SOUTHERN OREGON UNIVERSITY

2016 ANNUAL FINANCIAL REPORT

Southern OREGON UNIVERSITY

Table of Contents

Southern Oregon University Board of Trustees

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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

I am pleased to report that fiscal year 2015-2016 concludes with Southern Oregon University in sound financial standing, meeting or exceeding nearly every financial goal set in previous years. We have been greatly aided by the work of our new local Board of Trustees. The Board's Finance Committee has been particularly helpful, providing guidance and feedback to both our staff and trustees throughout the year.

Southern Oregon University continues to make college affordability a top priority. Additional funding provided by the Oregon legislature enabled SOU to continue to prioritize tuition remissions and additional student services designed to increase retention, graduation rates, student success, and student affordability.

SOU has increased its efforts to recruit minority, first-generation and low-income students. We have expanded upon programs such as Pirates to Raiders, Bulldogs to Raiders, the Konoway program, and Academia Latina to enhance and strengthen our recruiting efforts in these areas.

SOU also recently launched new programs to serve our regional community. The Jackson/Josephine Pledge program affords local high-school graduates substantial tuition discounts and helps them graduate in three years instead of four. The Innovation and Leadership degree program, a multidisciplinary bachelor's degree program for working professionals who aspire to become leaders within their organizations and communities, continues into its second year.

SOU was selected by the American Association of State Colleges and Universities (AASCU) to be part of the Re-Imagining the First Year of College project. This is a national project aimed at ensuring success for all students, particularly those who have historically been underserved by higher education: low income, first generation, and students of color. With support from the Bill & Melinda Gates Foundation and USA Funds, AASCU created a coalition of 44 member institutions, including SOU, that will work together for three calendar years (2016-2018) to develop comprehensive, institutional transformations that redesign the first year of college and creates sustainable change for student success. There are 465 member institutions in AASCU, all of whom will have access to the resources that are compiled as a result of this three-year-long initiative.

Capital construction and physical plant improvements continue at SOU. We saw the completion of the Science building remodel in 2015-16. Upon completion of design work in Winter 2016, demolition of the McNeal Pavilion began. Work is currently underway for a replacement new building, as well as a brand new Student Recreation Facility. The Raider Stadium facility is also currently under renovation. The space is being converted into athletic locker rooms, a new strength and conditioning area, and offices for our coaches. Also underway is construction and remodeling of our Theatre Building, which will include a 4,500 square foot addition to relocate the offices of Jefferson Public Radio.

The university is currently preparing 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 will host a site visit in October 2016, during which a team of seven members from NWCCU institutions will visit the university to determine that the University has addressed and provided documentation that each of the standards were met.

SOU will continue to work to maintain affordability and quality education for our students with strong financial oversight by our administration and Board of Trustees. We remain committed to our strong record of service to the state of Oregon, our students, and community.

Cordially,

Linda Schott

President Linda Schott

Southern Oregon University

During the FY 2015-16 fiscal year, SOU continued to benefit from private philanthropic contributions. Gifts and pledges to the SOU Foundation totaled $3.1 million. Nearly 60% of all gifts came from foundations and other individuals in the region who believe in the future of Southern Oregon University. Commitments from alumni and corporations made up the balance of support.

Highlights of the year in philanthropy include:

- The SOU Foundation distributed more than $3.6 million to the university through earnings on its endowment as well as program support. The market value of the foundation endowment is nearly $25 million.
- The second annual Count Me In campaign to create new scholarships for students raised more than $175,000 in just 100 hours. These scholarships are devoted to first-generation college students. More than 100 SOU students have received scholarships as a result of the campaign, and 30% of them have graduated or are nearing graduation.
- More than $2.3 million in scholarship support was distributed by the SOU Foundation to students for the first time in history. Donors continue to see scholarships as a critical way to help students succeed and have prioritized gifts to support them.
- The university raised significant gifts for several new construction and renovation projects for the campus. Donors supported the McNeal Pavilion replacement project as well as a new outdoor pavilion to be located on the grounds of the university's sustainability farm.
- For the second consecutive year, SOU athletics finished in the top ten in the NAIA Directors' Cup. Success on the field has continued to translate into philanthropic support of the university's athletes and its teams. Donors provided more than $500,000 in support.

2015-16 Top University Accomplishments

- Fall 2015 saw record highs of new first-year freshmen and transfer students, making SOU one of the few public institutions to experience enrollment growth. We have also seen increases in new enrollment confirmations.

- The most recent retention rates from the last two years are showing positive increases over the records from the last decade. Retaining our students at SOU is not only a top academic priority, but also saves substantial money, as it costs more to recruit and attract a new student than to keep a student here once they are already on campus.

- During the fiscal year of 2015-16, SOU saw an increase of nearly 6% in applications for bachelor's degrees. By August 1, we had conferred 868 degrees, of which 158 were master's degrees.

- The Board of Trustees completed its inaugural year at Southern Oregon University.

- Southern Oregon University welcomed Dr. Linda Schott as its 13th President in August 2016.

- In 2014, we embarked upon a retrenchment plan in order to better ensure the financial stability of Southern Oregon University. Our fiscal year 2015-2016 ending fund balance as a percent of revenues exceeded earlier retrenchment plan projections for the second year in a row.

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- SOU was the top public institution in the NAIA Director's Cup, which is awarded annually to the nation's best overall collegiate athletics program.

- The 2016-17 academic year will usher in the fourth and final cohort for the Honors College. We expect to graduate the first class of the Honors College this year. As of this year, we have a retention of rate of 87% for the Honors College.

- In keeping with our efforts around sustainability, SOU was named "Bee-Campus USA" and "Tree-Campus USA" for the second year in a row.

- In August of 2016, Campus Pride named SOU one of the top 25 LGBTQ-Friendly campuses in the United States. This is the fourth consecutive year we have earned this distinction.

Capital Projects Update

Student Recreation Center (under construction)

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

McNeal Pavilion (under construction)

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

Theatre Building (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.

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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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2016 and 2015, 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.

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Emphasis of Matters

As discussed in Note 1(A), the financial statements present only the University, and do not purport to, and do not, present fairly the financial position of the System as of June 30, 2015, the changes in its financial position, or its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Also discussed in Note 1(A), effective July 1, 2015, the University became an independent public body separate from the System due to the passing of Senate Bill 270. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 10 through 19, 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 17, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
October 17, 2016

FOR THE YEAR ENDED JUNE 30, 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) for the years ended June 30, 2016, 2015 and 2014. SOU is comprised of the main campus in Ashland and a second campus in Medford.

ANNUAL FULL TIME EQUIVALENT STUDENT ENROLLMENT SUMMARY:

	2016	2015	2014	2013	2012
SOU	**4,478**	4,398	4,421	4,677	4,875

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 22.

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 30,2016 of $48,943 and an increase of $13,401, offset by an adjustment for a change in accounting principle of $8,594 in 2015. The largest increase to Net Position in 2016 was to the Net Investment in Capital Assets which increased $57,495 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 increased $5,672 due to business activities for budgeted and auxiliary operations. The increase resulting from business activities was primarily offset by decreases due to the change in the Net Pension Asset in 2015 to a Net Pension Liability in 2016. Total decrease in Net Position due to changes in pension reporting in 2016 was $8,973.

The 2015 Net Position increase was primarily due to transfers into SOU due to the closing of the OUS Chancellor's Office of $11,244. Unrestricted Net Position decreased $4,124 due to business activities for budgeted and auxiliary operations and $2,704 due to the implementation of GASB Statements No. 68 and 71.

A full discussion is included in the Statement of Net Position section below.

STATEMENT OF NET POSITION

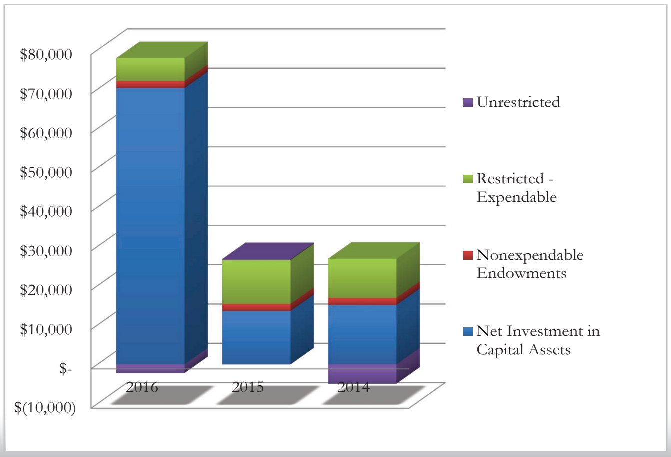
The term "Net Position" refers to the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources and is an indicator of SOU's current financial condition. Changes in net position that occur over time indicate improvement or deterioration in 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,	**2016**	2015	2014
Current Assets	$ **10,825**	$ 15,856	$ 19,293
Noncurrent Assets	**41,259**	84,963	33,828
Capital Assets, Net	**98,214**	96,864	81,570
Total Assets	$ **150,298**	$ 197,683	$ 134,691
Deferred Outflows of Resources	$ **2,527**	$ 3,434	$ 1,710
Current Liabilities	$ **14,825**	$ 24,943	$ 17,529
Noncurrent Liabilities	**59,493**	140,309	96,896
Total Liabilities	$ **74,318**	$ 165,252	$ 114,425
Deferred Inflows of Resources	$ **2,781**	$ 9,082	$ -
Net Investment in Capital Assets	$ **70,288**	$ 13,557	$ 15,091
Restricted - Nonexpendable	**1,812**	1,812	1,812
Restricted - Expendable	**5,802**	11,144	9,970
Unrestricted	**(2,176)**	270	(4,897)
Total Net Position	$ **75,726**	$ 26,783	$ 21,976

Total Net Position

As illustrated by the following graph, the make-up of net position changed between 2016, 2015 and 2014.



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.

Comparison of fiscal year 2015 to fiscal year 2014

Net Investment in Capital Assets decreased $1,534 or 10%.

- Capital asset increases of $19,382 were mainly offset by a $4,088 increase to accumulated depreciation and a $16,828 decrease in long-term debt outstanding attributable to the capital assets.

Restricted Expendable Net Position increased $1,174 or 12%.

- Net position relating to funds reserved for debt service increased by $9.
- Net position relating to the funding of capital projects increased $1,249 primarily as a result of the new and continued construction, remodeling, and deferred maintenance projects. See "Note 18. Commitment and Contingent Liabilities" for additional information on construction commitments.
- Net position related to gifts, grants and contracts increased $161, mainly due to increased gift revenues from the SOU Foundation.
- Net position related to student loans decreased $245 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 increased $5,167 due in large part to the following:

- Decreases from business activities for budgeted and auxiliary operations lowered unrestricted net position $3,394.
- Changes associated with year-end liability accruals for PERS State and Local Rate Pool (SLGRP) increased Unrestricted Net Position $187.
- Changes due to year-end liability accruals for Other Post-employment Benefits (OPEB) decreased Unrestricted Net Position by $55
- The implementation of GASB Statement No. 68 decreased Unrestricted Net Position by $2,704.
- The transfer of assets from the Chancellor's Office added $11,244 to the Unrestricted Net Position. See "Note 19. Change in Entity" for additional information.

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

Total Assets and Deferred Outflows of Resources

Total Assets decreased $47,385 or 24 percent and $62,992 or 47 percent during the years ended June 30, 2016 and 2015, respectively. Deferred Outflows of Resources decreased $907 or 26 percent and $1,724 or 101 percent in the fiscal years ended June 30, 2016 and 2015, respectively.

Comparison of fiscal year 2016 to fiscal year 2015

Current Assets decreased $5,031 or 32 percent.

- Current Cash and Cash Equivalents decreased $3,205. Current cash decreased in almost all fund areas. The largest decreases were a decrease of $990 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 $163 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 $42,354 or 23 percent.

- Noncurrent cash decreased $38,848 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, which 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" in this MD&A and "Note 5. Capital Assets" for additional information relating to these variances.

Deferred Outflows of Resources decreased $907 or 26 percent.

- 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.
- Also see "Note 6. Deferred Inflows and Outflows" for additional detail on changes.

Comparison of fiscal year 2015 to fiscal year 2014

Current Assets decreased $3,437 or 18 percent.

- The combination of an increase in cash due to the closing of OUS and a higher ratio of investments at June 30, 2015 compared to June 30, 2014, resulted in a total decrease in current cash and cash equivalents of $3,816. SOU received cash payments of $439 during 2015 due to the close out of OUS, see "Note 19. Change in Entity" for more detail. During 2014, a portion of investments were liquidated in anticipation of the University of Oregon's departure from the Oregon University System's cash and investment pool in July of 2014, resulting in a higher than average cash balance at year end. During 2015, cash balances, in excess of policy targets, were allocated into investments following the creation of the Public University Fund (PUF).
- Collateral from Securities Lending increased $532.
- Accounts Receivable decreased $527 primarily due to an increase in the allowance for doubtful accounts of $851 and a decrease in other accounts receivable of $272. These changes were offset by increased accounts receivable for student tuition and fees of $386; auxiliary operations of $3; grants, gifts, and contracts of $179; and amounts receivable from the foundation of $30. See "Note 3. Accounts Receivable" for additional information.
- Current Notes Receivable increased $266 due primarily to an increase in notes for student loans and a decrease in the allowance for doubtful accounts. See "Note 4. Notes Receivable" for additional information.
- Inventories decreased $114 due to the sale of SOU's bookstore.
- Prepaid Expenses increased $222 primarily due to a change in the accounting treatment for contributions to the sinking fund.

Noncurrent Assets increased $66,429 or 58 percent.

- Noncurrent Cash increased $19,820 due mainly to the transfer of student building fees from the Chancellor's Office of $9,358 to SOU and an increase in year end cash balances in capital construction funds. During 2015, a larger portion of available cash was converted back to investments at year end.
- Investments increased $12,351 due primarily to a change in the OUS investment strategy resulting from changes in university governance. Cash that was held at the end of fiscal year 2014 was converted back to investments in 2015.
- Noncurrent Notes Receivable increased $14,257 due primarily to the recording of notes receivable from the state for the XI-F bond sale and increased federal student loans.
- SOU recorded a net pension asset of $4,707 due to the implementation of GASB Nos. 68 and 71. See "Note 15. Employee Retirement Plans" for additional information on this change.
- Net Capital Assets increased $15,294, or 19 percent, due primarily to added construction in progress of $18,641, other capitalized additions (net of retirements) totaling $741, and an increased in accumulated depreciation of $4,088. See "Capital Assets" in this MD&A for additional information relating to these variances.

Deferred Outflows of Resources increased $1,724 or 101 percent.

- Deferred outflows related to deferred gain/loss on long-term debt bond refunding had a net increase of $53. See "Note 6. Deferred Inflows and Outflows" and "Note 10. Long Term Liabilities" for more information on this change.
- SOU recorded a net increase of $1,671 in deferred outflows as a result of the implementation of GASB No. 68. See "Note 6. Deferred Inflows and Outflows" and "Note 15. Employee Retirement Plans" for more information on this change.

Total Liabilities and Deferred Inflows of Resources

Total Liabilities decreased $90,934 or 55 percent during the year ended June 30, 2016. Total Liabilities increased $50,827 or 44 percent during the year ended June 30, 2015. Deferred Inflows of Resources decreased $6,301 or 69 percent during the fiscal year ended June 30, 2016 and were recorded for the first time during the fiscal year ended June 30, 2015.

Comparison of fiscal year 2016 to fiscal year 2015

Current Liabilities decreased $10,118 or 41 percent.

- Accounts Payable and Accrued Liabilities decreased $5,028. Services and supplies payables decreased $121, labor related payables decreased $2,627, 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 increased $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

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

grant and contract deferred revenue of $260.

Noncurrent Liabilities decreased $80,816 or 58 percent.

- 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.

Comparison of fiscal year 2015 to fiscal year 2014

Current Liabilities increased $7,414 or 42 percent.

- The current portion of Long-Term Liabilities increased by $1,041 due to an increase in debt issued in previous years coming due in the next year. See "Debt Administration" in this MD&A and "Note10. Long Term Liabilities" for more information on this change.
- Obligations under Securities Lending increased $532.
- Accounts Payable and Accrued Liabilities increased $6,666 due to increases in all payable categories; the largest changes being to services and supplies payable and salaries and wages payable.
- Unearned revenue increased by $394 due to increased revenues for prepaid tuition and fees for summer term.
- Deposits decreased $1,219 due primarily to a decrease in funds held for the North Campus Village.

Noncurrent Liabilities increased $43,413 or 45 percent, primarily due to new debt issued for the construction of capital assets and refundings of previously issued debt. See "Debt Administration" in this MD&A and "Note 10. Long Term Liabilities" for more information on this change.

Deferred Inflows of Resources were recorded for the first time in 2015. SOU recorded $9,082 of Deferred Inflows to account for the difference between the projected and actual earnings on pension plan investments. See "Note 6. Deferred Inflows and Outflows" and "Note 15. Employee Retirement Plans" for more information on this change.

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,	2016	2015	2014
Operating Revenues	$ 49,991	$ 46,602	$ 48,142
Operating Expenses	97,779	76,150	86,132
Operating Loss	(47,788)	(29,548)	(37,990)
Nonoperating Revenues, Net of Expenses	34,887	28,008	25,165
Other Revenues	4,245	3,697	3,540
Special and Extraordinary Items	57,599	11,244	-
Increase in Net Position	48,943	13,401	(9,285)
Net Position, Beginning of Year	26,783	21,976	31,261
Change in Accounting Principle	-	(8,594)	-
Net Position, End of Year	$ 75,726	$ 26,783	$ 21,976

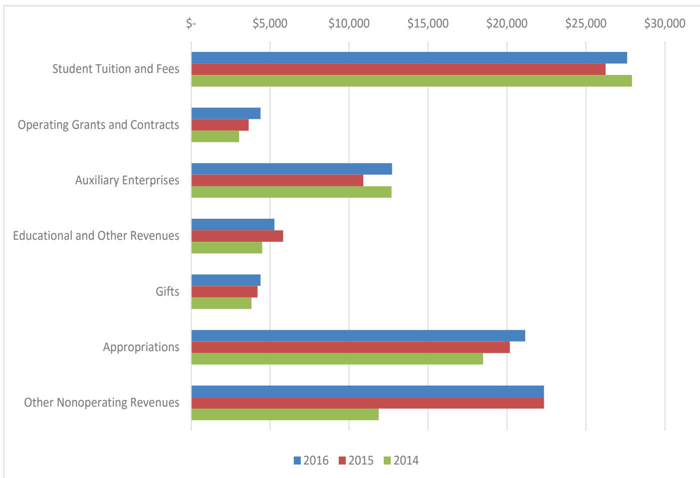
Revenues

Revenues increased $55,282 or 37 percent, in 2016 over 2015.

Total Operating and Nonoperating Revenues

For the Year Ended June 30,	2016	2015	2014
Student Tuition and Fees	$ 27,602	$ 26,238	$ 27,913
Grants and Contracts	4,392	3,637	3,035
Auxiliary Enterprises	12,720	10,899	12,689
Educational and Other	5,277	5,828	4,505
Total Operating Revenues	49,991	46,602	48,142
Appropriations	21,154	20,184	18,488
Financial Aid Grants	10,675	10,556	10,912
Gifts	4,396	4,200	3,824
Investment Activity	723	440	642
Capital Grants and Gifts	4,066	96	319
Special Item Change in Entity	57,599	11,244	-
Total Nonoperating Revenues	98,613	46,720	34,185
Total Revenues	$ 148,604	$ 93,322	$ 82,327

Total Operating and Nonoperating Revenues



Operating Revenues

Operating revenues increased 7 percent from $46,602 in 2015 to $49,991 in 2016. Operating revenues decreased $1,540 in 2015, or 3 percent over 2014.

Comparison of fiscal year 2016 to fiscal year 2015

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

- 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 percent.

- 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 percent 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.

Comparison of fiscal year 2015 to fiscal year 2014

Student Tuition and Fees decreased $1,675 or 6 percent.

- Higher tuition and fee rates offset the decrease by $119, while lower enrollment contributed $196 to the decrease.
- Fee remissions and scholarship allowances reduced tuition and fees by $1,836 more than in the prior period.
- Bad debt expense, primarily related to the maintenance of the allowance for bad debt, decreased by $238.

Federal, State and Nongovernmental Grants and Contracts increased $602 or 20 percent.

- Federal grant and contract revenues decreased $134 due primarily to a decrease in grants from the US Department of Education and the National Science Foundation. These decreases were offset by increases in grants from the US Department of Agriculture and the Small Business Administration.
- State and local grant activity increased $18 primarily due to increases in grants from the Oregon Department of Education and the Oregon Department of Transportation. These increases were offset by decreases primarily in Oregon economic development grants and local governmental grants.
- Nongovernmental grant activity increased $718 primarily due to revenue from A'viands catering.

Auxiliary Enterprise revenues decreased $1,790 or 14 percent due mainly to the following:

- Student Health, Building and Incidental Fee revenue increased $103 due to an increase in fees assessed.
- Housing and Dining revenues increased $471 due mainly to revenue from the North Campus Village.
- During fiscal year 2015, SOU outsourced its bookstore operations. This caused auxiliary revenues to decrease $2,917.
- Athletics revenues increased $206 due primarily to post season income.

Nonoperating Revenues

The increase in Nonoperating Revenues of $51,893 during 2016 is due primarily to SOU becoming an independent university and the removal of state paid debt from the university's books. The increase in Nonoperating Revenues of $12,535 during 2015 resulted mainly from the closeout of the Oregon University System Chancellor's Office and increased government appropriations.

Comparison of fiscal year 2016 to fiscal year 2015

Government Appropriations increased $970 or 5 percent.

- 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 percent.

Gift revenue increased $196 or 5 percent, 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 percent. 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.

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

Comparison of fiscal year 2015 to fiscal year 2014

Government Appropriations increased $1,696 or 9 percent.

- State appropriations for SOU operations increased by $3,300 or 24 percent due to increased funding received from the State of Oregon.
- Debt service appropriations decreased $1,604 due to a decrease in the Lottery debt service received from the State of Oregon.

See "Note 14. Government Appropriations" for additional information relating to changes in appropriations.

Gifts increased $376 mainly due to increased gifts from the foundation.

Financial Aid Grants decreased by $356 or 3 percent due mainly to a decrease in federal PELL grants.

Investment Activity revenues decreased $202 or 31 percent. See "Note 12. Investment Activity" for additional information relating to these changes.

Capital Grants and Gifts decreased $223, or 70 percent.

- In 2014, SOU received capital gifts on construction projects from the SOU Foundation of $132; none were received in 2015.
- Library gifts decreased $86 in 2015 when compared to 2014.

Special Item Change in Entity of $11,244 were recorded in 2015 to account for transfers to SOU due to the change in entity. See "Note 19. Change in Entity" for additional information.

Expenses

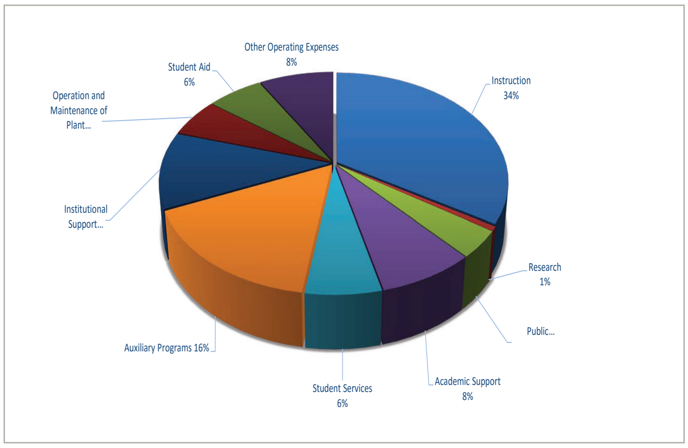
Operating Expenses

Operating expenses increased $21,629 in 2016 or 28 percent, over 2015, to $97,779. Operating expenses decreased $9,982 in 2015 or 12 percent, over 2014, to $76,150. The following summarizes operating expenses by functional classification:

Operating Expense by Function

For the Year Ended June 30,	2016	2015	2014
Instruction	$ 33,167	$ 25,932	$ 31,004
Research	592	679	778
Public Service	3,858	2,987	3,102
Academic Support	7,599	5,683	6,239
Student Services	5,932	4,448	5,026
Auxiliary Programs	15,716	14,618	15,312
Institutional Support	11,090	7,582	6,052
Operation and Maintenance of Plant	5,622	3,980	3,934
Student Aid	6,054	5,857	8,026
Other Operating Expenses	8,149	4,384	6,659
Total Operating Expenses	**$ 97,779**	$ 76,150	$ 86,132

2016 Operating Expense by Function



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 classification. The $8,972 difference 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, 2016	with adjustments	without adjustments	difference
Instruction	$ 33,167	$ 29,159	$ 4,008
Research	592	517	75
Public Service	3,858	3,487	371
Academic Support	7,599	6,815	784
Student Services	5,932	5,225	707
Auxiliary Programs	15,716	14,639	1,077
Institutional Support	11,090	9,867	1,223
Operation and Maintenance of Plant	5,622	4,922	700
Student Aid	6,054	6,054	-
Other Operating Expenses	8,149	8,122	27
Total Operating Expenses	**$ 97,779**	**$ 88,807**	**$ 8,972**

For the Year Ended June 30, 2015	with adjustments	without adjustments	difference
Instruction	$ 25,932	$ 28,946	$ (3,014)
Research	679	726	(47)
Public Service	2,987	3,231	(244)
Academic Support	5,683	6,269	(586)
Student Services	4,448	4,856	(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	$ 76,150	$ 82,040	$ (5,890)

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

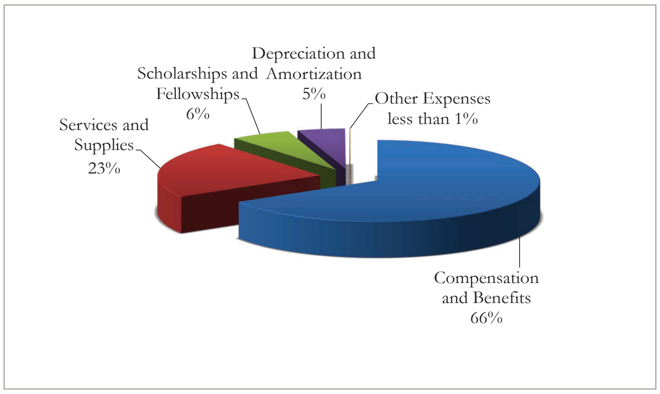
Due to the way in which expenses are incurred by SOU, variances are presented and explained by analyzing changes in the natural classification of expenses. Each natural classification analysis can be applied to many of the functional expense caption items.

The following summarizes operating expenses by natural classification:

Operating Expenses by Natural Classification

For the Year Ended June 30,	2016	2015	2014
Compensation and Benefits	$ 64,762	$ 49,883	$ 55,010
Services and Supplies	22,486	16,286	18,514
Scholarships and Fellowships	5,841	5,654	7,595
Depreciation and Amortization	4,614	4,161	4,320
Other Expenses	76	166	693
Total Operating Expenses	$ 97,779	$ 76,150	$ 86,132

2016 Operating Expenses by Natural Classification



Comparison of fiscal year 2016 to fiscal year 2015

Compensation and Benefits costs increased $14,879 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 $55,789 in 2016 and $55,773 in 2015.

Services and Supplies expense increased $6,200, or 28 percent, 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:

- $1,300 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 percent, 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.

Comparison of fiscal year 2015 to fiscal year 2014

Compensation and Benefits costs decreased $5,127 or 9 percent, in 2015 compared to 2014 primarily due to:

- Salary and wage costs decreased $960 due mainly to unclassified staff reductions.
- Retirement and health insurance costs of decreased by $285 due to staff reductions, while other payroll expenses increased $47 mainly due to increased accrued compensatory leave.
- Other costs associated with compensation and benefits decreased $291.
- The first year implementation of GASB Nos. 68 and 71 resulted in a net decrease to compensation and benefits of $5,890.
- In addition, there was $2,252 accrued in 2015 to account for a BOLI claim which increased compensation and benefits costs.

Services and Supplies expense decreased $2,228 or 14 percent, during 2015. This decrease was seen across many categories including maintenance and repairs, general commodities for resale, assessments, general supplies, and other supplies and services. The decrease was partially offset by higher expenses for fees and services, and travel.

Scholarships and Fellowships expenses decreased $1,942 or 34 percent, when comparing 2015 to 2014. This net decrease corresponds primarily to decreases in federal student financial aid and is offset by increases in scholarships managed by the SOU Foundation. This expense category does not include Fee Remissions, which are reported as reductions to Student Tuition and Fee Revenues.

Depreciation and Amortization expense decreased $159 during 2015 primarily due to buildings reaching full depreciation during 2015.

Other Operating Expenses decreased $527 or 318 percent primarily due to a decrease in student loans assigned to the federal government or canceled.

Nonoperating Expenses

- Interest Expense increased $696 or 18 percent, primarily due a reclassification resulting from the close-out of the Chancellor's Office. See "Note 19. Change in Entity" for further information.

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

Other Nonoperating Items increased $406.

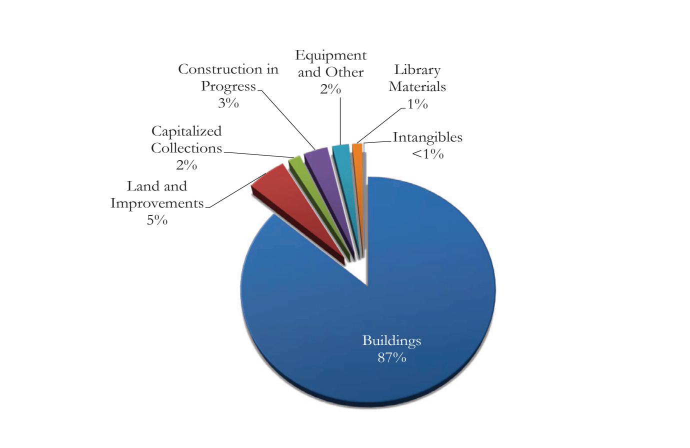
- A prior period adjustment for the pre-SLGRP liability increased other nonoperating items $22, while prior year adjustments to fixed assets increased the total by $366.
- There was $18 of OUS Internal Bank interest recorded in 2014. The OUS Internal Bank closed in 2015 so no interest was recorded.

CAPITAL ASSETS AND RELATED FINANCING ACTIVITIES

Capital Assets

At June 30, 2016, SOU had $193,838 in capital assets, less accumulated depreciation of $95,624, for net capital assets of $98,214. At June 30, 2015, SOU had $190,358 in capital assets, less accumulated depreciation of $93,494, for net capital assets of $96,864.

2016 Capital Assets, Net - $98,214 thousand



Changes to Capital Assets

	2016	2015	2014
Capital Assets, Beginning of Year	$ 190,358	$ 170,976	$ 169,348
Add: Purchases/Construction	6,277	19,383	2,090
Less: Retirements/ Disposals/Adjustments	(2,797)	(1)	(462)
Total Capital Assets, End of Year	193,838	190,358	170,976
Accum. Depreciation, Beginning of Year	(93,494)	(89,406)	(85,522)
Add: Depreciation Expense	(4,614)	(4,161)	(4,320)
Less: Retirements/ Disposals/Adjustments	2,484	73	436
Total Accum. Depreciation, End of Year	(95,624)	(93,494)	(89,406)
Total Capital Assets, Net, End of Year	$ 98,214	$ 96,864	$ 81,570

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

Capital additions totaled $19,383 for 2015 and $2,090 for 2014. 2015 additions were primarily related to the science building seismic upgrade, the construction of the new Student Recreation Center, and $65 in museum donations.

Accumulated depreciation at June 30, 2015 increased $4,088, which represented an increase of $4,161 in depreciation and amortization expense offset by $73 in asset retirements and adjustments.

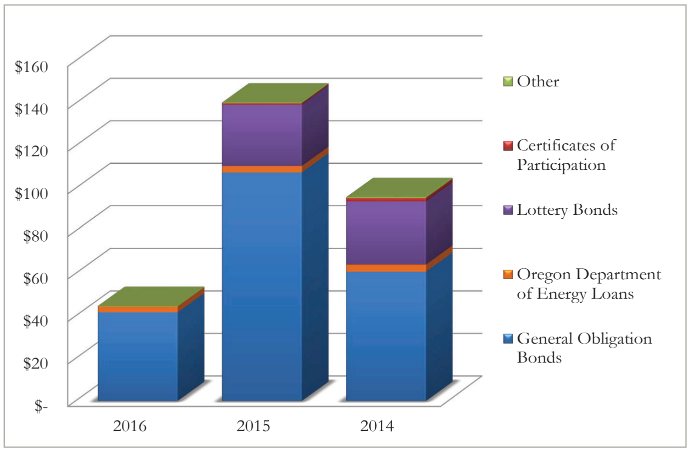
Debt Administration

During 2016, long-term debt held by SOU decreased by $95,706, or 68 percent, from $140,354 to $44,648.

- General Obligation Bonds outstanding decreased $93,726 due to the removal of state paid debt from SOU's long-term liabilities. See "Note 19. Change in Entity" for additional information.
- Accreted interest on General Obligation Bonds XI-F (1) increased $26.
- Accreted interest on General Obligation Bonds XI-F (1) also had decreases of $233.
- Long-term debt decreased $1,423 due to principal payments on General Obligations due to the State of Oregon.
- Long-term debt decreased $350 due to principal payments on Oregon Department of Energy Loans and installment purchases.

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.

In fiscal year 2014 and fiscal year 2015, the legislature increased state operating support specifically to "buy-down" or limit increases in resident, undergraduate tuition. This resulted in no tuition increases in fiscal year 2014 and 2015 for undergraduate residents and Western Undergraduate Exchange Program (WUE) students, excluding differential tuition. SOU chose to match the tuition freeze for undergraduates for our graduate tuition and existing differential tuition rates as well due to strong concern from students over the total cost of attendance.

The 2013 legislature enacted SB 270 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, 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 little to no control on the cost of these benefits. These benefits costs, which can change significantly each year, have a dramatic impact on the SOU operating budget. An example of significant year over year changes is that fiscal year retirement benefit rates average approximately 25 percent of employee pay and represents an increase of over four percent over the prior fiscal year. In addition, a recent Oregon Supreme Court decision (Moro v. State of Oregon, 354 Or 657 (2014)) will likely result in significant additional increases for the fiscal year 2018 rates. SOU has no control on the types and costs of benefits that are managed by PEBB, the rates of which have historically increased year over year. An additional factor in the cost of PEBB plans is that for Southern Oregon, there are currently only three PEBB sponsored plans offered, making initiatives that would incentivize employees to migrate to lower cost plans difficult to implement.

In addition to uncertain employee benefit costs, SOU must respond to existing and new legislative mandates, which may have an impact on the university's budget. An example of a legislative mandate is Oregon's 40/40/20 goal, which is for 40 percent of all adult Oregonians to hold a bachelor's or advance degree; 40 percent 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. Support for these added costs have been a significant portion of recent increases in state funding, but are not guaranteed to continue forward, and of course only widen the gap of state funding that has not been fully restored from pre-recession levels when the funding increases that have been received come with new requirements. While the university remains committed to meeting these mandates, SOU has to balance its overall financial health to ensure it can meet its mission.

Other challenges on future operations are 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 additional 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 these students is great, and can represent an area of enrollment growth for SOU, but it does require an upfront investment.

Other investments on the SOU campus that are beginning to generate returns for the university is the North Campus Village that had its first year of operation in 2015. It is two new residence halls and a dining facility that have created a central village for our students and is proving to be both a source for recruitment and retention of existing students, which 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.

Although SOU faces several financial uncertainties, 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.

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STATEMENT OF NET POSITION
SOUTHERN OREGON UNIVERSITY

As of June 30,		2016		2015
		(In thousands)		
ASSETS				
Current Assets				
Cash and Cash Equivalents (Note 2)	$	**3,928**	$	7,133
Collateral from Securities Lending (Note 2)		**1,019**		1,695
Accounts Receivable, Net (Note 3)		**4,629**		5,698
Notes Receivable, Net (Note 4)		**949**		986
Inventories		**147**		28
Prepaid Expenses		**153**		316
Total Current Assets		**10,825**		15,856
Noncurrent Assets				
Cash and Cash Equivalents (Note 2)		**3,503**		42,351
Investments (Note 2)		**20,465**		20,751
Notes Receivable, Net (Note 4)		**17,291**		17,154
Net Pension Asset (Note 15)		**-**		4,707
Capital Assets, Net of Accumulated Depreciation (Note 5)		**98,214**		96,864
Total Noncurrent Assets		**139,473**		181,827
Total Assets	$	**150,298**	$	197,683
DEFERRED OUTFLOWS OF RESOURCES (Note 6)	$	**2,527**	$	3,434
LIABILITIES				
Current Liabilities				
Accounts Payable and Accrued Liabilities (Note 7)	$	**5,790**	$	10,818
Deposits (Note 8)		**1,143**		1,432
Obligations Under Securities Lending (Note 2)		**1,019**		1,695
Current Portion of Long-Term Liabilities (Note 10)		**3,858**		7,227
Unearned Revenues		**3,015**		3,771
Total Current Liabilites		**14,825**		24,943
Noncurrent Liabilities				
Long-Term Liabilities (Note 10)		**48,070**		140,309
Net Pension Liability (Note 15)		**11,423**		-
Total Noncurrent Liabilities		**59,493**		140,309
Total Liabilities	$	**74,318**	$	165,252
DEFERRED INFLOWS OF RESOURCES (Note 6)	$	**2,781**	$	9,082
NET POSITION				
Net Investment in Capital Assets	$	**70,288**	$	13,557
Restricted For:				
Nonexpendable Endowments		**1,812**		1,812
Expendable:				
Gifts, Grants and Contracts		**1,697**		1,595
Student Loans		**2,934**		3,180
Capital Projects		**803**		3,544
Debt Service		**368**		2,825
Unrestricted (Note 11)		**(2,176)**		270
Total Net Position	$	**75,726**	$	26,783

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

STATEMENT OF FINANCIAL POSITION

SOUTHERN OREGON UNIVERSITY FOUNDATION - COMPONENT UNIT

As of June 30,		2016		2015
		(in thousands)		
ASSETS				
Current Assets				
Cash and Cash Equivalents	$	**705**	$	830
Investments		**24,124**		24,862
Promises to Give, Net		**392**		106
Other Current Assets		**-**		9
Total Current Assets		**25,221**		25,807
Other Assets				
LongTerm Promises to Give, Net		**161**		27
Assets Held Under Split-Interest Agreements		**982**		1,071
Other Assets		**1,973**		1,972
Total Other Assets		**3,116**		3,070
Total Assets	$	**28,337**	$	28,877
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable and Accrues Liabilities	$	**93**	$	14
Scholarships Payable		**986**		674
Deferred Revenue		**270**		210
Total Current Liabilities		**1,349**		898
Obligations Under Split-Interest Agreements		**485**		512
Total Liabilities		**1,834**		1,410
Net Assets				
Unrestricted				
Available for General Obligations and Programs		**1,434**		1,376
Board Designated - Endowment		**121**		127
Underwater Endowments		**(643)**		(224)
Total Unrestricted		**912**		1,279
Temporarily Restricted		**5,737**		6,682
Permanently Restricted		**19,854**		19,506
Total Net Assets		**26,503**		27,467
Total Liabilities and Net Assets	$	**28,337**	$	28,877

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

SOUTHERN OREGON UNIVERSITY

For the Year Ended June 30,	2016	2015
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Allowances of $12,450 and $11,397, Note 1P)	$ 27,602	$ 26,238
Federal Grants and Contracts	1,395	1,488
State and Local Grants and Contracts	792	748
Nongovernmental Grants and Contracts	2,205	1,401
Educational Department Sales and Services	3,913	4,878
Auxiliary Enterprises Revenues (Net of Allowances of $596 and $521, Note 1P)	12,720	10,899
Other Operating Revenues	1,364	950
Total Operating Revenues	49,991	46,602
OPERATING EXPENSES		
Instruction	33,167	25,932
Research	592	679
Public Service	3,858	2,987
Academic Support	7,599	5,683
Student Services	5,932	4,448
Auxiliary Programs	15,716	14,618
Institutional Support	11,090	7,582
Operation and Maintenance of Plant	5,622	3,980
Student Aid	6,054	5,857
Other Operating Expenses	8,149	4,384
Total Operating Expenses (Note 13)	97,779	76,150
Operating Loss	(47,788)	(29,548)
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 14)	20,975	17,332
Financial Aid Grants	10,675	10,556
Gifts	4,396	4,200
Investment Activity (Note 12)	723	440
Gain (Loss) on Sale of Assets, Net	(452)	11
Interest Expense	(1,450)	(4,558)
Other Nonoperating Items	20	27
Net Nonoperating Revenues	34,887	28,008
Income (Loss) Before Other Nonoperating Revenues	(12,901)	(1,540)
Debt Service Appropriations (Note 14)	179	2,852
Capital Grants and Gifts	4,066	96
Transfers within OUS	-	749
Total Other Nonoperating Revenues	4,245	3,697
Increase In Net Position Prior to Special/ Extraordinary Items	(8,656)	2,157
SPECIAL AND EXTRAORDINARY ITEMS		
Special Item - Change in Entity (Note 19)	57,599	11,244
Increase In Net Position After Special/ Extraordinary Items	48,943	13,401
NET POSITION		
Beginning Balance	26,783	21,976
Change in Accounting Principle (Note 1.S.)	-	(8,594)
Beginning Balance, Restated	26,783	13,382
Ending Balance	$ 75,726	$ 26,783

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

STATEMENT OF ACTIVITIES
SOUTHERN OREGON UNIVERSITY FOUNDATION - COMPONENT UNIT

For the Year Ended June 30,		2016		2015
		(In thousands)		
CHANGE IN UNRESTRICTED NET ASSETS				
Public Support, Revenue, and Gains				
Contributions	$	77	$	126
Contributed Services Support		620		547
Investment Income		430		344
Net unrealized Gain (Loss) on Investments		(436)		(135)
Fundraising Activities and Other Income		16		11
Net Assets Released From Restrictions		3,181		2,442
Total Revenues		3,888		3,335
Functional Expenses				
University Support		489		387
Affiliate Support		874		795
Scholarships, Grants, and Awards		1,819		1,265
Management and General		311		221
Management and General, Contributed		187		217
Fundraising		156		2
Fundraising, Contributed		416		195
Loss on Disposal of Other Assets		3		330
Total Expenses		4,255		3,412
Increase (Decrease) In Unrestricted Net Assets		(367)		(77)
Beginning Balance, Unrestricted Net Assets		1,279		1,356
Ending Balance, Unrestricted Net Assets	$	912	$	1,279
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS				
Public Support, Revenue, and Gains				
Contributions		1,858		1,407
Investment Income		595		1,028
Net Realized Gain (Loss) on Investments		(871)		(925)
Fundraising Activities and Other Income		654		614
Net Assets Released From Restrictions		(3,181)		(2,442)
Increase (Decrease) In Temporarily Restricted Net Assets		(945)		(318)
Beginning Balance, Temporarily Restricted Net Assets		6,682		7,000
Ending Balance, Temporarily Restricted Net Assets	$	5,737	$	6,682
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS				
Public Support, Revenue, and Gains				
Contributions		402		322
Investment Income		-		0
Change in Value of Split-Interest Agreements		(54)		(51)
Increase (Decrease) In Permanently Restricted Net Assets		348		271
Beginning Balance, Permanently Restricted Net Assets		19,506		19,235
Ending Balance, Permanently Restricted Net Assets	$	19,854	$	19,506
Increase (Decrease) In Total Net Assets		(964)		(124)
Beginning Balance, Total Net Assets		27,467		27,591
Ending Balance, Total Net Assets	$	26,503	$	27,467

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

For the Years Ended June 30,	2016	2015
		(In thousands)
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	**$ 27,477**	$ 26,121
Grants and Contracts	**3,456**	3,614
Educational Department Sales and Services	**3,913**	4,878
Auxiliary Enterprises Operations	**12,890**	10,896
Payments to Employees for Compensation and Benefits	**(58,318)**	(51,715)
Payments to Suppliers	**(22,639)**	(14,989)
Student Financial Aid	**(5,841)**	(5,654)
Other Operating Receipts	**1,526**	2,235
Net Cash Used by Operating Activities	**(37,536)**	(24,614)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	**20,975**	17,332
Grants	**10,675**	10,556
Changes Due to Other Nonoperating Items	**4,396**	4,227
Net Agency Fund Receipts	**(289)**	(1,219)
Transfers to Other Funds/Institutions	**-**	749
Cash Changes due to Change in Entity	**(34,389)**	9,797
Net Cash Provided by Noncapital Financing Activities	**1,368**	41,442
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt Service Appropriations	**179**	1,909
Capital Grants and Gifts	**3,821**	8
Bond Proceeds from Capital Debt	**26**	45,482
Purchases of Capital Assets	**(6,783)**	(18,712)
Interest Payments on Capital Debt	**(2,130)**	(4,196)
Principal Payments on Capital Debt	**(2,007)**	(13,404)
Net Cash Provided by Capital and Related Financing Activities	**(6,894)**	11,087
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Sales (Purchases) of Investments	**261**	(12,078)
Income on Investments and Cash Balances	**748**	167
Net Cash Provided (Used) by Investing Activities	**1,009**	(11,911)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(42,053)**	16,004
CASH AND CASH EQUIVALENTS		
Beginning Balance	**49,484**	33,480
Ending Balance	**$ 7,431**	$ 49,484

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

For the Years Ended June 30,		2016		2015
		(In thousands)		
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating Loss		**(47,788)**		(29,548)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:				
Depreciation Expense		**4,614**		4,161
Changes in Assets and Liabilities:				
Accounts Receivable		**127**		1,571
Notes Receivable		**(100)**		(823)
Inventories		**(119)**		114
Prepaid Expenses		**163**		(222)
Accounts Payable and Accrued Liabilities		**(2,749)**		5,660
Long-Term Liabilities		**99**		(31)
Unearned Revenue		**(756)**		394
Pension Expense Changes Related to Net Pension Liability		**8,973**		(5,890)
NET CASH USED BY OPERATING ACTIVITIES	**$**	**(37,536)**	$	(24,614)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS				
Capital Assets Acquired by Gifts in Kind		**245**		88
Increase in Fair Value of Investments Recognized as a Component of Investment Activity		**(25)**		273
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), 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.

The SOU financial reporting entity is reported under the heading of University on the Basic Financial Statements. SOU is located in Ashland, Oregon. The SOU reporting entity also includes one university foundation which is reported as a discretely presented component unit in the SOU Financial Statements. See "Note 22. University Foundation" for additional information relating to this component unit. Organizations that are not financially accountable to SOU, such as booster and alumni organizations, are not included in the reporting entity.

SOU is a component unit of the State of Oregon (State) and is included as a discretely presented component unit in the State's Comprehensive Annual Financial Report (CAFR) starting with the fiscal year 2016 financial report.

B. Financial Statement Presentation

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

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

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

NEWLY IMPLEMENTED ACCOUNTING STANDARDS

SOU implemented GASB Statement No. 72, *Fair Value Measurement and Application*, effective for the fiscal year ended June 30, 2016. GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements. The adoption of GASB No. 72 did not have a material impact on the SOU financial statements, however, it did impact related Notes to the financial statements. See "Note 2B. Investments" for the New Fair Value Measurement disclosure.

SOU implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. GASB No. 73 improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This statement establishes requirements for defined benefit pensions that are not within the scope of GASB No. 68, *Accounting and Financial Reporting for Pensions,* as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB No. 68. It also amends certain provisions of GASB No. 67, *Financial Reporting for Pension Plans,* and GASB No. 68 for pension plans and pensions that are within their respective scopes. The adoption of GASB No. 73 did not have a material impact on the SOU financial statements.

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

SOU implemented GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*. GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution. There was no impact resulting from the changes to the presentation of the Required Supplementary Information from the previously reported employee payroll to covered payroll.

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 December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. 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. GASB No. 79 is effective for the fiscal year ending June 30, 2017. SOU is analyzing the effects of GASB No. 79 in relation to its membership in the Public University Fund and is uncertain of the impact on the financial statements and related reporting requirements at this time.

Between July 2015 and June 2016, GASB issued the following statements which do not apply to SOU under current circumstances: Statement No. 77, *Tax Abatement Disclosures*; Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*; Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*; and Statement No. 81, *Irrevocable Split-Interest Agreements*.

C. Basis of Accounting

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

D. Cash and Cash Equivalents

Cash and cash equivalents includes highly liquid investments with original maturities of three months or less. Cash and cash equivalents classified as current assets consist of: cash on hand, cash for current operations, and cash and cash equivalents held for the payment of the current portion of debt service. Cash and cash equivalents classified as noncurrent assets consist of: cash held as a fiduciary agent for student groups, cash for the noncurrent portion of debt service, and cash deposits of debt proceeds for capital construction projects. 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. Inventories

Inventories are recorded at cost and consist primarily of supplies in storerooms and physical plant stores.

G. Capital Assets

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

SOU capitalizes interest expense as part of the historical cost of acquiring capital assets which are funded by borrowings. 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, 2016, SOU capitalized $910 of interest. For the fiscal year ended June 30, 2015, SOU capitalized $75 of interest.

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

H. Unearned Revenues

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

I. Compensated Absences

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

J. Net Pension Liability (Asset)

The net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense are actuarially determined at the system-wide Plan level and are allocated to employers based on their proportionate share. SOU is included in the proportionate share for all state agencies. The SOU proportionate share of all state agencies is allocated by the Oregon State Department of Administrative Services.

K. 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. 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. Deferred outflows are related to defined benefit pension plans and deferred gain/loss on the refunding of debt. Deferred inflows are related to defined benefit pension plans.

L. Net Position

SOU's net position is classified as follows:

NET INVESTMENT IN CAPITAL ASSETS

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

RESTRICTED – NONEXPENDABLE

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

RESTRICTED – EXPENDABLE

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

UNRESTRICTED

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

M. 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. During fiscal year 2015, $2,214 in cash and securities were transferred from the Higher Education Endowment Fund into a separately managed account at the State Treasury. 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 2017 is estimated to be $80. For the year ended June 30, 2016, the net amount of appreciation available for authorization for expenditure was $307. For the year ended June 30, 2015, the net amount of appreciation available for authorization for expenditure was $385. Net appreciation of endowments are included in Expendable Gifts, Grants, and Contracts on the Statement of Net Position.

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

Nonexpendable Endowments on the Statement of Net Position of $1,812 at both June 30, 2016 and 2015 represent the original corpus of true endowment funds and does not include the accumulated gains of those endowments.

N. Income Taxes

SOU is treated as a governmental entity for tax purposes. As such, SOU is generally not subject to federal and state income taxes. However, SOU remains subject to income taxes on any income that is derived from a trade or business regularly carried on and not in furtherance of the purpose for which it was granted exemption from income taxes. No income tax is recorded for the year ended June 30, 2016, because there is no significant amount of taxes on such unrelated business income for SOU.

O. Revenues and Expenses

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

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

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

P. Allowances

Student tuition and fees and campus housing revenues included in auxiliary enterprises revenues are reported net of scholarship allowances. A scholarship allowance is the difference between the revenues charged to students and the amounts actually paid. SOU has two types of scholarship allowances that net into tuition and fees. Tuition and housing waivers, provided directly by SOU, amounted to $3,972 and $3,288 for the fiscal years ended June 30, 2016 and 2015, 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 $8,475 and $8,141 for the fiscal years ended June 30, 2016 and 2015, respectively. Bad debt expense is included as an allowance to operating revenues and is estimated to be $599 and $489 for the fiscal years ended June 30, 2016 and 2015, respectively.

Q. Federal Student Loan Programs

SOU receives proceeds from the Federal Direct Student Loan Program. Since SOU transmits these grantor supplied moneys without having administrative or direct financial involvement in the program, these loans are reported in an agency fund. Federal student loans received by SOU students but not reported in operations was $29,003 and $30,090 for the fiscal years ended June 30, 2016 and 2015, respectively. Perkins loans are included as Notes Receivable. See Note 4. Notes Receivable for further information.

R. Use of Estimates

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

S. Change in Accounting Principle

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, were effective for fiscal year 2015. The cumulative effect of applying GASB Nos. 68 and 71 is reported as a restatement of beginning net position as of July 1, 2014 as follows:

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

2. CASH AND INVESTMENTS

The majority of SOU's current cash and investments were held in custody with the Oregon State Treasury (State Treasury) during the fiscal years ended June 30, 2016 and 2015. These invested assets are managed through several commingled investment pools at the State Treasury. The operating funds of SOU are commingled with cash from other public universities in Oregon and referred to collectively as the Public University Fund (PUF). The investments held in the PUF are managed by the State Treasury and administered by the statutorily defined Designated

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

University, currently Oregon State University. Each underlying investment pool has an investment policy and set of objectives identifying risk and return parameters. 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

DEPOSITS WITH STATE TREASURY

SOU maintains a portion of its current cash balances on deposit with the State Treasury. These deposits are held on a pooled basis as described above in the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool for use by all state and related agencies. The State 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, 2016 and 2015, SOU cash and cash equivalents on deposit at the State Treasury was $7,418 and $15,242, respectively.

Cash and Cash Equivalents are classified as current and noncurrent which include both restricted and unrestricted cash and are summarized at June 30, 2016 and 2015 as follows:

	June 30, 2016	June 30, 2015
Current		
Unrestricted	$ 2,027	$ 3,641
Restricted For:		
Gifts, Grants and Contracts	304	383
Debt Service	184	329
Student Aid	101	158
Endowments	1	146
North Campus Village	733	1,743
Payroll Vendor Payments and Federal Direct Loans	565	719
Current Cash at State Treasury	3,915	7,119
Petty Cash	13	14
Total Current Cash	3,928	7,133
Noncurrent		
Restricted For:		
Capital	889	38,009
Debt Service	2,555	4,281
Student Groups and Campus Organizations	59	61
Total Noncurrent Cash	3,503	42,351
Total	$ 7,431	$ 49,484

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, 2016 and 2015, respectively, SOU had vault and petty cash balances of $13 and $14. Additionally, SOU had cash held by trustee related to capital construction bonds in the amount of $34,229 for the fiscal year ended June 30, 2015. All cash held by trustee was removed as part of the change in entity during the fiscal year ended June 30, 2016. Cash held by trustee is included in noncurrent cash in the Statement of Net Position.

B. Investments

SOU operating funds are invested in the PUF and managed by the State Treasury. The SOU endowment assets are managed separately by the State Treasury. See Note 1.M for additional information regarding SOU endowments. The investment policies are 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, 2016, of the total $20,465 in investments, $2,128 are restricted for endowments, which include both true and quasi endowments.

At June 30, 2015, of the total $20,751 in investments, $2,060 are restricted 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, 2016.

Of SOU's total assets invested in the PUF investment pools, as of June 30, 2016, $11,594 are 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. As of June 30, 2015, $11,631 was invested in an intermediate term fixed income pool managed by the State Treasury and $7,060 was invested in a long-term fixed income pool managed by the State Treasury.

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

Investments of the SOU discretely presented component units are summarized at June 30, 2016 and 2015 as follows:

COMPONENT UNIT

Fair Value at June 30,	2016	2015
Investment Type:		
Mutual Funds:		
Equities	$ 20,196	$ 20,834
Fixed Income	3,913	3,973
Cash and Cash Equivalents	15	55
Total Investments	$ 24,124	$ 24,862

CREDIT RISK

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. SOU has an investment policy for each segment of its investment portfolio. As of June 30, 2016 and 2015, respectively, approximately 98.5 percent and 96.8 percent of investments in the PUF pools are subject to credit risk reporting. As of June 30, 2016, none of SOU's endowments managed by the State Treasury were subject to credit risk reporting, while 34.5 percent was subject to credit risk reporting as of June 30, 2015. 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 $305,760 at June 30, 2016 and $280,630 at June 30, 2015 for investments in the PUF pools and $687 at June 30, 2015 for SOU endowments managed by the State Treasury. Fixed income securities which have not been evaluated by the rating agencies totaled $10,935 at June 30, 2016 and $16,843 at June 30, 2015 for investments in PUF pools and $25 at June 30, 2015 for SOU endowments managed by the State Treasury. The PUF Investment Pools totaled $321,409 at June 30, 2016, of which SOU owned $18,338 or 5.7 percent. The PUF Investment Pools totaled $307,454 at June 30, 2015, of which SOU owned $18,692 or 6.1 percent.

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 OIC has no formal policy regarding the holding of securities by a custodian or counterparty. For the years ended June 30, 2016 and 2015, 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, 2016 approximately 32.4 percent or $692 of SOU endowments managed by the State Treasury were subject to foreign currency risk. No endowments had reportable foreign currency risk at June 30, 2015. No investments in the PUF had reportable foreign currency risk at June 30, 2016 or 2015.

INTEREST RATE RISK

Investments in fixed income securities are subject to the risk that changes in interest rates will adversely affect the fair value of the investments. As of June 30, 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, 2015, securities in the PUF Investment Pool held subject to interest rate risk totaling $297,473 had an average duration of 2.74 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. No SOU endowments managed through the State Treasury were held subject to interest rate risk as of June 30, 2015. Duration measures the change in the value of a fixed income security that will result from a one percent 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, 2016 the PUF Investment Pool totaled $321,409. Of the total, 100% was valued using level 2 inputs. The university owned $18,338 or 5.7 percent of the pool.

At June 30, 2016, the SOU endowment managed by the State Treasury totaled $2,128. Of the total, 100 percent 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, 2016 and 2015.

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

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 percent 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 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.

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, 2016 and 2015, is effectively one day. As of June 30, 2016 and 2015, 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, 2016 and 2015 comprised the following:

	June 30, 2016	June 30, 2015
Investment Type		
U.S. Treasury and Agency Securities	$ **951**	1,829
Domestic Fixed Income Securities	**222**	512
International Equity	**1**	-
Total	$ **1,174**	$ 2,341

The fair value of the University's share of total cash and securities collateral received as of June 30, 2016 and 2015 was $1,196 and $2,390, respectively. The fair value of the University's share of investments purchased with cash collateral as of June 30, 2016 and 2015 was $1,019 and $1,695, respectively.

3. ACCOUNTS RECEIVABLE

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

	June 30, 2016	June 30, 2015
Student Tuition and Fees	$ **4,536**	$ 4,775
Auxiliary Enterprises and Other Operating Activities	**1,795**	1,965
State, Other Government, and Private Gifts, Grants and Contracts	**1,015**	445
Federal Grants and Contracts	**248**	286
Component Units	**89**	30
Other	**496**	1,659
	8,179	9,160
Less: Allowance for Doubtful Accounts	**(3,550)**	(3,462)
Accounts Receivable, Net	$ **4,629**	$ 5,698

4. NOTES RECEIVABLE

SOU Notes Receivable has three 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".

	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**

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

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

5. CAPITAL ASSETS

The following schedule reflects the changes in capital assets:

	Balance June 30, 2014	Additions	Transfer Completed Assets	Retire. And Adjust.	Balance July 1, 2015	**Additions**	**Transfer Completed Assets**	**Retire. And Adjust.**	**Balance June 30, 2016**
Capital Assets, Non-depreciable/Non-amortizable:									
Land	$ 3,556	$ -	$ -	$ -	$ 3,556	**$ -**	**$ -**	**$ -**	**$ 3,556**
Capitalized Collections	1,491	70	-	-	1,561	**33**	**-**	**-**	**1,594**
Construction in Progress	1,546	18,641	-	72	20,259	**5,650**	**(22,622)**	**2**	**3,289**
Total Capital Assets, Non-depreciable/Non-amortizable	6,593	18,711	-	72	25,376	**5,683**	**(22,622)**	**2**	**8,439**
Capital Assets, Depreciable/ Amortizable:									
Equipment	10,101	351	-	(19)	10,433	**562**	**62**	**(82)**	**10,975**
Library Materials	14,456	238	-	(54)	14,640	**222**	**-**	**(60)**	**14,802**
Buildings	132,125	45	-	-	132,170	**-**	**21,084**	**(2,847)**	**150,407**
Land Improvements	1,779	38	-	-	1,817	**-**	**1,072**	**-**	**2,889**
Improvements Other Than Buildings	836	-	-	-	836	**-**	**404**	**-**	**1,240**
Infrastructure	2,995	-	-	-	2,995	**-**	**-**	**-**	**2,995**
Intangible Assets	2,091	-	-	-	2,091	**-**	**-**	**-**	**2,091**
Total Capital Assets, Depreciable/Amortizable	164,383	672	-	(73)	164,982	**784**	**22,622**	**(2,989)**	**185,399**
Less Accumulated Depreciation/ Amortization for:									
Equipment	(7,704)	(643)	-	19	(8,328)	**(671)**	**-**	**69**	**(8,930)**
Library Materials	(12,949)	(364)	-	54	(13,259)	**(332)**	**-**	**60**	**(13,531)**
Buildings	(61,651)	(2,994)	-	-	(64,645)	**(3,380)**	**-**	**2,355**	**(65,670)**
Land Improvements	(1,710)	(31)	-	-	(1,741)	**(95)**	**-**	**-**	**(1,836)**
Improvements Other Than Buildings	(647)	(28)	-	-	(675)	**(71)**	**-**	**-**	**(746)**
Infrastructure	(2,867)	(23)	-	-	(2,890)	**(22)**	**-**	**-**	**(2,912)**
Intangible Assets	(1,878)	(78)	-	-	(1,956)	**(43)**	**-**	**-**	**(1,999)**
Total Accumulated Depreciation/ Amortization	(89,406)	(4,161)	-	73	(93,494)	**(4,614)**	**-**	**2,484**	**(95,624)**
Total Capital Assets, Net	$ 81,570	$ 15,222	$ -	$ 72	$ 96,864	**$ 1,853**	**$ -**	**$ (503)**	**$ 98,214**
Capital Assets Summary									
Capital Assets, Non-depreciable/ Non-amortizable	$ 6,593	$ 18,711	$ -	$ 72	$ 25,376	**$ 5,683**	**$ (22,622)**	**$ 2**	**$ 8,439**
Capital Assets, Depreciable/ Amortizable	164,383	672	-	(73)	164,982	**784**	**22,622**	**(2,989)**	**185,399**
Total Cost of Capital Assets	170,976	19,383	-	(1)	190,358	**6,467**	**-**	**(2,987)**	**193,838**
Less Accumulated Depreciation/ Amortization	(89,406)	(4,161)	-	73	(93,494)	**(4,614)**	**-**	**2,484**	**(95,624)**
Total Capital Assets, Net	$ 81,570	$ 15,222	$ -	$ 72	$ 96,864	**$ 1,853**	**$ -**	**$ (503)**	**$ 98,214**

During 2016, SOU determined that three residential houses, which were part of the total housing inventory, were permanently impaired due to structural and safety concerns. Total cost of $75 and total accumulated depreciation of $70 was removed from buildings due to the permanent impairment. Impairment loss of $5 is recorded as an operating expense for Auxiliary Programs in the Statement of Revenues, Expenses and Changes in Net Position.

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

6. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

Deferred Inflows and Outflows of Resources comprised the following:

	June 30, 2014	Additions	Reductions	June 30, 2015	**Additions**	**Reductions**	**June 30, 2016**
Deferred Outflows of Resources							
Deferred Gain/Loss on Refunding of Debt	$ 1,710	$ 790	$ (737)	$ 1,763	**$ -**	**$ (1,763)**	**$ -**
Pension Contributions Subsequent to the Measurement Date	-	3,590	(2,003)	1,587	**1,619**	**(1,587)**	**1,619**
Differences Between Pension Contributions and Proportionate Share of Contributions	-	84	-	84	**277**	**(69)**	**292**
Differences Between Expected and Actual Experience	-	-	-	-	**756**	**(140)**	**616**
Total	$ 1,710	$ 4,464	$ (2,740)	$ 3,434	**$ 2,652**	**$ (3,559)**	**$ 2,527**
Deferred Inflows of Resources							
Differences Between Pension Contributions and Proportionate Share of Contributions	$ -	$ -	$ -	$ -	**$ 475**	**$ (88)**	**$ 387**
Differences Between Projected and Actual Earnings on Pension Investments	-	9,082	-	9,082	**653**	**(7,341)**	**2,394**
Total	$ -	$ 9,082	$ -	$ 9,082	$ 1,128	$ (7,429)	$ 2,781

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities comprised the following:

	June 30, 2016	June 30, 2015
Salaries and Wages	**$ 1,225**	$ 4,011
Payroll Related	**1,912**	1,754
Construction Payables	**447**	1,657
Services and Supplies	**1,031**	1,154
Accrued Interest	**843**	1,580
Contract Retainage Payable	**329**	661
Other	**3**	1
Total	**$ 5,790**	$ 10,818

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, 2016	June 30, 2015
North Campus Village	**$ 798**	$ 1,170
Rental Deposits	**129**	124
Student Groups	**101**	90
Other Deposits	**115**	48
Total	**$ 1,143**	$ 1,432

9. OPERATING LEASES

A. Receivables/Revenues

SOU receives income for land and property that is leased to non-state entities. Rental income received from leases was $1,777 and $615 for the years ended June 30, 2016 and 2015, respectively. The original cost of assets leased, net of depreciation, was $2,907 for the year ended June 30, 2016 and $3,055 for the year ended June 30, 2015. Minimum future lease revenue from noncancelable operating leases at June 30, 2016 were:

For the year ending June 30,	
2017	$ 1,041
2018	1,071
2019	1,101
2020	1,133
2021	1,166
2022-2026	5,999
2027-2031	6,093
2032-2036	6,149
2037-2041	6,334
2042-2046	3,914
Total Minimum Operating Lease Revenues	$ 34,001

B. Payables/Expenses

SOU leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases and rents were $579 and $359 for the years ended June 30, 2016 and 2015, respectively. Minimum future lease payments on operating leases at June 30, 2016 were:

For the year ending June 30,	
2017	$ 606
2018	510
2019	318
2020	126
Total Minimum Operating Lease Payments	$ 1,560

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

10. LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	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

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Amount Due Within One Year	Long-Term Portion
Long-Term Debt						
Due to the State of Oregon:						
General Obligation Bonds XI-F(1)	$ 34,743	$ 14,947	$ (2,724)	$ 46,966	$ 1,809	$ 45,157
General Obligation Bonds XI-G	22,347	6,062	(6,503)	21,906	1,032	20,874
General Obligation Bonds XI-Q	3,792	35,193	(384)	38,601	1,398	37,203
Certificates of Participation (COPs)	1,610	-	(884)	726	79	647
Lottery Bonds	29,693	2,980	(3,801)	28,872	1,189	27,683
Oregon Department of Energy Loans (SELP)	3,328	-	(283)	3,045	254	2,791
Installment Purchase	238	355	(355)	238	95	143
Total Long-Term Debt	95,751	59,537	(14,934)	140,354	5,856	134,498
Other Noncurrent Liabilities						
PERS pre-SLGRP pooled Liability	4,291	-	(187)	4,104	165	3,939
Compensated Absences	1,645	1,124	(1,013)	1,756	1,109	647
Other Postemployment Benefits	1,031	55	-	1,086	-	1,086
Early Retirement Liability	246	98	(108)	236	97	139
Total Other Noncurrent Liabilities	7,213	1,277	(1,308)	7,182	1,371	5,811
Total Long-Term Liabilities	$ 102,964	$ 60,814	$ (16,242)	$ 147,536	$ 7,227	$ 140,309

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

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

For the Year Ending June 30,	General Obligation Bonds XI-F(1)	SELP	Other Borrowings	Total Payments	Principal	Interest
2017	$ 3,645	$ 235	$ 95	$ 3,975	$ 1,761	$ 2,214
2018	3,700	236	28	3,964	1,887	2,077
2019	3,522	236	20	3,778	1,862	1,916
2020	3,282	236	-	3,518	1,641	1,877
2021	3,111	236	-	3,347	1,641	1,706
2022-2026	14,988	1,180	-	16,168	8,748	7,420
2027-2031	13,881	1,127	-	15,008	9,675	5,333
2032-2036	10,792	394	-	11,186	7,970	3,216
2037-2041	5,959	-	-	5,959	4,259	1,700
2042-2046	5,119	-	-	5,119	4,585	534
Accreted Interest					620	(620)
					$ 44,649	$ 27,373
Total Future Debt Service	**67,999**	**3,880**	**143**	**72,022**		
Less: Interest Component of Future Payments	(26,284)	(1,089)	-	(27,373)		
Principal Portion of Future Payments	**41,715**	**2,791**	**143**	**44,649**		

The State of Oregon and the University issue 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. Principal and interest amounts that remain on SOU's books as of June 30, 2016 relating to SOU's share of XI-F(1) and SELP are payable to the State.

A. General Obligation Bonds XI-F(1)

SOU has entered into loan agreements with the State of Oregon 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 interest rates ranging from 0.87 percent to 7.0 percent, are due serially through 2046.

During the fiscal year ended June 30, 2016, no new XI-F(1) bonds were issued by the State on behalf of SOU. As of July 1, 2015, $3,622 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.

During the fiscal year ended June 30, 2015, the State issued XI-F(1) bonded indebtedness on behalf of SOU as follows:

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

B. General Obligation Bonds XI-G

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 1. Organization and Summary of Significant Accounting Policies" 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.

C. 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 1. Organization and Summary of Significant Accounting Policies" 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. XI-Q bonds to be repaid by the State but received by the university from the State are recorded as capital grants.

D. 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 1. Organization and Summary of Significant Accounting Policies" and "Note 19. Change in Entity" for additional information on the change in legal status.

The State no longer issues COPs.

E. 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 1. Organization and Summary of Significant Accounting Policies" and "Note 19. Change in Entity" for additional information on the change in legal status.

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

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

F. Oregon Department of Energy Loans (SELP)

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

G. Defeased Debt

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

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

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

The total amount of the defeased debt outstanding but removed from the financial statements amounted to $19,832 at June 30, 2015.

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 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 $278 and $287 for June 30, 2016 and 2015, respectively. Principal payments of $142 and $165 were applied to the liability for June 30, 2016 and 2015, respectively. A prior period adjustment of $(22) was applied to SOU's SLGRP liability at June 30, 2015.

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, 2016, eleven retirees are participating in the health and dental benefits option of this plan and a $425 liability will be paid out through fiscal year 2020.

11. UNRESTRICTED NET POSITION

Unrestricted Net Position was comprised of the following:

	June 30, 2016	June 30, 2015
University Operations	**$ 16,356**	$ 9,920
Compensated Absences Liability (Note 10)	**(1,899)**	(1,756)
Other Post-Employment Benefits Liability (Notes 10 and 16)	**(994)**	(1,086)
State and Local Government Rate Pool (Note 10)	**(3,962)**	(4,104)
Net Pension Asset/(Liability) (Note 15)	**(11,423)**	4,707
Pension Related Deferred Outflows (Note 6)	**2,527**	1,671
Pension Related Deferred Inflows (Note 6)	**(2,781)**	(9,082)
Total Unrestricted Net Position	**$ (2,176)**	$ 270

12. INVESTMENT ACTIVITY

Investment Activity detail is as follows:

	June 30, 2016	June 30, 2015
Investment Earnings	**$ 739**	$ 66
Interest Income	**7**	28
Endowment Income	**4**	73
Net Appreciation of Investments	**(25)**	273
Other	**(2)**	-
Total Investment Activity	**$ 723**	$ 440

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

13. OPERATING EXPENSES BY NATURAL CLASSIFICATION

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

June 30, 2016	Compensation and Benefits	Services and Supplies	Scholarships and Fellowships	Depreciation and Amortization	Other	Total
Instruction	$ 30,177	$ 2,925	$ 65	$ -	$ -	**$ 33,167**
Research	510	88	(6)	-	-	**592**
Public Services	2,657	1,192	9	-	-	**3,858**
Academic Support	5,546	2,051	2	-	-	**7,599**
Student Services	4,919	1,013	-	-	-	**5,932**
Auxiliary Services	7,537	6,856	43	1,280	-	**15,716**
Institutional Support	8,429	2,661	-	-	-	**11,090**
Operation & Maint	4,387	1,232	-	3	-	**5,622**
Student Aid	-	250	5,728	-	76	**6,054**
Other	600	4,218	-	3,331	-	**8,149**
Total	**$ 64,762**	**$ 22,486**	**$ 5,841**	**$ 4,614**	**$ 76**	**$ 97,779**

June 30, 2015	Compensation and Benefits	Services and Supplies	Scholarships and Fellowships	Depreciation and Amortization	Other	Total
Instruction	$ 23,193	$ 2,690	$ 49	$ -	$ -	$ 25,932
Research	493	186	-	-	-	679
Public Services	1,925	1,059	3	-	-	2,987
Academic Support	4,059	1,624	-	-	-	5,683
Student Services	3,538	910	-	-	-	4,448
Auxiliary Services	7,399	5,959	68	1,192	-	14,618
Institutional Support	5,697	1,885	-	-	-	7,582
Operation & Maint	3,031	946	-	3	-	3,980
Student Aid	-	157	5,534	-	166	5,857
Other	548	870	-	2,966	-	4,384
Total	$ 49,883	$ 16,286	$ 5,654	$ 4,161	$ 166	$ 76,150

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 XI-G and XI-Q general obligation bonds, COPs, SELP, and Lottery bonds. With the removal of state paid debt on July 1, 2015, the University will no longer receive appropriations for debt service for XI-G and XI-Q general obligation bonds, COPs, or Lottery bonds. 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, 2016	**General**	**Debt**	**Total**
State General Fund	**$ 20,518**	**$ 179**	**$ 20,697**
State Lottery Funding	**457**	**-**	**457**
Total Appropriations	**$ 20,975**	**$ 179**	**$ 21,154**

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

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 audited report 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/section/financial_reports/financials.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 Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

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 for 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.

Since the December 31, 2013 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 the 2013 Oregon Legislature made to future system Cost of Living Adjustments (COLA) through Senate Bills 822 and 861. This reversal increased the benefits projected to be paid by Employers compared to those developed in the prior actuarial valuation, and consequently increased plan liabilities. The employers' projected long-term contribution effort has been adjusted for the estimated impact of the Moro Decision. In accordance with statute, a biennial review of actuarial methods and assumptions was completed in 2015 to be used for the December 31, 2014 actuarial valuation. After completion of this review, and subsequent to the measurement date, the PERS Board adopted several assumption changes, including lowering the investment return assumption to 7.50%, which will be effective January 1, 2016.

PENSION PLAN LIABILITY: The components of the collective net pension liability are as follows (dollars in millions):

		June 30, 2015
Total Pension Liability	$	70,665.1
Plan Fiduciary Net Position		64,923.6
Collective Net Pension Liability	$	5,741.5

At June 30, 2015 SOU's proportion was 0.21 percent of the statewide pension plan.

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 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results. 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.
- 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.

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

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 for fiscal year 2015 was capped at 1.5 percent for all benefit recipients. As a result of the Moro Decision, the cap on the COLA will be restored to 2.0 percent for fiscal years 2016 and beyond. See Changes in Plan Provisions for more information on the decision.

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 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

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

Death Benefits

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

Disability Benefits

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

Benefit Changes after Retirement

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

Oregon Public Service Retirement Plan (OPSRP 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 year ended June 30, 2016 were based on the December 31, 2013 actuarial valuation as subsequently modified by the Moro decision. The rates first became effective July 1, 2015. Employer contribution rates for the fiscal year ended June 30, 2015 were based on the December 31, 2011 actuarial valuation as subsequently modified by 2013 legislated changes in benefit provisions. The rates first became effective July 1, 2013.

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

	2016	2015
PERS Tier One/Two	**13.28%**	9.86%
OPSRP	**7.31%**	8.14%

Employer required contributions for the year ended June 30, 2016 and June 30, 2015 were $2,408 and $2,039, respectively, including amounts to fund employer specific liabilities..

Net Pension (Asset) Liability

At June 30, 2016, the University reported a liability of $11,423 for its proportionate share of the PERS net pension liability. At June 30, 2015, the University reported an asset of $4,707 for its proportionate share of the PERS net pension asset. The net pension liability 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 net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2012. 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 calculated SOU's proportional share of all state agencies internally based on fiscal year 2015 actual contributions by SOU compared to the total for employer state agencies. The State of Oregon Audits Division reviewed this internal calculation. At June 30, 2016 SOU's proportion was .20 percent of the statewide pension plan and .78 percent of employer state agencies. At June 30, 2015 SOU's proportion was 0.21 percent of the statewide pension plan, and 0.88 percent of employer state agencies.

For the year ended June 30, 2016, SOU recorded total pension expense of $10,591 due to the change in net pension liability and changes to deferred inflows and deferred outflows. For the year ended June 30, 2015, SOU recorded a negative pension expense of $5,889 due to the implementation of GASB Statement Nos. 68 and 71.

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

At June 30, 2016, 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	$ 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)

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 will be recognized as a reduction of the net pension liability in the year ended 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:

Year Ended June 30:	
2017	$ (1,021)
2018	(1,021)
2019	(1,021)
2020	1,148
2021	42

Deferred Items

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

- A difference between expected and actual experience, which is being amortized over 5.4 years, the remaining service lives of all plan participants, including retirees. One year of this amortization is recognized in the employer's total pension expense for the fiscal year 2016.
- A net difference between projected and actual earnings which is being amortized over a closed five-year period. One year of this amortization is being recognized in the employer's total pension expense for fiscal year 2016.
- Changes in employer proportion since the prior measurement date, which is being amortized over 5.4 years, the remaining service lives of all plan participants, including retirees. One year of this amortization is recognized in the employer's total pension expense for the fiscal year 2016.
- A difference between employer contributions and proportionate share of contributions, which is being amortized over 5.4 years, the remaining service lives of all plan participants including retirees. One year of this amortization is included in the employer's total pension expense for fiscal year 2016.

Actuarial Methods and Assumptions

Actuarial Methods:	
Valuation Date Net Pension Liability	December 31, 2013
Valuation Date Net Pension Asset	December 31, 2012
Measurement Date Net Pension Liability	June 30, 2015
Measurement Date Net Pension Asset	June 30, 2014
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Actuarial assumptions:	
Inflation rate	2.75 percent
Long-Term expected rate of return	7.75 percent
Discount rate	7.75 percent
Projected salary increases	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 AA, with collar adjustments and set-backs as described in the valuation. *Active members:* Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. *Disabled retirees:* Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years.

Discount Rate

The discount rate used to measure the total pension asset/liability was 7.75 percent. 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.

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

Sensitivity Analysis

Sensitivity of SOU's proportional share of the net pension asset to changes in the discount rate: The following presents SOU's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, 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:

	SOU's proportionate share of the net pension liability
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.

Assumed Asset Allocation

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

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. 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 table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. 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/2015_cafr.pdf.

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	7.20%	4.50%
Short-Term Bonds	8.00	3.70
Intermediate-Term Bonds	3.00	4.10
High Yield Bonds	1.80	6.66
Large Cap US Equities	11.65	7.20
Mid Cap US Equities	3.88	7.30
Small Cap US Equities	2.27	7.45
Developed Foreign Equities	14.21	6.90
Emerging Foreign Equities	5.49	7.40
Private Equity	20.00	8.26
Opportunity Funds/Absolute Return	5.00	6.01
Real Estate (Property)	13.75	6.51
Real Estate (REITS)	2.50	6.76
Commodities	1.25	6.07
Assumed Inflation – Mean		2.75

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

BOND DEBT

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

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

The payroll assessment for the pension obligation bond began May 2004. The assessment rate for fiscal year 2016 was 6.7 percent through October 31, 2015. The rate was reduced to 6.0 percent effective November 1, 2015. The assessment rate for fiscal year 2015 was 6.7 percent. Payroll assessments for the fiscal years ended June 30, 2016 and 2015 were $1,453 and $1,493, respectively.

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 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 percent 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 percent maximum. Under the ORP Tiers One, Two and Three, the employee's contribution rate is 6 percent 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:

	2016	2015
Tier One/Two	**20.45%**	16.50%
Tier Three	**7.94%**	6.42%
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, 2016 was $39,722, of which $7,731 was subject to defined contribution retirement plan contributions. The following schedule lists payments made by SOU for the fiscal year:

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.

	June 30, 2016			
	Employer Contribution	**As a % of Covered Payroll**	**Employee Contribution**	**As a % of Covered Payroll**
ORP	**$ 1,010**	**13.06%**	**$ 490**	**6.33%**
TIAA	**5**	**0.07%**	**5**	**0.07%**
Total	**$ 1,015**	**13.13%**	**$ 495**	**6.40%**

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

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

Of the employee share, SOU paid $454 of the ORP and $5 of the TIAA employee contribution amounts on behalf of their employees during the fiscal year ended June 30, 2015.

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 healthcare on a self-pay basis until eligible for Medicare, usually at age 65. The PEBB Plan allows qualifying retired employees to continue their "active" health insurance coverage on a self-pay basis until they are eligible for Medicare, usually at age 65. Participating retirees pay their own monthly premiums. 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.

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

The PEBB plan is also offered to retirees of other Oregon state agencies. Therefore, the amounts presented in this note are limited to SOU's share, estimated at 1.17 percent of the total PEBB plan costs attributable to the State of Oregon. This allocation was based on health insurance premiums paid by state agencies during fiscal year 2016.

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 2016 and 2015, SOU paid healthcare insurance premiums of $8,914 and $9,143, respectively. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be $53 and $72 for the fiscal years ended 2016 and 2015, respectively.

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). As of June 30, 2015, the UAAL amortization was a level percentage of payroll over a period of 15 years. The amortization period is "open" which means that on each valuation date, the amortization amount is recalculated assuming 15 years' worth of future payments. 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, 2016	June 30, 2015
Annual Required Contribution	**$ 874**	$ 156
Interest on Net OPEB Obligation	**32**	33
Adjustment to Annual Required Contribution	**(945)**	(62)
Annual OPEB Cost	**(39)**	127
Contributions Made	**(53)**	(72)
Increase in Net OPEB Obligation	**(92)**	55
Net OPEB Obligation - Beginning of Year	**1,086**	1,031
Net OPEB Obligation - End of Year	**$ 994**	$ 1,086

The SOU annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the increase in net OPEB obligation for the fiscal years ended June 30, 2016 and 2015 was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
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, 2016 and 2015 was as follows:

	June 30, 2016	June 30, 2015
Actuarial Accrued Liabilities	**$ 802**	$ 1,231
Actuarial Value of Plan Assets	**-**	-
Unfunded Actuarial Accrued Liability	**$ 802**	$ 1,231
Funded Ratio	**0.00%**	0.00%
Covered Payroll (active plan members)	**$ 31,424**	$ 30,121
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	**2.55%**	4.09%

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

Accrual Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between SOU and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. 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, 2016	June 30, 2015
Actuarial Valuation Date	**7/1/2015**	7/1/2013
Actuarial Cost Method	**Entry Age Normal**	Entry Age Normal
Amortization Method	**Level Dollar**	Level Percentage
Amortization Period	**1 year (open)**	15 Years (open)
Investment Rate of Return	**3.5%**	3.5%
Initial Healthcare Inflation Rates	**5.1% (medical), 2.3% (dental)**	3.6% (medical) 2.2% (dental)
Ultimate Healthcare Inflation Rates	**5% (medical), 5% (dental)**	5.4% (medical) 5.0% (dental)

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

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

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

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

SOU is charged an assessment to cover the Trust's cost of servicing claims and payments based on the Risk Allocation Model and actuarial estimates of the amounts needed to pay prior and current-year claims. The amount of settlements has not exceeded insurance coverage since the Trust was established in June of 2014.

In addition, the university purchases various commercial insurance policies to cover the deductible amounts of intercollegiate athletics insurance provided through the National Collegiate Athletics Association and 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 $48,590 and $42,029 at June 30, 2016 and 2015, 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, 2016.

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, 2016.

CONSTRUCTION COMMITMENTS AS OF JUNE 30, 2016

	Total Commitment	Completed to Date	Outstanding Commitment
McNeal Hall Deferred Maintenance	$ 21,300	$ 2,578	$ 18,722
Student Recreation Center	20,135	3,843	16,292
Theatre Building Remodel	11,000	713	10,287
JPR Building (Theatre Building Project)	1,500	127	1,373
Medford Instructional Facility	2,554	2,501	53
Capital Repair	2,408	545	1,863
	$ 58,897	$ 10,307	$ 48,590

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.

FOR THE YEAR ENDED JUNE 30, 2016 (DOLLARS IN THOUSANDS)

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

		June 30, 2016
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

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

20. TRANSFER OF OPERATIONS

At July 1, 2015, the following was transferred to SOU:

		July 1, 2015
Current Assets		15,856
Noncurrent Assets		84,963
Capital Assets, Net		96,864
Total Assets	$	197,683
Deferred Outflows of Resources	$	3,434
Current Liabilities		24,943
Noncurrent Liabilities		140,309
Total Liabilities	$	165,252
Deferred Inflows of Resources	$	9,082
Net Investment in Capital Assets	$	12,173
Restricted - Nonexpendable Endowments	$	1,812
Restricted - Expendable		11,144
Unrestricted		1,654
Total Net Position	$	26,783

21. SUBSEQUENT EVENTS

POLLUTION REMEDIATION

Subsequent to the fiscal year ended June 30, 2016, an obligation to remove lead from the water was brought to the attention of management. The obligation is the result of a routine inspection by Southern Oregon University. Management is in the process of determining their next step in order to neutralize, contain, or remove lead from the water.

22. UNIVERSITY FOUNDATION

Under policies approved by the Board, individual university foundations may be established to provide assistance in fund raising, public outreach and other support for the mission of SOU. The SOU Foundation is a legally separate, tax-exempt entity with an independent governing board. Although SOU does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of SOU and is discretely presented in the financial statements. The financial activity is reported for the years ended June 30, 2016 and 2015.

During the years ended June 30, 2016 and 2015 gifts of $2,460 and $2,413, respectively, were transferred from the university foundation to SOU. The SOU affiliated foundation is audited annually and received an unmodified audit opinion.

Please see the financial statements for the SOU component unit on pages 21 and 23 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

	2016	2015	2014	2013	2012
Contractually required contribution	$ 1,988	$ 1,587	$ 1,705	$ 1,671	$ 1,615
Contributions in relation to the contractually required contribution	1,988	1,587	1,705	1,671	1,615
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
SOU's covered payroll	$ 23,693	$ 22,557	$ 23,066	$ 23,109	$ 22,542
Contributions as a percentage of covered payroll	8.4%	7.0%	7.4%	7.2%	7.2%

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

As of June 30,	2016	2015
SOU's proportion of the net pension asset / (liability)	0.20%	0.21%
SOU's proportionate share of the net pension asset/ (liability)	$ (11,423)	$ 4,707
SOU's covered payroll	$ 23,693	$ 22,557
SOU's proportionate share of the net pension asset/ (liability) as a percentage of its covered payroll	48.21%	20.87%
Plan fiduciary net postion as a percentage of the total pension asset/ (liability)	91.88%	103.59%

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)
6/30/2012	7/1/2011	$ -	$ 2,050	$ 2,050	0.0%	$ 30,365	6.8%
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%

*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;

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