds of the bonds were $6,043 (after payment of $32 in underwriting costs and bond premium of $1,100).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $459. The refunding was undertaken to reduce total debt service payments of principal and interest over the next 23 years by $911 and resulted in an economic gain of $707.

During the year ended June 30, 2015, the State issued on behalf of SOU $732 in XI-Q Bonds with an average interest rate of 5.00 percent to refund $776 in COPs with an average interest rate of 4.83 percent. The net proceeds of the bonds were $891 (after payment of $4 in underwriting costs and bond premium of $163).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $84. The refunding was undertaken to reduce total debt service payments of principal and interest over the next 12 years by $68 and resulted in an economic gain of $59.

During the year ended June 30, 2015, the State issued on behalf of SOU $2,483 in Lottery Bonds with an average interest rate of 4.86 percent to refund $2,718 in Lottery Bonds with an average interest rate of 4.78 percent. The net proceeds of the bonds were $2,963 (after payment of $10 in underwriting costs, bond premium of $497, and cash on hand in reserve account of $7).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $196. The refunding was undertaken to reduce total debt service payments of principal and interest over the next 13 years by $231 and resulted in an economic gain of $216.

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In prior years, OUS defeased various bond issues by placing funds in an irrevocable trust to provide for all future debt service payments of the defeased bonds. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the financial statements. The total amount of the defeased debt outstanding but removed from the ifnancial statements amounted to $19,832 at June 30, 2015.

### H. Financial Guarantees

OUS, including SOU as a member university, is a governmental agency of the State of Oregon. Therefore, the State of Oregon is ultimately responsible for OUS's financial obligations. As of June 30, 2015, no amounts have been paid by the State of Oregon for OUS's financial obligations, both cumulatively and during the current reporting period.

### I. State and Local Government Rate Pool

Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), and local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP effective January 1, 2002, at which time a transitional, pre-SLGRP liability was created. The pre-SLGRP liability is essentially a debt owed to the SLGRP by the SCCP employers. The balance of the pre-SLGRP pooled liability attributable to the State is being amortized over the period ending December 31, 2027. The liability is allocated by the State of Oregon, based on salaries and wages, to all proprietary funds and the government-wide reporting fund in the State Comprehensive Annual Financial Report. Interest expense was paid by SOU in the amount of $287 for June 30, 2015. Principal payments of $165 were applied to the liability for June 30, 2015. A prior period adjustment of $22 was applied to SOU's SLGRP liability at June 30, 2015.

### J. Early Retirement Liability

Since 1998, SOU has offered a voluntary tenure relinquishment and early retirement program to tenured faculty at least 55 years of age. Faculty electing this plan relinquish all claims to tenure and receive an annual full-time fixed term contract for up to three years. An option within the plan provides that SOU will subsidize health and dental benefits up to a specified dollar amount for up to seven years after the employee's retirement date. As of June 30, 2015, seven retirees are participating in the health and dental benefits option of this plan and a $236 liability will be paid out through fiscal year 2020.

## 9. CHANGE IN ENTITY

Senate Bill 270 was passed by the Oregon Legislature during fiscal year 2013 which established a pathway for SOU to become an independent public body legally separate from the OUS. The State Board of Higher Education conditionally endorsed SOU to become a separate legal entity with an independent governing board effective July 1, 2015. Prior to July 1, 2015 SOU was a part of the OUS, a state agency of the State of Oregon. As a state agency, some assets were held centrally by OUS, these assets were distributed to the seven universities, including SOU, on or before the June 30, 2015 closing of OUS.

Changes in Net Position due to the change in entity comprised the following:

| | | June 30, 2015 |
|---|---|---|
| **Assets transferred from OUS resulting in increase to Net Position** | | |
| Cash Distribution To/For: | | |
| Closing of OUS Internal Bank | $ | 127 |
| Student Building Fee Fund | | 9,358 |
| Lottery Debt Service Funds | | 3 |
| Fraud Prevention Funds | | 20 |
| Support from Chancellor's Office | | 250 |
| Remaining cash at close of Chancellor's Office | | 39 |
| Accounts Receivable for Litigation | | 101 |
| **Total Assets Transferred from OUS** | | 9,898 |
| **Other Changes** | | |
| Principal & Interest Payments on institution debt paid by Chancellor's Office | | 1,346 |
| **Total Change in Entity** | | 11,244 |

## 10. INVESTMENT ACTIVITY

Investment Activity detail is as follows:

| | | June 30, 2015 |
|---|---|---|
| Net Appreciation of Investments | | 273 |
| Endowment Income | | 73 |
| Investment Earnings | $ | 66 |
| Interest Income | | 28 |
| Total Investment Activity | $ | 440 |

## 11. OPERATING EXPENSES BY NATURAL CLASSIFICATION

The Statement of Revenues, Expenses and Changes in Net Position reports operating expenses by their functional classification. The following displays operating expenses by natural classification:

| | | **June 30, 2015** |
|---|---|---|
| Compensation and Benefits | **$** | **49,883** |
| Services and Supplies | | **16,286** |
| Scholarships and Fellowships | | **7,394** |
| Depreciation and Amortization | | **4,161** |
| Other Expenses | | **165** |
| **Total Operating Expenses** | **$** | **77,889** |

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## 12. GOVERNMENT APPROPRIATIONS

Government appropriations comprised the following:

| | June 30, 2015 | | |
|---|---|---|---|
| | General | Debt | Total |
| State General Fund | $ 16,889 | $ 1,914 | $ 18,803 |
| State Lottery Funding | 443 | 938 | 1,381 |
| **Total Appropriations** | $ 17,332 | $ 2,852 | $ 20,184 |

## 13. EMPLOYEE RETIREMENT PLANS

The university offers various retirement plans to qualified employees as described below.

### A. Defined Benefit Retirement Program

SOU implemented GASB Statement 68 *Accounting and Financial Reporting for Pensions* for the reporting period ending June 30, 2015. Beginning balance as of July 1, 2015 for Net Pension Liability and Deferred Outflows of Resources are presented on the Statement of Revenues, Expenses and Changes in Net Position as a Change in Accounting Principle. See "Note 1.Q." for more information on the Change in Accounting Principle presentation.

**Pension Plan**

The Oregon Public Employees Retirement System (PERS) consists of a single cost-sharing multiple employer defined benefit plan in which all classes of employees of the University are eligible to participate.

**Plan Benefits**

All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A

#### PERS PENSION (CHAPTER 238) PROGRAM

**Pension Benefits**

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on year of service and final average salary. A percentage (1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer. General Service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

**Death Benefits**

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance provided one or more of the following conditions are met:

- the member was employed by a PERS employer at the time of death
- the member died within 120 days after termination of PERS-covered employment
- the member died as a result of injury sustained while employed in a PERS-covered job
- the member was on an official leave of absence from a PERS-covered job at the time of death.

**Disability Benefits**

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 when determining the monthly benefit.

**Benefit Changes after Retirement**

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living adjustments (COLA). Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first $60 of annual benefit and 0.15 percent on annual benefits above $60.

#### OREGON PUBLIC SERVICE RETIREMENT PLAN (OPSRP) PENSION PROGRAM

**Pension Benefits**

The ORS Chapter 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003. This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age: 1.50 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and if the pension program is terminated, the date on which termination becomes effective.

**Death Benefits**

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

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### Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

### Benefit Changes after Retirement

Under ORS 238A.210 monthly benefits are adjusted annually through COLAs. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first $60 of annual benefit and 0.15 percent on annual benefits above $60.

### CONTRIBUTIONS

PERS employee contribution requirements are established by ORS 238A.330 and are credited to an employee's account in the Individual Account Program and may be amended by an act of the Oregon State Legislature. PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation as subsequently modified by 2013 legislated changes in benefit provisions. The rates first became effective July 1, 2013. The employer contribution rate for Tier One and Tier Two for the year ended June 30, 2015 was 9.86 percent. The employer contribution rate for OPSRP for the year ended June 30, 2015 was 8.14 percent.

Employer required contributions PERS and OPSRP for the year ended June 30, 2015 were $2,039, including amounts to fund employer specific liabilities. A 10 year schedule of Defined Benefit Pension Plan Contributions can be found beginning on page 58 of the June 30, 2014 PERS CAFR.

### Pension Plan CAFR

The System issues an independently audited CAFR which can be found at: http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions

At June 30, 2015, the University reported a net pension asset of $4,707 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2012, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The PERS system does not provide SOU a proportionate share as a separate employer. SOU is a portion of employer state agencies which includes all state agencies. The State of Oregon Department of Administrative Services calculated SOU's proportional share internally based on fiscal year 2014 actual contributions. The State of Oregon Audits Division reviewed this internal calculation. As of the measurement date of June 30, 2014, SOU's proportion was 0.21 percent of the statewide pension plan, and 0.88 percent of employer state agencies.

For the year ended June 30, 2015, SOU recognized pension expense of ($4,302). At June 30, 2015, SOU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 9,082 |
| Changes in proportion and differences between System's contributions and proportionate share of contributions | 84 | - |
| System contributions subsequent to the measurement date | - | - |
| Total | $ 84 | $ 9,082 |
| Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD) | | (8,998) |
| Contributions Subsequent to the MD | $ 1,587 | |
| Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD | | $ (7,411) |

Of the amount reported as deferred outflows of resources, $1,587 are related to pensions resulting from SOU contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30: | |
|---|---|
| 2016 | $ (2,252) |
| 2017 | (2,252) |
| 2018 | (2,252) |
| 2019 | (2,252) |
| 2020 | 10 |

### Change in Proportionate Share

There was no change in proportionate share for fiscal years ending June 30, 2013 and June 30, 2014. Because the proportionate share is actuarially determined, it was calculated as of the December 31, 2012 valuation date used to develop results for both the June 30, 2013 and June 30, 2014 Measurement Dates. In future measurement periods, there will be changes in proportionate shares from the beginning of the period to the end.

### Deferred Items

Deferred items are calculated at the system-wide level and are allocated to employers based on their proportionate share. For fiscal year ending June 30, 2014, there was:

- No difference between expected and actual experience
- No difference due to changes of assumptions

- A net difference between projected and actual earnings which is being amortized over a closed five year period. One year's amortization is being recognized in the employer's total pension expense for fiscal year 2015
- No changes in proportionate share
- A difference between employer contributions and proportionate share of contributions, which is being amortized over 5.6 years, the remaining service lives of all plan participants including retirees. One year of this amortization is included in the employer's total pension expense for the measurement period.

**Summary of Significant Accounting Policies for PERS**

*Reporting Entity*. PERS' financial statements are prepared on the basis of a fiscal year ended June 30. The Oregon State Treasurer has statutory responsibility for custody and investment of PERS assets. As a result of this fiduciary responsibility, PERS is included as part of the primary government in the State of Oregon Comprehensive Annual Financial Report.

*Basis of Accounting*. The accrual basis of accounting is used. Revenues are recognized when earned. Contributions are recognized when due, pursuant to formal commitments, as well as statutory and Board requirements. Expenses are recognized when incurred. Benefits are recognized when currently due and payable. Withdrawals are recognized in the month they are due and payable. Investments are reported at fair value.

**Changes in Plan Provisions**

Senate Bill (SB) 822, signed into law in May 2013, eliminated the SB 656/ House Bill (HB) 3349 tax remedy payments for beneficiaries not subject to Oregon income tax and limited the 2013 post-retirement COLA to 1.50 percent of annual benefit.

SB 861, signed into law in October 2013, limited the post-retirement COLAs for years beyond 2013 to 1.25 percent on the first $60 of annual benefit and 0.15 percent on annual benefits above $60.

SB 862, signed into law in October 2013, makes targeted changes such as allowing garnishment of PERS benefits for convicted felons. These changes do not significantly affect System liabilities and were not reflected in the valuation.

For GASB Nos. 67 and 68, the Total Pension Liability must be calculated based on the benefit terms legally in effect as of the relevant fiscal year-end for the plan. Due to the timing of the benefit changes, only SB 822 is reflected in the June 30, 2013 Total Pension Liability, but that the combined effects of SBs 822 and 861 are reflected in the June 30, 2014 Total Pension Liability. The decrease in the Total Pension Liability resulting from SB 861, measured as of June 30, 2014, created a $2,423.6 million reduction in Plan pension liabilities.

(Source: December 31, 2012 Actuarial Valuation p. 98; Schedule of Changes in Net Pension (Asset)/Liability; PERS June 30, 2014 CAFR p. 57)

**Employer Contributions**

PERS includes accrued contributions when due pursuant to legal requirements, as of June 30 in its Statement of Changes in Fiduciary Net Position. These are normally included in the employer statements cut off as of the fifth of the following month. PERS does not try to accrue contributions based on pay date.

Beginning with fiscal year 2015, PERS was able to report cash contributions by employer, and has published this information on the PERS Website. Prior to fiscal year 2015, contributions to the OPSRP Defined Benefit plan were not accounted for by employer, as all employers were pooled for actuarial purposes.

**Net Pension Liability**

Net pension liabilities are calculated at the system-wide level and are allocated to employers based on their proportionate share. The rate setting actuarial valuation will continue to allocate the transitional or pre-SLGRP liabilities or surpluses as adjustments to the respective employers.

**Changes in Assumptions**

A summary of key changes implemented since the December 31, 2011 valuation are described briefly below. Additional detail and a comprehensive list of changes in methods and assumptions can be found in the 2012 Experience Study for the System, which was published on September 18, 2013 and can be found at: http://www.oregon.gov/pers/docs/2012%20Exp%20Study%20Updated.pdf

Changes in Actuarial Methods and Allocation Procedures:

*Actuarial Cost Method:* The Actuarial Cost Method was changed from the Projected Unit Credit (PUC) Cost Method to the Entry Age Normal (EAN) Cost Method. This change will allow PERS to use the same cost method for contribution rate calculations as required for financial reporting under GASB Statements 67 and 68.

*Tier One/Tier Two Unfunded Actuarial Liability (UAL) Amortization:* In combination with the change in cost method, the Board chose to re-amortize the outstanding Tier One/Tier Two UAL as of December 31, 2013 over a closed period of 20 years as a level percentage of projected payroll. Gains and losses between subsequent rate-setting valuations will be amortized over a closed 20 year period from the valuation in which they are first recognized.

*Contribution Rate Stabilization Method:* The "grade-in range" over which the rate collar gradually doubles was modified so that the collar doubles as funded status (excluding side accounts) decreases from 70 percent to 60 percent or increases from 130 percent to 140 percent. Previously the ranges had been 80 percent to 70 percent and 120 percent to 130 percent. The modification to the grade-in range was made in combination with the change to actuarial cost method, as discussed at the July 2013 PERS Board public meeting.

*Allocation of Liability for Service Segment:* For purposes of allocating Tier One/ Tier Two member's actuarial accrued liability among multiple employers, the valuation uses a weighted average of the Money Match methodology and the Full Formula methodology used by PERS when the member retires. The weights are determined based on the prevalence of each formula among the current Tier One/Tier Two population. For the December 31, 2010 and

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December 31, 2011 valuations, the Money Match was weighted 40 percent for General Service members and 10 percent for Police & Fire members. For the December 31, 2012 and December 31, 2013 valuations, this weighting has been adjusted to 30 percent for General Service members and 5 percent for Police & Fire members, based on a projection of the proportion of liability attributable to Money Match benefits at those valuation dates.

Changes in Economic Assumptions:
*Investment Return and Interest Crediting:* The assumed investment return and interest crediting to both regular and variable account balances was reduced to 7.75 percent. Previously, the assumed investment return and interest crediting to regular account balances was 8.00 percent and the assumed interest crediting to variable account balances was 8.25 percent.

*OPSRP Administrative Expenses:* Assumed administrative expenses for the OPSRP System were reduced from $6,600 per year to $5,500 per year.

*Healthcare Cost Inflation:* The healthcare cost inflation for the maximum Retiree Health Insurance Premium Account (RHIPA) subsidy was updated based on analysis performed by Milliman's healthcare actuaries. This analysis includes the consideration of the excise tax that will be introduced in 2018 by the Patient Protection and Affordable Care Act.

Changes in Demographic Assumptions:
*Healthy Mortality:* The healthy mortality assumption is based on the RP2000 generational mortality tables with group-specific class and setback adjustments. The group-specific adjustments have been updated to more closely match recently observed system experience.

*Disabled Mortality:* The disabled mortality assumption base was changed from the RP2000 healthy tables to the RP2000 disabled tables. Gender-specific adjustments were applied to align the assumption with recently observed system experience.

*Disability, Retirement from Active Status, and Termination:* Rates for disability, retirement from active status, and termination were adjusted. Termination rates were changed from being indexed upon age to being indexed upon duration from hire date.

Changes in Salary Increase Assumptions:
*Retiree Healthcare Participation:* The Retiree Health Insurance Account (RHIA) participation rate for healthy retirees was reduced from 48 percent to 45 percent. The RHIPA participation rate was changed from a uniform rate of 13 percent to a service-based table of rates.

(Source: December 31, 2012 Actuarial Valuation p.89)

**Plan fiduciary net position as a percentage of the total pension liability**

See Schedule of Changes in Net Pension (Asset)/Liability on page 57 of the PERS June 30, 2014 CAFR.

**Actuarial Valuations**

The employer contribution rates effective July 1, 2013, through June 30, 2015, were set using the PUC actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

**Actuarial Methods and Assumptions**

| | | |
|---|---|---|
| Valuation Date | | December 31, 2012 rolled forward to June 30, 2014. |
| Experience Study Report | | 2012, published September 18, 2013 |
| Actuarial cost method | | Entry Age Normal |
| Amortization method | | Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years. |
| Asset valuation method | | Market value of assets |
| Actuarial assumptions: | | |
| Inflation rate | | 2.75 percent |
| Investment rate of return | | 7.75 percent |
| Projected salary increases | | 3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service |
| Mortality | Healthy retirees and beneficiaries: | RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. |
| | Active members: | Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. |
| | Disabled retirees: | Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table. |

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2012 Experience Study which reviewed experience for the four-year period ending on December 31, 2012.

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

**Discount Rate**

The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

**Depletion Date Projection**

GASB No. 67 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB 67 (paragraph 43) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB No. 67 does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for Oregon PERS:

- Oregon PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100 percent funded position by the end of the amortization period if future experience follows assumption.
- GASB No. 67 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, it is our independent actuary's opinion that the detailed depletion date projections outlined in GASB No. 67 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

(Source: June 30, 2014 PERS CAFR; p. 54)

**Assumed Asset Allocation**

| Asset Class/ Strategy | Low Range | High Range | OIC Target |
|---|---|---|---|
| Cash | 0.00 % | 3.00 % | 0.00 % |
| Debt Securities | 15.00 | 25.00 | 20.00 |
| Public Equity | 32.50 | 42.50 | 37.50 |
| Private Equity | 16.00 | 24.00 | 20.00 |
| Real Estate | 9.50 | 15.50 | 12.50 |
| Alternative Equity | 0.00 | 10.00 | 10.00 |
| Opportunity Portfolio | 0.00 | 3.00 | 0.00 |
| Total | | | 100.00 % |

**Long-Term Expected Rate of Return**

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

| Asset Class | Target | Compound Annual Return (Geometric) |
|---|---|---|
| Core Fixed Income | 7.20% | 4.50% |
| Short-Term Bonds | 8.00 | 3.70 |
| Intermediate-Term Bonds | 3.00 | 4.10 |
| High Yield Bonds | 1.80 | 6.66 |
| Large Cap US Equities | 11.65 | 7.20 |
| Mid Cap US Equities | 3.88 | 7.30 |
| Small Cap US Equities | 2.27 | 7.45 |
| Developed Foreign Equities | 14.21 | 6.90 |
| Emerging Foreign Equities | 5.49 | 7.40 |
| Private Equity | 20.00 | 8.26 |
| Opportunity Funds/Absolute Return | 5.00 | 6.01 |
| Real Estate (Property) | 13.75 | 6.51 |
| Real Estate (REITS) | 2.50 | 6.76 |
| Commodities | 7.71 | 6.07 |
| | | |
| Assumed Inflation – Mean | | 2.75 |

**Sensitivity Analysis**

*Sensitivity of SOU's proportional share of the net pension asset to changes in the discount rate*: The following presents SOU's proportionate share of the net pension asset calculated using the discount rate of 7.75 percent, as well as what the SOU's proportionate share of the net pension asset would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

| | SOU's proportionate share of the net pension asset |
|---|---|
| 1 % Decrease -6.75% | $ 9,967 |
| Current Discount Rate -7.75% | (4,707) |
| 1 % Increase -8.75% | (17,118) |

**BOND DEBT**

The Retirement Bond Debt Service Assessment was authorized by the State of Oregon Legislature in 2003 to sell general obligation bonds in the amount of $2 billion to pay a PERS unfunded actuarial liability. This action reduced the PERS contribution rate for PERS covered employers in the State actuarial pool in November 2003.

The Oregon Department of Administrative Services coordinates the debt service assessments to PERS employers to cover the bond debt service payments. PERS employers are assessed a percentage of PERS-subject payroll to fund the payments. The assessment rate is adjusted biennially over the life of the twenty-four year debt repayment schedule.

The payroll assessment for the pension obligation bond began May 2004 and is currently at a rate of 6.7 percent. Payroll assessments for the fiscal year ended June 30, 2015 were $1,493.

## B. DEFINED CONTRIBUTION RETIREMENT PLANS

**OPTIONAL RETIREMENT PLAN**

The 1995 Oregon Legislature enacted legislation that authorized SOU to offer a defined contribution retirement plan as an alternative to PERS. The Board appointed a Retirement Plan Committee to administer the Optional Retirement Plan (ORP) and named trustees to manage plan assets placed with mutual funds and insurance companies. Beginning April 1, 1996, the ORP was made available to SOU academic and administrative faculty. Employees choosing the ORP may invest the employee and employer contributions in one of multiple investment companies.

The ORP consists of four tiers. Membership under ORP Tier One and Tier Two is determined using the same date of entry criteria as PERS. The third tier is determined by the date of entry applicable to the OPSRP. Employees hired on or after July 1, 2014 who elected the ORP are Tier Four members. The first contributions for Tier Four were payable January 2015 after six-months of qualifying service. Tier Four is a departure from the other three tiers. The employee is entitled to an employer contribution plus a "match" contribution based on the employee's participation in the voluntary 403b investment plan. The employer contribution is fixed at 8 percent by plan rules and is unaffected by PERS rates, unlike the other tiers. The employer provides an ORP match contribution equal to 403b deferrals up to a 4 percent maximum.

Under the ORP Tier One, Tier Two and OPSRP Equivalent, the employee's contribution rate is 6 percent and is paid by the employer. The employer contribution rates for the ORP are as follows:

| | 2015 |
|---|---|
| ORP Tier One | 16.50% |
| ORP Tier Two | 16.50% |
| OPSRP Equivalent | 6.42% |
| Tier Four (as of January 1, 2015) | 8.00%* |

*With up to an additional 4% match of volutary 403(b) salary deferrals

**OREGON UNIVERSITY SYSTEM 401(A) DEFINED CONTRIBUTION PLAN**

Eligible ranked faculty participate in the Teacher's Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) retirement program, a defined contribution plan, on all salary in excess of forty-eight hundred dollars per calendar year. Employee and employer contributions are directed to PERS on the first forty-eight hundred dollars. The contribution to TIAA-CREF annuities are supplemental to PERS, based on compensation over $4,800. To participate in this retirement option, employees must have been hired on or before September 9, 1995. This plan was closed to new enrollment at the time the ORP started in 1996.

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

**Summary of Defined Contribution Pension Payments**

SOU total payroll for the year ended June 30, 2015 was $35,813, of which $7,564 was subject to retirement contributions. The following schedule lists payments made by SOU for the fiscal year:

| | June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Employer | | As a % of | Employee | | As a % of |
| ORP | $ | 830 | 10.97% | $ | 459 | 6.07% |
| TIAA-CREF | | 5 | 0.07% | | 5 | 0.07% |
| Total | $ | 835 | 11.04% | $ | 464 | 6.14% |

SOU paid 100 percent of the ORP and TIAA-CREF Employee Contribution amounts on behalf of their employees during the fiscal year ended June 30, 2015.

## 14. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

During the year ended June 30, 2015, SOU was a part of OUS as a participant in the defined benefit postemployment health care plan.

**Plan Description**

SOU participates in a defined benefit postemployment healthcare plan, administered by the Public Employees Benefit Board (PEBB), which offers medical, dental and vision benefits to eligible retired state employees and their beneficiaries. The PEBB plan is an agent multiple-employer postemployment healthcare plan. Chapter 243 of the ORS assigns PEBB the authority to establish and amend the benefit provisions of the PEBB plan. As the administrator of the PEBB plan, PEBB has the authority to determine post-retirement benefit increases and decreases. PEBB does not issue a separate, publicly available financial report.

The PEBB plan allows SOU employees retiring under PERS or OPSRP to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. This plan creates an "implicit rate subsidy" because the healthcare insurance premiums paid by SOU for its employees is based on a blended premium of both employees and retirees combined, which is a higher premium than SOU would have paid for employees alone.

The PEBB plan is also offered to retirees of other Oregon state agencies. Therefore, the amounts presented in this note are limited to SOU's share, estimated at 1.17 percent of the total PEBB plan costs attributable to the State of Oregon. This allocation was based on health insurance premiums paid by state agencies during fiscal year 2015.

**Funding Policy**

SOU's current policy is to pay the implicit rate subsidy on a pay-as-you-go basis. For fiscal year 2015, SOU paid healthcare insurance premiums of $9,143. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be $72 for the fiscal year ended 2015.

**Annual OPEB Cost and Net OPEB Obligation**

SOU's annual OPEB expense is calculated based on SOU's annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of SOU's annual OPEB expense for the year, the amount actually contributed to the plan, and changes in SOU's net OPEB obligation:

| | June 30, 2015 | |
|---|---|---|
| Annual Required Contribution | $ | 156 |
| Interest on Net OPEB Obligation | | 33 |
| Adjustment to Annual Required Contribution | | (62) |
| Annual OPEB Cost | | 127 |
| Contributions Made | | (72) |
| Increase in Net OPEB Obligation | | 55 |
| Net OPEB Obligation - Beginning of Year | | 1,031 |
| Net OPEB Obligation - End of Year | $ | 1,086 |

The SOU annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the increase in net OPEB obligation for the fiscal year ended June 30, 2015 was as follows:

| Year Ended | Annual OPEB Cost | | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation | |
|---|---|---|---|---|---|
| **2015** | **$** | **127** | **12%** | **$** | **1,086** |
| 2014 | | 130 | 13% | | 1,031 |
| 2013 | | 191 | 22% | | 856 |

**Funding Status and Funding Progress**

The funded status of the SOU OPEB plan for June 30, 2015 was as follows:

| | June 30, 2015 | |
|---|---|---|
| Actuarial Accrued Liabilities | $ | 1,231 |
| Actuarial Value of Plan Assets | | - |
| Unfunded Actuarial Accrued Liability | $ | 1,231 |
| | | |
| Funded Ratio | | 0.00% |
| Covered Payroll (active plan members) | $ | 30,121 |
| Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll | | 4.09% |

Actuarial valuations, prepared biennially, involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**Accrual Methods and Assumptions**

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between SOU and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

Significant methods and assumptions were as follows:

| | June 30, 2015 |
|---|---|
| Actuarial Valuation Date | 7/1/2013 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage |
| Amortization Period | 15 Years (open) |
| Investment Rate of Return | 3.5% |
| Projected Salary Increases | 3.5% |
| Initial Healthcare Inflation Rates | 3.6% (medical)<br>2.2% (dental) |
| Ultimate Healthcare Inflation Rates | 5.4% (medical)<br>5.0% (dental) |

## 15. FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others, for which SOU is an income beneficiary, are not recorded in the financial records. The approximate value of such trust funds at June 30, 2015 was $102.

## 16. RISK FINANCING

SOU participates in a pooled risk management fund managed by the Public University Risk Management and Insurance Trust (Trust). The Trust is a separate legal entity which operates for the benefit of the participating universities. By participating, SOU transfers the following risk to the Trust:

- Real property loss for university owned building, equipment, automobiles and other types of property
- Tort Liability claims brought against SOU, its officers, employees or agents
- Workers' compensation and employers liability
- Crime, Fiduciary
- Specialty lines of business including marine, medical practicums, international travel, fine art, aircraft, camps, clinics and other items.

SOU retains risk for losses under $5, which is the deductible per claim not covered by insurance purchased through the Trust.

The Trust is backed by commercial policies, an excess property policy with a limit of $500,000, and a blanket commercial excess bond with a limit of $50,000. The Trust purchases commercial insurance for claims in excess of coverage provided by the self-insurance program and for all other risk of loss.

SOU is charged an assessment to cover the Trust's cost of servicing claims and payments based on the Risk Allocation Model and actuarial estimates of the amounts needed to pay prior and current-year claims.

## 17. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed and planned but not initiated construction projects totaled approximately $42,029 at June 30, 2015. These commitments will be primarily funded from gifts and grants, bond proceeds, and other SOU funds. Refer to the table accompanying this note for projects relating to construction commitments as of June 30, 2015.

SOU is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Management is of the opinion that the outcome of such matters will not have a material effect on the financial statements.

SOU participates in certain federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor for expenditures disallowed under terms of the grant. Management believes that disallowances, if any, will not have a material effect on the financial statements.

Unemployment compensation claims are administered by the Oregon Employment Division pursuant to ORS Chapter 657. SOU reimburses the Oregon Employment Division on a quarterly basis for actual benefits paid. Each year resources are budgeted to pay current charges. The amount of future benefit payments to claimants and the resulting liability to SOU cannot be reasonably determined at June 30, 2015.

### CONSTRUCTION COMMITMENTS AS OF JUNE 30, 2015

| | Total Commitment | Completed to Date | Outstanding Commitment |
|---|---|---|---|
| Capital Repair | $ 2,337 | $ 27 | $ 2,310 |
| McNeal Hall Deferred Maintenance | 21,300 | 159 | 21,141 |
| Medford Instructional Facility | 2,554 | 2,501 | 53 |
| Science Building Deferred Maintenance | 21,000 | 16,435 | 4,565 |
| Student Recreation Center | 6,300 | 3,179 | 3,121 |
| Theatre Building Remodel | 11,000 | 179 | 10,821 |
| **Project Budgets <$1 million** | 250 | 232 | 18 |
| | $ 64,741 | $ 22,712 | $ 42,029 |

## 18. SUBSEQUENT EVENTS

### OREGON UNIVERSITY SYSTEM STRUCTURE CHANGES

Effective July 1, 2015, SOU became an independent legal entity governed by the Board of Trustees of Southern Oregon University. See Note 1 for additional information about this change in legal status.

### REMOVAL OF STATE PAID DEBT

As a result of SOU becoming a component unit of the state, rather than an enterprise fund of the State for financial reporting, beginning with the fiscal year ended June 30, 2016, all state paid debt recorded by SOU as a long-term liability will be removed from SOU and recorded by the State of Oregon as the owner of the debt. State paid debt includes 100 percent of XI-G, XI-Q and Lottery bonds and a portion of COPs.

### NEW STATE SICK LEAVE LAW

SB 454, passed in the 2015 Oregon Legislation, will take effect January 2016. This legislation mandates sick leave time for employers with more than 10 employees. The effect of this legislation should be immaterial as the majority of employees are covered by current sick leave policies. Employee classes that will become eligible for sick leave under this regulation include temporary employees and student employees not working on a work-study grant. These employees will receive 1.33 hours of leave for each 40 hours worked.

**PENSION OBLIGATION LIABILITY**

The Oregon Supreme Court on April 30, 2015, ruled in the Moro decision, that the provisions of SB 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law were unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2.00 percent increase annually. PERS will make restoration payments to those benefit recipients. PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

This is a change in benefit terms subsequent to the measurement date of June 30, 2014, which will be reflected in the next year's actuarial valuations. The impact of the Moro decision on the total pension liability and employer's net pension liability (asset) has not been fully determined. However, PERS' third-party actuaries have estimated the impact of the Moro decision under one possible methodology, which is summarized below (dollars in millions). Estimates have been rounded to the nearest $10 million.

June 30, 2014 Measurement Date

| Net Pension Liability (Asset) | Prior to Moro | After Moro (estimated) |
|---|---|---|
| Total Pension Liability | $ 63,134.80 | $ 68,050.00 |
| Fiduciary Net Position | 65,401.50 | 65,400.00 |
| **Net Pension Liability (Asset)** | $ (2,266.7) | $ 2,650.00 |

| | |
|---|---|
| SOU's proportionate share of the statewide pension plan at MD | 0.20765231% |
| SOU net pension (asset) prior to Moro (full dollars) | $ (4,706,885) |
| Estimated fund net pension liability at MD after Moro (full dollars) | $ 5,502,786 |

## 19. UNIVERSITY FOUNDATION

Under policies approved by the Board, individual university foundations may be established to provide assistance in fund raising, public outreach and other support for the mission of SOU. The SOU Foundation is a legally separate, tax-exempt entity with an independent governing board. Although SOU does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of SOU and is discretely presented in the financial statements. The financial activity is reported for the year ended June 30, 2015.

During the year ended June 30, 2015 gifts of $2,447 were transferred from the university foundation to SOU. The SOU affiliated foundation is audited annually and received an unmodified audit opinion.

Please see the financial statements for the SOU component unit on pages 11 and 13 of this document.

Complete financial statements for the foundation may be obtained by writing to the following:

- *Southern Oregon University Foundation, 1250 Siskiyou Blvd., Ashland, OR 97520*

REQUIRED SUPPLEMENTARY INFORMATION (DOLLARS IN THOUSANDS)

## SCHEDULE OF SOUTHERN OREGON UNIVERSITY'S CONTRIBUTIONS*
### Public Employees Retirement System

| | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Contractually required contribution | $ 1,587 | $ 1,705 | $ 1,671 | $ 1,615 |
| Contributions in relation to the contractually required contribution | 1,587 | 1,705 | 1,671 | 1,615 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| SOU's covered-employee payroll | $ 22,557 | $ 23,066 | $ 23,109 | $ 22,542 |
| Contributions as a percentage of covered-employee payroll | 7.0% | 7.4% | 7.2% | 7.2% |

## SCHEDULE OF SOUTHERN OREGON UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET*
### Public Employees Retirement System

| | 2015 |
|---|---|
| SOU's proportion of the net pension asset | 0.21% |
| SOU's proportionate share of the net pension asset | $ 4,707 |
| SOU's covered-employee payroll | $ 22,557 |
| SOU's proportionate share of the net pension asset as a percentage of its covered-employee payroll | 20.87% |
| Plan fiduciary net postion as a percentage of the total pension asset | 109.4% |

## FUNDING STATUS OF OTHER POSTEMPLOYMENT BENEFITS

| Fiscal Year Ended | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL)- Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 6/30/2011 | $ - | $ 2,113 | $ 2,113 | 0.0% | $ 28,857 | 7.3% |
| 6/30/2012 | - | 2,050 | 2,050 | 0.0% | 30,365 | 6.8% |
| 6/30/2013 | - | 2,033 | 2,033 | 0.0% | 31,074 | 6.5% |
| 6/30/2014 | - | 1,307 | 1,307 | 0.0% | 31,155 | 4.2% |
| 6/30/2015 | - | 1,231 | 1,231 | 0.0% | 30,121 | 4.1% |

*Eventually, these tables will include data for 10 years. Only the data shown above is available at this time.

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For information about the financial data included in this report, contact;

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