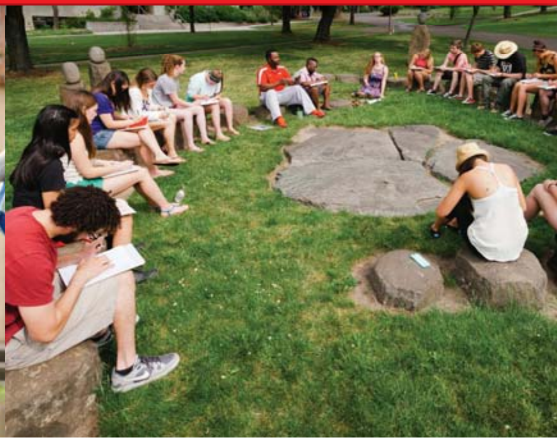
SOUTHERN OREGON UNIVERSITY

2017 ANNUAL FINANCIAL REPORT

Southern OREGON UNIVERSITY



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Southern Oregon University Executive Officers

Linda Schott
President

Craig Morris
Vice President for Finance and Administration

Susan Walsh
Provost & Vice President for Academic and Student Affairs

Janet Fratella
Vice President for Development and Executive Director, SOU Foundation

We have much to report as fiscal year 2016-2017 draws to a close and I near the one-year anniversary of my presidency at Southern Oregon University.

Our campus, like those of the six other public universities in Oregon, had to make difficult decisions this spring due to revenue uncertainty and rising payroll and retirement costs that are beyond our control. We initially anticipated a statewide higher education budget that would be $100 million short of the break-even level, adjusted for the added expenses, and both our Board of Trustees and the Oregon Higher Education Coordinating Commission approved a 12% tuition increase for SOU to cover the university's share of that gap. However, the Oregon Legislature in its closing days approved a higher education budget that covers $70 million of the anticipated gap, and as a result SOU's tuition increase for the 2017-18 academic year will now be 9% rather than 12%.

Our campus leaders chose to continue offering courses of the quality and variety our students want and need, and to avoid cost reductions that would damage the integrity of our academic and student support programs.

The HECC acknowledged that our university is on a positive trajectory following the financial and academic restructuring that were required by SOU's recent retrenchment. That process resulted in $14 million in cost reductions over the past three years and a lean, efficient university that is ready to grow in directions that will be indicated by our current, year-long strategic planning exercise.

The coming year's tuition increase is extraordinarily painful for all of us, but it will allow SOU to maintain its momentum and position itself to better serve future students while strengthening and diversifying its business base.

It is worth noting that SOU currently operates on the least revenue of Oregon's four technical and regional universities, on a per-student basis. The 9% tuition increase amounts to an additional $13.63 per credit hour for SOU students who are Oregon residents, and similar increases for non-residents.

We are keenly aware of the additional burden on students who are already facing financial challenges, and we remain committed to access for all students. SOU has built into its budget a $500,000 increase in institutional aid for students least able to afford the increased cost.

Representatives of SOU and Oregon's other technical and regional universities visited Salem on May 16 and worked to help our legislators understand the critical role of higher education in our state's future. We urged them to prioritize funding for all seven public universities and are extremely grateful for their support – and for that of our local Board of Trustees and the Higher Education Coordinating Commission.

Our university experienced an extremely unfortunate episode this spring, when an impostor posed as a representative of the contractor on a large construction project on our campus and criminally diverted a $1.9 million payment. The construction project will not be affected, nor will any students, employees or programs. We are cooperating fully with an FBI investigation, while concurrently conducting our own internal review and investigation. Our representatives have recovered more than $600,000 that remained in the imposter's bank account, and are seeking reimbursement through our insurance carriers and assisting the FBI in its efforts to prosecute the perpetrator of this fraud and recoup the stolen funds. We are absolutely committed to determining how our processes can be strengthened so that SOU is never again put in this position.

Earlier this year, Southern Oregon University was re-accredited by the Northwest Commission on Colleges and Universities. Accreditation provides measures to ensure that institutions of higher education meet defined standards of practice and quality. Accreditation occurs on a seven-year cycle, culminating in a comprehensive report and site visit focusing on the university's mission, core themes and expectations; resources and capacity; institutional planning, assessment and improvement; and mission fulfillment, adaptation and sustainability.

Capital construction and physical plant improvements continue at SOU. Work is currently underway for the new athletic pavilion and Student Recreation Center, and the construction and renovation of our Theatre Building, which will include a 4,500 square-foot addition for Jefferson Public Radio offices. Much of the Theatre Building is expected to be ready for fall term, and the athletics complex is scheduled for completion in January.

Other news from the Athletics Department includes a national championship for the men's cross country team – the second in six years – and the women's softball team's first-ever appearance in the NAIA World Series. Sadly, the department and our campus suffered a tragic loss when football coach Craig Howard passed away in January, two years after delivering on his promise to bring a national championship to SOU. However, we are delighted to welcome Coach Howard's successor as head coach – Charlie Hall, an SOU alumnus who had been head coach at Ashland High School for 12 years and previously served as an assistant coach at SOU.

The strategic planning process that I mentioned earlier began in January and will help determine how the SOU of five, 10 or 20 years from now can best serve its students and the region. I am open to whatever findings may emerge, but insist that the process must be transparent, collaborative and iterative, so that we can be responsive to needs.

I sought the volunteer help of faculty and staff to participate in seven "Professional Learning Communities" that separately explored different topics that would likely influence SOU's future.

Simultaneously, SOU's appointed Strategic Planning Committee initiated discussions with various groups of faculty, staff and students to determine our university's values and consider how they should be expressed. The committee drafted vision and mission statements to serve as SOU's aspirational goals and guiding standards.

The Strategic Planning Committee carried out a "SWOT" analysis this spring, cataloging perceptions of the university's strengths, weaknesses, opportunities and threats. Thousands of thoughts were collected from members of our on-campus communities, SOU alumni and southern Oregon residents.

All of this information will provide the basis for our next steps: identifying the university's priorities and goals; and ultimately drafting the strategic plan that will guide us into the future.

We remain committed to student access and affordability, outstanding academic offerings and our distinguished record of service to our students, community and state.

Cordially,

Linda Schott

President Linda Schott

Southern Oregon University

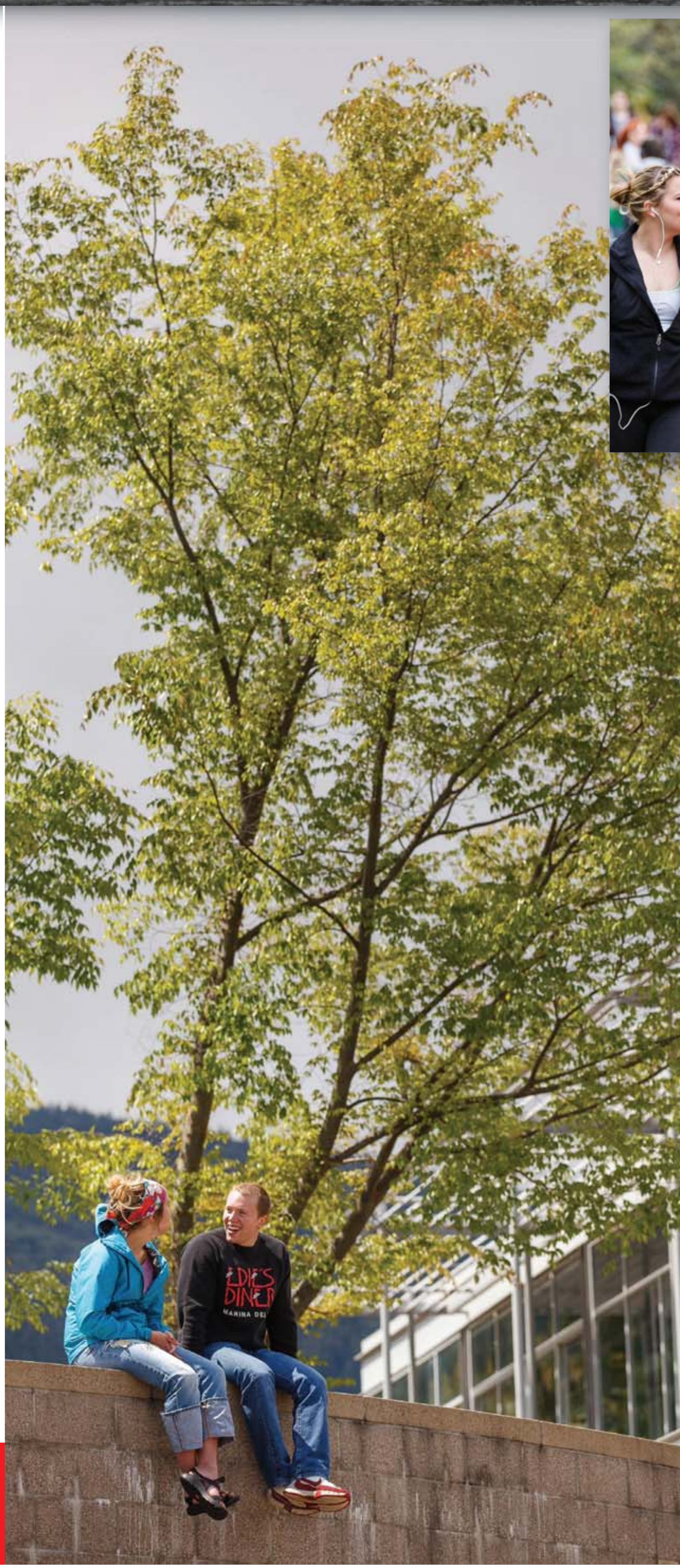
SOU benefited from numerous private philanthropic contributions during FY 2016-17. Gifts and pledges to the SOU Foundation totaled $5.1 million, a 60% increase over the previous fiscal year. A $2 million commitment from Lithia Motors in Medford accounted for nearly half of the total amount raised. The balance of support came from individuals in the Rogue Valley, alumni, and foundations.

Highlights of the year in philanthropy include:

- The SOU Foundation distributed more than $5.2 million to the university through earnings on its endowment as well as program support. The market value of the foundation endowment was $28 million at the end of June 2017.
- The $2 million commitment from Lithia Motors is split between the athletics complex—renaming the athletic pavilion in recognition of the company's philanthropy—and $1 million for scholarships for student athletes. Other donors added $600,000 to a fundraising campaign to renovate the grandstand at Raider Field to accommodate the growing number of sports and student athletes on their rosters.
- The third annual Count Me In campaign to create new scholarships for students continued to attract new donors to SOU. Funds raised during the 100-hour campaign are designated for scholarships for first-generation college students.
- The SOU Foundation distributed more than $1.5 million in scholarship support to students. Donors continue to see scholarships as a critical way to help students succeed and have prioritized gifts to support them.
- The university broke ground for Thalden Pavilion, an innovative outdoor classroom and performance space funded entirely with private gifts. Completion is set for late in 2017.

2016-17 Top University Accomplishments

- SOU received an Honorable Mention at the 10th annual Presidential Climate Leadership Summit of the nonprofit organization Second Nature.
- SOU was honored with the Best Case Study Award by the Association for the Advancement of Sustainability in Higher Education, was the nation's first certified Bee Campus USA and offers LEED Gold campus housing at its Raider Village complex.
- SOU's Men's Cross Country team won the NAIA National Championship.
- SOU successfully completed the process to reaffirm accreditation from the Northwest Commission on Colleges and Universities. Accreditation provides measures to ensure that institutions of higher education meet defined standards of practice and quality. The accreditation process is a seven-year cycle, culminating in a comprehensive report and site visit focusing on the university's mission, core themes and expectations; resources and capacity; institutional planning, assessment and improvement; and mission fulfillment, adaptation, and sustainability.
- SOU was named one of the Top 25 LGBTQ-Friendly schools for the fifth consecutive year, earning a Campus Pride Index ranking of 5 out of 5 stars. The university was also ranked 21st among the 50 best colleges for LGBTQ students by the online publication College Choice.
- SOU received recognition for the third straight year as a "Tree Campus USA." The Arbor Day Foundation honors select U.S. colleges and universities with the Tree Campus designation, based on management of their urban forests and efforts to engage students and staff in conservation.
- SOU received almost $2m in research and instructional grants from governmental and private organizations. This included a grant from The National Endowment for the Humanities, which awarded Southern Oregon University a $12,000 Common Heritage grant to collect and preserve agricultural and logging family histories in Jackson and Josephine Counties in December 2016.
- In November 2016, Southern Oregon University joined 163 other visionary colleges and universities around the country today when it was recognized as a Bicycle Friendly University by the League of American Bicyclists. SOU was recognized at the "silver" level of the league's four-tiered system for bicycle-friendly designation. Only 23 institutions were recognized at the "platinum" or "gold" levels, while 46 received silver-level awards. Another 95 received "bronze" awards.
- An SOU professor was awarded a Fulbright Scholarship for the coming academic year. This represents the first SOU faculty member in four years, and the fourth in 11 years, to be awarded a Fulbright Scholarship. The Fulbright program, founded by the late U.S. Sen. J. William Fulbright, has been in existence since 1946.
- In 2016, SOU was approved to begin offering two new degree programs this fall: the master's degree in Outdoor Adventure and Expedition Leadership and the bachelor's degree in Healthcare Administration. The Outdoor Leadership program is one of only a couple such master's degree opportunities west of the Mississippi, and adds an entrepreneurial layer to the university's current bachelor's degree program. The Healthcare Administration program will prepare students for a variety of careers in health care – Southern Oregon's largest and fastest-growing job sector.



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. It was approximately 55% complete on Sept 1, 2017, with an anticipated opening of February 1, 2018. The project has experienced very few change orders and several "add alternates" were accepted as the budget allowed. Examples of these were the climbing wall and suspended running track.

Lithia Motors Pavilion (under construction)

The Lithia Motors Pavilion is home to SOU's Health, Education and Leadership and Athletic 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. The project is approximately 60% on Sept. 1, 2017. The remodeled racquetball court which will house academic offices will be complete by December. The project was able to add back an outdoor classroom and exterior finishes to the racquetball courts.

Theatre Building (under construction)

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. As of Sept. 1, 2017, the Theatre building was scheduled for temporary occupancy, and the auditorium would be available for rehearsals. Final completion is expected in January 2018, with JPR in February of 2018.

Thalden Pavilion (under construction)

Thanks to generous donors, the Center for Sustainability will receive a new outdoor kitchen and classroom space. The unique design is covered by a cantilevered roof with a spire that reaches to the stars. The deck is made from salvaged redwoods from the coast of northern California, and the bricks for the pathway were salvaged from the Shakespeare plaza. A distinctive space for the SOU campus. As of Sept. 1, the project is approximately 35% finished, with an anticipated mid-October completion date.

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), as of and for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 8 through 17, the Schedule of the University's Contributions, the Schedule of the University's Proportionate Share of the Net Pension Asset/Liability, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Message from the President is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 October 20, 2017, 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 solely 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 the effectiveness of the University's 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
October 20, 2017

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (DOLLARS IN THOUSANDS)

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Southern Oregon University (SOU)/(University) for the years ended June 30, 2017, 2016 and 2015. SOU is comprised of the main campus in Ashland and a second campus in Medford.

ANNUAL FULL TIME EQUIVALENT STUDENT ENROLLMENT SUMMARY:

	2017	2016	2015	2014	2013
SOU	**4,357**	4,478	4,398	4,421	4,677

UNDERSTANDING THE FINANCIAL STATEMENTS

The MD&A focuses on SOU as a whole and is intended to foster a greater understanding of SOU's financial activities. Since this presentation includes summarized formats, it should be read in conjunction with the financial statements, which have the following six components:

Independent Auditors' Report presents an unmodified opinion rendered by an independent certified public accounting firm, CliftonLarsonAllen LLP, on the fairness in presentation (in all material respects) of the financial statements.

Statement of Net Position (SNP) presents a snapshot of SOU assets, deferred outflows, liabilities, and deferred inflows under the accrual basis of accounting at the end of each fiscal year presented. The SNP helps the reader understand the types and amounts of assets available to support operations, how much SOU owes to vendors and bond holders, and net position delineated based upon their availability for future expenditures.

Statement of Revenues, Expenses, and Changes in Net Position (SRE) presents SOU revenues and expenses categorized between operating, nonoperating, and other related activities. The SRE reports the SOU operating results for each fiscal year presented.

Statement of Cash Flows (SCF) provides information about SOU's sources (receipts) and uses (payments) of cash during the fiscal year. The SCF classifies sources and uses of cash into four categories, and assists in determining whether SOU has the ability to generate future net cash flows to meet its obligations as they come due.

Notes to the Financial Statements (Notes) provide additional information to clarify and expand on the financial statements.

The Component Unit, comprised of a supporting foundation, is discretely presented in the SOU financial statements and in Notes 2 and 21.

The MD&A provides an objective analysis of SOU's financial activities based on currently known facts, decisions, and conditions. The MD&A discusses the current and prior year results in comparison to the current and two previous fiscal years. Unless otherwise stated, all years refer to the fiscal year ended June 30.

FINANCIAL POSITION SUMMARY

The University's financial position has improved over the past two years with an increase to Net Position as of June 30, 2017 of $9,046 and an increase to Net Position as of June 30, 2016 of $48,943. The 2017 Net Position increase was primarily due to increases in Net Investment in Capital Assets of $9,665. Unrestricted Net Position decreased $802 due to net decreases in adjustments for OPEB, SLGRP, Pension, and Compensated Absences liabilities of $2,823 which were offset by an increase in business activities for budgeted and auxiliary operations of $2,021.

The largest increase to Net Position in 2016 was to the Net Investment in Capital Assets, which increased $56,731 primarily due to the removal of State Paid Debt (See "Note 19. Change in Entity" for details) as part of the SOU change to an independent university. The 2016 Unrestricted Net Position decreased $2,446 due primarily to decreases caused by the change from a Net Pension Asset in 2015 to a Net Pension Liability in 2016. The total decrease in Net Position due to changes in pension reporting in 2016 was $8,973. These decreases were primarily offset by an increase in business activities for budgeted and auxiliary operations of $6,436. A full discussion is included in the Statement of Net Position section below.

STATEMENT OF NET POSITION

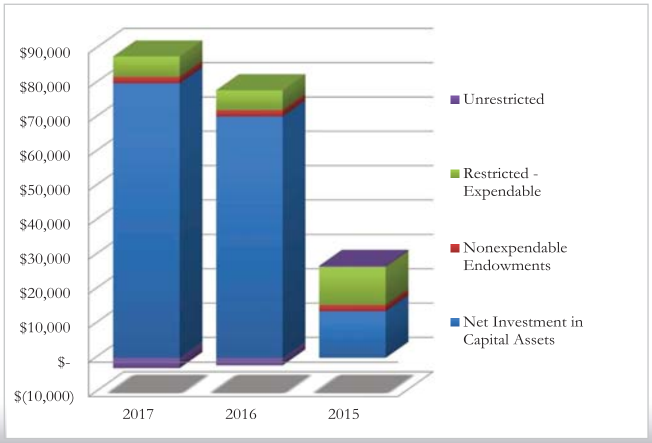
The term "Net Position" refers to the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources and is an indicator of SOU's current financial condition. Changes in Net Position that occur over time indicate improvement or deterioration in SOU's financial condition. The following summarizes SOU assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position:

Condensed Statement of Net Position

As of June 30,	**2017**	2016	2015
Current Assets	$ 29,408	$ 12,632	$ 17,608
Noncurrent Assets	24,181	39,452	83,211
Capital Assets, Net	110,718	98,214	96,864
Total Assets	$ 164,307	$ 150,298	$ 197,683
Deferred Outflows of Resources	$ 14,195	$ 2,527	$ 3,434
Current Liabilities	$ 17,115	$ 14,825	$ 24,943
Noncurrent Liabilities	75,064	59,493	140,309
Total Liabilities	$ 92,179	$ 74,318	$ 165,252
Deferred Inflows of Resources	$ 1,551	$ 2,781	$ 9,082
Net Investment in Capital Assets	$ 79,953	$ 70,288	$ 13,557
Restricted - Nonexpendable	1,812	1,812	1,812
Restricted - Expendable	5,985	5,802	11,144
Unrestricted	(2,978)	(2,176)	270
Total Net Position	$ 84,772	$ 75,726	$ 26,783

Total Net Position

As illustrated by the following graph, the make-up of net position changed between 2017, 2016 and 2015.



Comparison of fiscal year 2017 to fiscal year 2016

Net Investment in Capital Assets increased $9,665 or 14%.

- Capital asset increases of $19,910 were mainly offset by a $4,587 increase to accumulated depreciation, asset retirements of $2,819, and a $2,839 increase in long-term debt outstanding attributable to the capital assets. The increase in debt is primarily due to a decrease in unspent bond proceeds in 2017 compared to 2016. Unspent bond proceeds are added back to debt liabilities because this portion of the debt has not yet been used to create a capital asset. For additional detail on changes in capital assets, see "Capital Assets and Related Financing Activities", page 15.

Restricted Expendable Net Position increased $183 or 3%.

- Net position relating to funds reserved for debt service increased by $224; the increase is primarily due to an increase in debt service payments on student building fee funded projects.
- Net position relating to the funding of capital projects increased $343; the increase is primarily due to gifts for construction projects.
- Net position related to gifts, grants and contracts increased $395 due to increased balances in gift funds and endowment reserves.
- Net position related to student loans decreased $779 due primarily to a high volume of federal student loans assigned to the US Department of Education for which the university had received a percentage of the interest earned.

Unrestricted Net Position decreased $802 due in large part to the following:

- Business activities for budgeted and auxiliary operations increased unrestricted net position $2,021.
- Changes associated with year-end liability accruals for PERS State and Local Rate Pool (SLGRP) increased Unrestricted Net Position $184.
- Changes due to year-end liability accruals for Other Post-employment Benefits (OPEB) decreased Unrestricted Net Position by $27.
- Changes associated with PERS pensions decreased Unrestricted Net Position by $3,048.
- Changes to Compensated Absences liabilities increased Unrestricted Net Position by $68.

See "Note 11. Unrestricted Net Position" for additional information.

Comparison of fiscal year 2016 to fiscal year 2015

Net Investment in Capital Assets increased $56,731.

- Capital Assets net of accumulated depreciation as of June 30, 2016 were $98,214 compared to June 30, 2015 of $96,864, a change in net value of $1,350.
- Capital Assets net of accumulated depreciation is reduced by debt associated with the purchase of capital assets. Debt associated with the purchase of capital assets includes the debt outstanding plus any items such as unspent bond proceeds and accounts receivable associated with institution paid debt that has not yet been used to create an asset. The value of the Net Capital Assets was reduced for associated debt as of June 30, 2016 in the amount of $27,926 and as of June 30, 2015 in the amount of $83,307, a difference of $55,381.

Restricted Expendable Net Position decreased $5,342.

- Net position relating to funds reserved for gifts, grants, and contracts increased $102.
- Net Position related to student loans decreased $246 primarily due to an increase in the default rate which resulted in an increase to the allowance for bad debt on Perkins Loans.
- Net position relating to the funding of capital projects decreased $2,741. Fund balances for construction projects are reduced by unspent bond proceeds. In 2015, the unspent bond proceeds were greater than in 2016 due to a decrease in the number and size of construction projects.
- Net Position relating to funds reserved for debt service decreased by $2,457. The decrease is related to the removal of the State Paid Debt. SOU is no longer required to pay debt service on the debt that was removed, which decreases the amount of required debt service reserves in 2016 and future years.

Unrestricted Net Position decreased $2,446 due in large part to the following:

- Increases due to SOU business activities for budgeted and auxiliary operations added $6,436 to unrestricted net position.
- Changes associated with year-end liability accruals for Compensated Absences, PERS State and Local Rate Pool (SLGRP), Other Post-Employment Benefits (OPEB) and Net Pension Liability decreased unrestricted net position by $8,882.

See "Note 11. Unrestricted Net Position" for additional detail.

Total Assets and Deferred Outflows of Resources

Total Assets increased 14,009 or 9% and $47,385 or 24% during the years ended June 30, 2017 and 2016, respectively. Deferred Outflows of Resources increased $11,668 or 462% and decreased $907 or 26% in the fiscal years ended June 30, 2017 and 2016, respectively.

Comparison of fiscal year 2017 to fiscal year 2016

Current Assets increased $16,776 or 133%.

- Current Cash and Cash Equivalents increased $1,588. Current cash increased in all fund areas with the largest increase due to operations of $1,384. Cash also increased in amounts held for debt service payments and cash held for payment for OPE liabilities. These increases were offset by a decrease caused by a higher proportion of current cash transferred to investments.
- Collateral from Securities Lending decreased $368.
- Accounts Receivable increased $895. The largest change to receivables was due to an increase in reimbursements due from the State for capital project expenses. These increases were offset by decreases in funds receivable for litigation that are held in trust and decreases in receivables for grants. See "Note 3. Accounts Receivable" for additional information.
- Current Notes Receivable increased $14,514 due primarily to an increase in construction reimbursements due from the State of Oregon for projects that are on schedule for completion during fiscal year 2018. The largest project scheduled for completion is the Student Recreation Center. See "Note 4. Notes Receivable" for additional information.
- Inventories increased $168. Facilities Management and Planning inventory increased $71 and organized storerooms increased $97.
- Prepaid Expenses decreased $21 .

Noncurrent Assets decreased $15,271 or 39%.

- Noncurrent Cash increased $587. A decrease in the amount of cash held as investments resulted in an increase in non current cash of $3,721. This increase was offset by a decrease in cash held for construction projects.

- Investments decreased $3,535. The decrease is primarily due to less cash available for investment plus a decrease in unrealized gain on investments during the year. The decrease is offset by a $277 increase in endowment investments.
- Noncurrent Notes Receivable decreased $12,323 due primarily to a change from noncurrent to current notes receivable due from the state for construction projects and a decrease in notes receivable for federal student loans. Decreases are offset by a note receivable from Jefferson Public Radio as well as a slight increase in Institutional and Other Student Loans. See "Note 4. Notes Receivable" for additional information.

Net Capital Assets increased $12,504, or 13%. Increases are due primarily to added construction in progress of $16,839 and other capitalized additions of $3,071. Total retirements and adjustments to Capital Assets of $5,050 include the sale of the Cascade Theatre of $4,701 and other disposals of $349. Net changes to accumulated depreciation of $2,356 included additions to accumulated depreciation of $4,587 and retirements and adjustments of $2,231, which included $1,892 from the sale of the Cascade Theatre and $339 in other disposals. See "Capital Assets and Related Financing Activities" in this MD&A for additional information relating to these variances.

Deferred Outflows of Resources increased $11,668 or 462%. The increase to deferred outflows is fully attributable to changes in the Net Pension Liability, see "Note 15. Employee Retirement Plans" for more information on this change.

Comparison of fiscal year 2016 to fiscal year 2015

Current Assets decreased $4,976 or 28%.

- Current Cash and Cash Equivalents decreased $3,149. Current cash decreased in almost all fund areas. The largest decreases were a decrease of $1,060 in funds held to pay payroll benefits payments to vendors and a decrease in cash held for building and equipment repair and replacement funds of $721.
- Collateral from Securities Lending decreased $676; see "Note 2 C. Securities Lending" for more information.
- Accounts receivable decreased $1,069. Student Tuition and Fee receivables decreased $239, Auxiliary Enterprise receivables decreased $170, other non-student receivables decreased $1,163, and allowances for doubtful accounts decreased the total by $88. Decreases were offset by increases in receivables from the SOU Foundation of $59. In addition, Grant and Contract receivables increased $532, primarily due to increases in receivables from construction reimbursements that are expected to be received during fiscal year 2017. Construction reimbursement receivables are new in 2016. In prior years, funds were received as bond proceeds at the time that bonds were issued. SOU now has to wait to be reimbursed for funds expended on construction projects funded by the State of Oregon.
- Current Notes Receivable decreased $37.
- Inventories increased $119.
- Prepaid Expenses decreased $164 primarily due to the removal of the prepaid contributions to sinking fund, which occurred with the removal of the State Paid Debt. Prepaid travel expense increased $48 offset by decreases in other prepaid expenses of $51.

Noncurrent Assets decreased $42,410 or 24%.

- Noncurrent cash decreased $38,903 primarily due to the spend down of cash held by trustee for construction projects of $20,529 and a change in accounting for cash held by trustee implemented by the State, which now holds funds of $13,700 for the Student Rec Center construction. This is now accounted for as an accounts receivable on SOU's books.
- Investments decreased slightly, with a difference of $286.
- Noncurrent Notes Receivable increased $137. Loans increased $294 and were offset by an allowance for doubtful accounts decrease of $157.
- The Net Pension Asset as of June 30, 2015 of $4,707 declined to zero because the June 30, 2016 balance is a Net Pension Liability. The change is primarily due to the Oregon Supreme Court ruling on the *Moro* decision; see "Proportionate Share Allocation Methodology" in "Note 15. Employee Retirement Plans".
- Capital Asset Additions of $6,467 were offset by additions to accumulated depreciation of $4,614, and retirements of $503, which resulted in a change in the net value of Capital Assets of $1,350. See "Capital Assets and Related Financing Activities" in this MD&A and "Note 5. Capital Assets" for additional information relating to these variances.

Deferred Outflows of Resources decreased $907 or 26%.

- Net Increases of $856 related to changes in the reporting for Net Pension Liabilities.
- Deferred Outflows decreased $1,763 due to the removal of unamortized gains/losses on refunding of debt that was removed as part of the removal of State Paid Debt, and the removal of gains/losses from Institution Paid Debt.

See "Note 6. Deferred Inflows and Outflows" for additional detail on changes.

Total Liabilities and Deferred Inflows of Resources

Total Liabilities increased $17,861 or 24% during the year ended June 30, 2017. Total Liabilities decreased $90,934 or 55% during the year ended June 30, 2016. Deferred Inflows of Resources decreased $1,230 or 44% during the fiscal year ended June 30, 2017 and decreased $6,301 or 69% during the fiscal year ended June 30, 2016.

Comparison of fiscal year 2017 to fiscal year 2016

Current Liabilities increased $2,290 or 15%.

- The current portion of Long-Term Liabilities decreased by $22. An increase to current debt payments of $128 is offset by a decrease in the current portion of Compensated Absences of $150. See "Debt Administration" in this MD&A and "Note10. Long Term Liabilities" for more information on this change.
- Obligations under Securities Lending decreased $368.
- Accounts Payable and Accrued Liabilities increased $2,252 primarily due to an increase in payables for construction projects of $2,217.
- Unearned revenue increased by $380 due to increased revenues for prepaid tuition and fees for summer term, and a slight decrease in

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016(DOLLARS IN THOUSANDS)

grant and contract unearned revenue.

- Deposits increased $48 due primarily to a $102 increase in funds held for the North Campus Village, and a decrease of $54 in other deposits. See "Note 8. Deposits" for additional detail.

Noncurrent Liabilities increased $15,571 or 26%. Net Pension Liability increased $15,946 and noncurrent Long-Term Liabilities decreased $375. For additional detail, see "Note 10. Long-Term Liabilities" and "Note 15. Employee Retirement Plans".

Deferred Inflows of Resources decreased $1,230 due to changes in reporting for pension liabilities, primarily changes in actual earnings on pension assets. See "Note 6. Deferred Inflows and Outflows" for additional detail on the changes.

Comparison of fiscal year 2016 to fiscal year 2015

Current Liabilities decreased $10,118 or 41%.

- Accounts Payable and Accrued Liabilities decreased $5,028. Services and supplies payables decreased $121, labor related payables decreased $2,628, construction payables decreased $1,210, accrued interest decreased $737, and contract retainage payable decreased $332.
- Deposits decreased $289 primarily due to funds held for North Campus Village, for additional details see "Note 8. Deposits".
- Obligations under Securities Lending decreased $676.
- Current Portion of Long-Term Liabilities decreased $3,369 due to the removal of State Paid Debt from SOU books as of July 1, 2015. See "Note 19. Change in Entity" for additional details.
- Unearned Revenues decreased $756 primarily due to decreases in tuition and fee related unearned revenues of $484 and decreases in grant and contract deferred revenue of $260.

Noncurrent Liabilities decreased $80,816 or 58%.

- Long-Term Liabilities decreased $92,239 primarily due to the removal of State Paid Debt. See "Note 10. Long-Term Liabilities" and "Note 19. Change in Entity" for details of the removal of the debt.
- Net Pension Liability increased $16,130, a portion of which reduced net Pension Asset by $4,707; the remainder is the liability balance of $11,423. The change from a Net Pension Asset to a Net Pension Liability is primarily due to the Oregon Supreme Court ruling on the *Moro* decision. See "Note 15. Employee Retirement Plans" for additional detail.

Deferred Inflows of Resources decreased $6,301 due to changes in reporting for pension liabilities, primarily changes in actual earnings on pension assets. See "Note 6. Deferred Inflows and Outflows" for additional detail on the changes.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (SRE)

Due to the classification of certain revenues as nonoperating revenue, SOU shows a loss from operations. State General Fund Appropriations, nonexchange grants and non-capital gifts, although considered nonoperating revenue under GASB Statement No. 35 and reflected accordingly in the nonoperating section of the SRE, are used solely for operating purposes.

The following summarizes the revenue and expense activity of SOU:

Condensed Statements of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30,	**2017**	2016	2015
Operating Revenues	**$ 52,514**	$ 50,077	$ 46,697
Operating Expenses	**91,287**	97,865	76,245
Operating Loss	**(38,773)**	(47,788)	(29,548)
Nonoperating Revenues, Net of Expenses	**33,157**	34,887	28,008
Other Revenues	**14,662**	4,245	3,697
Special and Extraordinary Items	**-**	57,599	11,244
Increase in Net Position	**9,046**	48,943	13,401
Net Position, Beginning of Year	**75,726**	26,783	21,976
Change in Accounting Principle	**-**	-	(8,594)
Net Position, End of Year	**$ 84,772**	$ 75,726	$ 26,783

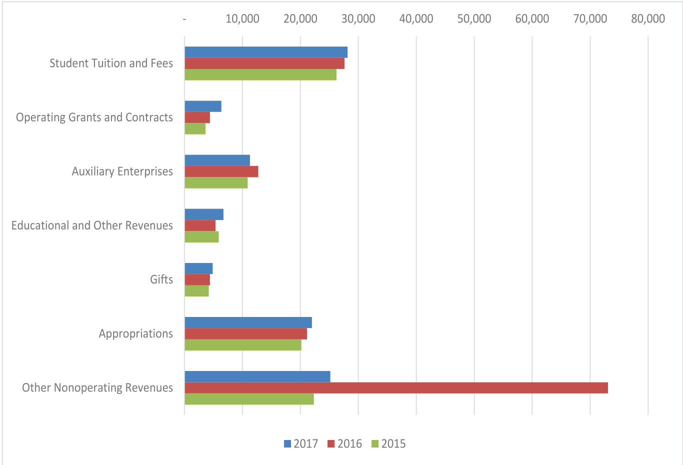
Revenues

Revenues increased $13,468, or 15%, excluding the decrease due to the 2016 change in entity of $57,599.

Total Operating and Nonoperating Revenues

For the Year Ended June 30,	**2017**	2016	2015
Student Tuition and Fees	**$ 28,133**	$ 27,602	$ 26,238
Grants and Contracts	**6,354**	4,392	3,637
Auxiliary Enterprises	**11,308**	12,720	10,899
Educational and Other	**6,719**	5,363	5,923
Total Operating Revenues	**52,514**	50,077	46,697
Appropriations	21,996	21,154	20,184
Financial Aid Grants	9,876	10,675	10,556
Gifts	4,881	4,396	4,200
Investment Activity	809	723	440
Capital Grants and Gifts	14,483	4,066	96
Special Item Change in Entity	-	57,599	11,244
Total Nonoperating Revenues	**52,045**	98,613	46,720
Total Revenues	**$ 104,559**	$ 148,690	$ 93,417

Total Operating and Nonoperating Revenues



Operating Revenues

Operating revenues increased 6% from $50,077 in 2016 to $53,073 in 2017. Operating revenues increased $3,380 in 2016, or 7% over 2015.

Comparison of fiscal year 2017 to fiscal year 2016

Student Tuition and Fees increased $531 or 2%.

- Higher tuition and fee rates contributed $325, while lower enrollment offset the increase by $1,062.
- Fee remissions and scholarship allowances decreased $1,199, causing an increase to tuition and fees revenue.
- Bad debt expense, primarily related to the maintenance of the allowance for bad debt, decreased by $69, also causing an increase.

Federal, State and Nongovernmental Grants and Contracts increased $1,962 or 45%.

- Federal grant and contract revenues increased $210 due primarily to an increase in grants from the National Science Foundation, Department of Agriculture, Department of the Interior, and the Small Business Administration. These increases are offset by decreases in grants from the Department of Education.
- State and local grant activity decreased $44 primarily due to decreases in grants from the State of Oregon agencies of $71 and decreases in grants from local governments and other grants of $25. These decreases were offset by increases to grants associated with student activities of $52.
- Nongovernmental grant activity increased $1,796 primarily due to a commitment from Jefferson Public Radio for XI-F(1) debt payments.

Auxiliary Enterprise revenues decreased $1,412 or 11% due mainly to the following:

- Housing and Dining revenues decreased $1,139. Fee remissions and scholarship allowances decreased housing and dining revenues $647. Other decreases were to room and board fees, conference income and other revenues. Family housing revenues increased by $101.
- Student Center revenue increased $548 primarily due to an increase in incidental fees.
- Athletics revenue decreased $261 primarily due to a decrease in post season income and ticket sales, with an increase to guarantees.
- Parking increased $51 primarily due to increases in parking fines and fees.
- Other Auxiliaries increased $90 primarily due to an increase in Student Recreation Center and incidental fees.

Educational Department Sales and Services revenues increased $995 or 25% due primarily to an increase in memberships income for the SOU Jefferson Public Radio department.

Other Operating revenues increased $361 or 25% mainly due to earned interest that was canceled when Perkins loans were assigned to the federal government.

Comparison of fiscal year 2016 to fiscal year 2015

Student Tuition and Fees increased $1,364 or 5%.

- Higher tuition and fee rates accounted for approximately $1,688 of the increase, while increased enrollment accounted for approximately $728.
- Fee remissions reduced tuition and fees by $679 more than in the prior year.
- Scholarship allowance reduced tuition and fees by $260 more than in the prior year.
- Allowances for bad debt reduced tuition and fees by $113 more than in the prior year.

Federal, State and Nongovernmental Grants and Contracts increased $755 or 21%.

- Federal grant and contract revenues decreased $93, Grants from the US Department of Education of $178 were offset by a decrease in revenues from grants from the US Department of the Interior, US Department of Agriculture, and the Small Business Administration Center.
- State and local grant activity increased $44 primarily due to an increase of $42 in local government contracts.
- Nongovernmental grant activity increased $804 primarily due to increases in contract revenue for the North Campus Village of $550 and increases in contracted food services revenue of $373. These increases were offset by small increases and decreases in other non-governmental grants and contracts.

Auxiliary Enterprise revenues increased $1,821 or 17% due mainly to the following:

- An additional fee in 2016 approved by the SOU Board of Directors to fund the new Student Recreation Center increased auxiliary revenues by $429
- Other Student Fee revenue increased by $102.
- External Sales increased $1,205 primarily due to additional housing room and board revenue and ground lease revenue from North Campus Village.
- These increases were offset by an increase of $74 to the scholarship allowance for housing, which results in a decrease to housing revenue.

Educational Department Sales and Services revenues decreased $965 or 20% due primarily to a decrease in lease income.

Other Operating revenues increased $405 or 39% mainly due to increased miscellaneous revenues for general fund operations.

Nonoperating Revenues

Both the decrease in Nonoperating Revenues of $46,568 during 2017 and the increase of $51,893 during 2016 are due primarily to SOU becoming an independent university and the removal of state paid debt from the university's books.

Comparison of fiscal year 2017 to fiscal year 2016

Government Appropriations increased $842 or 4% due to increased funding received from the State of Oregon. See "Note 14. Government Appropriations" for additional information relating to changes in appropriations.

Gifts increased $485 or 11% mainly due to increased gifts from the SOU Foundation.

Financial Aid Grants decreased by $799 or 7% due mainly to a decreased number of federal PELL grants awarded.

Investment Activity revenues increased $86 or 12%. See "Note 12. Investment Activity" for additional information relating to these changes.

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016(DOLLARS IN THOUSANDS)

Capital Grants and Gifts increased $10,417, or 256%.

- Capital Grants from XI-Q State bond funded construction projects increased $7,626 from the prior year.
- Capital Gift in Kind for FCC Radio Station Licenses received from JPR Foundation accounted for $1,396.
- Other Equipment Gift in Kind received increased by $1,040.

Special Item Change in Entity decreased $57,599 primarily due to the removal of state paid debt for SOU books in fiscal year 2016. See "Note 19. Change in Entity" for details.

Comparison of fiscal year 2016 to fiscal year 2015

Government Appropriations increased $970 or 5%.

- State Appropriations for general fund operations increased $3,643 due to increased funding received from the State of Oregon.
- State Appropriations for debt service decreased $2,673 due to the removal of State Paid Debt from SOU books.

See "Note 14. Government Appropriations" for additional information regarding the change in appropriations.

Financial Aid Grants increased by $119 or 1%.

Gift revenue increased $196 or 5%, primarily related to the following.

- Gifts from the SOU Foundation increased $147.
- Gifts for scholarships increased $127.
- Gifts from private individuals decreased $83.

Investment Activity increased $283 or 64%. See "Note 12. Investment Activity" for additional information relating to these changes.

Capital Grants and Gifts increased $3,970.

- Capital Grants from XI-Q State bond funded construction projects of $3,819 were received in 2016. In prior years, state bond funding was received as bond proceeds in exchange for debt. As an independent university, SOU no longer receives debt in exchange for assets for what is considered state paid debt. Under the new process, SOU receives capital grant funding as construction project expenses are paid to vendors and reimbursed by the State of Oregon.
- In 2016, SOU received equipment gifts in kind of $139.
- Library gifts increased $5 over 2015.

Special Item Change in Entity increased $46,355 primarily due to the removal of state paid debt for SOU books. See "Note 19. Change in Entity" for details.

Expenses

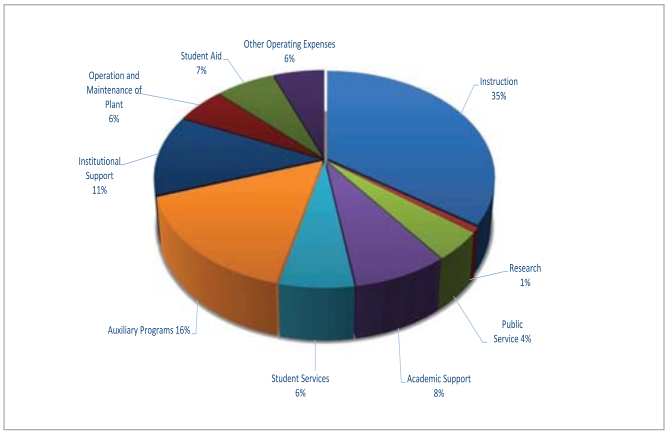
Operating Expenses

Operating expenses decreased $6,578 in 2017 or 7%, over 2016, to $91,287. Operating expenses increased $21,620 in 2016 or 28%, over 2015, to $97,865. The following summarizes operating expenses by functional classification:

Operating Expense by Function

For the Year Ended June 30,		**2017**		2016		2015
Instruction	**$**	**31,790**	$	33,247	$	26,009
Research		**669**		595		679
Public Service		**3,931**		3,868		2,998
Academic Support		**7,068**		7,615		5,685
Student Services		**5,576**		5,957		4,453
Auxiliary Programs		**14,576**		15,706		14,618
Institutional Support		**11,111**		11,023		7,582
Operation and Maintenance of Plant		**5,050**		5,651		3,980
Student Aid		**6,161**		6,054		5,857
Other Operating Expenses		**5,355**		8,149		4,384
Total Operating Expenses	**$**	**91,287**	$	97,865	$	76,245

2017 Operating Expense by Function



FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (DOLLARS IN THOUSANDS)

The implementation of GASB No. 68 in 2015 had a profound impact on the operating expenses of SOU. The following tables show the effect of GASB No. 68 across the functional classifications. The $3,048 difference in 2017 is due to recording the components of Net Pension Liability required by GASB No. 68; change in Net Pension Liability, changes in proportion, differences in expected and actual experience, differences between projected and actual earnings on investments, and amortization of Deferred Outflows and Deferred Inflows. See "Note 15. Employee Retirement Plans" for additional details.

The effect of GASB No. 68 on Expenses by Functional Classifications

For the Year Ended June 30, 2017	with adjustments	without adjustments	difference
Instruction	$ 31,790	$ 30,433	$ 1,357
Research	669	643	26
Public Service	3,931	3,798	133
Academic Support	7,068	6,815	253
Student Services	5,576	5,348	228
Auxiliary Programs	14,576	14,212	364
Institutional Support	11,111	10,660	451
Operation and Maintenance of Plant	5,050	4,823	227
Student Aid	6,161	6,161	-
Other Operating Expenses	5,355	5,346	9
Total Operating Expenses	**$ 91,287**	**$ 88,239**	**$ 3,048**

For the Year Ended June 30, 2016	with adjustments	without adjustments	difference
Instruction	$ 33,247	$ 29,238	$ 4,009
Research	595	520	75
Public Service	3,868	3,497	371
Academic Support	7,615	6,831	784
Student Services	5,957	5,251	706
Auxiliary Programs	15,706	14,629	1,077
Institutional Support	11,023	9,799	1,224
Operation and Maintenance of Plant	5,651	4,950	701
Student Aid	6,054	6,054	-
Other Operating Expenses	8,149	8,123	26
Total Operating Expenses	$ 97,865	$ 88,892	$ 8,973

For the Year Ended June 30, 2015	with adjustments	without adjustments	difference
Instruction	$ 26,009	$ 29,023	$ (3,014)
Research	679	726	(47)
Public Service	2,998	3,242	(244)
Academic Support	5,685	6,271	(586)
Student Services	4,453	4,861	(408)
Auxiliary Programs	14,618	15,112	(494)
Institutional Support	7,582	8,298	(716)
Operation and Maintenance of Plant	3,980	4,351	(371)
Student Aid	5,857	5,857	-
Other Operating Expenses	4,384	4,394	(10)
Total Operating Expenses	$ 76,245	$ 82,135	$ (5,890)

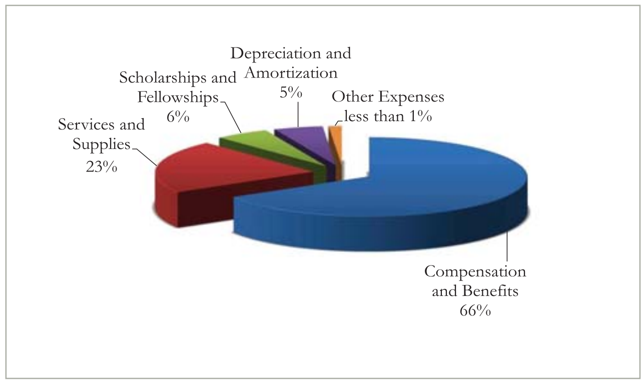
Due to the way in which expenses are incurred by SOU, variances are presented and explained by analyzing changes in the natural classification of expenses. Each natural classification analysis can be applied to many of the functional expense caption items.

The following summarizes operating expenses by natural classification:

Operating Expenses by Natural Classification

For the Year Ended June 30,	2017	2016	2015
Compensation and Benefits	**$ 60,552**	$ 64,031	$ 49,219
Services and Supplies	**19,874**	23,067	17,051
Scholarships and Fellowships	**5,051**	5,841	5,654
Depreciation and Amortization	**4,587**	4,614	4,161
Other Expenses	**1,223**	312	160
Total Operating Expenses	**$ 91,287**	$ 97,865	$ 76,245

2017 Operating Expenses by Natural Classification



Comparison of fiscal year 2017 to fiscal year 2016

Compensation and Benefits costs decreased $3,479 or 5%, in 2017 compared to 2016 primarily due to:

- Salary and wage costs decreased $401 due to a decrease in unclassified pay of $753, decrease in student and grad assistance pay of $116, and an increase in classified pay of $468.
- Other personnel expenses (OPE) costs not including costs associated with OPEB, SLGRP, and Pension Expense adjustments increased $263.
- OPE costs associated with Pension Expense decreased $5,925, costs associated with changes in OPEB liability increased $120, and costs associated with changes in SLGRP decreased $45.
- Increase to total compensation and benefits of $2,410 due to the 2016 reversal of a 2015 Boli Liability and expense.
- Other costs associated with compensation and benefits increased $99.

Services and Supplies decreased $3,193 or 14%, during 2017. Changes in Services and Supplies expense were mainly due to increases in Budgeted Operations of $71 and decreases in the following categories:

- $369 Auxiliary Operations, primarily decreases in Athletics expenditures offset by increases in Student Centers and Parking operations.
- $2,673 non capitalized costs in construction funds

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016(DOLLARS IN THOUSANDS)

- $120 repair and replacement funds
- $15 restricted fund expenditure

Scholarships and Fellowships decreased $790 or 14%, when comparing 2017 to 2016. Federal and State financial aid awards decreased $380, scholarships managed by the SOU Foundation and institutional funds decreased $410.

Depreciation and Amortization expense decreased $27, building and vehicle depreciation increased due to new assets added during the year, all other asset classes experienced a decrease in depreciation due to some assets becoming fully depreciated.

Other Operating Expenses increased $911 primarily due to an increase in student loans assigned to the federal government or canceled.

Nonoperating Expenses
- Interest Expense increased $112 or 8%.
- Gain (Loss) Sale of Assets increased $1,791 primarily due to the sale of the Cascade Theatre.

Other Nonoperating Items decreased (revenues) $441 primarily due to the reduction of State of Oregon debt contracts. In addition, SOU is still working with insurance providers to recover a balance of $1,365. This amount is being picked up as a non-operating item (expense) in the current financial statements. Pending resolution of the remaining legal issues associated with the recovery action, any funds recovered will be reflected as an addition to available resources in a subsequent year.

Comparison of fiscal year 2016 to fiscal year 2015

Compensation and Benefits costs increased $14,812 primarily due to $14,861 resulting from the change in reporting for the Net Pension Liability. The change from a Net Pension Asset to a Net Pension Liability is primarily due to the Oregon Supreme Court ruling on the *Moro* decision. See "Changes in Plan Provisions" in "Note 15. Employee Retirement Plans". Absent the impact of GASB No. 68, these expenses were fairly consistent at $55,058 in 2016 and $55,110 in 2015.

Services and Supplies expense increased $6,016, or 35%, during 2016. The largest increase was due to an increase of $3,000 for non capitalized construction costs associated with the following construction projects:
- $2,200 McNeal Demolition
- $400 Theater Project
- $300 Student Recreation Center
- $100 Deferred Maintenance

Other increases included:
- $1,577 increase in general fund services and supplies expense across a variety of areas such as Other Professional Services, Software Contracts, Maintenance and Repairs, and Early Retirement expenses.
- $600 increase in other unrestricted funds expenses
- $700 increase in housing expenses
- $500 increase in other expenses
- $85 increase in Bad Debt expense associated with Perkins Loans

Scholarships and Fellowships expenses increased $187 or 3%, when comparing 2016 to 2015. Scholarships increased $517 and were offset by an increase of $334 in the amount of scholarship allowance reclassified to offset tuition and fees and housing revenue.

Depreciation and Amortization expense increased $453 primarily due to the completion of the Science Building and other capital projects that are beginning to depreciate.

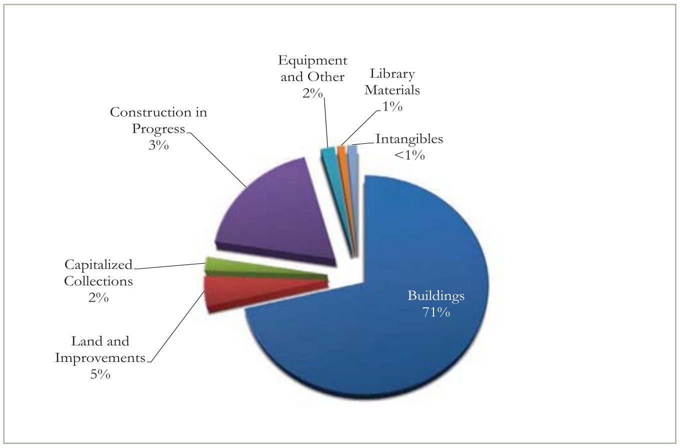
Other Expenses decreased $2,638.
- Interest expense decreased $3,108 due to the removal of debt service for State Paid Debt.
- Gain/Loss on Sale of Assets increased $463 due to the demolition of Roy W McNeal Hall to prepare for new construction.
- Other Nonoperating Items expenses increased $7.

CAPITAL ASSETS AND RELATED FINANCING ACTIVITIES

Capital Assets

At June 30, 2017, SOU had $208,698 in capital assets, less accumulated depreciation of $97,980, for net capital assets of $110,718. At June 30, 2016, SOU had $193,838 in capital assets, less accumulated depreciation of $95,624, for net capital assets of $98,214.

2017 Capital Assets, Net - $110,718 thousand



Changes to Capital Assets

	2017	2016	2015
Capital Assets, Beginning of Year	$ 193,838	$ 190,358	$ 170,976
Add: Purchases/Construction	19,910	6,467	19,383
Less: Retirements/ Disposals/Adjustments	(5,050)	(2,987)	(1)
Total Capital Assets, End of Year	208,698	193,838	190,358
Accum. Depreciation, Beginning of Year	(95,624)	(93,494)	(89,406)
Add: Depreciation Expense	(4,587)	(4,614)	(4,161)
Less: Retirements/ Disposals/Adjustments	2,231	2,484	73
Total Accum. Depreciation, End of Year	(97,980)	(95,624)	(93,494)
Total Capital Assets, Net, End of Year	$ 110,718	$ 98,214	$ 96,864

During fiscal year 2017, SOU received a gift in kind from the JPR Foundation for FCC Radio Licenses, increasing capital assets by $1,396. These gifts are in a new class of asset in "Note 5. Capital Assets" called "Perpetual Intangible Assets", which are intangible assets that do not decline in value and are not amortized.

During fiscal year 2017:

- Equipment additions of $638 and retirements and adjustments of $47 net for a change in equipment of $591.
- Library materials were added in the amount of $170, with disposals of $296, for a net reduction of $126.
- Capitalized Collections increased $613 due to gifts in kind for museum and library collections received during the year.
- Construction in progress increased $16,839 primarily due to the construction of the new Student Center.
- Additions to buildings totaled $254. Additions were primarily additional costs for the Science building which was completed in 2016. Retirements to Buildings totaled $4,701 due to the removal of the initial cost for the Cascade Theatre which was sold during 2017.
- Accumulated depreciation associated with disposal of buildings was removed in the amount of $1,892.

During fiscal year 2017, $20 in construction projects were moved from Construction in Progress and completed.

During fiscal year 2016, $562 in equipment was added and $62 was transferred from equipment construction in progress. This was offset by $82 in retirements and adjustments. Also, $255 was added to capitalized collections and Library materials and offset by $60 in disposals.

During fiscal year 2016, there were additions to construction in progress of $5,650, primarily due to the Science Building.

During fiscal year 2016, disposals of buildings totaled $2,847. Roy W McNeal Hall, with a cost of $2,772, was demolished, and three houses previously used for housing students with families were declared impaired with a cost of $75.

Accumulated depreciation associated with disposals was removed in the amount of $2,484.

During fiscal year 2016, $22,622 in construction projects were moved from Construction in Progress and completed:

- Student Recreation Center improvements for the Turf and Track and Softball Batting Cage $1,475
- Science Building $21,084
- Science Building equipment $63

Debt Administration

During 2017, long-term debt held by SOU decreased by $630, or 1%, from $44,649 to $44,019.

Contracts payable to the State of Oregon decreased $3,235:

- Principal payments of $1,807
- State deductions for refunding of debt associated with contracts payable of $963
- Deductions for Cash Defeasance on contract payable to the State of Oregon of $465.

Contracts payable to the State of Oregon increased $2,827:

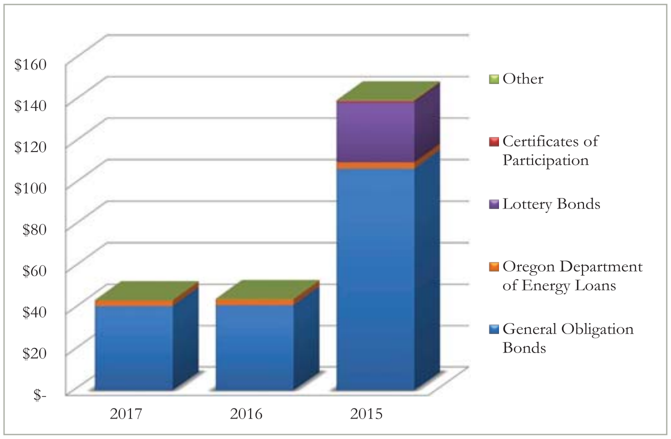
- Two new contracts were entered into for $2,795
- Accreted interest accrual of $32

No new loans were added to the State Energy Loan Program (SELP), principal payments of $127 were paid during the year.

No new installment sales were added, principal payments of $95 were paid during the year.

Also see "Note 10. Long-Term Liabilities" for additional information.

Long-term Debt



ECONOMIC OUTLOOK

Funding for the major activities of SOU comes from a variety of sources including tuition and fees, financial aid programs, federal and state appropriations, grants, private and government contracts, donor gifts, and investment earnings. Revenues are also generated through recovery of costs associated with federal grants and contract activities, which serve to offset related administrative and facilities costs at the university.

State funding levels continue to challenge SOU's public mission, as a mid-sized regional university, offering a comprehensive range of degree programs with a strong emphasis on Business, Education and the Sciences, wrapped around a liberal arts foundation. While state funding to SOU has increased significantly over the last few years, it is still lower than the level of state contribution that existed prior to the last recession. This reduced level of state support, combined with rising expenses, particularly labor costs including costs associated with mandated participation in state health and retirement systems, has put increasing pressure on the institution to raise tuition.

The economic outlook for the state of Oregon has continued to improve despite being one of the late recovery states from the recession. However, state expenditures for employee retirement and medical benefits have outpaced that recovery and have created significant challenges to restorative initiatives to areas such as Higher Education.

The 2013 legislature enacted SB270, which granted independent governing boards of trustees to all seven of the public universities.

On July 1, 2015, the SOU Board of Trustees assumed all governance authority previously vested in the State Board of Higher Education. This represents a significant opportunity for SOU, having a local board that is much more connected with the University and much more in tune with the population, industry, and conditions of Southern Oregon will give SOU increased operational flexibility and the ability to better chart its own identity from which to serve its region. However, while this is a very positive change, this new level of independence has also allowed the state to change prior requirements on ongoing funding level adjustments, as the independent public universities are no longer state agencies. Additionally, the public universities are still required to participate in group health insurance, a select set of group retirement plans, and collective bargaining through July 1, 2019.

Two state statutorily mandated university employee benefits that SOU are required to purchase are a defined retirement benefit (managed by the Public Employees Retirement System (PERS), and a 401(a) plan managed by the public universities) and health, dental and other employment related benefits (managed by the Public Employee Benefit Board (PEBB)). As a mandatory purchaser of these benefits for university employees, SOU has minimal influence on the cost of these benefits. These benefits costs, which have historically seen significant increases, year over year, have a dramatic impact on SOU's operating budget, due to the fact that retirement benefit rates average approximately 25% of employee pay and represent an increase of over four percent over the prior fiscal year. Future projections are for even greater year over year increases in the rate due, in part, to a recent Oregon Supreme Court decision (Moro v. State of Oregon, 354 Or 657 (2014)). An additional factor in the cost of PEBB plans is that, for Southern Oregon, the number of participant PEBB sponsored plans is small, making initiatives that would incentivize employees to migrate to lower cost plans difficult to implement.

Compounding these challenges, SOU must respond to existing and new legislative mandates, which may have an impact on the University's budget. One such legislative mandate is Oregon's 40/40/20 goal, which is for 40% of all adult Oregonians to hold a bachelor's or advance degree; 40% to have an associate's degree or meaningful postsecondary certificate; and all remaining adult Oregonians to hold a high school diploma or equivalent by the year 2025. This legislative requirement makes good public policy, but it carries with it the necessity to innovate student support programs to help students who previously did not progress to a four-year institution and see them through to graduation. There has been some support for these added costs with recent increases in state funding, but these increases are not guaranteed to continue forward. These partially funded mandates act to widen the gap of state funding that has not been fully restored from pre-recession levels. While the University remains committed to meeting these mandates, SOU has to balance its overall financial health as it ensures accomplishment of its mission.

Other challenges on future operations include enrollment figures and growing concerns over the total cost of higher education. For Oregon, high school graduation rates are expected to be flat or slightly decrease over the projected future with an anticipated shift in the population mix from a predominately white population, to a greater portion of Latino and other minority populations, who traditionally have lower progression rates to higher education. This represents both an opportunity and a challenge for SOU. As a regional university, the potential to work with our local high schools to ensure preparation of future students is great, and may represent an area of enrollment growth for SOU, however, it does require an upfront investment.

Another investment on the SOU campus that is beginning to generate returns for the university is the North Campus Village (NCV) that had its first year of operation in 2015. NCV consists of two new residence halls and a dining facility that have created a central village for SOU students and is proving to be both a source for recruitment and retention of existing students. We anticipate this will grow even stronger with the construction of a new competitive sports facility and student recreation center, both due to be fully operational in fall of 2018. Other projected capital construction initiatives are planned and are expected to continue to support recruitment goals for the University.

In 2016, the SOU Board of Trustees hired a new President, Dr. Linda Schott. She has launched a comprehensive campus-wide strategic planning process that includes a new vision statement, mission statement, institutional values, and strategic directions. Enrollment appears to be stabilizing and the Budgeted Operations fund balance continues to grow as the result of the successful implementation of its Retrenchment Plan launched in 2014.

Although SOU continues to face financial challenges that are primarily external, the University is actively working internally with its new Board of Trustees and supporting Foundation to broaden funding sources, implement strategic projects, and reduce the University's reliance on state support. The future looks good.

STATEMENT OF NET POSITION
SOUTHERN OREGON UNIVERSITY

As of June 30,		2017		2016
		(In thousands)		
ASSETS				
Current Assets				
Cash and Cash Equivalents (Note 2)	**$**	**7,324**	$	5,736
Collateral from Securities Lending (Note 2)		**651**		1,019
Accounts Receivable, Net (Note 3)		**5,524**		4,629
Notes Receivable, Net (Note 4)		**15,463**		949
Inventories		**315**		147
Prepaid Expenses		**131**		152
Total Current Assets		**29,408**		12,632
Noncurrent Assets				
Cash and Cash Equivalents (Note 2)		**2,283**		1,696
Investments (Note 2)		**16,930**		20,465
Notes Receivable, Net (Note 4)		**4,968**		17,291
Capital Assets, Net of Accumulated Depreciation (Note 5)		**110,718**		98,214
Total Noncurrent Assets		**134,899**		137,666
Total Assets	**$**	**164,307**	$	150,298
DEFERRED OUTFLOWS OF RESOURCES (Note 6)	**$**	**14,195**	$	2,527
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Liabilities (Note 7)	**$**	**8,042**	$	5,790
Deposits (Note 8)		**1,191**		1,143
Obligations Under Securities Lending (Note 2)		**651**		1,019
Current Portion of Long-Term Liabilities (Note 10)		**3,836**		3,858
Unearned Revenues		**3,395**		3,015
Total Current Liabilites		**17,115**		14,825
Noncurrent Liabilities				
Long-Term Liabilities (Note 10)		**47,695**		48,070
Net Pension Liability (Note 15)		**27,369**		11,423
Total Noncurrent Liabilities		**75,064**		59,493
Total Liabilities	**$**	**92,179**	$	74,318
DEFERRED INFLOWS OF RESOURCES (Note 6)	**$**	**1,551**	$	2,781
NET POSITION				
Net Investment in Capital Assets	**$**	**79,953**	$	70,288
Restricted For:				
Nonexpendable Endowments		**1,812**		1,812
Expendable:				
Gifts, Grants and Contracts		**2,092**		1,697
Student Loans		**2,155**		2,934
Capital Projects		**1,146**		803
Debt Service		**592**		368
Unrestricted (Note 11)		**(2,978)**		(2,176)
Total Net Position	**$**	**84,772**	$	75,726

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,		**2017**		2016
		(in thousands)		
ASSETS				
Current Assets				
Cash and Cash Equivalents	**$**	**688**	$	705
Investments		**27,146**		24,124
Promises to Give, Net		**205**		392
Other Current Assets		**24**		-
Total Current Assets		**28,063**		25,221
Other Assets				
LongTerm Promises to Give, Net		**351**		161
Assets Held Under Split-Interest Agreements		**999**		982
Other Assets		**1,225**		1,973
Total Other Assets		**2,575**		3,116
Total Assets	**$**	**30,638**	$	28,337
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable and Accrues Liabilities	**$**	**89**	$	61
Scholarships Payable		**919**		986
Deferred Revenue		**286**		270
Payments Due to Related Entity		**-**		32
Total Current Liabilities		**1,294**		1,349
Obligations Under Split-Interest Agreements		**468**		485
Total Liabilities		**1,762**		1,834
Net Assets				
Unrestricted				
Available for General Obligations and Programs		**1,508**		1,434
Board Designated - Endowment		**131**		121
Underwater Endowments		**(147)**		(643)
Total Unrestricted		**1,492**		912
Temporarily Restricted		**6,922**		5,737
Permanently Restricted		**20,462**		19,854
Total Net Assets		**28,876**		26,503
Total Liabilities and Net Assets	**$**	**30,638**	$	28,337

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 Years Ended June 30,	2017	2016
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Allowances of $11,185 and $12,450, Note 1P)	**$ 28,133**	$ 27,602
Federal Grants and Contracts	**1,605**	1,395
State and Local Grants and Contracts	**748**	792
Nongovernmental Grants and Contracts	**4,001**	2,205
Educational Department Sales and Services	**4,908**	3,913
Auxiliary Enterprises Revenues (Net of Allowances of $1,360 and $596, Note 1P)	**11,308**	12,720
Other Operating Revenues	**1,811**	1,450
Total Operating Revenues	**52,514**	50,077
OPERATING EXPENSES		
Instruction	**31,790**	33,247
Research	**669**	595
Public Service	**3,931**	3,868
Academic Support	**7,068**	7,615
Student Services	**5,576**	5,957
Auxiliary Programs	**14,576**	15,706
Institutional Support	**11,111**	11,023
Operation and Maintenance of Plant	**5,050**	5,651
Student Aid	**6,161**	6,054
Other Operating Expenses	**5,355**	8,149
Total Operating Expenses (Note 13)	**91,287**	97,865
Operating Loss	**(38,773)**	(47,788)
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 14)	**21,817**	20,975
Financial Aid Grants	**9,876**	10,675
Gifts	**4,881**	4,396
Investment Activity (Note 12)	**809**	723
Gain (Loss) on Sale of Assets, Net	**(2,243)**	(452)
Interest Expense	**(1,562)**	(1,450)
Other Nonoperating Items	**(421)**	20
Net Nonoperating Revenues	**33,157**	34,887
Loss Before Other Nonoperating Revenues	**(5,616)**	(12,901)
Debt Service Appropriations (Note 14)	**179**	179
Capital Grants and Gifts	**14,483**	4,066
Total Other Nonoperating Revenues	**14,662**	4,245
Increase (Decrease) In Net Position Prior to Special/ Extraordinary Items	**9,046**	(8,656)
SPECIAL AND EXTRAORDINARY ITEMS		
Special Item - Change in Entity (Note 19)	**-**	57,599
Increase (Decrease) In Net Position After Special/ Extraordinary Items	**9,046**	48,943
NET POSITION		
Beginning Balance	**75,726**	26,783
Ending Balance	**$ 84,772**	$ 75,726

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

STATEMENT OF ACTIVITIES
SOUTHERN OREGON UNIVERSITY FOUNDATION - COMPONENT UNIT

For the Years Ended June 30,		**2017**		2016
		(In thousands)		
CHANGE IN UNRESTRICTED NET ASSETS				
Public Support, Revenue, and Gains				
Contributions	**$**	**50**	$	77
Contributed Services Support		**639**		620
Investment Income		**386**		372
Net unrealized Gain (Loss) on Investments		**507**		(436)
Fundraising Activities and Other Income		**7**		16
Net Assets Released From Restrictions		**4,329**		3,181
Total Revenues		**5,918**		3,830
Functional Expenses				
University Support		**2,282**		451
Affiliate Support		**837**		863
Scholarships, Grants, and Awards		**1,139**		1,819
Management and General		**330**		303
Management and General, Contributed		**302**		187
Fundraising		**111**		156
Fundraising, Contributed		**337**		415
Loss on Disposal of Other Assets		**-**		3
Total Expenses		**5,338**		4,197
Increase (Decrease) In Unrestricted Net Assets		**580**		(367)
Beginning Balance, Unrestricted Net Assets		**912**		1,279
Ending Balance, Unrestricted Net Assets	**$**	**1,492**	$	912
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS				
Public Support, Revenue, and Gains				
Contributions		**2,160**		1,858
Investment Income		**641**		595
Net Realized Gain (Loss) on Investments		**2,065**		(871)
Fundraising Activities and Other Income		**648**		654
Net Assets Released From Restrictions		**(4,329)**		(3,181)
Increase (Decrease) In Temporarily Restricted Net Assets		**1,185**		(945)
Beginning Balance, Temporarily Restricted Net Assets		**5,737**		6,682
Ending Balance, Temporarily Restricted Net Assets	**$**	**6,922**	$	5,737
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS				
Public Support, Revenue, and Gains				
Contributions		**643**		402
Change in Value of Split-Interest Agreements		**(35)**		(54)
Increase (Decrease) In Permanently Restricted Net Assets		**608**		348
Beginning Balance, Permanently Restricted Net Assets		**19,854**		19,506
Ending Balance, Permanently Restricted Net Assets	**$**	**20,462**	$	19,854
Increase (Decrease) In Total Net Assets		**2,373**		(964)
Beginning Balance, Total Net Assets		**26,503**		27,467
Ending Balance, Total Net Assets	**$**	**28,876**	$	26,503

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

For the Years Ended June 30,	2017	2016
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 28,388	$ 27,477
Grants and Contracts	3,770	3,456
Educational Department Sales and Services	4,908	3,913
Auxiliary Enterprises Operations	11,629	12,890
Payments to Employees for Compensation and Benefits	(57,521)	(57,587)
Payments to Suppliers	(21,053)	(23,455)
Student Financial Aid	(5,051)	(5,841)
Other Operating Receipts	1,113	1,612
Net Cash Provided (Used) by Operating Activities	(33,817)	(37,535)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	21,817	20,975
Grants	9,876	10,675
Gifts	4,881	4,396
Net Agency Fund Receipts (Payments)	48	(289)
Cash Changes due to Change in Entity	-	(34,389)
Net Cash Provided (Used) by Noncapital Financing Activities	36,622	1,368
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt Service Appropriations	179	179
Capital Grants and Gifts	12,271	3,821
State Contracts for Capital Debt	2,795	-
Proceeds from Sale of Capital Assets	559	-
Purchases of Capital Assets	(16,017)	(6,783)
Interest Payments on Capital Debt	(2,299)	(2,130)
Principal Payments on Capital Debt	(2,462)	(1,981)
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,974)	(6,894)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Sales (Purchases) of Investments	3,510	261
Income on Investments and Cash Balances	834	748
Net Cash Provided (Used) by Investing Activities	4,344	1,009
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,175	(42,052)
CASH AND CASH EQUIVALENTS		
Beginning Balance	7,432	49,484
Ending Balance	$ 9,607	$ 7,432

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

For the Years Ended June 30,	2017	2016
	(In thousands)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	**(38,773)**	(47,788)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	**4,587**	4,614
Changes in Assets and Liabilities:		
Accounts Receivable	**(895)**	127
Notes Receivable	**(2,191)**	(100)
Inventories	**(168)**	(119)
Prepaid Expenses	**21**	164
Accounts Payable and Accrued Liabilities	**(59)**	(2,749)
Long-Term Liabilities	**233**	99
Unearned Revenue	**380**	(756)
Pension Expense Changes Related to Net Pension Liability	**3,048**	8,973
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (33,817)**	$ (37,535)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Capital Assets Acquired by Gifts in Kind	**2,212**	245
Decrease in Fair Value of Investments Recognized as a Component of Investment Activity	**90**	(25)
Removal of State Paid Debt	**-**	93,726

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Southern Oregon University (SOU)/(University), located in Ashland, Oregon, is governed by the Southern Oregon University Board of Trustees (Board), a citizen board appointed by the Governor and confirmed by the State Senate. Prior to July 1, 2015, SOU was a member institution of the Oregon University System (OUS) and was governed by the State Board of Higher Education (SBHE). Senate Bill 270 was passed by the Oregon Legislature during fiscal year 2013 and 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. See "Note 19. Change in Entity" for further information on this change. SOU is located in Ashland, Oregon.

The financial reporting entity includes SOU and the SOU Foundation as a discretely presented component unit under the guidelines established by Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Discretely presented means that the statements are included separately in the financial report. See "Note 21. University Foundation" for additional information relating to this component unit. Because the Governor of the State of Oregon (State) appoints the SOU Board and SOU receives some financial support from the State, the State determined that SOU is a discretely presented component unit and is included in the State's Comprehensive Annual Financial Report (CAFR).

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 GASB. The financial statement presentation required by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities-an amendment of GASB Statement No 34*, modified by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, 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, interfund transfers between university funds and internal revenues and expenses associated with self-supporting auxiliary and service center operations have been eliminated. Unless otherwise stated, dollars are presented in thousands.

Financial statements of the SOU Foundation for fiscal years ended June 30, 2017 and 2016 are discretely presented. The Foundation's financial statements are prepared in accordance with the pronouncements of the Financial Accounting Standards Board (FASB). As such, certain revenue recognition criteria and presentation features are different from GASB revenue criteria and presentation. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the University. No modifications have been made to the Foundation's financial information included in the University's financial report.

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.

NEWLY IMPLEMENTED ACCOUNTING STANDARDS

SOU evaluated the implementation of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective June 30, 2017. GASB No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. SOU participates in the Public University Fund (PUF), investments held in the PUF are reported at fair value for financial reporting purposes, and therefore this statement does not currently apply to SOU.

UPCOMING ACCOUNTING STANDARDS

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 does not currently have enough information from the PEBB actuary to determine the potential fiscal impact of GASB No. 75, including the impact to the OPEB liability. However, the adoption is expected to cause an expansion in the presentation of related reporting requirements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. GASB Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement establishes criteria for identifying fiduciary activities and guidance on how to report activities meeting the criteria in a fiduciary fund in the basic financial statements. The Statement is effective for the fiscal year ending June 30, 2020 and does apply to custodial funds, primarily for student groups, held by the university.

In June 2017, GASB issued Statement No. 87, *Leases*. GASB Statement No. 87 improves the accounting and financial reporting for leases and is effective for the fiscal year ended June 30, 2021. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. This Statement will substantially impact the University's lease accounting and reporting.

Between July 2016 and June 2017, GASB issued the following statements which do not apply to SOU under current circumstances: Statement No. 83 *Capital Asset Retirement Obligations* and Statement No. 86 *Certain Debt Extinguishment Issues*.

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 consist of:

cash on hand and cash and investments held by the State of Oregon in the Oregon Short-Term Fund (OSTF). See "Note 2.A. Cash and Cash Equivalents" for disclosure of restricted portions of cash and cash equivalents.

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. See "Note 12. Investment Activity" for additional information.

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

F. Receivables

Accounts receivable consists primarily of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable for tuition and fee charges are recorded net of estimated uncollectible amounts in accordance with generally accepted accounting principles.

Grants and contracts receivable include amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grant and contracts. Component Unit receivables include amounts due from the SOU Foundation in connection with reimbursement of allowable expenditures on gift funds. Capital Construction receivables include amounts due from the State of Oregon in connection with reimbursement of allowable expenditures made pursuant to the grant agreements between the University and the State for facilities projects funded by the State. See "Note 3. Accounts Receivable" for further information.

Notes Receivable has a few main components. Student Loans receivable consists of amounts due from the Federal Perkins Loan Program and from other loans administered by the University. Construction Reimbursement loans receivable are amounts receivable from the State of Oregon in connection with reimbursement of allowable expenditures made pursuant to the contracts between the University and the State for facilities projects funded by the University. Construction Reimbursements can be current or long term depending on the estimated timing of completion of construction projects. Receivable for Third Party Commitments represent a commitment from the Jefferson Public Radio Foundation. See "Note 4. Notes Receivable" for additional information.

G. Inventories

Inventories are recorded at cost with cost being generally determined on a first-in, first-out or average basis. Inventories consist primarily of supplies in storerooms and physical plant stores.

H. 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 $5 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 as part of the historical cost of acquiring capital assets. The amount of interest capitalized is the portion of the interest cost incurred during the assets' acquisition periods that could have been avoided if outlays for the assets had not been made. For the fiscal year ended June 30, 2017, SOU capitalized $831 of interest; total interest on these projects was $937. For the fiscal year ended June 30, 2016, SOU capitalized $661 of interest; total interest on these projects was $875.

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 and historical treasures, or library special collections.

I. 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).

J. 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. An estimate is made to allocate this liability between its current and noncurrent components. 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.

K. Net Pension Liability

The net pension liability, 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 to SOU by the Oregon State Department of Administrative Services.

L. Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources represent the use of resources in one period that is applicable to, and will be recognized in, a period which is more than a year in the future. These deferred outflows have a positive effect on net position that is similar to assets but are not assets. Deferred inflows of resources represent the acquisition of resources that is applicable to, and will be recognized in, a period which is more than a year in the future. These deferred inflows have a negative effect on net position that is similar to liabilities, but are not considered liabilities. SOU's deferred outflows and deferred inflows are related to defined benefit pension plans.

M. 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.

N. Restricted/Unrestricted Resources

The University has no formal policy addressing which resources to use when both restricted and unrestricted net position are available for the same purpose. University personnel decide which resources to use at the time expenses are incurred. Factors used to determine which resources to use include relative priorities of the University in accordance with the University's strategic initiatives and externally imposed matching requirements of certain restricted funds. Major capital purchases are many times split funded from multiple restricted and unrestricted funding sources.

O. Endowments

The University has the authority, through SOU Board policy, to use the interest, income, dividends, or profits of endowments. SOU has entered into an agreement with the Oregon State Treasury (State Treasury) for the management of SOU endowment funds. SOU 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 2018 is estimated to be $84. For the year ended June 30, 2017, the net amount of appreciation available for authorization for expenditure was $529. For the year ended June 30, 2016, the net amount of appreciation available for authorization for expenditure was $307. Net appreciation of endowments are included in Expendable Gifts, Grants, and Contracts on the Statement of Net Position.

Nonexpendable Endowments on the Statement of Net Position of $1,812 at both June 30, 2017 and 2016 represent the original corpus of true endowment funds and does not include the accumulated gains of those endowments.

P. 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, 2017, because there is no amount of taxes on such unrelated business income for SOU.

Q. 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 expense related to capital assets.

Nonoperating revenues and expenses 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 loss on sale of assets.

R. State Support

SOU receives support from the State of Oregon in the form of General Fund and Lottery appropriations and debt service appropriations for some Oregon Department of Energy loans, see Note 14 for details on appropriations.

In addition to appropriations, the State of Oregon provides funding for plant facilities on the University's campus. Capital projects for new facilities and capital improvements and repair are funded by philanthropy, campus paid debt and resources, and state-paid debt. The State of Oregon Legislature considers projects from all seven public universities for allocation of Oregon's bonding capacity. Funds for capital projects funded by state-paid debt are provided through grant agreements between SOU and the State of Oregon. Revenue is recorded as Capital Grants in the Statement of Revenues, Expenses and Changes in Net Position when appropriate expenditures are reimbursable per the grant agreements. Funds for capital projects funded by campus paid debt can also be funded through Oregon's bonding capacity. At the time that the bonds are sold, the State of Oregon instructs SOU to record a liability for the debt and a receivable for construction reimbursements, the receivable is reduced as expenditures on the capital project are completed and reimbursed by the State.

Facilities funded by philanthropy, state-paid debt, and campus paid debt are reflected as completed assets or construction in progress in the accompanying Statement of Net Position. The obligations for the bonds issued by the State of Oregon are not obligations of SOU. However, SOU is obligated to pay contracts payable for projects funded by campus paid debt. These contracts payable are included as current and long term liabilities in the Statement of Net Position.

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S. Allowances

Student tuition and fees and campus housing revenues included in auxiliary enterprises revenues are reported net of scholarship and bad debt allowances. A scholarship allowance is the difference between the University's stated rates and charges and the amounts actually paid by students and/or third parties making payments on behalf of the students. Under this approach, scholarships awarded by the University are considered as reductions in tuition and fee revenues rather than as expenses. Additionally, certain governmental grants, such as Pell grants, and payments from other federal, state or nongovernmental programs, are required to be recorded as either operating or nonoperating revenues in the University's financial statement. To the extent that revenues from such programs are applied to tuition, fees, and other student charges, the University has reported a corresponding scholarship allowance. SOU has three types of allowances that net into tuition and fees and auxiliary revenues. Tuition and housing waivers provided directly by SOU amounted to $3,845 and $3,972 for the fiscal years ended June 30, 2017 and 2016, respectively. 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 $8,050 and $8,475 for the fiscal years ended June 30, 2017 and 2016, respectively. Bad debt expense is included as an allowance to operating revenues and is estimated to be $650 and $599 for the fiscal years ended June 30, 2017 and 2016, respectively.

T. 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 $25,793 and $29,003 for the fiscal years ended June 30, 2017 and 2016, respectively. Perkins loans are included as Notes Receivable. See "Note 4. Notes Receivable" for further information.

U. Deposit Liabilities

Deposit Liabilities primarily consist of fund balances held by SOU on behalf of student groups and organizations and North Campus Village that account for activities in the SOU accounting system and whose cash is part of the cash held on deposit with the State Treasury. See "Note 8. Deposits" for details .

V. 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, deferred outflows and deferred inflows, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

W. Reclassifications

Certain amounts within the June 30, 2016 financial statements have been reclassified to conform to the June 30, 2017 presentation. The reclassifications had no effect on previously reported total net position.

2. CASH AND INVESTMENTS

The majority of SOU's cash and investments were held in custody with the Oregon State Treasury (State Treasury) during fiscal years ended June 30, 2017 and 2016. The State Treasury manages these invested assets through commingled investment pools. The operating funds of SOU are commingled with cash and investments from five 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. Each underlying investment pool has an investment policy and set of objectives identifying risk and return parameters for the respective investment pool. The State Treasury invests these deposits in high grade, dollar-denominated, short and intermediate-term fixed income securities. The Oregon Investment Council (OIC) provides oversight and counsel on the investment policies for each investment pool held in the PUF.

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

Cash and Cash Equivalents are classified as current and noncurrent which include both restricted and unrestricted cash and are summarized at June 30, 2017 and 2016 as follows:

	June 30, 2017	June 30, 2016
Current		
Unrestricted	**$ 1,653**	$ 1,136
Restricted For:		
Gifts, Grants and Contracts	**249**	170
Debt Service	**240**	130
Student Aid	**126**	56
Endowments	**1**	1
North Campus Village	**2,718**	2,110
Payroll Vendor Payments	**1,803**	1,966
Student Groups and Campus Organizations	**23**	154
Cash Held in Escrow	**498**	-
Petty Cash	**13**	13
Total Current Cash	**7,324**	5,736
Noncurrent		
Unrestricted	**1,955**	1,212
Restricted For:		
Capital	**214**	429
North Campus Village Reserve	**114**	55
Total Noncurrent Cash	**2,283**	1,696
Total	**$ 9,607**	$ 7,432

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Noncurrent, unrestricted cash consists primarily of student building fee funds, which were historically restricted for future debt service payments. The Board of Trustees now has spending authority over these funds, which are no longer restricted. Currently, the Board has no plans to spend these funds in the next fiscal year, as these funds will be used on future debt service payments. As such, the University has classified these amounts as noncurrent. The portion of the student building fee funds that will be used for debt service payable in 2018 is reported as current cash.

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 short-term cash and investment pool for use by all state agencies or by agreement for related agencies, such as SOU. The State Treasury invests these deposits in high-grade short-term investment securities. Because SOU banks through the State Treasury, the University does not have a statutory requirement to collateralize deposits, but does have a contractual obligation through their banking agreement with the State to collateralize deposits within 24 hours of receipt. At the fiscal year ended June 30, 2017 and 2016, SOU cash and cash equivalents on deposit at the State Treasury was $9,096 and $7,418, respectively.

CUSTODIAL CREDIT RISK—DEPOSITS

Custodial credit risk is the risk that, in the event of a financial institution failure, cash deposits will not be returned to a depositor. The University and State do not have formal policies regarding custodial credit risk for deposits. However, banking regulations and Oregon Revised Statute (ORS) Chapter 295 establish the insurance and collateral requirements for deposits in the OSTF. SOU cash balances held on deposit at the State Treasury are invested continuously, therefore 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 denominated in U.S. currency and therefore not exposed to foreign currency risk.

OTHER DEPOSITS

For the years ended June 30, 2017 and 2016, respectively, SOU had vault and petty cash balances of $13 and $13. In addition, at June 30, 2017, SOU had cash held in escrow of $498.

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, Section "O. Endowments" for additional information regarding SOU endowments. As of June 30, 2016, investments in the PUF were allocated into two separate pools, the intermediate-term pool and the long-term pool. As of April 3, 2017, the investment strategy and underlying securities of the two investment pools were combined into one pool, known as the Core Bond Fund. The investment policies are approved by the Board, with counsel and oversight from the OIC. Investments 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, 2017, of the total $16,930 in investments, $2,355 are restricted for endowments, which include both true and quasi endowments.

At June 30, 2016, of the total $20,465 in investments, $2,128 are restricted for endowments, which include both true and quasi endowments.

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, 2017.

Of SOU's total assets invested in the PUF investment pool, as of June 30, 2017, $14,575 are invested in the Core Bond Fund managed by the State Treasury. As of June 30, 2016, $11,594 was invested in an intermediate term fixed income pool managed by the State Treasury and $6,743 was invested in a long-term fixed income pool managed by the State Treasury.

Investments of the SOU discretely presented component units are summarized at June 30, 2017 and 2016 as follows:

COMPONENT UNIT

Fair Value at June 30,	2017	2016
Investment Type:		
Mutual Funds:		
Equities	$ 22,955	$ 20,196
Fixed Income	4,171	3,913
Cash and Cash Equivalents	20	15
Total Investments	$ 27,146	$ 24,124

CREDIT RISK

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. SOU has an investment policy for its operating and endowment assets. As of June 30, 2017 and 2016, respectively, approximately 99.0% and 98.5% of investments in the PUF pools are subject to credit risk reporting. As of June 30, 2017 and June 30, 2016, none of SOU's endowments managed by the State Treasury were 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 $272,150 at June 30, 2017 and $305,760 at June 30, 2016 for investments in the PUF pools. Fixed income securities which have not been evaluated by the rating agencies totaled $37,721 at June 30, 2017 and $10,935 at June 30, 2016 for investments in PUF pools. The PUF Investment Pools totaled $312,900 at June 30, 2017, of which SOU owned $14,575 or 4.7%. The PUF Investment Pools totaled $321,409 at June 30, 2016, of which SOU owned $18,337 or 5.7%.

CUSTODIAL CREDIT RISK

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The State Treasury has no formal policy regarding the holding of securities by a custodian or counterparty. For the years ended June 30, 2017 and 2016, the University's investments were exposed to custodial credit risk indirectly through the State Treasury.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk refers to potential losses if total investments are concentrated with one or few issuers. The policy for reducing this risk for fixed income securities is that, with the exception of U.S. Government and Agency issues, no more than five percent of the bond portfolio, at par value, will be invested in securities of a single issuer or no more than three 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. Per this policy, no total investments from a single issuer comprised more than five percent of PUF investments.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that investments may lose value due to fluctuations in foreign exchange rates. As of June 30, 2017, approximately 33.4% or $786 of SOU endowments managed by the State Treasury were subject to foreign currency risk. As of June 30, 2016 approximately 32.4% or $692 of SOU endowments managed by the State Treasury were subject to foreign currency risk. No investments in the PUF had reportable foreign currency risk at June 30, 2017 or 2016.

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, 2017, securities in the PUF Investment Pool held subject to interest rate risk totaling $309,872 had an average duration of 3.9 years. As of June 30, 2016, securities in the PUF Investment Pool held subject to interest rate risk totaling $316,695 had an average duration of 3.0 years. As of June 30, 2017, SOU endowments managed through the State Treasury held subject to interest rate risk totaling $650 had an average duration of 6.8 years. As of June 30, 2016, SOU endowments managed through the State Treasury held subject to interest rate risk totaling $626 had an average duration of 5.9 years. Duration measures the change in the value of a fixed income security that will result from a one% change in interest rates.

FAIR VALUE MEASUREMENT

Investments are reported at estimated fair value as determined by State Treasury, based on a fair value hierarchy which prioritizes the input techniques used to measure fair value. The hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted market prices that are observable for the asset, either directly or indirectly, including inputs in markets that are not considered to be active; and

Level 3 – Inputs that are unobservable. These are only used if relevant Level 1 and Level 2 inputs are not available.

Inputs are used in applying valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. In addition to the underlying reported net asset values (NAV), which generally serve as the primary valuation input, other inputs may include liquidity factors and broad credit data. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

At June 30, 2017 the PUF Investment Pool totaled $312,900. Of the total, 100% was valued using level 2 inputs. The University owned $14,575 or 4.7% of the pool.

At June 30, 2016 the PUF Investment Pool totaled $321,409. Of the total, 100% was valued using level 2 inputs. The university owned $18,337 or 5.7% of the pool.

At June 30, 2017, 100% of the SOU endowment managed by the State Treasury was valued using level 2 inputs.

At June 30, 2016, 100% of the SOU endowment managed by the State Treasury was valued using level 2 inputs.

C. Securities Lending

In accordance with the State investment policies, the State participates in securities lending transactions. The Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the State's securities pursuant to a form of loan agreement. Both the State and borrowers maintain the right to terminate all securities lending transactions on demand. SOU's cash on deposit with the State Treasury is subject to securities lending. There were no significant violations of the provisions of securities lending agreements during the years ended June 30, 2017 and 2016.

During the year, State Street had the authority to lend short-term, fixed income, and equity securities and receive as collateral U.S. dollar and foreign currency cash, U.S. government and agency securities, and foreign sovereign debt of Organization of Economic Cooperation and Development countries. Borrowers were required to deliver collateral for each loan equal to not less than 102% of the market value of the loaned U.S. security. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default, and during the year the State did impose restrictions on the amount of the loans that the custodian made on its behalf. The State Treasury is fully indemnified by the custodian against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

State Street, as lending agent, has created a fund to reinvest cash collateral received on behalf of the OSTF and Oregon state and related agencies, including SOU. As permitted under the fund's Declaration of Trust (Declaration), participant purchases and redemptions are transacted at $1 per unit ("constant value") based on the amortized cost of the fund's investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the statement of net position.

The fair value of investments held by the fund is based upon valuations provided by a recognized pricing service. These funds are not registered with the Securities and Exchange Commission, but the custodial agent is subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. No income from the funds was assigned to any other funds.

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The maturities of investments made with the cash collateral generally do not match the maturities of the securities loaned. Since the securities loaned are callable on demand by either the lender or borrower, the life of the loans at June 30, 2017 and 2016, is effectively one day. As of June 30, 2017 and 2016, the state had no credit risk exposure to borrowers because the amounts owed to borrowers exceeded the amounts borrowers owed to the State.

The fair value of the University's share of securities lending balances on loan as of June 30, 2017 and 2016 comprised the following:

	June 30, 2017	June 30, 2016
Investment Type		
U.S. Treasury and Agency Securities	$ 168	$ 951
Domestic Fixed Income Securities	644	222
International Equity		1
Total	$ 812	$ 1,174

The fair value of the University's share of total cash and securities collateral received as of June 30, 2017 and 2016 was $830 and $1,198, respectively. The fair value of the University's share of investments purchased with cash collateral as of June 30, 2017 and 2016 was $651 and $1,019, respectively.

3. ACCOUNTS RECEIVABLE

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

	June 30, 2017	June 30, 2016
Student Tuition and Fees	$ 5,090	$ 4,536
Capital Construction Gifts and Grants	1,728	665
Auxiliary Enterprises and Other Operating Activities	1,539	1,795
State, Other Government, and Private Gifts, Grants and Contracts	176	350
Federal Grants and Contracts	158	248
Component Units	261	89
Other	253	496
	9,205	8,179
Less: Allowance for Doubtful Accounts	(3,681)	(3,550)
Accounts Receivable, Net	$ 5,524	$ 4,629

4. NOTES RECEIVABLE

SOU Notes Receivable has four main components.

Student loans made through the Federal Perkins Loan Program are funded through interest earnings and repayment of loans. Federal Perkins loans deemed uncollectible are assigned to the U.S. Department of Education for collection. SOU has provided an allowance for uncollectible loans which is calculated using the cohort default rate reported to the federal government.

Institutional and Other Student Loans include loans offered through the university itself and other various non-federal loan programs.

Receivables for construction reimbursements are due to SOU from the State of Oregon for construction projects that will be reimbursed from bond proceeds held by the state. These notes receivable are offset by loan agreements to the state, which are presented in "Note 10. Long-Term Liabilities".

Receivable for Third Party Commitment represents a commitment from the JPR Foundation to provide funds for future debt service payments on a loan agreement to the state which funded building improvements to space utilized by the SOU JPR Department.

	June 30, 2017		
	Current	**Noncurrent**	**Total**
Institutional and Other Student Loans	$ 687	$ 2,050	$ 2,737
Perkins Loans	397	1,793	2,190
Receivable for Construction Reimbursements	14,469	-	14,469
Third Party Commitment	45	1,642	1,687
	15,598	5,485	21,083
Less: Allowance for Doubtful Accounts	(135)	(517)	(652)
Notes Receivable, Net	$ 15,463	$ 4,968	$ 20,431

	June 30, 2016		
	Current	Noncurrent	Total
Institutional and Other Student Loans	$ 512	$ 1,494	$ 2,006
Perkins Loans	616	2,790	3,406
Receivable for Construction Reimbursements	-	13,700	13,700
	1,128	17,984	19,112
Less: Allowance for Doubtful Accounts	(179)	(693)	(872)
Notes Receivable, Net	$ 949	$ 17,291	$ 18,240

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5. CAPITAL ASSETS

The following schedule reflects the changes in capital assets:

	Balance June 30, 2015	Additions	Transfer Completed Assets	Retire. And Adjust.	Balance July 1, 2016	**Additions**	**Transfer Completed Assets**	**Retire. And Adjust.**	**Balance June 30, 2017**
Capital Assets, Non-depreciable/Non-amortizable:									
Land	$ 3,556	$ -	$ -	$ -	$ 3,556	**$ -**	**$ -**	**$ -**	**$ 3,556**
Capitalized Collections	1,561	33	-	-	1,594	**613**	**-**	**-**	**2,207**
Construction in Progress	20,259	5,650	(22,622)	2	3,289	**16,839**	**(20)**	**(6)**	**20,102**
Perpetual Intangible Assets	-	-	-	-	-	**1,396**	**-**	**-**	**1,396**
Total Capital Assets, Non-depreciable/Non-amortizable	25,376	5,683	(22,622)	2	8,439	**18,848**	**(20)**	**(6)**	**27,261**
Capital Assets, Depreciable/ Amortizable:									
Equipment	10,433	562	62	(82)	10,975	**638**	**-**	**(47)**	**11,566**
Library Materials	14,640	222	-	(60)	14,802	**170**	**-**	**(296)**	**14,676**
Buildings	132,170	-	21,084	(2,847)	150,407	**254**	**20**	**(4,701)**	**145,980**
Land Improvements	1,817	-	1,072	-	2,889	**-**	**-**	**-**	**2,889**
Improvements Other Than Buildings	836	-	404	-	1,240	**-**	**-**	**-**	**1,240**
Infrastructure	2,995	-	-	-	2,995	**-**	**-**	**-**	**2,995**
Intangible Assets	2,091	-	-	-	2,091	**-**	**-**	**-**	**2,091**
Total Capital Assets, Depreciable/Amortizable	164,982	784	22,622	(2,989)	185,399	**1,062**	**20**	**(5,044)**	**181,437**
Less Accumulated Depreciation/ Amortization for:									
Equipment	(8,328)	(671)	-	69	(8,930)	**(649)**	**-**	**43**	**(9,536)**
Library Materials	(13,259)	(332)	-	60	(13,531)	**(295)**	**-**	**296**	**(13,530)**
Buildings	(64,645)	(3,380)	-	2,355	(65,670)	**(3,437)**	**-**	**1,892**	**(67,215)**
Land Improvements	(1,741)	(95)	-	-	(1,836)	**(82)**	**-**	**-**	**(1,918)**
Improvements Other Than Buildings	(675)	(71)	-	-	(746)	**(59)**	**-**	**-**	**(805)**
Infrastructure	(2,890)	(22)	-	-	(2,912)	**(22)**	**-**	**-**	**(2,934)**
Intangible Assets	(1,956)	(43)	-	-	(1,999)	**(43)**	**-**	**-**	**(2,042)**
Total Accumulated Depreciation/ Amortization	(93,494)	(4,614)	-	2,484	(95,624)	**(4,587)**	**-**	**2,231**	**(97,980)**
Total Capital Assets, Net	$ 96,864	$ 1,853	$ -	$ (503)	$ 98,214	**$ 15,323**	**$ -**	**$ (2,819)**	**$ 110,718**
Capital Assets Summary									
Capital Assets, Non-depreciable/ Non-amortizable	$ 25,376	$ 5,683	$ (22,622)	$ 2	$ 8,439	**$ 18,848**	**$ (20)**	**$ (6)**	**$ 27,261**
Capital Assets, Depreciable/ Amortizable	164,982	784	22,622	(2,989)	185,399	**1,062**	**20**	**(5,044)**	**181,437**
Total Cost of Capital Assets	190,358	6,467	-	(2,987)	193,838	**19,910**	**-**	**(5,050)**	**208,698**
Less Accumulated Depreciation/ Amortization	(93,494)	(4,614)	-	2,484	(95,624)	**(4,587)**	**-**	**2,231**	**(97,980)**
Total Capital Assets, Net	$ 96,864	$ 1,853	$ -	$ (503)	$ 98,214	**$ 15,323**	**$ -**	**$ (2,819)**	**$ 110,718**

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6. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

Deferred Inflows and Outflows of Resources comprised the following:

	June 30, 2015	Additions	Reductions	June 30, 2016	**Additions**	**Reductions**	**June 30, 2017**
Deferred Outflows of Resources							
Deferred Gain/Loss on Refunding of Debt	$ 1,763	$ -	$ (1,763)	$ -	**$ -**	**$ -**	**$ -**
Pension Contributions Subsequent to the Measurement Date	1,587	1,619	(1,587)	1,619	**2,006**	**(1,619)**	**2,006**
Differences Between Pension Contributions and Proportionate Share of Contributions	84	277	(69)	292	**-**	**(253)**	**39**
Differences Between Expected and Actual Experience	-	756	(140)	616	**497**	**(208)**	**905**
Changes in Assumptions	-	-	-	-	**7,194**	**(1,357)**	**5,837**
Differences Between Projected and Actual Earnings on Pension Investments	-	-	-	-	**6,810**	**(1,402)**	**5,408**
Total	$ 3,434	$ 2,652	$ (3,559)	$ 2,527	**$ 16,507**	**$ (4,839)**	**$ 14,195**
Deferred Inflows of Resources							
Differences Between Pension Contributions and Proportionate Share of Contributions	$ -	$ 475	$ (88)	$ 387	**$ 1,557**	**$ (393)**	**$ 1,551**
Differences Between Projected and Actual Earnings on Pension Investments	9,082	$ 653	(7,341)	2,394	**-**	**(2,394)**	**-**
Total	$ 9,082	$ 1,128	$ (7,429)	$ 2,781	$ 1,557	$ (2,787)	$ 1,551

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities comprised the following:

	June 30, 2017	June 30, 2016
Construction Payables	**$ 2,135**	$ 447
Payroll Related	**1,757**	1,912
Services and Supplies	**1,225**	1,031
Salaries and Wages	**1,130**	1,225
Accrued Interest	**937**	843
Contract Retainage Payable	**858**	329
Other	**-**	3
Total	**$ 8,042**	$ 5,790

8. DEPOSITS

In addition to rental deposits, SOU holds fiduciary funds for certain groups. The fund balances for those funds are liabilities for SOU as they do not belong to the university. Deposits comprised the following:

	June 30, 2017	June 30, 2016
North Campus Village	**$ 900**	$ 798
Rental Deposits	**143**	129
Student Groups	**108**	101
Other Deposits	**40**	115
Total	**$ 1,191**	$ 1,143

9. OPERATING LEASES

A. Receivables/Revenues

SOU receives income for land and property that is leased to third parties. Rental income received from leases was $1,736 and $1,777 for the years ended June 30, 2017 and 2016, respectively. The original cost of assets leased, net of depreciation, was $0 for the year ended June 30, 2017 and $2,907 for the year ended June 30, 2016. Minimum future lease revenue from noncancelable operating leases at June 30, 2017 were:

For the year ending June 30,	
2018	$ 1,000
2019	1,030
2020	1,061
2021	1,093
2022	1,126
2023-2027	5,796
2028-2032	5,970
2033-2037	6,149
2038-2042	6,334
2043-2047	2,610
Total Minimum Operating Lease Revenues	$ 32,169

B. Payables/Expenses

SOU leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases and rents were $685 and $579 for the years ended June 30, 2017 and 2016, respectively. Minimum future lease payments on operating leases at June 30, 2017 were:

For the year ending June 30,	
2018	$ 635
2019	472
2020	265
2021	125
2022	12
Total Minimum Operating Lease Payments	$ 1,509

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10. LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amount Due Within One Year	Long-Term Portion
Long-Term Debt						
Due to the State of Oregon:						
Contracts Payable	$ 41,716	$ 2,827	$ (3,235)	$ 41,308	$ 1,881	$ 39,427
Oregon Department of Energy Loans (SELP)	2,790	-	(127)	2,663	130	2,533
Installment Purchase	143	-	(95)	48	28	20
Total Long-Term Debt	44,649	2,827	(3,457)	44,019	2,039	41,980
Other Noncurrent Liabilities						
PERS pre-SLGRP pooled Liability	3,962		(184)	3,778	184	3,594
Compensated Absences	1,899	1,646	(1,714)	1,831	1,431	400
Other Postemployment Benefits	994	74	(47)	1,021	-	1,021
Early Retirement Liability	424	545	(87)	882	182	700
Total Other Noncurrent Liabilities	7,279	2,265	(2,032)	7,512	1,797	5,715
Total Long-Term Liabilities	$ 51,928	$ 5,092	$ (5,489)	$ 51,531	$ 3,836	$ 47,695

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amount Due Within One Year	Long-Term Portion
Long-Term Debt						
Due to the State of Oregon:						
General Obligation Bonds XI-F(1)	$ 46,966	$ 26	$ (5,276)	$ 41,716	$ 1,807	$ 39,909
General Obligation Bonds XI-G	21,906	-	(21,906)	-	-	-
General Obligation Bonds XI-Q	38,601	-	(38,601)	-	-	-
Certificates of Participation (COPs)	726	-	(726)	-	-	-
Lottery Bonds	28,872	-	(28,872)	-	-	-
Oregon Department of Energy Loans (SELP)	3,045	-	(255)	2,790	123	2,667
Installment Purchase	238	-	(95)	143	95	48
Total Long-Term Debt	140,354	26	(95,731)	44,649	2,025	42,624
Other Noncurrent Liabilities						
PERS pre-SLGRP pooled Liability	4,104	-	(142)	3,962	142	3,820
Compensated Absences	1,756	778	(635)	1,899	1,581	318
Other Postemployment Benefits	1,086	-	(92)	994	-	994
Early Retirement Liability	236	188	-	424	110	314
Total Other Noncurrent Liabilities	7,182	966	(869)	7,279	1,833	5,446
Total Long-Term Liabilities	$ 147,536	$ 992	$ (96,600)	$ 51,928	$ 3,858	$ 48,070

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

For the Year Ending June 30,	Contracts Payable	SELP	Other Borrowings	Total Payments	Principal	Interest
2018	$ 3,691	$ 232	$ 28	$ 3,951	$ 1,880	$ 2,071
2019	3,654	232	20	3,906	1,891	2,015
2020	3,421	231	-	3,652	1,685	1,967
2021	3,252	232	-	3,484	1,681	1,803
2022	3,214	232	-	3,446	1,684	1,762
2023-2027	15,154	1,158	-	16,312	8,842	7,470
2028-2032	14,479	1,092	-	15,571	10,301	5,270
2033-2037	10,163	182	-	10,345	7,386	2,959
2038-2042	6,165	-	-	6,165	4,680	1,485
2043-2047	3,930	-	-	3,930	3,600	330
Accreted Interest					389	(389)
					$ 44,019	$ 26,743
Total Future Debt Service	**67,123**	**3,591**	**48**	**70,762**		
Less: Interest Component of Future Payments	(25,815)	(928)	-	(26,743)		
Principal Portion of Future Payments	**$ 41,308**	**$ 2,663**	**$ 48**	**$ 44,019**		

The State of Oregon issues various debt instruments to fund capital projects at SOU. These debt instruments include General Obligation Bonds under articles XI-F(1), XI-G, and XI-Q of the Oregon Constitution, and Lottery Bonds. In addition, SOU also borrows funds from the Oregon Department of Energy. Due to SOU becoming a component unit rather than an enterprise fund of the State for financial reporting, as of July 1, 2015, all state paid bonded debt recorded by SOU as a long-term liability was removed and is now recorded by the State as the owner of the debt. SOU has entered into contract loan agreements for the principal and interest amounts due to the State. The State may periodically issue new debt to refund previously held debt. Per the loan agreements, when this happens the State is required to pass the savings on to the University. Principal and interest amounts due relating to contracts payable and SELP are payable to the State.

A. Contracts Payable

SOU has entered into loan agreements with the State for repayment of XI-F(1) bonds issued by the State on behalf of SOU for capital construction and refunding of previously issued debt. SOU makes loan payments (principal and interest) to the State in accordance with the loan agreements. Loans, with coupon rates ranging from 1.14% to 7.0%, are due serially through 2046.

During the fiscal year ended June 30, 2017, the State issued new XI-F(1) bonds for construction which resulted in an increase to SOU's contracts payable of $2,795. During the same fiscal year, the State issued XI-F(1) bonds for refunding of previously held debt, which resulted in a net reduction to SOU's contract payable of $963. Other changes include debt service payments for principal and accreted interest of $1,807, a cash defeasance of $465, and the addition of $32 for the amortization of accreted interest applicable to zero coupon bonds sold prior to 2002.

B. General Obligation Bonds XI-F(1)

As of July 1, 2015, $3,621 in premiums and discounts associated with XI-F(1) debt were removed from the long-term liabilities of SOU, as discussed previously in this note. See "Note 19. Change in Entity" for additional information.

SOU no longer has a direct liability for XI-F(1) bonds. This liability is now in the form of long-term contracts payable to the State.

C. General Obligation Bonds XI-G

As of July 1, 2015, $21,906 in XI-G bonded debt was removed from the long-term liabilities of SOU. SOU retained no amount of XI-G bonded debt, as discussed previously in this note. See "Note 1A. Organization and Summary of Significant Accounting Policies", "Note 1R. State Support", and "Note 19. Change in Entity" for additional information on the change in legal status. The State no longer issues XI-G bonds which result in a liability of the university.

D. General Obligation Bonds XI-Q

As of July 1, 2015, $38,601 in XI-Q bonded debt was removed from the long-term liabilities of SOU. SOU retained no amount of XI-Q bonded debt, as discussed previously in this note. See "Note 1A. Organization and Summary of Significant Accounting Policies", "Note 1R. State Support", and "Note 19. Change in Entity" for additional information on the change in legal status. The State may, in the future, issue XI-Q bonds which result in a liability of the University.

E. Certificates of Participation

As of the July 1, 2015, $726 in COPs debt was removed from the long-term liabilities of SOU. SOU retained no amount of COPs debt, as discussed previously in this note. See "Note 1A. Organization and Summary of Significant Accounting Policies", "Note 1R. State Support", and "Note 19. Change in Entity" for additional information on the change in legal status. The State no longer issues COPs.

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F. Lottery Bonds

As of July 1, 2015, $28,872 in Lottery bonded debt was removed from the long-term liabilities of SOU. SOU retained no amount of Lottery bonded debt, as discussed previously in this note. See "Note 1A. Organization and Summary of Significant Accounting Policies", "Note 1R. State Support", and "Note 19. Change in Entity" for additional information on the change in legal status.

The State no longer issues Lottery bonds which result in a liability of the university.

G. 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 3.56% to 5.52%, are due through 2033.

H. 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 public universities, state 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 $281 and $278 for June 30, 2017 and 2016, respectively. Principal payments of $184 and $142 were applied to the liability for June 30, 2017 and 2016, respectively.

I. 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, 2017, 24 retirees are participating in the health and dental benefits option of this plan and a $882 liability will be paid out through fiscal year 2027. As of June 30, 2016, 11 retirees were participating in the health and dental benefits option of this plan and a $424 liability was projected to be paid out through fiscal year 2020.

11. UNRESTRICTED NET POSITION

Unrestricted Net Position was comprised of the following:

	June 30, 2017	June 30, 2016
University Operations	**$ 18,377**	$ 16,356
Compensated Absences Liability (Note 10)	**(1,831)**	(1,899)
Other Post-Employment Benefits Liability (Notes 10 and 16)	**(1,021)**	(994)
State and Local Government Rate Pool (Note 10)	**(3,778)**	(3,962)
Net Pension Liability (Note 15)	**(27,369)**	(11,423)
Pension Related Deferred Outflows (Note 6)	**14,195**	2,527
Pension Related Deferred Inflows (Note 6)	**(1,551)**	(2,781)
Total Unrestricted Net Position	**$ (2,978)**	$ (2,176)

12. INVESTMENT ACTIVITY

Investment Activity detail is as follows:

	June 30, 2017	June 30, 2016
Investment Earnings	**$ 510**	$ 739
Interest Income	**156**	7
Endowment Income	**80**	4
Net Appreciation of Investments	**90**	(25)
Other	**(2)**	(2)
Gain (Loss) on Sale of Investment	**(25)**	-
Total Investment Activity	**$ 809**	$ 723

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13. OPERATING EXPENSES BY NATURAL CLASSIFICATION

The Statement of Revenues, Expenses and Changes in Net Position reports operating expenses by their functional classification. The reporting of the net pension liability as per GASB Statement Nos. 68 and 71, significantly affects the recorded compensation and benefit expenses of SOU. Changes in the pension expense and associated reporting requirements increased the reported compensation and benefit expenses of SOU by $3,048 and $8,973 for the fiscal years ended June 30, 2017 and 2016, respectively. The following displays operating expenses by both the functional and natural classifications:

June 30, 2017	Compensation and Benefits	Services and Supplies	Scholarships and Fellowships	Depreciation and Amortization	Other	Total
Instruction	$ 28,376	$ 3,346	$ 68	$ -	$ -	$ 31,790
Research	550	116	3	-	-	669
Public Services	2,796	1,134	-	1	-	3,931
Academic Support	5,004	2,062	2	-	-	7,068
Student Services	4,659	917	-	-	-	5,576
Auxiliary Services	6,893	6,369	38	1,276	-	14,576
Institutional Support	8,239	2,872	-	-	-	11,111
Operation & Maint	4,029	1,018	-	3	-	5,050
Student Aid	-	(2)	4,940	-	1,223	6,161
Other	6	2,042	-	3,307	-	5,355
Total	$ 60,552	$ 19,874	$ 5,051	$ 4,587	$ 1,223	$ 91,287

June 30, 2016	Compensation and Benefits	Services and Supplies	Scholarships and Fellowships	Depreciation and Amortization	Other	Total
Instruction	$ 30,192	$ 2,990	$ 65	$ -	$ -	$ 33,247
Research	513	89	(6)	-	(1)	595
Public Services	2,655	1,204	9	-	-	3,868
Academic Support	5,562	2,051	2	-	-	7,615
Student Services	4,933	1,024	-	-	-	5,957
Auxiliary Services	7,461	6,922	43	1,280	-	15,706
Institutional Support	8,361	2,662	-	-	-	11,023
Operation & Maint	4,390	1,258	-	3	-	5,651
Student Aid	-	13	5,728	-	313	6,054
Other	(36)	4,854	-	3,331	-	8,149
Total	$ 64,031	$ 23,067	$ 5,841	$ 4,614	$ 312	$ 97,865

14. GOVERNMENT APPROPRIATIONS

The University receives support from the State of Oregon in the form of General Fund and Lottery appropriations. These appropriations are in support of the operations of the University and debt service of SELP loans. Appropriations for SELP debt service are dependent upon the loan agreements between the University and the Oregon Department of Energy. Government appropriations comprised the following:

	June 30, 2017	June 30, 2016
General Fund - Operations	$ 21,361	$ 20,518
General Fund - SELP Debt Service	179	179
Lottery Funding	456	457
Total Appropriations	$ 21,996	$ 21,154

15. EMPLOYEE RETIREMENT PLANS

SOU offers various retirement plans to qualified employees as described below.

A. Public Employees Retirement Plan (PERS)

Organization

Southern Oregon University participates with other state agencies in the Oregon Public Employees Retirement System (System), which is a cost-sharing multiple employer defined benefit plan. Plan assets may be used to pay the benefits of the employees of any employer that provides pensions through the plan. PERS is administered in accordance with Oregon Revised Statutes (ORS) Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a). The Oregon Legislature has delegated authority to the Public Employees Retirement Board (Board) to administer and manage the System.

Plan Membership

The 1995 Oregon Legislature enacted Chapter 654, Section 3, Oregon Laws 1995, which has been codified into ORS 238.435. This legislation created a second tier of benefits for those who established membership on or after January 1, 1996. Membership prior to January 1, 1996 are Tier One members. The second tier does not have the Tier One assumed earnings rate guarantee and has a higher normal retirement age of 60, compared to 58 for Tier One. Both Tier One and Tier Two are defined benefit plans.

The 2003 Legislature enacted HB 2020, codified as ORS 238A, which created the Oregon Public Service Retirement Plan (OPSRP). OPSRP consists of the Pension Program (defined benefit, DB) and the Individual Account Program (IAP). The IAP is a defined contribution plan. Membership includes public employees hired on or after August 29, 2003.

Beginning January 1, 2004, PERS active Tier One and Tier Two members became members of IAP of OPSRP. PERS members retain their existing Defined Benefit Plan accounts, but member contributions are now deposited into the member's IAP account, not into the member's Defined Benefit Plan account. Accounts are credited with earnings and losses net of administrative expenses. OPSRP is part of PERS and is administered by the Board.

Pension Plan Report
The PERS defined benefit and defined contribution retirement plans are reported as pension trust funds in the fiduciary funds combining statements and as part of the Pension and Other Employee Benefit Trust in the State of Oregon Comprehensive Financial Report. PERS issues a separate, publicly available financial report that includes an audit opinion that may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, PO Box 23700, Tigard, OR 97281-3700. The report may also be accessed online at:
http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx

Summary of Significant Accounting Policies
Employers participating in the Plan are required to report pension information in their financial statements for fiscal periods beginning on or after June 15, 2014, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*.

The requirements of this Statement incorporate provisions intended to reflect the effects of transactions and events related to pensions in the measurement of employer liabilities for pensions and recognition of pension expense and deferred outflows of resources and deferred inflows of resources related to pensions.

Basis of Accounting
Contributions from employers are recognized on the accrual basis of accounting. Employer contributions to PERS are calculated based on creditable compensation for active members reported by employers. Employer contributions are accrued when due pursuant to legal requirements. These are amounts normally included in the employer statements cut off as of the fifth of the following month.

Proportionate Share Allocation Methodology
The basis for the employer's proportion is actuarially determined by comparing the employer's projected long-term contribution effort to the Plan with the total projected long-term contribution effort of all employers. The contribution rate for every employer has at least two major components; Normal Cost Rate and Unfunded Actuarial Liability (UAL) Rate.

Changes Subsequent to the Measurement Date
The University is not aware of any changes to the benefit terms made subsequent to the June 30, 2016 measurement date.

Collective Pension Plan Liability
The components of the Plan's collective net pension liability as of the measurement dates of June 30, 2016 and 2015 are as follows (dollars in millions):

	June 30, 2016	June 30, 2015
Total Pension Liability	$ 77,094	$ 70,665
Plan Fiduciary Net Position	62,082	64,924
Collective Net Pension Liability	$ 15,012	$ 5,741

As reflected in the December 31, 2014 actuarial valuation, the system-wide actuarial accrued liability has increased primarily due to the *Moro* decision and assumption changes, along with interest on the liability as current active members get closer to retirement. The Oregon Supreme Court decision in *Moro v. State of Oregon*, issued on April 30, 2015, reversed a significant portion of the reductions passed by the 2013 Oregon Legislature, which increased the benefits projected to be paid by Employers compared to those previously developed and consequently increased Plan liabilities. The employers' projected long-term contribution effort reflects the estimated impact of the Moro Decision. Following the completion of the December 31, 2014 actuarial valuation, the PERS Board adopted several assumption changes, including lowering the investment return assumption form 7.75% to 7.5%.

Oregon 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 years of service and final average salary. A percentage (1.67% 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. Monthly payments must be a minimum of $200 per month or the member will receive a lump-sum payment of the actuarial equivalence of benefits to which he or she is entitled. 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.

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- 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 the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living adjustments (COLAs). The COLA is capped at 2.0%.

Oregon Public Service Retirement Plan (OPSRP DB) Pension Program

Pension Benefits

The OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age: 1.5% 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% of the pension that would otherwise have been paid to the deceased member.

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% 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. The cap on the COLAs will vary based on 1.25% on the first $60 of annual benefit and 0.15% on annual benefits above $60.

Oregon Public Service Retirement Plan (OPSRP IAP) Pension Program

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. Upon retirement, a member of the OPSRP IAP may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Pension Plan Contributions

PERS and OPSRP employee contribution requirements are established by ORS 238.200 and ORS 238A.330, respectively, and are credited to an employee's account in the Individual Account Program and may be amended by an act of the Oregon 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 for the fiscal years ended June 30, 2017 and June 30, 2016 were based on the December 31, 2013 actuarial valuation as subsequently modified by the *Moro* decision. The rates are effective July 1, 2015 through June 30, 2017.

The employer contribution rates for the PERS and OPSRP are as follows:

	2017	2016
PERS Tier One/Two	13.28%	13.28%
OPSRP	7.31%	7.31%

The University's required employer contributions for PERS and OPSRP for the years ended June 30, 2017 and June 30, 2016 were $2,471 and $2,408, respectively, including amounts to fund separately financed employer specific liabilities associated with the SLGRP liability. See "Note 10.H. State and Local Government Rate Pool" for additional information.

Net Pension Liability

At June 30, 2017, the University reported a liability of $27,369 for its proportionate share of the PERS net pension liability. The net pension liability as of June 30, 2017 was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. At June 30, 2016, the University reported a liability of $11,423 for its proportionate share of the PERS net pension liability. The net pension liability as of June 30, 2016 was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. The PERS system does not provide SOU an audited proportionate share as a separate employer; the University is a proportionate share of PERS employer state agencies, which includes all state agencies. The State of Oregon Department of Administrative Services (DAS) calculated SOU's proportionate share of all state agencies internally based on actual contributions by SOU as compared to the total for employer state agencies. The Oregon Audits Division reviewed this internal calculation. At June 30, 2017, SOU's proportion was 0.18% of the statewide pension plan and 0.68% of employer state agencies. At June 30, 2016, SOU's proportion was 0.20% of the statewide pension plan and 0.78% of employer state agencies.

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For the years ended June 30, 2017 and 2016, SOU recorded total net pension expense of $3,048 and $10,591, respectively, due to the increase in net pension liability and changes to deferred inflows and deferred outflows.

Deferred Items

Deferred items are calculated at the system-wide level and are allocated to employers based on their proportionate share. For fiscal years ending June 30, 2017 and 2016, deferred items include:

- Difference between expected and actual experience
- Changes in assumptions
- Net difference between projected and actual earnings
- Changes in employer proportion since the prior measurement date
- Difference between employer contributions and proportionate share of contributions

Differences between expected and actual experience, changes in assumption, and changes in employer proportion are amortized over the average remaining service lives of all plan participants, including retirees, determined as of the beginning of the respective measurement period. Employers are required to recognize pension expense based on the balance of the closed period "layers" attributable to each measurement period. The average remaining service lives determined as of the beginning of each measurement period are as follows:

Measurement period ended June 30, 2106 – 5.3 years
Measurement period ended June 30, 2015 – 5.4 years
Measurement period ended June 30, 2014 – 5.6 years

The difference between projected and actual earnings attributable to each measurement period is amortized over a closed five-year period.

One year of amortization is recognized in the University's total pension expense for fiscal years 2017 and 2016.

At June 30, 2017, 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	$ 905	$ -
Changes in assumptions	5,837	-
Net difference between projected and actual earnings on pension plan investments	5,408	-
Changes in proportion and differences between System's contributions and proportionate share of contributions	39	1,551
Total	$ 12,189	$ 1,551
Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD)	10,638	
Contributions Subsequent to the MD	2,006	
Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD	$ 12,644	

Of the amount reported as deferred outflows of resources, $2,006 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, 2018.

At June 30, 2016, SOU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Of the amount reported as deferred outflows of resources, $1,619 are related to pensions resulting from SOU contributions subsequent to the measurement date and were recognized as a reduction of the net pension liability in the year ended June 30, 2017.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 616	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	2,394
Changes in proportion and differences between System's contributions and proportionate share of contributions	292	387
Total	$ 908	$ 2,781
Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD)		(1,873)
Contributions Subsequent to the MD	1,619	
Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD		$ (254)

Ase of June 30, 2017, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Outflow/(Inflow) of Resources	
Year Ended June 30:	
2018	2,539
2019	2,539
2020	1,537
2021	3,664
2022	359
	$ 10,638

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (DOLLARS IN THOUSANDS)

Actuarial Methods and Assumptions

The following methods and assumptions were used in the development of the total pension liability:

Actuarial Methods:		
As of:	**June 30, 2017**	**June 30, 2016**
Valuation Date	December 31, 2014	December 31, 2013
Measurement Date	June 30, 2016	June 30, 2015
Experience Study Report	2014, published September 2015	
Actuarial Cost Method	Entry Age Normal	
Actuarial Assumptions:		
Inflation Rate	2.50 percent	2.75 percent
Long-Term Expected Rate of Return	7.50 percent	7.75 percent
Discount Rate	7.50 percent	7.75 percent
Projected Salary Increases	3.50 percent	3.75 percent
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with *Moro* decision; blend based on service	
Mortality	*Healthy retirees and beneficiaries:*	
	RP-2000 Sex-distinct, generational per Scale BB, 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 (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per scale BB, disabled mortality 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.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2017 and 2016 was 7.50% and 7.75%, respectively. 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 was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The sensitivity analysis shows the sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate. The following tables present SOU's proportionate share of the net pension liability calculated using the discount rate of 7.50% as of June 30, 2017 and 7.75% as of June 30, 2016, as well as what the University's proportionate share of the net pension liability 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:

As of:	June 30, 2017
1 % Decrease 6.50%	$ 44,192
Current Discount Rate 7.50%	27,369
1 % Increase 8.50%	13,308

As of:	June 30, 2016
1 % Decrease 6.75%	$ 27,569
Current Discount Rate 7.75%	11,423
1 % Increase 8.75%	(2,184)

Depletion Date Projection

GASB No. 68 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 No. 68 will often require that the actuary perform complex projections of future benefit payments and pension plan investments. GASB No. 68 (paragraph 67) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB 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% funded position by the end of the amortization period if future experience follows assumption.
- GASB No. 68 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 the independent actuary's opinion that the detailed depletion date projections outlined in GASB No. 68 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (DOLLARS IN THOUSANDS)

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	13.50	21.50	17.50
Real Estate	9.50	15.50	12.50
Alternative Equity	0.00	12.50	12.50
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 2015 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. Each asset 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. The following table 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.

For more information on the Plan's portfolio, assumed asset allocation, and the long-term expected rate of return for each major asset class, calculated using both arithmetic and geometric means, see PERS' audited financial statements at: http://www.oregon.gov/pers/docs/financial_reports/2016_cafr.pdf.

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00	3.61
Intermediate-Term Bonds	3.00	5.42
High Yield Bonds	1.00	6.20
Large/Mid Cap US Equities	15.75	6.70
Small Cap US Equities	1.31	6.99
Micro Cap US Equities	1.31	7.01
Developed Foreign Equities	13.13	6.73
Emerging Market Equities	4.12	7.25
Non-US Small Cap Equities	1.88	7.22
Private Equity	17.50	7.97
Real Estate (Property)	10.00	5.84
Real Estate (REITS)	2.50	6.69
Hedge Fund of Funds - Diversified	2.50	4.64
Hedge Fund - Event-driven	0.63	6.72
Timber	1.88	5.85
Farmland	1.88	6.37
Infrastructure	3.75	7.13
Commodities	1.88	4.58
Assumed Inflation – Mean		2.50%

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 periodically over the life of the twenty-four year debt repayment schedule.

The payroll assessment for the pension obligation bond began May 2004. The assessment rate for fiscal year 2017 was 6.0%. The assessment rate for fiscal year 2016 was 6.7% through October 31, 2015 and was reduced to 6.0% effective November 1, 2015. Payroll assessments for the fiscal years ended June 30, 2017 and 2016 were $1,474 and $1,453, respectively.

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (DOLLARS IN THOUSANDS)

B. OTHER 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 University academic and administrative faculty. Employees choosing the ORP may invest the employee and employer contributions in one of two investment companies, either Fidelity or the Teacher's Insurance Annuity Association (TIAA).

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 403(b) investment plan. The employer contribution is fixed at 8% by plan rules and is unaffected by PERS rates, unlike the other tiers. The employer provides an ORP match contribution equal to 403(b) deferrals up to a 4% maximum. Under the ORP Tiers One, Two and Three, the employee's contribution rate is 6% and is paid by the employer. There is no employee contribution rate for Tier Four.

The employer contribution rates for the ORP are as follows:

	2017	2016
Tier One/Two	**20.45%**	20.45%
Tier Three	**7.94%**	7.94%
Tier Four	**8.00%**	8.00%

Oregon Public Universities 401(a) Defined Contribution Plan

Eligible ranked faculty participate in the Teacher's Insurance and Annuity Association (TIAA) 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 annuities are supplemental to PERS. 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. The legacy plan, Oregon University System 401(a) Defined Contribution Plan, document was amended and restated July 1, 2015 and the Plan Sponsor is now the Board of Trustees for the University of Oregon.

Summary of Defined Contribution Pension Payments

SOU total payroll for the year ended June 30, 2017 was $39,456, of which $8,633 was subject to defined contribution retirement plan contributions. The following schedule lists payments made by SOU for the fiscal year:

June 30, 2017	**Employer Contribution**	**As a % of Covered Payroll**	**Employee Contribution**	**As a % of Covered Payroll**
ORP	**$ 996**	**11.53%**	**$ 509**	**5.90%**
TIAA	**5**	**0.06%**	**5**	**0.06%**
Total	**$ 1,001**	**11.60%**	**$ 514**	**5.96%**

Of the employee share, SOU paid $484 of the ORP and $5 of the TIAA employee contribution amounts on behalf of their employees during the fiscal year ended June 30, 2017.

SOU total payroll for the year ended June 30, 2016 was $39,722 of which $8,287 was subject to defined contribution retirement plan contributions. The following schedule lists payments made by SOU for the fiscal year:

June 30, 2016	Employer Contribution	As a % of Covered Payroll	Employee Contribution	As a % of Covered Payroll
ORP	$ 1,010	12.18%	$ 490	5.90%
TIAA	5	0.06%	5	0.06%
Total	$ 1,015	12.25%	$ 495	5.97%

Of the employee share, SOU paid $472 of the ORP and $5 of the TIAA employee contribution amounts on behalf of their employees during the fiscal year ended June 30, 2016.

16. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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 qualifying SOU employees retiring under PERS or OPSRP to continue their "active" healthcare on a self-pay basis until eligible for Medicare, usually at age 65. However, the premium amount is based on a blended rate that is determined by pooling the qualifying retirees with active employees, thus, creating an "implicit rate subsidy" under GASB 45. Health care premiums priced only for retirees, who on average incur higher health care claims costs than younger active employees, would be more expensive than health care premiums that are priced to cover the average costs of both active and retirees combined. GASB 45 states that this implicit subsidy must be included in the liabilities and costs reported on the entity's financial statements.

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 1.09% 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 2017.

Funding Policy

The PEBB's funding policy provides for employer contributions in amounts sufficient to fund the cost of active employee health benefits, including the retiree rate subsidy, on a pay-as-you-go basis. For fiscal years 2017 and 2016, SOU paid healthcare insurance premiums of $9,276 and $8,914, respectively. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be $47 and $53 for the fiscal years ended 2017 and 2016, respectively.

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (DOLLARS IN THOUSANDS)

Annual OPEB Cost and Net OPEB Obligation

The Annual Required Contribution (ARC) is the amount PEBB would be required to report as an expense for the fiscal year under GASB 45. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL). Beginning with the July 1, 2015 UAAL, the amortization method is level dollar over a period of one year. Note, the ARC represents an accounting expense, but neither PEBB nor its covered agencies are required to contribute the ARC to a separate trust. Because funds are not set aside equal to the ARC each year, the Annual Pension Cost (less actual benefit payments) will accumulate as a liability (Net OPEB Obligation) on PEBB's and SOU's Statement of Net Position. The Net OPEB obligation is allocated to the participating entities based on their proportionate share of annual health insurance premium costs. The following table shows the components of SOU's share of the annual OPEB expense, the amount actually contributed to the plan, and changes in SOU's share of the net OPEB obligation:

	June 30, 2017	June 30, 2016
Annual Required Contribution	$ 895	$ 874
Interest on Net OPEB Obligation	29	32
Adjustment to Annual Required Contribution	(850)	(945)
Annual OPEB Cost	74	(39)
Contributions Made	(47)	(53)
Increase in Net OPEB Obligation	27	(92)
Net OPEB Obligation - Beginning of Year	994	1,086
Net OPEB Obligation - End of Year	$ 1,021	$ 994

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 years ended June 30, 2017 and 2016 was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	**$ 74**	**7%**	**$ 1,021**
2016	(39)	-4%	994
2015	127	12%	1,086

Funding Status and Funding Progress

The funded status of the SOU portion of the OPEB plan for June 30, 2017 and 2016 was as follows:

	June 30, 2017	June 30, 2016
Actuarial Accrued Liabilities	$ 803	$ 802
Actuarial Value of Plan Assets	-	-
Unfunded Actuarial Accrued Liability	$ 803	$ 802
Funded Ratio	0.00%	0.00%
Covered Payroll (active plan members)	$ 32,649	$ 31,424
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	2.46%	2.55%

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. The PEBB postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by the PEBB consulting actuary at July 1, 2015.

Significant methods and assumptions were as follows:

	June 30, 2017	June 30, 2016
Actuarial Valuation Date	7/1/2015	7/1/2015
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar	Level Dollar
Amortization Period	1 year (open)	1 year (open)
Investment Rate of Return	3.5%	3.5%
Initial Healthcare Inflation Rates	5.1% (medical), 2.3% (dental)	5.1% (medical), 2.3% (dental)
Ultimate Healthcare Inflation Rates	5% (medical), 5% (dental)	5% (medical), 5% (dental)

17. RISK FINANCING

SOU is a member of the Public Universities Risk Management and Insurance Trust (Trust). The Trust is a separate legal entity which operates for the benefit of the member universities (Member). The Trust is governed by a Board of Trustees comprised of a representative of each Member of the Trust. The Trustees administer an insurance program wherein the Members share risk by pooling their losses and claims and jointly purchasing insurance and administrative services through the Trust. In exchange, Members pay annual assessments and provide the Trustees with information or assistance as necessary for the Trustees to determine annual assessments and to purchase insurance or reinsurance. By participating, SOU transfers the following risk to the Trust:

- Real property loss for a university owned building, equipment, automobiles and other types of property.
- Tort Liability claims brought against a university, its officers, employees or agents.
- Workers' compensation and employers liability.
- Crime and 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.

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. The amount of settlements has not exceeded insurance coverage for the past three years. SOU is working with insurance providers to recover a balance of $1,365 on a claim pending resolution of the remaining legal issues associated with the recovery action. Funds recovered will be reflected as an addition to available resources in a subsequent year.

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (DOLLARS IN THOUSANDS)

In addition, the university purchases various commercial insurance policies to cover the deductible amounts of intercollegiate athletics insurance provided through the National Association of Intercollegiate Athletics, and to provide coverage for special events and student liability.

18. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed and planned but not initiated construction projects totaled approximately $46,339 and $48,590 at June 30, 2017 and 2016, respectively. 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, 2017.

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, 2017.

CONSTRUCTION COMMITMENTS AS OF JUNE 30, 2017

	Total Commitment	Completed to Date	Outstanding Commitment
McNeal Hall	$ 23,797	$ 8,891	$ 14,906
Student Recreation Center	20,135	8,821	11,314
Theatre Arts Remodel	10,998	3,044	7,954
Capital Repair	5,241	523	4,718
Britt Hall Renovation	4,718	28	4,690
Jefferson Public Radio Expansion	2,750	350	2,400
Sustainability Pavilion	481	124	357
	$ 68,120	$ 21,781	$ 46,339

19. 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. The change in entity also changed the allocation of bond debt held in the name of the State. The Oregon Department of Administrative Services, State Treasury, and Department of Justice all concluded that a portion of the debt previously allocated to OUS and the seven member institutions as state agencies was the responsibility of the State to repay. SOU still has responsibility to repay XI-F(1) and SELP debt. See "Note 10. Long Term Liabilities" for additional information.

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

	July 1, 2015
State Paid Debt Transferred to the State Resulting in an Increase (Decrease) in Net Position	
General Obligation Bonds XI-F(1)	**$ 3,621**
General Obligation Bonds XI-G	**21,906**
General Obligation Bonds XI-Q	**38,601**
Certificates of Participation	**726**
Lottery Bonds	**28,872**
Deferred Outflows - Unamortized Gain/Loss on Refunding	**(1,763)**
Accrued Interest Payable Removed	**967**
Total Debt Transferred to the State	**92,930**
Other Changes	
Lottery Accrual for State Paid Debt Reversed	**(942)**
Cash Held by Trustee for State Paid Debt Removed	**(34,389)**
Total Change due to Change in Entity	**57,599**

20. SUBSEQUENT EVENTS

SOU management has reviewed events and transactions that occurred subsequent to the Statement of Net Position date of June 30,2017 and has found none that required adjustment or disclosure in the financial statements.

21. 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 (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 years ended June 30, 2017 and 2016.

During the years ended June 30, 2017 and 2016 gifts of $3,204 and $2,558, respectively, were transferred from the Foundation to SOU. The Foundation is audited annually and received an unmodified audit opinion.

Please see the financial statements for the SOU component unit on pages 19 and 21 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

	2017	2016	2015	2014	2013
Contractually required contribution	$ 2,006	$ 1,988	$ 1,587	$ 1,705	$ 1,671
Contributions in relation to the contractually required contribution	2,006	1,988	1,587	1,705	1,671
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
SOU's covered payroll	$ 24,946	$ 23,693	$ 22,557	$ 23,066	$ 23,109
Contributions as a percentage of covered payroll	8.0%	8.4%	7.0%	7.4%	7.2%

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

As of June 30,	2017	2016
SOU's proportion of the net pension asset / (liability)	0.18%	0.20%
SOU's proportionate share of the net pension asset/ (liability)	$ (27,369)	$ (11,423)
SOU's covered payroll	$ 24,946	$ 23,693
SOU's proportionate share of the net pension asset/ (liability) as a percentage of its covered payroll	109.71%	48.21%
Plan fiduciary net postion as a percentage of the total pension asset/ (liability)	80.53%	91.88%

FUNDING STATUS OF OTHER POSTEMPLOYMENT BENEFITS

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2013	7/1/2011	-	$ 2,033	$ 2,033	0.0%	$ 31,074	6.5%
6/30/2014	7/1/2013	-	1,307	1,307	0.0%	31,155	4.2%
6/30/2015	7/1/2013	-	1,231	1,231	0.0%	30,121	4.1%
6/30/2016	7/1/2015	-	802	802	0.0%	31,424	2.6%
6/30/2017	7/1/2015	-	803	803	0.0%	32,649	2.5%

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

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

Craig Morris
Vice President for Finance and Administration
Southern Oregon University
1250 Siskiyou Blvd.
Ashland, OR 97520
541-552-7672

Southern OREGON UNIVERSITY
Office of the President
1250 Siskiyou Boulevard
Ashland, Oregon 97520
541-552-7672
www.sou.edu