SOUTHERN OREGON UNIVERSITY
2018 ANNUAL FINANCIAL REPORT

Southern OREGON UNIVERSITY

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Southern Oregon University Executive Officers

Linda Schott
President

Greg Perkinson
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

The 2017-18 fiscal year – my second since becoming president of Southern Oregon University – has been one of solid gains and a few landmark moments. It sets the stage for our positive momentum to continue in FY19 and beyond.

We received recognition in April for our upward trajectory in academic achievement, enrollment growth and financial stability when Oregon's Higher Education Coordinating Commission (HECC) voted unanimously to lift the retrenchment conditions that were imposed on SOU four years earlier. SOU exceeded targets for savings and operating fund balance that were set by the HECC in 2014 through a combination of hard work, disciplined saving and smart investing.

Retrenchment resulted in $14 million in cost reductions over a period of three years and a lean, efficient university that emerged from the process ready to grow in directions indicated by our new strategic plan.

Frugal operations continued for the 2018 fiscal year. The university marked its sixth straight year of surplus operations in its education and general funds, through the combination of a modest increase in state funding, stable tuition and fee revenue, containment of labor and other payroll costs, and savings initiatives for supplies and services.

I was particularly proud that SOU posted gains in both the number of full-time equivalent students and actual student headcount last fall, compared to fall term of 2016. Ours was one of just two public universities in the state that posted gains in both total headcount and full-time equivalent students.

In spite of our enrollment gains, rising costs that are beyond the control of SOU necessitated a 4.22 percent tuition increase for the coming year. This rate will allow us to meet our students' academic and associated needs, and to cope with retirement and health care costs that are managed at the state level. Most important, SOU's tuition rates will remain among the lowest of Oregon's public universities.

Agility – in both finances and operations – is at the forefront as we set our course into a future of both uncertainty and opportunity.

The process of developing the SOU Strategic Plan began in January 2017 and formally ended when the university's new Vision, Mission, Values and Strategic Directions were approved in November 2017 by the SOU Board of Trustees. The plan will help us determine how the SOU of five, 10 or 20 years from now can best serve its students and the region.

The intention from the start was to create a dynamic, living plan – not one that would collect dust on a bookshelf. That is proving to be the case, as the first efforts are already underway to apply the strategic plan's recommendations to our ongoing operations. The foundation for additional implementation steps is being laid this summer, and several more of the plan's objectives will be employed beginning this fall.

The past year has been marked by notable improvements to our campus, as some long-running construction projects were completed. The combined Lithia Motors Pavilion and Student Recreation Center is now open, providing excellent facilities for both our athletic teams and student activities. Our new Theater Building, which includes a 4,500 square-foot addition for Jefferson Public Radio offices, opened in phases throughout the spring and the privately funded Thalden Pavilion has opened at The Farm at SOU.

As we look ahead to FY19 and beyond, SOU remains committed to student access and affordability, outstanding academic offerings and our distinguished record of service to our students, community and state.

Cordially,

Linda Schott

President, Southern Oregon University

Capital Projects Update

Student Recreation Center (Complete June 2018)
The Student Recreation Center provides 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. We are carrying a small amount of capital bond monies through December 2018 for expenditures on unforeseen needs such as additional fitness equipment and support projects.

Lithia Motors Pavilion (Completed July 2018)
The Lithia Motors Pavilion is home to SOU's Health, Education and Leadership and Athletic departments. This project includes classrooms, competition gymnasium, locker rooms, sports medicine facilities, ticket office, and offices for the Physical Activity and Leadership program and Athletic department. This project was funded by the State of Oregon. The project was completed in July of 2018. Minor warranty and other exterior landscaping and outdoor storage is scheduled for completion by October 2018.

Theatre Building (Complete June 2018)
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 received significant improvements. This project was funded by the State of Oregon. Jefferson Public Radio (JPR), a department of SOU, constructed 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 was funded by supporters of Jefferson Public Radio. The facility was substantially completed in May of 2018 with occupancy in June 2018. The project has only warranty work in progress with some art and furniture still being purchased. Only the exterior art project and some sunshades are yet to be completed.

Thalden Pavilion (Completed March 2018)
Thanks to generous donors, the Center for Sustainability received a new outdoor kitchen and classroom space. It is a unique design, covered by a cantilevered roof with a spire that reaches to the stars. The deck is made from salvaged redwoods from the coast of northern California, and the bricks for the pathway were salvaged from the Shakespeare plaza. This project was completed with a grand opening held in April of 2018.

Southern Oregon University

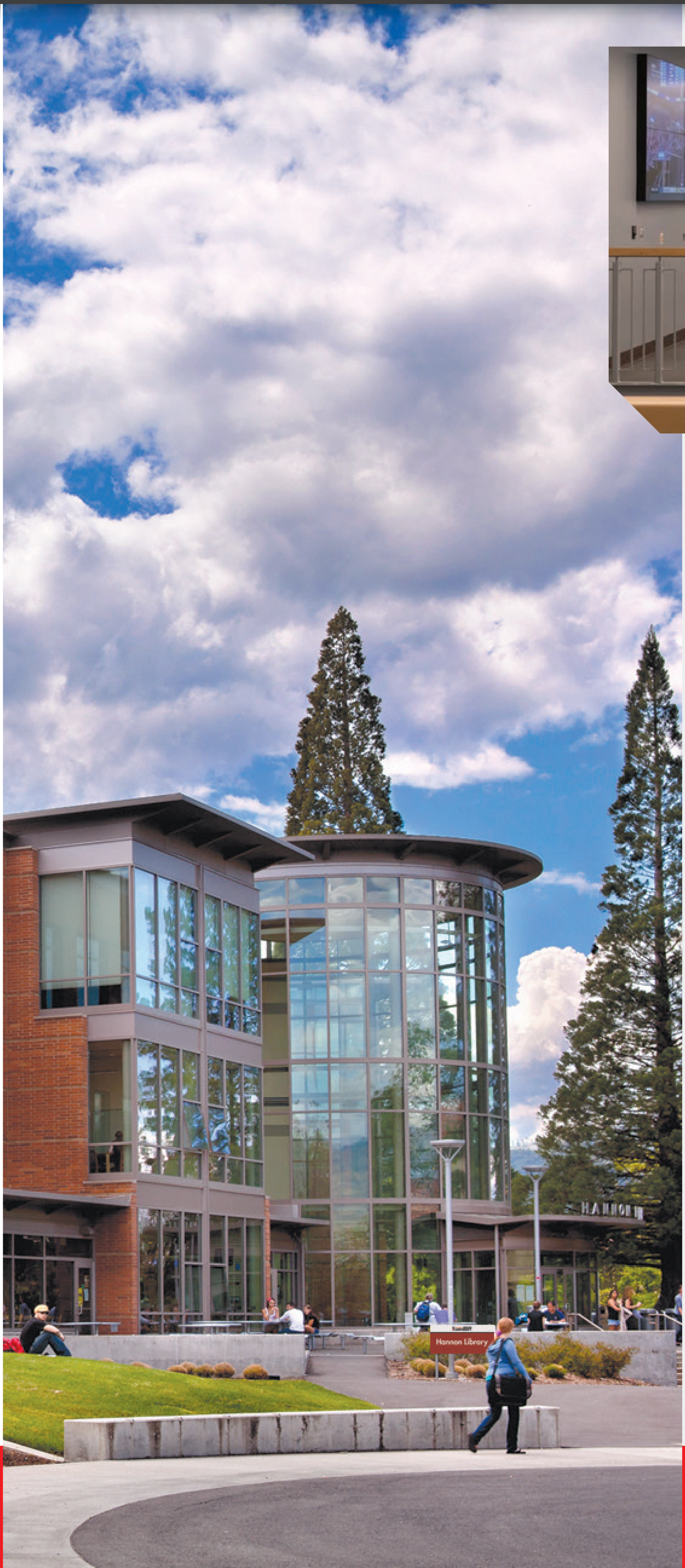
SOU benefited from numerous private philanthropic contributions during FY 2017-18. Gifts and pledges to the SOU Foundation totaled just above $3 million. The majority of gifts came from foundations and other individuals in the region who believe in the future of Southern Oregon University. Commitments from alumni and corporations made up the balance of support.

Highlights of the year in philanthropy include:

- The university unveiled four new facilities this past year, marking the first time in recent memory that the campus celebrated such openings. A crowd of nearly 350 joined SOU President Linda Schott and philanthropists Kathryn and Barry Thalden at a dedication ceremony for Thalden Pavilion, an outdoor teaching and performance space. Lithia Motors and its founding DeBoer family celebrated the completion of the new Lithia Motors Pavilion which is home to the university's indoor athletic teams. A student recreation center, renovated Theater Building, and new studios for Jefferson Public Radio were all completed in the spring.
- More than 200 donors stepped forward to meet a $100,000 "match" to the SOU Fund, offered by Karen and Sid DeBoer. The DeBoers contributed $50,000 to the fund as a result of the effort.
- The annual Count Me In campaign to create new scholarships for students continued to attract new donors to SOU. Funds raised during the 100-hour campaign are designated for scholarships for first-generation college students.
- The SOU Foundation distributed more than $4 million to the university through earnings on its endowment as well as program support. The market value of the endowment and other funds invested by the foundation was valued at $28.8 million at the end of June 2018.
- The SOU Foundation distributed more than $1.2 million in scholarship support to students. Donors continue to see scholarships as a critical way to help students succeed and have prioritized gifts to support them.

2017-18 Top University Accomplishments

- Oregon's Higher Education Coordinating Commission unanimously approved SOU's new mission statement in January, and its members described the university's strategic planning work as "exemplary" and "energizing."
- Thalden Pavilion, a cutting-edge indoor-outdoor space at The Farm at SOU, was dedicated in April. The architecturally stunning structure -- "dedicated to outrageous innovation in sustainability and the arts" -- was funded entirely through the generosity of Barry and Kathryn Thalden of Ashland. It is intended as a venue for campus and community events.
- SOU's new Strategic Plan was approved by the university's Board of Trustees in November 2017, and implementation began in the spring of 2018. The plan is focused, achievable and forward-thinking, positioning SOU as a sustainable, innovative institution for the future.
- A long, difficult and ultimately successful period in SOU's history came to a close in April, when Oregon's Higher Education Coordinating Commission voted unanimously to lift the retrenchment conditions that were imposed four years earlier. The university made significant improvements to increase student success and improve its financial situation. SOU achieved momentum in academic achievement, enrollment growth and financial stability.
- Five new members were appointed to the SOU Board of Trustees by Gov. Kate Brown, and were confirmed by the Oregon Senate. SOU's new trustees are faculty member Deborah Rosenberg; Jonathon Bullock, executive director of the Redmond Proficiency Academy; organizational development consultant Megan Davis Lightman; SOU alumnus Shaun Franks, who works in the solar energy industry; and Barry Thalden, a retired architect and local philanthropist.
- Three SOU faculty members – the largest contingent from any college or university in the world – were accepted in June into the 2018-19 Fellows Program of the International Council of Fine Arts Deans (ICFAD). SOU's new ICFAD fellows are music professor Terry Longshore, director of SOU's Percussion Studies program; Deborah Rosenberg, professor of costume design in the university's Theatre Program and past president of the Faculty Senate; and Scott Malbaurn, director of the Schneider Museum of Art.
- SOU's School of Education acted globally in July, serving as one of the leading organizers for the inaugural World Conference on Transformative Education in Kenya. The conference was at Masinde Muliro University of Science and Technology in Kakamega, Kenya. SOU Assistant Professor Bryce Smedley – an organizer of the conference and the university's representative at the event – credited SOU's Global Connections Initiative for an expanding commitment to international education.
- SOU was ranked #1 in Best Schools for a K-12 Education Degree by Schools.com. This marks the third year in a row the School of Education earned national recognition—last year Best Education Degrees rated us among both the Best Online Bachelor's in Early Childhood Education and the Most Affordable Masters in Curriculum and Instruction Degrees. The year prior it was #3 for Most Affordable Online Bachelor's in Early Childhood Education.
- SOU was one of just two public universities in Oregon to have enrollment increases in both total headcount and full-time equivalent students for Fall Term 2017. SOU's full-time equivalent enrollment increased by just over 2 percent this fall, to 4,383 students. The university's actual headcount – the total number of full- and part-time students enrolled – rose by just under 1 percent, to 6,139.
- Expansion and renovation of SOU's Theater Building was completed during the spring of 2018, adding about 60,000 square feet to the complex -- including a 7,000-square-foot facility for Jefferson Public Radio. The total cost of the project was $12.75 million, including $11.5 million in construction bonds approved by the State Legislature.
- Construction of SOU's Lithia Motors Pavilion and the adjacent Student Recreation Center was completed in March. The 42,000-square-foot pavilion includes a 1,400-seat competition gym, along with locker rooms, classrooms, offices and conference rooms, training and practice rooms, a ticket booth and more. The 58,000-square-foot recreation center includes two gymnasium courts lined for basketball, volleyball and pickleball; a two-lane, suspended indoor running track; locker rooms with showers; an all-gender changing room and bathrooms; a 44-foot-high climbing wall; a state-of-the-art fitness center; two fitness studios; offices and other amenities. The $24 million pavilion received $22 million in construction bonds approved by the legislature, while the $17.7 million recreation center was funded by student fees.
- SOU successfully completed the process to reaffirm accreditation from the Northwest Commission on Colleges and Universities. Accreditation provides measures to ensure that institutions of higher education meet



defined standards of practice and quality. The accreditation process is a seven-year cycle, culminating in a comprehensive report and site visit focusing on the university's mission, core themes and expectations; resources and capacity; institutional planning, assessment and improvement; and mission fulfillment, adaptation, and sustainability.

- SOU was named one of the Top 25 LGBTQ-Friendly schools for the sixth consecutive year, earning a Campus Pride Index ranking of 5 out of 5 stars. The university was also ranked 21st among the 50 best colleges for LGBTQ students by the online publication College Choice. SOU was also named as one the of the nation's top LGBTQ friendly universities by Affordable Colleges Online in 2018, with special recognition given to the Queer Resource Center and our gender-inclusive housing.
- SOU was named the nation's #1 Pollinator-Friendly Campus by Sierra Magazine in August 2018.
- SOU received recognition for the fourth straight year as a "Tree Campus USA." The Arbor Day Foundation honors select U.S. colleges and universities with the Tree Campus designation, based on management of their urban forests and efforts to engage students and staff in conservation.

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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), a component unit of the State of Oregon, as of and for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matter

During fiscal year ended June 30, 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of this standard, the University reported a restatement for the change in accounting principle (see Note 9 to the financial statements). As of July 1, 2017, the University's net position was restated to reflect the impact of this adoption. Fiscal year 2017 was not restated for this change in accounting principle due to the fact that information was not available to the University to restate net position as of July 1, 2016. Our auditors' opinion was not modified with respect to the restatement

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 8 through 17, the Schedule of the University's Contributions, the Schedule of the University's Proportionate Share of the Net Pension Asset/Liability, the Schedule of University's Proportionate Share of Total PEBB OPEB Liability, the Schedule of University PERS RHIA OPEB Employer Contributions, the Schedule of University's Proportionate Share of Net PERS RHIA OPEB Liability, the Schedule of University's PERS RHIPA OPEB Employer Contributions, and the Schedule of University's Proportionate Share of Net RHIPA OPEB Liability, referred collectively as Required Supplementary Information, 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 November 16, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
November 16, 2018

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (DOLLARS IN THOUSANDS)

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Southern Oregon University (SOU)/(University) for the years ended June 30, 2018, 2017 and 2016. SOU is comprised of the main campus in Ashland and a second campus in Medford.

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 20.

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.

ANNUAL FULL TIME EQUIVALENT STUDENT ENROLLMENT

SOU's student enrollment contributes to the financial position of the University. The following is a table showing the annual full time equivalent student enrollment for the past five years.

	2018	2017	2016	2015	2014
SOU	**4,442**	4,357	4,478	4,398	4,421

FINANCIAL POSITION SUMMARY

The University's financial position has improved over the past two years. The increase to Net Position as of June 30, 2018 was initially $14,132. However, the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during fiscal year 2018 resulted in a decrease to SOU's net position of $774, for an increase to ending net position of $13,358. Net Position as of June 30, 2017 increased $9,046 over the prior year. The 2018 Net Position increase was primarily due to increases in Net Investment in Capital Assets of $19,424. These increases were offset by decreases in Unrestricted Net Position, mainly caused by adjustments for OPEB and Pension liabilities required by GASB Statements 68 and 75, and in net position expendable for student loans which decreased due the close-out of the Title IV Perkins Loan Program.

The 2017 Net Position increase was primarily due to increases in Net Investment in Capital Assets of $9,665. Unrestricted Net Position decreased $802 due to net decreases in adjustments for OPEB, SLGRP, Pension, and Compensated Absences liabilities of $2,823 which were offset by an increase in business activities for budgeted and auxiliary operations of $2,021.

STATEMENT OF NET POSITION

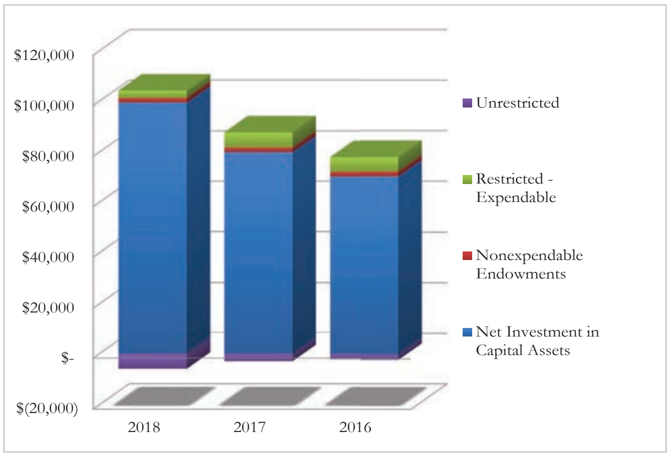
The term "Net Position" refers to the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources and is an indicator of SOU's current financial condition. Changes in Net Position that occur over time indicate improvement or deterioration in 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,	**2018**	2017	2016
Current Assets	$ 18,581	$ 29,408	$ 12,632
Noncurrent Assets	26,061	24,181	39,452
Capital Assets, Net	139,547	110,718	98,214
Total Assets	$ 184,189	$ 164,307	$ 150,298
Deferred Outflows of Resources	$ 13,385	$ 14,195	$ 2,527
Current Liabilities	$ 21,285	$ 17,115	$ 14,825
Noncurrent Liabilities	76,669	75,064	59,493
Total Liabilities	$ 97,954	$ 92,179	$ 74,318
Deferred Inflows of Resources	$ 1,490	$ 1,551	$ 2,781
Net Investment in Capital Assets	$ 99,377	$ 79,953	$ 70,288
Restricted - Nonexpendable	1,812	1,812	1,812
Restricted - Expendable	2,950	5,985	5,802
Unrestricted	(6,009)	(2,978)	(2,176)
Total Net Position	$ 98,130	$ 84,772	$ 75,726

Total Net Position

As illustrated by the following graph, the make-up of net position changed between 2018, 2017 and 2016.



Comparison of fiscal year 2018 to fiscal year 2017

Net Investment in Capital Assets increased $19,424 or 24%.

- Capital asset increases of $33,376 were mainly offset by a $4,535 increase to accumulated depreciation and asset retirements of $12. In addition, long term debt associated with capital assets decreased $1,849 while unspent bond proceeds increased $24. The debt liability is offset by accounts receivable in contracts payable to the State and have not yet been used to create an asset, which decreased $11,278. For additional detail on changes in capital assets, see "Capital Assets and Related Financing Activities", page 15.

Restricted Expendable Net Position decreased $3,035 or 51%.

- Net position relating to funds reserved for debt service decreased by $456; the decrease is primarily due to a decrease in debt service payments on student building fee funded projects.
- Net position relating to the funding of capital projects decreased $725. The decrease is primarily due to the completion of construction projects funded by gifts.
- Net position related to gifts, grants and contracts decreased $5 due primarily to decreased balances in state and local grants and contracts, grants and contracts from foundations, and gift funds. These decreases were offset by an increase in endowment reserves.
- Net position related to student loans decreased $1,954 due primarily to the liquidation of the Perkins Loan Program. See "Note 1. AA. Title IV Perkins Loan Program Liquidation" for more information.
- The implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, resulted in the creation of a new restricted expendable net position for the OPEB asset. The restricted expendable OPEB asset is equal to the net OPEB asset of $105 reported in noncurrent assets.

Unrestricted Net Position decreased $3,031 or 102% due in large part to the following:

- Pension expense for 2018 was $6,711.
- OPEB expense for 2018 was $210.
- Unrestricted Net Position due to operations increased $3,890.

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

Comparison of fiscal year 2017 to fiscal year 2016

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

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

Restricted Expendable Net Position increased $183 or 3%.

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

Unrestricted Net Position decreased $802 due in large part to pension expense of $5,054, OPEB expense of $27, and an increase to unrestricted net position due to operations of $4,279. See "Note 11. Unrestricted Net Position" for additional information.

Total Assets and Deferred Outflows of Resources

Total Assets increased 19,882 or 12% and $14,009 or 9% during the years ended June 30, 2018 and 2017, respectively. Deferred Outflows of Resources decreased $810 or 6% and increased $11,668 or 462% in the fiscal years ended June 30, 2018 and 2017, respectively.

Comparison of fiscal year 2018 to fiscal year 2017

Current Assets decreased $10,827 or 37%.

- Current Cash and Cash Equivalents increased $895 with the largest increase due to operations of $4,605. This increase was offset by decreases in amounts held for debt service payments and cash held for payment of other personnel expense (OPE) liabilities. There was also a decrease caused by a higher proportion of current cash transferred to investments.
- Collateral from Securities Lending increased $547.
- Accounts Receivable decreased $1,548. The largest change to receivables was due to a decrease in reimbursements due from the State for capital project expenses. This decrease was primarily offset by an increase in funds receivable for tuition and housing fees. See "Note 3. Accounts Receivable" for additional information.
- Current Notes Receivable decreased $10,865 due primarily to a decrease in construction reimbursements due from the State of Oregon. See "Note 4. Notes Receivable" for additional information.
- Inventories increased $32.
- Prepaid Expenses increased $112 .

Noncurrent Assets increased $1,880 or 8%.

- Noncurrent Cash increased $996. Increases in the amount of cash held for construction projects, debt service payments, and in reserve for the North Campus Village (NCV) were offset by an increase in the amount of cash held as investments.
- Investments increased $2,587. The increase is primarily due to more cash available for investment plus an increase in endowment investments. The increases were offset by a decrease in unrealized gain on investments during the year.
- SOU recorded a Net OPEB asset of $105 in 2018 as a result of the implementation of GASB Statement No. 75. See "Note 16. Other Postemployment Benefits" for additional information.
- Noncurrent Notes Receivable decreased $1,808 due primarily to the impending liquidation of the Perkins Loan Program. SOU has opted to reassign their outstanding Perkins Notes Receivable to the federal government during fiscal year 2019. As such, all of the remaining Perkins Notes Receivable have been classified as current.

See "Note 1. AA. Title IV Perkins Loans Liquidation" and "Note 4. Notes Receivable" for additional information.

Net Capital Assets increased $28,829, or 26%. Increases are due primarily to added construction in progress of $13 and other capitalized additions of $33,363. These additions were offset by total retirements and adjustments to Capital Assets of $148. Net changes to accumulated depreciation of $4,399 included additions to accumulated depreciation of $4,535 and retirements and adjustments of $136. See "Capital Assets and Related Financing Activities" in this MD&A for additional information relating to these variances.

Deferred Outflows of Resources decreased $810 or 6%. The decrease to deferred outflows is attributable to changes in the Net Pension Liability, which decreased deferred outflows by $1,109. This Decrease was offset by deferred outflows which were created by the implementation of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Deferred Outflows attributable to changes in the OPEB Liability amounted to $299. See "Note 15. Employee Retirement Plans" and "Note 16. Other Post Employment Benefits" for more information on these changes.

Comparison of fiscal year 2017 to fiscal year 2016

Current Assets increased $16,776 or 133%.

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

Noncurrent Assets decreased $15,271 or 39%.

- Noncurrent Cash increased $587. A decrease in the amount of cash held as investments resulted in an increase in non current cash of $3,721. This increase was offset by a decrease in cash held for construction projects.
- Investments decreased $3,535. The decrease is primarily due to less cash available for investment plus a decrease in unrealized gain on investments during the year. The decrease is offset by a $277 increase in endowment investments.
- Noncurrent Notes Receivable decreased $12,323 due primarily to a change from noncurrent to current notes receivable due from the state for construction projects and a decrease in notes receivable for federal student loans. Decreases are offset by a note receivable from Jefferson Public Radio as well as a slight increase in Institutional and Other Student Loans. See "Note 4. Notes Receivable" for additional information.

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

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

Total Liabilities and Deferred Inflows of Resources

Total Liabilities increased $5,775 or 6% during the year ended June 30, 2018. Total Liabilities increased $17,861 or 24% during the year ended June 30, 2017. Deferred Inflows of Resources decreased $61 or 4% during the fiscal year ended June 30, 2018 and decreased $1,230 or 44% during the fiscal year ended June 30, 2017.

Comparison of fiscal year 2018 to fiscal year 2017

Current Liabilities increased $4,170 or 24%.

- Accounts Payable and Accrued Liabilities increased $2,699 primarily due to the impending liquidation of the Perkins Loan Program. As a result of the liquidation, SOU will be required to turnover the remainder of outstanding Perkins Loans as well as the federal portion of any cash remaining in those funds. See "Note 1. AA. Title IV Perkins Loans Liquidation" and "Note 7. Accounts Payable and Accrued Liabilities" for additional information.

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017(DOLLARS IN THOUSANDS)

- Deposits increased $80 due primarily to increases in funds held for the NCV and rental and other deposits. The increases were offset by a decrease in deposits held for student groups. See "Note 8. Deposits" for additional detail.
- Obligations under Securities Lending increased $547.
- The current portion of Long-Term Liabilities increased by $332 due primarily to a increase in the current portion of compensated absences liability and the addition of a new installment purchase for a watershed project. See "Debt Administration" in this MD&A and "Note10. Long Term Liabilities" for more information on these changes.
- Unearned revenue increased by $512 due primarily to increased revenues for prepaid tuition and fees for summer term.

Noncurrent Liabilities increased $1,605 or 2%.

- Net Pension Liability increased $2,751. For additional detail, see "Note 15. Employee Retirement Plans".
- Prior to the implementation of GASB Statement No. 75, Net OPEB Liability was reported in the Noncurrent Long Term Liabilities section of the financial statements. The implementation of this GASB required the OPEB liability to be reported separately. The OPEB liability increased $978. For additional information, see "Note 16. Other Postemployment Benefits".
- Noncurrent Long-Term Liabilities decreased $2,124 due primarily to a decrease in the amount of contracts payable to the State. For additional detail, see "Note 10. Long-Term Liabilities".

Deferred Inflows of Resources decreased $61 or 4%. The decrease to deferred inflows is attributable to changes in the Net Pension Liability, which decreased deferred outflows by $167. This decrease was offset by deferred inflows which were created by the implementation of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Deferred Inflows attributable to changes in the OPEB Liability amounted to $106. See "Note 15. Employee Retirement Plans" and "Note 16. Other Post Employment Benefits" for more information on these changes.

Comparison of fiscal year 2017 to fiscal year 2016

Current Liabilities increased $2,290 or 15%.

- The current portion of Long-Term Liabilities decreased by $22. An increase to current debt payments of $128 is offset by a decrease in the current portion of Compensated Absences of $150. See "Debt Administration" in this MD&A and "Note10. Long Term Liabilities" for more information on this change.
- Obligations under Securities Lending decreased $368.
- Accounts Payable and Accrued Liabilities increased $2,252 primarily due to an increase in payables for construction projects of $2,217.
- Unearned revenue increased primarily due to increased revenues for prepaid tuition and fees for summer term, and a slight decrease in grant and contract unearned revenue.
- Deposits increased $48 due primarily to a $102 increase in funds held for the North Campus Village, and a decrease of $54 in other deposits. See "Note 8. Deposits" for additional detail.

Noncurrent Liabilities increased $15,571 or 26%. Net Pension Liability increased $15,946, Net OPEB Liability increased $27, and noncurrent Long-Term Liabilities decreased $402. For additional detail, see "Note 10. Long-Term Liabilities", "Note 15. Employee Retirement Plans", and "Note 16. Other Postemployment Benefits".

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

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,	**2018**	2017	2016
Operating Revenues	**$ 54,892**	$ 52,514	$ 50,077
Operating Expenses	**90,614**	91,287	97,865
Operating Loss	**(35,722)**	(38,773)	(47,788)
Nonoperating Revenues, Net of Expenses	**31,584**	33,578	34,867
Other Revenues	**18,575**	14,662	4,245
Other Nonoperating Items	**(305)**	(421)	20
Special and Extraordinary Items	**-**	-	57,599
Increase in Net Position	**14,132**	9,046	48,943
Net Position, Beginning of Year	**84,772**	75,726	26,783
Change in Accounting Principle	**(774)**	-	-
Net Position, End of Year	**$ 98,130**	$ 84,772	$ 75,726

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (DOLLARS IN THOUSANDS)

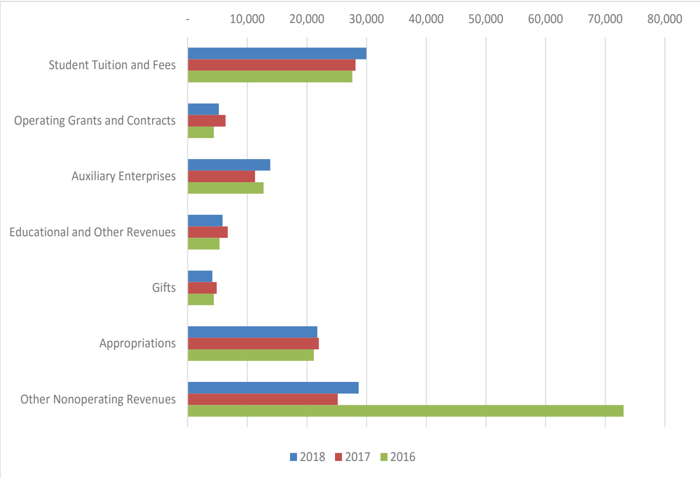
Revenues

Revenues increased $4,875, or 5%.

Total Operating and Nonoperating Revenues

For the Year Ended June 30,	2018	2017	2016
Student Tuition and Fees	$ 29,965	$ 28,133	$ 27,602
Grants and Contracts	5,229	6,354	4,392
Auxiliary Enterprises	13,851	11,308	12,720
Educational and Other	5,847	6,719	5,363
Total Operating Revenues	54,892	52,514	50,077
Appropriations	21,729	21,996	21,154
Financial Aid Grants	9,709	9,876	10,675
Gifts	4,142	4,881	4,396
Investment Activity	566	809	723
Capital Grants and Gifts	18,396	14,483	4,066
Special Item Change in Entity	-	-	57,599
Total Nonoperating and Other Revenues	54,542	52,045	98,613
Total Revenues	$ 109,434	$ 104,559	$ 148,690

Total Operating and Nonoperating Revenues



Operating Revenues

Operating revenues increased 5% from $52,514 in 2017 to $54,892 in 2018. Operating revenues increased $2,437 in 2017, or 5% over 2016.

Comparison of fiscal year 2018 to fiscal year 2017

Student Tuition and Fees increased $1,832 or 7%.

- Higher tuition and fee rates contributed $2,394, while higher enrollment increased revenue by $47.
- Fee remissions and scholarship allowances increased $392, causing a decrease to tuition and fees revenue.
- Bad debt expense, primarily related to the maintenance of the allowance for bad debt, increased by $217, also causing a decrease.

Federal, State and Nongovernmental Grants and Contracts decreased $1,125 or 18%.

- Federal grant and contract revenues decreased $25 due primarily to decreases in grants made possible by the National Science Foundation and the Department of Agriculture. These decreases were mainly offset by increases in grants made through the Department of Education and the Department of the Interior.
- State and local grant activity increased $37 primarily due to increases in grants associated with the Student Health Center of $50 and a $16 increase in grants from Oregon state agencies. These increases were offset mainly by decreases in grants from local governments of $20.
- Nongovernmental grant activity decreased $1,137 primarily due to revenue recorded in 2017 for a commitment from Jefferson Public Radio for payments of state contracts payable. This decrease was offset by an increase in revenue from contracted food services.

Auxiliary Enterprise revenues increased $2,543 or 22% due mainly to the following:

- Housing and Dining revenues increased $1,068. The increase was primarily due to increased revenue from room and board fees, including those from family housing, which increased $702. In addition, conference income increased $175 and lease income increased $178.
- Student Center revenue increased $861 primarily due to increases in lease income and incidental fees.
- Athletics revenue increased $289 primarily due to a increases in post season income and incidental fees.
- Health Center revenue increased $109 primarily due to increased student fees.
- Parking decreased $39 primarily due to decreases in parking fines and fees.
- Other Auxiliaries increased $255 primarily due to an increase in Student Recreation Center and incidental fees.

Educational Department Sales and Services revenues decreased $1,133 or 23% due primarily to a decrease in lease income as well as memberships income.

Other Operating revenues increased $261 or 14% mainly due to insurance recoveries gained in 2018, which was offset by earned interest that was canceled when Perkins loans were assigned to the federal government in 2017.

Comparison of fiscal year 2017 to fiscal year 2016

Student Tuition and Fees increased $531 or 2%.

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

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

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

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017(DOLLARS IN THOUSANDS)

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

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

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

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

Nonoperating and Other Revenues

The increase in Nonoperating Revenues of $2,497 during 2018 is primarily due to an increase in capital grants and gifts. The decrease of $46,568 during 2017 is due primarily to SOU becoming an independent university in 2016 and the removal of state paid debt from the university's books.

Comparison of fiscal year 2018 to fiscal year 2017

Government Appropriations decreased $267 or 1% due to decreased funding received from the State of Oregon. See "Note 14. Government Appropriations" for additional information relating to changes in appropriations.

Gifts decreased $739 or 15% mainly due to decreased gifts from unaffiliated foundations, associations, and societies as well as from the SOU Foundation.

Financial Aid Grants decreased by $167 or 2% due mainly to a decreased grants from the Oregon Opportunity Grant Program.

Investment Activity revenues decreased $243 or 30% due primarily to net decreases in the fair value of investments. See "Note 12. Investment Activity" for additional information relating to these changes.

Capital Grants and Gifts increased $3,913, or 27% mainly due to the following:

- Capital Grants from XI-Q State bond funded construction projects increased $6,426 from the prior year.
- Capital gifts in kind from foundations, associations, and societies decreased $2,204 due primarily to the FCC Radio Station licenses which were gifted in 2017.

Comparison of fiscal year 2017 to fiscal year 2016

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

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

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

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

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

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

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

Expenses

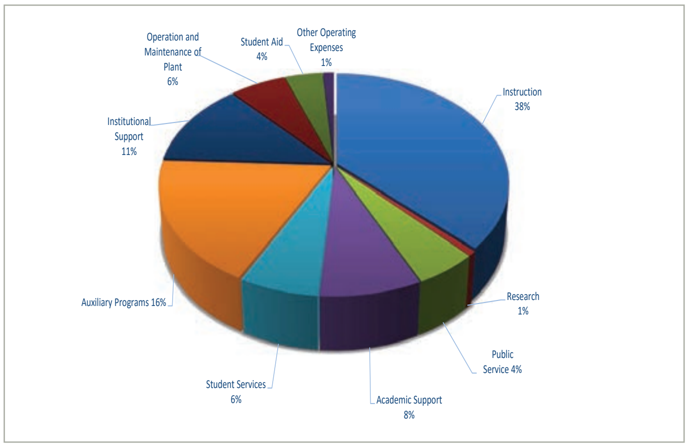
Operating Expenses

Operating expenses decreased $673, or 1% in 2018 over 2017, to $90,614. Operating expenses decreased $6,578 in 2017 or 7%, over 2016, to $91,287. The following summarizes operating expenses by functional classification:

Operating Expense by Function

For the Year Ended June 30,	2018	2017	2016
Instruction	$ 33,898	$ 31,790	$ 33,247
Research	596	669	595
Public Service	4,555	3,931	3,868
Academic Support	7,330	7,068	7,615
Student Services	5,760	5,576	5,957
Auxiliary Programs	16,502	14,576	15,706
Institutional Support	11,463	11,111	11,023
Operation and Maintenance of Plant	5,588	5,050	5,651
Student Aid	3,831	6,161	6,054
Other Operating Expenses	1,091	5,355	8,149
Total Operating Expenses	$ 90,614	$ 91,287	$ 97,865

2018 Operating Expense by Function



FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (DOLLARS IN THOUSANDS)

The implementation of GASB No. 68 in 2015 and the implementation of GASB No. 75 in 2018 have had a profound impact on the operating expenses of SOU. The following tables show the effect of these GASB Statements across the functional classifications. The changes associated with recording the components of Net Pension Liability required by GASB No. 68 increased operating expenses by $3,693; while the changes associated with recording the components of the OPEB Asset/Liability required by GASB No. 75 decreased operating expenses by $95. See "Note 15. Employee Retirement Plans" and "Note 16. Other Postemployment Benefits" for additional details.

The effect of GASB No. 68 and 75 on Expenses by Functional Classifications

For the Year Ended June 30, 2018	with adjustments	without adjustments	difference
Instruction	**$ 33,898**	**$ 32,288**	**$ 1,610**
Research	**596**	**570**	**26**
Public Service	**4,555**	**4,388**	**167**
Academic Support	**7,330**	**7,032**	**298**
Student Services	**5,760**	**5,493**	**267**
Auxiliary Programs	**16,502**	**16,085**	**417**
Institutional Support	**11,463**	**10,937**	**526**
Operation and Maintenance of Plant	**5,588**	**5,311**	**277**
Student Aid	**3,831**	**3,831**	**-**
Other Operating Expenses	**1,091**	**1,081**	**10**
Total Operating Expenses	**$ 90,614**	**$ 87,016**	**$ 3,598**

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

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

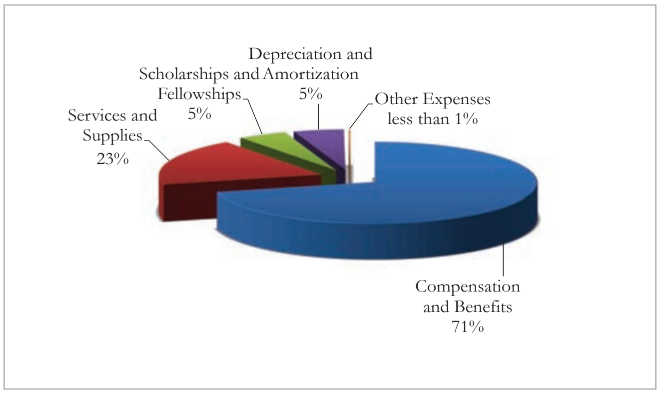
Due to the way in which expenses are incurred by SOU, variances are presented and explained by analyzing changes in the natural classification of expenses. Each natural classification analysis can be applied to many of the functional expense caption items.

The following summarizes operating expenses by natural classification:

Operating Expenses by Natural Classification

For the Year Ended June 30,	**2018**	2017	2016
Compensation and Benefits	**$ 64,408**	$ 60,552	$ 64,031
Services and Supplies	**17,123**	19,874	23,067
Scholarships and Fellowships	**4,414**	5,051	5,841
Depreciation and Amortization	**4,535**	4,587	4,614
Other Expenses	**134**	1,223	312
Total Operating Expenses	**$ 90,614**	$ 91,287	$ 97,865

2018 Operating Expenses by Natural Classification



Comparison of fiscal year 2018 to fiscal year 2017

Compensation and Benefits costs increased $3,856 or 6%, in 2018 compared to 2017 primarily due to:

- Salary and wage costs increased $965 due to an increase in unclassified pay of $384, an increase in classified pay of $242, and an increase in student and grad assistance pay of $339.
- Other personnel expenses (OPE) costs not including costs associated with OPEB, SLGRP, and Pension Expense adjustments increased $1,021.
- OPE costs associated with Pension Expense increased $1,658; costs associated with changes in OPEB liability, including the implementation of GASB No. 75, increased $183; and costs associated with changes in SLGRP decreased $1.

Services and Supplies decreased $2,751 or 14%, during 2018. Changes in Services and Supplies expense were mainly due to the following:

- decreases in non-capitalized costs in construction funds of $3,688
- a decrease in bad debt write-off due to the reversal of prior years' bad debt allowance in preparation of the liquidation of the Perkins Loan Program of $631.
- increases in expenses of $72 for Budgeted operations
- increases of $1,604 for Auxiliary Operations, with the largest increases of costs being for housing and dining, student centers, and

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017(DOLLARS IN THOUSANDS)

Athletics.

- Increases in services and supplies for gifts, grants, and contracts of $204.

Scholarships and Fellowships decreased $637 or 13%, when comparing 2018 to 2017. Federal and State financial aid awards decreased $594, while scholarships managed by the SOU Foundation and institutional funds decreased $43.

Depreciation and Amortization expense decreased $52, due primarily to a decrease in depreciation for personal property. SOU adjusted depreciation on some of its assets which were gifted to the University after additional information was received from the original donor. See "Note1.X. Change in Accounting Estimate" for additional details on this change.

Other Operating Expenses decreased $1,089 or 89% primarily due to a decrease in student loans assigned to the federal government or canceled.

Nonoperating Expenses

- Interest Expense increased $551 or 35%.
- Gain (Loss) Sale of Assets increased $2,256 primarily due to the loss on the sale of the Cascade Theatre recorded in 2017.

Comparison of fiscal year 2017 to fiscal year 2016

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

- Salary and wage costs decreased $401 due to a decrease in unclassified pay of $753, decrease in student and grad assistance pay of $116, and an increase in classified pay of $468.
- Other personnel expenses (OPE) costs not including costs associated with OPEB, SLGRP, and Pension Expense adjustments increased $1,827.
- OPE costs associated with Pension Expense decreased $7,489, costs associated with changes in OPEB liability increased $120, and costs associated with changes in SLGRP decreased $45.
- Increase to total compensation and benefits of $2,410 due to the 2016 reversal of a 2015 Boli Liability and expense.
- Other costs associated with compensation and benefits increased $99.

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

- $369 Auxiliary Operations, primarily decreases in Athletics expenditures offset by increases in Student Centers and Parking operations.
- $2,673 non capitalized costs in construction funds
- $120 repair and replacement funds
- $15 restricted fund expenditure

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

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

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

Nonoperating Expenses

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

Other Nonoperating Items

Comparison of fiscal year 2018 to fiscal year 2017

Other Nonoperating Items increased $115 primarily due repayments to the federal government in relation to the Perkins Loan Program. In addition, in 2017, SOU recorded a non-operating item (expense) to reflect an ongoing attempt to recover funds through insurance.

Comparison of fiscal year 2017 to fiscal year 2016

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

CAPITAL ASSETS AND RELATED FINANCING ACTIVITIES

Capital Assets

At June 30, 2018, SOU had $241,926 in capital assets, less accumulated depreciation of $102,379, for net capital assets of $139,547. At June 30, 2017, SOU had $208,698 in capital assets, less accumulated depreciation of $97,980, for net capital assets of $110,718.

2018 Capital Assets, Net - $139,547 thousand

	2018	2017	2016
Capital Assets, Beginning of Year	**$ 208,698**	$ 193,838	$ 190,358
Add: Purchases/Construction	**33,376**	19,910	6,467
Less: Retirements/ Disposals/Adjustments	**(148)**	(5,050)	(2,987)
Total Capital Assets, End of Year	**241,926**	208,698	193,838
Accum. Depreciation, Beginning of Year	**(97,980)**	(95,624)	(93,494)
Add: Depreciation Expense	**(4,535)**	(4,587)	(4,614)
Less: Retirements/ Disposals/Adjustments	**136**	2,231	2,484
Total Accum. Depreciation, End of Year	**(102,379)**	(97,980)	(95,624)
Total Capital Assets, Net, End of Year	**$ 139,547**	$ 110,718	$ 98,214

Changes to Capital Assets

During fiscal year 2018:

- Equipment additions of $841 and retirements and adjustments of $56 net for a change in equipment of $785.
- Library materials were added in the amount of $203, with disposals of $87, for a net addition of $116.
- Capitalized Collections increased $192 due to gifts in kind for museum and library collections received during the year.
- Construction in progress increased $13.
- Additions to buildings totaled $32,127. Additions were primarily additional costs for the Lithia Motors Pavilion and Theater Arts Building.
- Accumulated depreciation associated with disposal of equipment and library materials was removed in the amount of $136.

During fiscal year 2018, $20,016 in construction projects were moved from Construction in Progress and completed.

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

During fiscal year 2017:

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

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

Debt Administration

During 2018, long-term debt held by SOU decreased by $1,645, or 4%, from $44,019 to $42,374.

Contracts payable to the State of Oregon decreased $1,863:

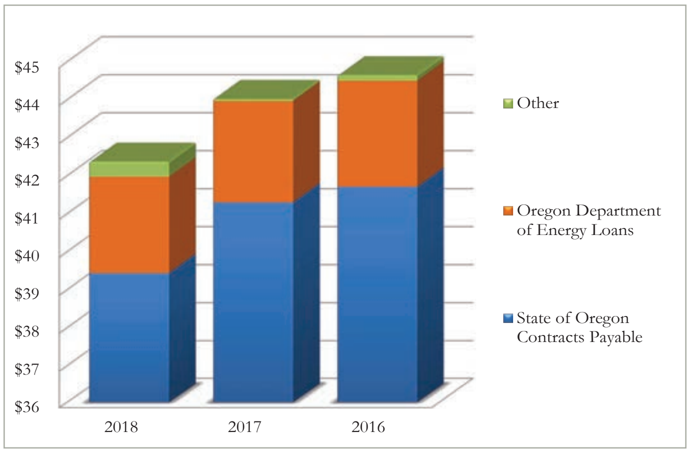
- Principal payments of $1,882 were made in 2018.
- An accreted interest accrual of $19 added to the debt.

No new loans were added to the State Energy Loan Program (SELP), principal payments of $128 were paid during the year.

A new installment sale for the watershed project was added, which increased debt $468. Principal payments on this and existing installment purchases of $122 were paid during the year.

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

Long-term Debt



ECONOMIC OUTLOOK

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

State funding levels continue to challenge SOU's public mission, as a mid-sized regional university, offering a comprehensive range of degree programs with a strong emphasis on Business, Education and the Sciences, wrapped around a liberal arts foundation. While state funding to SOU has increased significantly over the last few years, it is still lower than the level of state contribution that existed prior to the last recession. This reduced level of state support, combined with rising expenses, particularly labor costs including costs associated with mandated participation in state health and retirement systems, has put increasing pressure on the institution to raise tuition. The University continues to operate as an independent university in the State of Oregon, and continues to engage area industry, businesses, and people to better serve the educational needs of the region. The establishment of new programs and partnerships provides the ability to expand into new areas to enhance resources while lowering costs. An example of this includes SOU partnering with Academic Partnerships to be able to expand the Business Division's MBA program offerings to new markets.

The economic outlook for the State of Oregon has continued to improve despite being one of the late recovery states from the recession. However, state expenditures for employee retirement and medical benefits have outpaced that recovery and have created significant challenges to restorative initiatives to areas such as Higher Education. Additionally, the public universities are still required to participate in group health insurance, a select set of group retirement plans, and collective bargaining through July 1, 2019.

Two state statutorily mandated university employee benefits that SOU is required to purchase are a defined retirement benefit (managed by the Public Employees Retirement System (PERS), and a 401(a) plan managed by the public universities) and health, dental and other employment related benefits (managed by the Public Employee Benefit Board (PEBB)). As a mandatory purchaser of these benefits for university employees, SOU has minimal influence on the cost of these benefits. These benefits costs, which have historically seen significant increases, year over year, have a dramatic impact on SOU's operating budget, due to the fact that retirement benefit rates average approximately 28% of employee pay and represent an increase of over 12% over the prior fiscal year. Future projections are for even greater year over year increases in the rate due, in part, to the Oregon Supreme Court decision (Moro v. State of Oregon, 354 Or 657 (2014)). An additional factor in the cost of PEBB plans is that, for Southern Oregon, the number of participant PEBB sponsored plans is small, making initiatives that would incentivize employees to migrate to lower cost plans difficult to implement.

Compounding these challenges, SOU must respond to existing and new legislative mandates, which may have an impact on the University's budget. One such legislative mandate is Oregon's 40/40/20 goal, which is for 40% of all adult Oregonians to hold a bachelor's or advance degree; 40% to have an associate's degree or meaningful postsecondary certificate; and all remaining adult Oregonians to hold a high school diploma or equivalent by the year 2025. This legislative requirement makes good public policy, but it carries with it the necessity to innovate student support programs to help students who previously did not progress to a four-year institution and see them through to graduation. There has been some support for these added costs with recent increases in state funding, but these increases are not guaranteed to continue forward and often carry the expectation that increased funding from the State will be coupled with reductions to tuition increases, resulting in no new revenue despite increases from the State. These partially funded mandates act to widen the gap of state funding that has not been fully restored from pre-recession levels. While the University remains committed to meeting these mandates, SOU has to balance its overall financial health as it ensures accomplishment of its mission.

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

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

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

STATEMENTS OF NET POSITION

SOUTHERN OREGON UNIVERSITY

As of June 30,	2018	2017
	(In thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	**$ 8,219**	$ 7,324
Collateral from Securities Lending (Note 2)	**1,198**	651
Accounts Receivable, Net (Note 3)	**3,976**	5,524
Notes Receivable, Net (Note 4)	**4,598**	15,463
Inventories	**347**	315
Prepaid Expenses	**243**	131
Total Current Assets	**18,581**	29,408
Noncurrent Assets		
Cash and Cash Equivalents (Note 2)	**3,279**	2,283
Investments (Note 2)	**19,517**	16,930
Notes Receivable, Net (Note 4)	**3,160**	4,968
Net OPEB Asset (Note 16)	**105**	-
Capital Assets, Net of Accumulated Depreciation (Note 5)	**139,547**	110,718
Total Noncurrent Assets	**165,608**	134,899
Total Assets	**$ 184,189**	$ 164,307
DEFERRED OUTFLOWS OF RESOURCES (Note 6)	**$ 13,385**	$ 14,195
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities (Note 7)	**$ 10,741**	$ 8,042
Deposits (Note 8)	**1,271**	1,191
Obligations Under Securities Lending (Note 2)	**1,198**	651
Current Portion of Long-Term Liabilities (Note 10)	**4,168**	3,836
Unearned Revenues	**3,907**	3,395
Total Current Liabilites	**21,285**	17,115
Noncurrent Liabilities		
Long-Term Liabilities (Note 10)	**44,550**	46,674
Net Pension Liability (Note 15)	**30,120**	27,369
OPEB Liability (Note 16)	**1,999**	1,021
Total Noncurrent Liabilities	**76,669**	75,064
Total Liabilities	**$ 97,954**	$ 92,179
DEFERRED INFLOWS OF RESOURCES (Note 6)	**$ 1,490**	$ 1,551
NET POSITION		
Net Investment in Capital Assets	**$ 99,377**	$ 79,953
Restricted For:		
Nonexpendable Endowments	**1,812**	1,812
Expendable:		
Gifts, Grants and Contracts	**2,087**	2,092
Student Loans	**201**	2,155
Capital Projects	**421**	1,146
Debt Service	**136**	592
OPEB Asset	**105**	-
Unrestricted (Note 11)	**(6,009)**	(2,978)
Total Net Position	**$ 98,130**	$ 84,772

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

STATEMENTS OF FINANCIAL POSITION

SOUTHERN OREGON UNIVERSITY FOUNDATION - COMPONENT UNIT

As of June 30,		2018		2017
	(in thousands)			
ASSETS				
Current Assets				
Cash and Cash Equivalents	**$**	**1,379**	$	688
Investments		**28,842**		27,146
Promises to Give, Net		**229**		205
Other Current Assets		**-**		24
Total Current Assets		**30,450**		28,063
Other Assets				
LongTerm Promises to Give, Net		**249**		351
Assets Held Under Split-Interest Agreements		**884**		999
Other Assets		**1,224**		1,225
Total Other Assets		**2,357**		2,575
Total Assets	**$**	**32,807**	$	30,638
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable and Accrues Liabilities	**$**	**104**	$	89
Scholarships Payable		**-**		919
Deferred Revenue		**323**		286
Payments Due to Related Entity		**3**		-
Total Current Liabilities		**430**		1,294
Obligations Under Split-Interest Agreements		**218**		468
Total Liabilities		**648**		1,762
Net Assets				
Unrestricted				
Available for General Obligations and Programs		**2,381**		1,508
Board Designated - Endowment		**130**		131
Underwater Endowments		**(29)**		(147)
Total Unrestricted		**2,482**		1,492
Temporarily Restricted		**8,551**		6,922
Permanently Restricted		**21,126**		20,462
Total Net Assets		**32,159**		28,876
Total Liabilities and Net Assets	**$**	**32,807**	$	30,638

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

SOUTHERN OREGON UNIVERSITY

For the Years Ended June 30,	2018	2017
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Allowances of $12,451 and $11,185, Note 1.T)	$ 29,965	$ 28,133
Federal Grants and Contracts	1,580	1,605
State and Local Grants and Contracts	785	748
Nongovernmental Grants and Contracts	2,864	4,001
Educational Department Sales and Services	3,775	4,908
Auxiliary Enterprises Revenues (Net of Allowances of $1,330 and $1,360, Note 1.T)	13,851	11,308
Other Operating Revenues	2,072	1,811
Total Operating Revenues	54,892	52,514
OPERATING EXPENSES		
Instruction	33,898	31,790
Research	596	669
Public Service	4,555	3,931
Academic Support	7,330	7,068
Student Services	5,760	5,576
Auxiliary Programs	16,502	14,576
Institutional Support	11,463	11,111
Operation and Maintenance of Plant	5,588	5,050
Student Aid	3,831	6,161
Other Operating Expenses	1,091	5,355
Total Operating Expenses (Note 13)	90,614	91,287
Operating Loss	(35,722)	(38,773)
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 14)	21,550	21,817
Financial Aid Grants	9,709	9,876
Gifts	4,142	4,881
Investment Activity (Note 12)	566	809
Gain (Loss) on Sale of Assets, Net	13	(2,243)
Interest Expense	(2,113)	(1,562)
Perkins Loan Program Liquidation	(2,283)	-
Other Nonoperating Items	(305)	(421)
Net Nonoperating Revenues	31,279	33,157
Loss Before Other Nonoperating Revenues	(4,443)	(5,616)
Debt Service Appropriations (Note 14)	179	179
Capital Grants and Gifts	18,396	14,483
Total Other Nonoperating Revenues	18,575	14,662
Increase In Net Position	14,132	9,046
NET POSITION		
Beginning Balance	84,772	75,726
Change in Accounting Principle (Note 1.Z.)	(774)	-
Beginning Balance, Restated	83,998	
Ending Balance	$ 98,130	$ 84,772

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

STATEMENTS OF ACTIVITIES

SOUTHERN OREGON UNIVERSITY FOUNDATION - COMPONENT UNIT

For the Years Ended June 30,		2018		2017
		(In thousands)		
CHANGE IN UNRESTRICTED NET ASSETS				
Public Support, Revenue, and Gains				
Contributions	**$**	**156**	$	50
Contributed Services Support		**626**		639
Investment Income, Net of Fees		**378**		386
Net Unrealized Gain on Investments		**513**		507
Fundraising Activities and Other Income		**27**		7
Net Assets Released From Restrictions		**2,318**		4,329
Total Revenues		**4,018**		5,918
Functional Expenses				
University Support		**928**		2,282
Affiliate Support		**729**		837
Scholarships, Grants, and Awards		**224**		1,139
Management and General		**383**		330
Management and General, Contributed		**288**		302
Fundraising		**139**		111
Fundraising, Contributed		**338**		337
Total Expenses		**3,029**		5,338
Increase In Unrestricted Net Assets		**989**		580
Beginning Balance, Unrestricted Net Assets		**1,492**		912
Ending Balance, Unrestricted Net Assets	**$**	**2,481**	$	1,492
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS				
Public Support, Revenue, and Gains				
Contributions		**1,975**		2,160
Investment Income		**771**		641
Net Realized Gain on Investments		**679**		2,065
Fundraising Activities and Other Income		**522**		648
Net Assets Released From Restrictions		**(2,318)**		(4,329)
Increase In Temporarily Restricted Net Assets		**1,629**		1,185
Beginning Balance, Temporarily Restricted Net Assets		**6,922**		5,737
Ending Balance, Temporarily Restricted Net Assets	**$**	**8,551**	$	6,922
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS				
Public Support, Revenue, and Gains				
Contributions		**484**		643
Change in Value of Split-Interest Agreements		**181**		(35)
Increase In Permanently Restricted Net Assets		**665**		608
Beginning Balance, Permanently Restricted Net Assets		**20,462**		19,854
Ending Balance, Permanently Restricted Net Assets	**$**	**21,127**	$	20,462
Increase In Total Net Assets		**3,283**		2,373
Beginning Balance, Total Net Assets		**28,876**		26,503
Ending Balance, Total Net Assets	**$**	**32,159**	$	28,876

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

For the Years Ended June 30,	2018	2017
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 31,174	$ 28,388
Grants and Contracts	5,368	3,770
Educational Department Sales and Services	3,775	4,908
Auxiliary Enterprises Operations	13,695	11,629
Payments to Employees for Compensation and Benefits	(60,673)	(57,521)
Payments to Suppliers	(16,800)	(21,053)
Student Financial Aid	(4,414)	(5,051)
Other Operating Receipts	1,986	1,882
Net Cash Used by Operating Activities	(25,889)	(33,048)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	21,550	21,817
Grants	9,501	9,876
Gifts	4,262	4,881
Net Agency Fund Receipts	80	48
Net Cash Provided by Noncapital Financing Activities	35,393	36,622
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt Service Appropriations	179	179
Capital Grants and Gifts	19,593	11,502
State Contracts for Capital Debt	12,688	2,795
Proceeds from Sale of Capital Assets	25	559
Purchases of Capital Assets	(33,655)	(16,017)
Interest Payments on Capital Debt	(2,181)	(2,299)
Principal Payments on Capital Debt	(2,241)	(2,462)
Net Cash Used by Capital and Related Financing Activities	(5,592)	(5,743)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Sales (Purchases) of Investments	(2,761)	3,510
Income on Investments and Cash Balances	740	834
Net Cash Provided (Used) by Investing Activities	(2,021)	4,344
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,891	2,175
CASH AND CASH EQUIVALENTS		
Beginning Balance	9,607	7,432
Ending Balance	$ 11,498	$ 9,607

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

For the Years Ended June 30,	2018	2017
	(In thousands)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	**(35,722)**	(38,773)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	**4,535**	4,587
Changes in Assets and Liabilities:		
Accounts Receivable	**(22)**	(895)
Notes Receivable	**(15)**	(1,422)
Inventories	**(32)**	(168)
Prepaid Expenses	**(112)**	21
Accounts Payable and Accrued Liabilities	**1,047**	(59)
Long-Term Liabilities	**321**	206
Unearned Revenue	**512**	380
OPEB Asset/Liability and Related Deferrals	**(94)**	-
Net Pension Liability and Related Deferrals	**3,693**	3,075
NET CASH USED BY OPERATING ACTIVITIES	**$ (25,889)**	$ (33,048)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Contributed Capital Assets Acquired	**253**	2,212
Decrease in Fair Value of Investments Recognized as a Component of Investment Activity	**(174)**	90

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Southern Oregon University (SOU)/(University), located in Ashland, Oregon, is governed by the Southern Oregon University Board of Trustees (Board), a citizen board appointed by the Governor and confirmed by the State Senate.

The financial reporting entity includes SOU and the SOU Foundation as a discretely presented component unit under the guidelines established by Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Discretely presented means that the statements are included separately in the financial report. See "Note 20. University Foundation" for additional information relating to this component unit.

The Governor of the State of Oregon (State) appoints the SOU Board and, because SOU receives some financial support from the State, the State determined that SOU is a discretely presented component unit and is included in the State's Comprehensive Annual Financial Report (CAFR).

B. Financial Statement Presentation

SOU financial accounting records are maintained in accordance with U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the GASB. The financial statement presentation required by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities-an amendment of GASB Statement No 34*, modified by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, provides a comprehensive, entity-wide perspective of SOU assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

In preparing the financial statements, interfund transfers between university funds and internal revenues and expenses associated with self-supporting auxiliary and service center operations have been eliminated. Unless otherwise stated, dollars are presented in thousands.

Financial statements of the SOU Foundation for fiscal years ended June 30, 2018 and 2017 are discretely presented. The Foundation's financial statements are prepared in accordance with the pronouncements of the Financial Accounting Standards Board (FASB). As such, certain revenue recognition criteria and presentation features are different from GASB revenue criteria and presentation. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the University. No modifications have been made to the Foundation's financial information included in the University's financial report.

C. Basis of Accounting

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

NEWLY IMPLEMENTED ACCOUNTING STANDARDS

SOU implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective June 30, 2018. 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. As a result of the implementation, SOU restated beginning net position on the Statement of Revenues, Expenses, and Changes in Net Position by ($774) and decreased benefit expense by $95, resulting in a change in ending net position of ($679). See "Note 1. Organization and Summary of Significant Accounting Policies", Section "Z. Change in Accounting Principle" and "Note 16. Other Postemployment Benefits" for additional Information.

SOU implemented GASB Statement No. 85, *Omnibus 2017*, effective for the fiscal year ending June 30, 2018. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

SOU implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* effective for the fiscal year ending June 30, 2018. GASB Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will no longer be capitalized and included in the historical cost of a capital asset.

UPCOMING ACCOUNTING STANDARDS

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

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

Between July 2017 and June 2018, GASB issued the following statements which do not currently, but could under certain circumstance in the future, apply to SOU: Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

D. Cash and Cash Equivalents

Cash and cash equivalents may include highly liquid investments with original maturities of three months or less. Cash and cash equivalents of the University consist of: cash on hand, cash and investments held by the State of Oregon in the Oregon Short-Term Fund (OSTF), and cash held by U.S. Bank. See "Note 2.A. Cash and Cash Equivalents" for disclosure of restricted portions of cash and cash equivalents.

E. Investments

Investments are reported at fair value as determined by market prices. Unrealized gains or losses on investments are reported as investment activity in the Statement of Revenues, Expenses, and Changes in Net Position. See "Note 12. Investment Activity" for additional information.

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

F. Receivables

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

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

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

G. Inventories

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

H. Capital Assets

Capital assets are recorded at cost on the date acquired or at fair market value on the date donated. SOU capitalizes equipment with unit costs of $5 or more and an estimated useful life of greater than one year. SOU capitalizes real property expenditures that increase the functionality and/or extend the useful life of the real property if total expenditures exceed the capitalization thresholds of $50 to $100, depending on the type of real property. Intangible assets valued in excess of $100 are capitalized. Expenditures below the capitalization threshold and repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Prior to the implementation of GASB Statement No. 89, SOU capitalized interest expense as part of the historical cost of acquiring capital assets. Based on the rates of its debt borrowings, the University calculated a weighted composite interest rate and applied it to capital outlays to calculate capitalized interest. The amount of interest capitalized was 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. The University incurred interest costs related to the acquisition and construction of capital assets of $937, of which $831 was capitalized, for the fiscal year ended June 30, 2017. With the implementation of GASB Statement No. 89, effective for the fiscal year ended June 30, 2018, interest cost incurred before the end of a construction period is no longer capitalized but is instead recorded as a cost of the period in which it is incurred.

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

I. Unearned Revenues

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

J. Compensated Absences

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

K. Net Pension Liability

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

L. Other Postemployment Benefits (OPEB) Asset/ Liability

Under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the University reported a Net OPEB Obligation related to the implicit rate subsidy provided to retirees who were allowed to purchase health insurance under the University's PEBB health care plans. The implementation of GASB Statement No. 75, effective for fiscal year ending June 30, 2018, supersedes GASB Statement No. 45. Under GASB Statement No. 75, the University now reports their proportionate share of the net PERS RHIA OPEB asset, net PERS RHIPA OPEB liability, and the total PEBB OPEB liability along with the associate deferred outflows of resources and deferred inflows of resources. Historically, the OPEB Obligation was included in the noncurrent portion of long-term liabilities. With the implementation of GASB Statement No. 75, the OPEB asset and OPEB liabilities are now reported on separate lines in the Statement of Net Position. See" Note 15. Other Postemployment Benefits (OPEB)" for a detailed description of each plan and the proportionate share methodology for each.

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (DOLLARS IN THOUSANDS)

The change from GASB Statement No. 45 to GASB Statement No. 75 had the following impact on the University's reported OPEB liability:

GASB 45 Net OPEB Obligation at 6/30/2017	$ 1,021
Reversal of Prior OPEB Obligation	(1,021)
GASB 75 Total PEBB OPEB Liability	1,618
GASB 75 Net PERS RHIPA OPEB Liability	381
Ending OPEB Liability at 6/30/18	$ 1,999

M. Deferred Outflows and Deferred Inflows of Resources

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

N. 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.

O. Restricted/Unrestricted Resources

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

P. Endowments

The University has the authority, through SOU Board policy, to use the interest, income, dividends, or profits of endowments. SOU has entered into an agreement with the Oregon State Treasury (State Treasury) for the management of SOU endowment funds. SOU Board policy is to annually distribute, for spending purposes, four percent of the preceding 20 quarter moving average of the market value of the endowment funds and to maintain the purchasing power of the funds as nearly as prudent investment permits. In accordance with current Board policy, the amount available for distribution during fiscal year 2019 is estimated to be $89. For the year ended June 30, 2018, the net amount of appreciation available for authorization for expenditure was $637. For the year ended June 30, 2017, the net amount of appreciation available for authorization for expenditure was $529. Net appreciation of endowments are included in Expendable Gifts, Grants, and Contracts on the Statement of Net Position.

Nonexpendable Endowments on the Statement of Net Position of $1,812 at both June 30, 2018 and 2017 represent the original corpus of true endowment funds and does not include the accumulated gains of those endowments.

Q. 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, 2018, because there is no amount of taxes on such unrelated business income for SOU.

R. 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.

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

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- *for State and Local Governments*. Examples of nonoperating expenses include interest on capital asset related debt and loss on sale of assets.

S. State Support

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

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

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

T. Allowances

Student tuition and fees and campus housing revenues included in auxiliary enterprises revenues are reported net of scholarship and bad debt allowances. A scholarship allowance is the difference between the University's stated rates and charges and the amounts actually paid by students and/or third parties making payments on behalf of the students. Under this approach, scholarships awarded by the University are considered as reductions in tuition and fee revenues rather than as expenses. Additionally, certain governmental grants, such as Pell grants, and payments from other federal, state or nongovernmental programs, are required to be recorded as either operating or nonoperating revenues in the University's financial statement. To the extent that revenues from such programs are applied to tuition, fees, and other student charges, the University has reported a corresponding scholarship allowance. SOU has three types of allowances that net into tuition and fees and auxiliary revenues. Tuition and housing waivers provided directly by SOU amounted to $4,522 and $3,845 for the fiscal years ended June 30, 2018 and 2017, 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 $8,415 and $8,050 for the fiscal years ended June 30, 2018 and 2017, respectively. Bad debt expense is included as an allowance to operating revenues and is estimated to be $844 and $650 for the fiscal years ended June 30, 2018 and 2017, respectively.

U. 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 $27,552 and $25,793 for the fiscal years ended June 30, 2018 and 2017, respectively. Perkins loans are included as Notes Receivable. See "Note 4. Notes Receivable" for further information.

V. Deposit Liabilities

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

W. Use of Estimates

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

X. Reclassifications

Certain amounts within the June 30, 2017 financial statements have been reclassified to conform to the June 30, 2018 presentation. The reclassifications had no effect on previously reported total net position.

Y. Change in Accounting Estimate

Effective for fiscal year 2018, SOU changed its estimates for some real and personal property useful lives for some equipment and buildings received as gifts in prior years. The change in estimate more closely matches actual asset lives to their depreciated useful lives based on additional information received during 2018 from the original donor.

Z. Change in Accounting Principle

GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* is effective for fiscal year 2018. The State did not determine the amounts as of June 30, 2016, as such, restatement of all prior periods presented is not possible. The cumulative effect of applying GASB No. 75 is reported as a restatement of beginning net position as of July 1, 2017 as follows:

	July 1, 2017
Beginning Net Position	$ 84,772
Less Beginning Net PERS RHIA OPEB Liability	(55)
Less Beginning Net PERS RHIPA OPEB Liability	(365)
Plus Reversal of Prior Year PEBB OPEB Liability	1,021
Less Beginning Total PEBB OPEB Liability	(1,593)
Plus Beginning Deferred Outflows	218
Total Change in Accounting Principle	(774)
Restated Beginning Net Position	$ 83,998

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AA. Title IV Perkins Loans Liquidation

SOU administers Title IV Perkins Loans for the benefit of its students. Funds for the Perkins program were initially received through Federal Capital Contributions (FCC) from the US Department of Education (USDE) and were matched with Institutional Capital Contributions (ICC). Over the years, the proportion of federal to institutional matching funds varied, from a 90/10 split to a 75/25 split. Academic year 2017-18 was the last year in which new Perkins loans were allowed to be disbursed. Institutions have been given the option of assigning existing Perkins Loans back to the federal government or continuing to collect on these loans while returning the FCC as loans are repaid. SOU has elected to assign their remaining Perkins loans back to the federal government. Historically, the balance of the Perkins loans was reported in Notes Receivable and in Net Position Expendable for Student Loans. Due to the impending return of the loans to USDE, an accrued liability has been established for the amount of the remaining Notes Receivable and the Federal portion of the remaining cash. See "Note 7. Accounts Payable and Accrued Liabilities" for more information.

2. CASH AND INVESTMENTS

The majority of SOU's cash and investments were held in custody with the Oregon State Treasury (State Treasury) during the fiscal years ended June 30, 2018 and 2017. The State Treasury manages these invested assets through commingled investment pools. The operating funds of SOU are commingled with cash and investments from five other Oregon public universities and referred to collectively as the Public University Fund (PUF). The investments held in the PUF are managed by the State Treasury and administered by the statutorily defined Designated University, currently Oregon State University. Each underlying investment pool has an investment policy and set of objectives identifying risk and return parameters for the respective investment pool. The State Treasury invests these deposits in high grade, dollar-denominated, short and intermediate-term fixed income securities. The Oregon Investment Council (OIC) provides oversight and counsel on the investment policies for each investment pool held in the PUF.

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

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

A. Cash and Cash Equivalents

Cash and Cash Equivalents are classified as current and noncurrent which include both restricted and unrestricted cash and are summarized at June 30, 2018 and 2017 as follows:

	June 30, 2018	June 30, 2017
Current		
Unrestricted	$ 3,574	$ 1,553
Restricted For:		
Gifts, Grants, and Contracts	373	249
Debt Service	178	240
Student Aid	73	126
Endowments	-	1
North Campus Village	1,925	2,718
Payroll Vendor Payments	1,988	1,803
Student Groups and Campus Organizations	96	123
Cash Held in Escrow	-	498
Petty Cash	12	13
Total Current Cash	8,219	7,324
Noncurrent		
Unrestricted	2,016	1,663
Restricted For:		
Capital	607	182
North Campus Village Reserve	656	438
Total Noncurrent Cash	3,279	2,283
Total	$ 11,498	$ 9,607

Noncurrent, unrestricted cash consists primarily of student building fee funds, which were historically restricted for future debt service payments or other capital project expenses. The Board of Trustees now has spending authority over these funds, which are no longer restricted. Currently, the Board has no plans to spend these funds in the next fiscal year, as these funds will likely be used for future debt service payments or other capital project expenses. As such, the University has classified these amounts as noncurrent. The portion of the student building fee funds that will be used for debt service payable in fiscal year 2019 is reported as current cash.

DEPOSITS WITH STATE TREASURY

SOU maintains a portion of its current cash balances on deposit with the State Treasury. These deposits are held on a pooled basis as described above in the Oregon Short-Term Fund (OSTF). The OSTF is a short-term cash and investment pool for use by all state agencies or by agreement for related agencies, such as SOU. The State Treasury invests these deposits in high-grade short-term investment securities. While the University is not required by statute to collateralize deposits, it does have a contractual obligation with the State Treasury to collateralize deposits within 24 hours of receipt. At the fiscal year ended June 30, 2018 and 2017, SOU cash and cash equivalents on deposit at the State Treasury was $11,196 and $9,096, respectively.

CUSTODIAL CREDIT RISK—DEPOSITS

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

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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, 2018 and 2017, respectively, SOU had vault and petty cash balances of $12 and $13. At June 30, 2018, SOU had no cash held in escrow while at June 30, 2017, SOU had $498 held in escrow. In addition, during the year ended June 30, 2018, SOU placed cash on deposit at US Bank for the Title IV Perkins Loan Program. As of June 30, 2018 the balance of cash on deposit at US Bank was $290.

B. Investments

SOU's operating funds are invested in the PUF. University investments in the PUF are invested in the Core Bond Fund (CBF), managed by the State Treasury. The CBF invests primarily in intermediate-term fixed income securities and is managed with an investment objective to maximize total return (i.e., principal and income) over an intermediate time horizon within stipulated risk parameters. The CBF is actively managed to maintain an average duration of four to five years, through a diversified portfolio of quality, investment grade fixed income securities as defined in the portfolio guidelines. The SOU endowment assets are managed separately by the State Treasury, invested in mutual funds, and directed by external investment managers who are under contract to the OIC. Per policy, the endowment assets are expected to be available in perpetuity. As such, the assets are invested with a long-term horizon while maintaining a prudent level of risk. Investments are managed as a prudent investor would do, exercising reasonable care, skill and caution. See Note 1, Section "P. Endowments" for additional information regarding SOU endowments.

Investments are all classified as noncurrent and include both restricted and unrestricted funds. At June 30, 2018, of the total $19,517 in investments, $2,467 are restricted for endowments, which include both true and quasi-endowments.

At June 30, 2017, of the total $16,930 in investments, $2,355 are restricted for endowments, which include both true and quasi endowments.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and such changes could materially affect the amounts reported in the Statement of Net Position. Significant events in domestic and international investment markets or aggressive action by the Federal Open Market Committee to influence both short and long-term interest rates contribute to price volatility. Consequently, the fair value of SOU's portion of PUF pooled investments is exposed to price volatility which could result in a substantial change in the fair value of certain investments from the amounts reported as of June 30, 2018.

Of SOU's total assets invested in the PUF investment pool, as of June 30, 2018, $17,050 are invested in the Core Bond Fund managed by the State Treasury. As of June 30, 2017, $14,575 are invested in the Core Bond Fund managed by the State Treasury

Investments of the SOU discretely presented component units are summarized at June 30, 2018 and 2017 as follows:

COMPONENT UNIT

Fair Value at June 30,	2018	2017
Investment Type:		
Mutual Funds:		
Equities	$ 18,644	$ 22,955
Fixed Income	10,148	4,171
Cash and Cash Equivalents	50	20
Total Investments	$ 28,842	$ 27,146

CREDIT RISK

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. SOU has an investment policy for its operating and endowment assets. As of June 30, 2018 and 2017, respectively, approximately 92.6 percent and 99.0 percent of investments in the PUF pools are subject to credit risk reporting. Fixed income securities rated by the credit agencies as lower medium to high quality, indicating the issuer has a strong capacity to pay principal and interest when due, totaled $269,463 at June 30, 2018 and $272,150 at June 30, 2017 for investments in the PUF pools. Fixed income securities which have not been evaluated by the rating agencies totaled $78,122 at June 30, 2018 and $37,721 at June 30, 2017 for investments in PUF pools. The PUF Investment Pools totaled $375,496 at June 30, 2018, of which SOU owned $17,050 or 4.5 percent. The PUF Investment Pools totaled $312,900 at June 30, 2017, of which SOU owned $14,575 or 4.7 percent. As of June 30, 2018 and June 30, 2017, all of SOU's endowments managed by the State Treasury are invested in mutual funds which do not have independent ratings.

CUSTODIAL CREDIT RISK

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The State Treasury has no formal policy regarding the holding of securities by a custodian or counterparty. For the years ended June 30, 2018 and 2017, 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 PUF 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, 2018, approximately 39.3 percent or $969 of SOU endowments managed by the State Treasury were subject to foreign currency risk. As of June 30, 2017, approximately 33.4 percent or $786 of SOU endowments managed by the State Treasury were subject to foreign currency risk. No investments in the PUF had reportable foreign currency risk at June 30, 2018 or 2017.

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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, 2018, securities in the PUF Investment Pool held subject to interest rate risk totaling $347,585 had an average duration of 3.7 years. As of June 30, 2017, securities in the PUF Investment Pool held subject to interest rate risk totaling $309,872 had an average duration of 3.9 years. As of June 30, 2018, SOU endowments managed through the State Treasury held subject to interest rate risk totaling $567 had an average duration of 7.1 years. As of June 30, 2017, SOU endowments managed through the State Treasury held subject to interest rate risk totaling $650 had an average duration of 6.8 years. 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.

The fair value of SOU's investments in the PUF are based on the investments' NAV per share provided by the State Treasury. Fair value measurements for the University's investments in the CBF at June 30, 2018 and 2017 totaled $17,050 and $14,575, respectively.

At June 30, 2018, 23 percent, or $567, of the SOU endowment managed by the State Treasury was valued using level 1 inputs and 77 percent, or $1,900, was valued using level 2 inputs.

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

At June 30, 2018 and 2017, 100 percent of the SOU Foundation's investments were valued using level 1 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, 2018 and 2017.

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 and related agencies, including SOU. As permitted under the fund's Declaration of Trust (Declaration), participant purchases and redemptions are transacted at one dollar 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, 2018 and 2017, is effectively one day. As of June 30, 2018 and 2017, 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, 2018 and 2017 comprised the following:

	June 30, 2018	June 30, 2017
Investment Type		
U.S. Treasury and Agency Securities	**$ 1,143**	**$ 168**
Domestic Fixed Income Securities	**1,081**	**644**
International Equity	**1**	
Total	**$ 2,225**	$ 812

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The fair value of the University's share of total cash and securities collateral received as of June 30, 2018 and 2017 was $2,271 and $830, respectively. The fair value of the University's share of investments purchased with cash collateral as of June 30, 2018 and 2017 was $1,198 and $651, respectively.

3. ACCOUNTS RECEIVABLE

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

	June 30, 2018	June 30, 2017
Student Tuition and Fees	$ 5,115	$ 5,078
Capital Construction Gifts and Grants	278	1,728
Auxiliary Enterprises and Other Operating Activities	1,671	1,539
State, Other Government, and Private Gifts, Grants and Contracts	159	176
Federal Grants and Contracts	96	158
Component Units	141	261
Other	351	265
	7,811	9,205
Less: Allowance for Doubtful Accounts	(3,835)	(3,681)
Accounts Receivable, Net	$ 3,976	$ 5,524

4. NOTES RECEIVABLE

SOU Notes Receivable has four main components.

Student loans made through the Federal Perkins Loan Program are funded through interest earnings and repayment of loans. Federal Perkins loans deemed uncollectible are assigned to the U.S. Department of Education for collection. Historically, SOU provided an allowance for uncollectible loans which was calculated using the cohort default rate reported to the federal government. In the year ended June 30, 2018, SOU removed the allowance for doubtful accounts attributable to the Perkins Loan Program in anticipation of the University's plan to liquidate the program in fiscal year 2019. See "Note 1.AA. Title IV Perkins Loans Liquidation" for additional information.

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

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

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

	June 30, 2018		
	Current	Noncurrent	Total
Institutional and Other Student Loans	$ 524	$ 1,581	$ 2,105
Perkins Loans	2,204	-	2,204
Receivable for Construction Reimbursements	1,781	-	1,781
Third Party Commitment	95	1,579	1,674
	4,604	3,160	7,764
Less: Allowance for Doubtful Accounts	(6)	-	(6)
Notes Receivable, Net	$ 4,598	$ 3,160	$ 7,758

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

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5. CAPITAL ASSETS

The following schedule reflects the changes in capital assets:

	Balance June 30, 2016	Additions	Transfer Completed Assets	Retire. And Adjust.	Balance July 1, 2017	**Additions**	**Transfer Completed Assets**	**Retire. And Adjust.**	**Balance June 30, 2018**
Capital Assets, Non-depreciable/Non-amortizable:									
Land	$ 3,556	$ -	$ -	$ -	$ 3,556	**$ -**	**$ 808**	**$ -**	**$ 4,364**
Capitalized Collections	1,594	613	-	-	2,207	**192**	**-**	**-**	**2,399**
Construction in Progress	3,289	16,839	(20)	(6)	20,102	**13**	**(20,016)**	**-**	**99**
Perpetual Intangible Assets	-	1,396	-	-	1,396	**-**	**-**	**-**	**1,396**
Total Capital Assets, Non-depreciable/Non-amortizable	8,439	18,848	(20)	(6)	27,261	**205**	**(19,208)**	**-**	**8,258**
Capital Assets, Depreciable/ Amortizable:									
Equipment	10,975	638	-	(47)	11,566	**841**	**-**	**(56)**	**12,351**
Library Materials	14,802	170	-	(296)	14,676	**203**	**-**	**(87)**	**14,792**
Buildings	150,407	254	20	(4,701)	145,980	**32,127**	**19,112**	**-**	**197,219**
Land Improvements	2,889	-	-	-	2,889	**-**	**3**	**-**	**2,892**
Improvements Other Than Buildings	1,240	-	-	-	1,240	**-**	**93**	**(5)**	**1,328**
Infrastructure	2,995	-	-	-	2,995	**-**	**-**	**-**	**2,995**
Intangible Assets	2,091	-	-	-	2,091	**-**	**-**	**-**	**2,091**
Total Capital Assets, Depreciable/Amortizable	185,399	1,062	20	(5,044)	181,437	**33,171**	**19,208**	**(148)**	**233,668**
Less Accumulated Depreciation/ Amortization for:									
Equipment	(8,930)	(649)	-	43	(9,536)	**(556)**	**-**	**49**	**(10,043)**
Library Materials	(13,531)	(295)	-	296	(13,530)	**(257)**	**-**	**87**	**(13,700)**
Buildings	(65,670)	(3,437)	-	1,892	(67,215)	**(3,527)**	**-**	**-**	**(70,742)**
Land Improvements	(1,836)	(82)	-	-	(1,918)	**(82)**	**-**	**-**	**(2,000)**
Improvements Other Than Buildings	(746)	(59)	-	-	(805)	**(50)**	**-**	**-**	**(855)**
Infrastructure	(2,912)	(22)	-	-	(2,934)	**(20)**	**-**	**-**	**(2,954)**
Intangible Assets	(1,999)	(43)	-	-	(2,042)	**(43)**	**-**	**-**	**(2,085)**
Total Accumulated Depreciation/ Amortization	(95,624)	(4,587)	-	2,231	(97,980)	**(4,535)**	**-**	**136**	**(102,379)**
Total Capital Assets, Net	$ 98,214	$ 15,323	$ -	$ (2,819)	$ 110,718	**$ 28,841**	**$ -**	**$ (12)**	**$ 139,547**
Capital Assets Summary									
Capital Assets, Non-depreciable/ Non-amortizable	$ 8,439	$ 18,848	$ (20)	$ (6)	$ 27,261	**$ 205**	**$ (19,208)**	**$ -**	**$ 8,258**
Capital Assets, Depreciable/ Amortizable	185,399	1,062	20	(5,044)	181,437	**33,171**	**19,208**	**(148)**	**233,668**
Total Cost of Capital Assets	193,838	19,910	-	(5,050)	208,698	**33,376**	**-**	**(148)**	**241,926**
Less Accumulated Depreciation/ Amortization	(95,624)	(4,587)	-	2,231	(97,980)	**(4,535)**	**-**	**136**	**(102,379)**
Total Capital Assets, Net	$ 98,214	$ 15,323	$ -	$ (2,819)	$ 110,718	**$ 28,841**	**$ -**	**$ (12)**	**$ 139,547**

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (DOLLARS IN THOUSANDS)

6. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

Deferred Inflows and Outflows of Resources comprised the following:

	June 30, 2018	June 30, 2017
Deferred Outflows of Resources due to:		
Pension Obligations (Note 15)	**$ 13,086**	$ 14,195
Other Postemployment Benefit Obligations (Note 16)	**299**	-
Total Deferred Outflows of Resources:	**$ 13,385**	$ 14,195
Deferred Inflows of Resources		
Pension Obligations (Note 15)	**$ 1,384**	$ 1,551
Other Postemployment Benefit Obligations (Note 16)	**106**	-
Total Deferred Inflows of Resources:	**$ 1,490**	$ 1,551

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities comprised the following:

	June 30, 2018	June 30, 2017
Perkins Loan Program Liquidation	**$ 2,283**	$ -
Payroll Related	**1,988**	1,757
Services and Supplies	**1,985**	1,225
Contract Retainage Payable	**1,741**	858
Salaries and Wages	**1,182**	1,130
Accrued Interest	**869**	937
Construction Payables	**689**	2,135
Other	**4**	-
Total	**$ 10,741**	$ 8,042

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, 2018	June 30, 2017
North Campus Village	**$ 958**	**$ 900**
Rental Deposits	**177**	**143**
Student Groups	**86**	**108**
Other Deposits	**50**	**40**
Total	**$ 1,271**	$ 1,191

9. OPERATING LEASES

A. Receivables/Revenues

SOU receives income for land and property that is leased to third parties. Rental income received from leases was $1,000 and $1,736 for the years ended June 30, 2018 and 2017, respectively. The original cost of assets leased, net of depreciation, was undetermined for the years ended June 30, 2018 and 2017. Minimum future lease revenue from noncancelable operating leases at June 30, 2018 were:

For the year ending June 30,	
2019	$ 1,030
2020	1,061
2021	1,093
2022	1,126
2023	1,159
2024-2028	5,970
2029-2033	6,149
2034-2038	6,334
2039-2043	6,524
2044-2048	2,688
Total Minimum Operating Lease Revenues	$ 33,134

B. Payables/Expenses

SOU leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases and rents were $670 and $685 for the years ended June 30, 2018 and 2017, respectively. Minimum future lease payments on operating leases at June 30, 2018 were:

For the year ending June 30,	
2019	$ 598
2020	385
2021	239
2022	120
Total Minimum Operating Lease Payments	$ 1,342

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (DOLLARS IN THOUSANDS)

10.LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amount Due Within One Year	Long-Term Portion
Long-Term Debt						
Due to the State of Oregon:						
Contracts Payable	$ 41,308	$ 19	$ (1,882)	$ 39,445	$ 1,838	$ 37,607
Oregon Department of Energy Loans (SELP)	2,663	-	(128)	2,535	134	2,401
Installment Purchase	48	468	(122)	394	113	281
Total Long-Term Debt	44,019	487	(2,132)	42,374	2,085	40,289
Other Noncurrent Liabilities						
PERS pre-SLGRP pooled Liability	3,778	-	(222)	3,556	223	3,333
Compensated Absences	1,831	2,184	(2,018)	1,997	1,717	280
Early Retirement Liability	882	111	(202)	791	143	648
Total Other Noncurrent Liabilities	6,491	2,295	(2,442)	6,344	2,083	4,261
Total Long-Term Liabilities	$ 50,510	$ 2,782	$ (4,574)	$ 48,718	$ 4,168	$ 44,550

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amount Due Within One Year	Long-Term Portion
Long-Term Debt						
Due to the State of Oregon:						
Contracts Payable	$ 41,716	$ 2,827	$ (3,235)	$ 41,308	$ 1,881	$ 39,427
Oregon Department of Energy Loans (SELP)	2,790	-	(127)	2,663	130	2,533
Installment Purchase	143	-	(95)	48	28	20
Total Long-Term Debt	44,649	2,827	(3,457)	44,019	2,039	41,980
Other Noncurrent Liabilities						
PERS pre-SLGRP pooled Liability	3,962	-	(184)	3,778	184	3,594
Compensated Absences	1,899	1,646	(1,714)	1,831	1,431	400
Early Retirement Liability	424	545	(87)	882	182	700
Total Other Noncurrent Liabilities	6,285	2,191	(1,985)	6,491	1,797	4,694
Total Long-Term Liabilities	$ 50,934	$ 5,018	$ (5,442)	$ 50,510	$ 3,836	$ 46,674

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (DOLLARS IN THOUSANDS)

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

For the Year Ending June 30,	Contracts Payable	SELP	Other Borrowings	Total Payments	Principal	Interest
2019	$ 3,654	$ 234	$ 113	$ 4,001	$ 1,986	$ 2,015
2020	3,421	232	94	3,747	1,780	1,967
2021	3,252	232	94	3,578	1,775	1,803
2022	3,214	232	93	3,539	1,778	1,762
2023	3,003	231	-	3,234	1,586	1,648
2024-2028	15,056	1,158	-	16,214	9,157	7,057
2029-2033	14,064	1,043	-	15,107	10,292	4,815
2034-2038	9,076	-	-	9,076	6,509	2,567
2039-2043	5,952	-	-	5,952	4,700	1,252
2044-2048	2,741	-	-	2,741	2,563	177
2049-2053	-	-	-	-	-	-
Accreted Interest					248	(248)
					$ 42,374	$ 24,815
Total Future Debt Service	**63,433**	**3,362**	**394**	**67,189**		
Less: Interest Component of Future Payments	(23,988)	(827)	-	(24,815)		
Principal Portion of Future Payments	**$ 39,445**	**$ 2,535**	**$ 394**	**$ 42,374**		

SOU has entered into contract agreements with the State for the repayment of debt instruments issued to fund capital projects at SOU. In addition, SOU also holds loan agreements with the Oregon Department of Energy. The State may periodically issue new debt to refund previously held debt. Per the contract and loan agreements, when this happens the State is required to pass the savings on to the University.

A. Contracts Payable

SOU has entered into loan agreements with the State for repayment of XI-F(1) bonds issued by the State on behalf of SOU for capital construction and refunding of previously issued debt. SOU makes loan payments (principal and interest) to the State in accordance with the loan agreements. Loans, with coupon rates ranging from 1.53 percent to 7.0 percent, are due serially through 2046.

During the fiscal year ended June 30, 2018, the State did not issue any bonds which resulted in either an increase or decrease to SOU's contracts payable to the State. Other changes include debt service payments for principal and accreted interest of $1,882 and the addition of $19 for the amortization of accreted interest applicable to zero coupon bonds sold prior to 2002.

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

B. Oregon Department of Energy Loans (SELP)

SOU has entered into loan agreements with the State of Oregon Department of Energy (DOE) Small Scale Energy Loan Program (SELP) for energy conservation projects at SOU. SOU makes monthly loan payments (principal and interest) to the DOE in accordance with the loan agreements. SELP loans, with interest rates ranging from 3.56 percent to 5.52 percent, are due through 2034.

C. Installment Purchases

SOU has installment purchase agreements with the Bonneville Environmental Foundation for three separate projects; the Student Union Solar Project, the North Campus Village Solar Project, and the Watershed Project. These agreements have no interest and will have payments through 2022.

D. State and Local Government Rate Pool

Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the state and community colleges were pooled together in the State and Community College Pool (SCCP), and local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP effective January 1, 2002, at which time a transitional, pre-SLGRP liability was created. The pre-SLGRP liability is essentially a debt owed to the SLGRP by the SCCP employers. The balance of the pre-SLGRP pooled liability attributable to the State is being amortized over the period ending December 31, 2027. The liability is allocated by the State of Oregon, based on salaries and wages, to all public universities, state proprietary funds and the government-wide reporting fund in the State Comprehensive Annual Financial Report. Interest expense was paid by SOU in the amount of $244 and $281 for June 30, 2018 and 2017, respectively. Principal payments of $222 and $184 were applied to the liability for June 30, 2018 and 2017, respectively.

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (DOLLARS IN THOUSANDS)

E. 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, 2018, 22 retirees are participating in the health and dental benefits option of this plan and a $791 liability will be paid out through fiscal year 2027. As of June 30, 2017, 24 retirees were participating in the health and dental benefits option of this plan and a $882 liability was projected to be paid out through fiscal year 2027.

11. UNRESTRICTED NET POSITION

Unrestricted Net Position was comprised of the following:

	June 30, 2018	June 30, 2017
University Operations	$ 19,768	$ 18,377
Compensated Absences Liability (Note 10)	(1,997)	(1,831)
Other Post-Employment Benefits Liability (Note 16)	(1,999)	(1,021)
State and Local Government Rate Pool (Note 10)	(3,556)	(3,778)
Net Pension Liability (Note 15)	(30,120)	(27,369)
Pension & OPEB Related Deferred Outflows (Note 6)	13,385	14,195
Pension & OPEB Related Deferred Inflows (Note 6)	(1,490)	(1,551)
Total Unrestricted Net Position	$ (6,009)	$ (2,978)

12. INVESTMENT ACTIVITY

Investment Activity detail is as follows:

	June 30, 2018	June 30, 2017
Investment Earnings	$ 518	$ 510
Interest Income	188	156
Endowment Income	84	80
Net Appreciation (Depreciation) of Investments	(174)	90
Other	(1)	(2)
Gain (Loss) on Sale of Investment	(49)	(25)
Total Investment Activity	$ 566	$ 809

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (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 reporting of the net pension liability as per GASB Statement Nos. 68 and 71 as well as that of the OPEB liability per GASB Statement No. 75, significantly affects the recorded compensation and benefit expenses of SOU. Changes in the pension and OPEB expenses and their associated reporting requirements increased the reported compensation and benefit expenses of SOU by $3,598 and $3,048 for the fiscal years ended June 30, 2018 and 2017, respectively. The following displays operating expenses by both the functional and natural classifications:

June 30, 2018	**Compensation and Benefits**	**Services and Supplies**	**Scholarships and Fellowships**	**Depreciation and Amortization**	**Other**	**Total**
Instruction	**$ 30,416**	**$ 3,441**	**$ 41**	**$ -**	**$ -**	**$ 33,898**
Research	**462**	**129**	**4**	**1**	**-**	**596**
Public Services	**3,078**	**1,476**	**-**	**1**	**-**	**4,555**
Academic Support	**5,249**	**2,079**	**2**	**-**	**-**	**7,330**
Student Services	**4,807**	**953**	**-**	**-**	**-**	**5,760**
Auxiliary Services	**7,219**	**7,894**	**38**	**1,351**	**-**	**16,502**
Institutional Support	**8,865**	**2,598**	**-**	**-**	**-**	**11,463**
Operation & Maintenance	**4,345**	**1,240**	**-**	**3**	**-**	**5,588**
Student Aid	**-**	**(632)**	**4,329**	**-**	**134**	**3,831**
Other	**(33)**	**(2,055)**	**-**	**3,179**	**-**	**1,091**
Total	**$ 64,408**	**$ 17,123**	**$ 4,414**	**$ 4,535**	**$ 134**	**$ 90,614**

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

14. GOVERNMENT APPROPRIATIONS

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

	June 30, 2018	June 30, 2017
General Fund - Operations	**$ 21,093**	**$ 21,361**
General Fund - SELP Debt Service	**179**	**179**
Lottery Funding	**457**	**456**
Total Appropriations	**$ 21,729**	**$ 21,996**

15. EMPLOYEE RETIREMENT PLANS

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

A. Public Employees Retirement System (PERS)

Organization

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

Plan Membership

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

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

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

Pension Plan Report

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

Summary of Significant Accounting Policies

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

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

Basis of Accounting

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

Proportionate Share Allocation Methodology for the Plan

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.

Collective Pension Plan Liability

The components of the Plan's collective net pension liability as of the measurement dates of June 30, 2017 and 2016 are as follows (dollars in millions):

	June 30, 2017	June 30, 2016
Total Pension Liability	$ 79,852	$ 77,094
Plan Fiduciary Net Position	66,372	62,082
Collective Net Pension Liability	$ 13,480	$ 15,012

Changes Subsequent to the Measurement Date

The PERS Board reviews the discount rate in odd-numbered years as part of the Board's adoption of actuarial methods and assumptions. That rate is then adopted in an administrative rule at the time the Board sets the new rate. On July 28, 2017, the PERS Board adopted a 7.20 percent assumed rate. The rule specifies that the adopted assumed rate will be effective for PERS transactions with an effective date of January 1, 2018.

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.

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

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

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

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 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, 2018 were based on the December 31, 2015 actuarial valuation. Employer contribution rates for the fiscal year ended June 30, 2017 was based on the December 31, 2013 actuarial valuation as subsequently modified by the *Moro* decision. The employer contribution rates for the PERS and OPSRP are as follows:

	2018	2017
PERS Tier One/Two	17.84%	13.28%
OPSRP	10.78%	7.31%

The University's required employer contributions for PERS and OPSRP for the years ended June 30, 2018 and June 30, 2017 were $3,484 and $2,471, respectively, including amounts to fund separately financed employer specific liabilities associated with the SLGRP liability. See "Note 10.H. State and Local Government Rate Pool" for additional information.

Net Pension Liability

At June 30, 2018, the University reported a liability of $30,120 for its proportionate share of the PERS net pension liability. The net pension liability as of June 30, 2018 was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. At June 30, 2017, the University reported a liability of $27,369 for its proportionate share of the PERS net pension liability. The net pension liability as of June 30, 2017 was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The PERS system does not provide SOU an audited proportionate share as a separate employer; the University is a proportionate share of PERS employer state agencies, which includes all state agencies. The State of Oregon Department of Administrative Services (DAS) calculated SOU's proportionate share of all state agencies internally based on actual contributions by SOU as compared to the total for employer state agencies. The Oregon Audits Division reviewed this internal calculation. At June 30, 2018, SOU's proportion was 0.22 percent of the statewide pension plan. At June 30, 2017, SOU's proportion was 0.18 percent of the statewide pension plan.

For the years ended June 30, 2018 and 2017, SOU recorded total pension expense of $6,711 and $5,054, respectively, due to the increase in net pension liability and changes to deferred inflows and deferred outflows.

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Deferred Items

Deferred items are calculated at the system-wide level and are allocated to employers based on their proportionate share. For fiscal years ending June 30, 2018 and 2017, deferred items include:

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

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

Measurement period ended June 30, 2107 – 5.3 years
Measurement period ended June 30, 2106 – 5.3 years
Measurement period ended June 30, 2015 – 5.4 years
Measurement period ended June 30, 2014 – 5.6 years

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

One year of amortization is recognized in the University's total pension expense for fiscal years 2018 and 2017.

At June 30, 2018, 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	$ 1,457	$ -
Changes in assumptions	5,490	-
Net difference between projected and actual earnings on pension plan investments	310	-
Changes in proportion and differences between System's contributions and proportionate share of contributions	2,811	1,384
Total	$ 10,068	$ 1,384
Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD)	8,684	
Contributions Subsequent to the MD	3,018	
Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD	$ 11,702	

Of the amount reported as deferred outflows of resources, $3,018 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, 2019.

At June 30, 2017, SOU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

Of the amount reported as deferred outflows of resources, $2,006 are related to pensions resulting from SOU contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

As of June 30, 2018, 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:	Deferred Outflow/(Inflow) of Resources
2019	$ 1,648
2020	4,085
2021	2,914
2022	(186)
2023	223
	$ 8,684

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (DOLLARS IN THOUSANDS)

Actuarial Methods and Assumptions

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

Actuarial Methods:		
As of:	**June 30, 2018**	**June 30, 2017**
Valuation Date	December 31, 2015	December 31, 2014
Measurement Date	June 30, 2017	June 30, 2016
Experience Study Report	2014, published September 2015	
Actuarial Cost Method	Entry Age Normal	
Actuarial Assumptions:		
Inflation Rate	2.50 percent	
Long-Term Expected Rate of Return	7.50 percent	
Discount Rate	7.50 percent	
Projected Salary Increases	3.50 percent	
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with *Moro* decision; blend based on service	
Mortality	*Healthy retirees and beneficiaries:* RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.	
	Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.	
	Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per scale BB, disabled mortality table.	

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

Discount Rate

The discount rate used to measure the total pension liability at both June 30, 2018 and 2017 was 7.50 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.

Sensitivity Analysis

The sensitivity analysis shows the sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate. The following tables present SOU's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent as of both June 30, 2018 and 2017, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

As of:	June 30, 2018
1 % Decrease 6.50%	$ 51,330
Current Discount Rate 7.50%	30,120
1 % Increase 8.50%	12,385

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

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 percent 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.

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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	14.00	21.00	17.50
Real Estate	9.50	15.50	12.50
Alternative Equity	0.00	12.50	12.50
Opportunity Portfolio	0.00	3.00	0.00
Total			100.00 %

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. Each asset assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model. The following table shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation.

For more information on the Plan's portfolio, assumed asset allocation, and the long-term expected rate of return for each major asset class, calculated using both arithmetic and geometric means, see PERS' audited financial statements at: www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx.

Long-term expected rate of return is as follows:

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

BOND DEBT

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

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

The payroll assessment for the pension obligation bond began May 2004. The assessment rate for fiscal year 2018 was 6.0 percent through October 31, 2017. The 2018 rate was increased to 6.2 percent effective November 1, 2017. The assessment rate for fiscal year 2017 was 6.0 percent. Payroll assessments for the fiscal years ended June 30, 2018 and 2017 were $1,564 and $1,474, respectively.

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B. OTHER RETIREMENT PLANS

Optional Retirement Plan

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

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

	2018	2017
Tier One/Two	**23.68%**	20.45%
Tier Three	**9.29%**	7.94%
Tier Four	**8.00%**	8.00%

Oregon Public Universities 401(a) Defined Contribution Plan

Eligible ranked faculty participate in the Teacher's Insurance and Annuity Association (TIAA) retirement program, a defined contribution plan, on all salary in excess of forty-eight hundred dollars per calendar year. Employee and employer contributions are directed to PERS on the first forty-eight hundred dollars. The contribution to TIAA annuities are supplemental to PERS. To participate in this retirement option, employees must have been hired on or before September 9, 1995. This plan was closed to new enrollment at the time the ORP started in 1996. The legacy plan, Oregon University System 401(a) Defined Contribution Plan, document was amended and restated July 1, 2015 and the Plan Sponsor is now the Board of Trustees for the University of Oregon.

Summary of Defined Contribution Pension Payments

SOU total payroll for the year ended June 30, 2018 was $39,456, of which $9,236 was subject to defined contribution retirement plan contributions. The following schedule lists payments made by SOU for the fiscal year:

June 30, 2018

	Employer Contribution	**As a % of Covered Payroll**	**Employee Contribution**	**As a % of Covered Payroll**
ORP	**$ 1,214**	**13.15%**	**$ 541**	**5.85%**
TIAA	**6**	**0.07%**	**6**	**0.07%**
Total	**$ 1,220**	**13.21%**	**$ 547**	**5.92%**

Of the employee share, SOU paid $499 of the ORP and $6 of the TIAA employee contribution amounts on behalf of their employees during the fiscal year ended June 30, 2018.

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

June 30, 2017

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

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

16. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Public Employees Retirement System (PERS)

Plan Descriptions

The Public Employees Retirement System (PERS) Board contracts for health insurance coverage on behalf of eligible PERS members. Eligible retirees pay their own age-adjusted premiums. To help retirees defray the cost of these premiums, PERS also administers two separate defined benefit other postemployment benefit (OPEB) plans: the Retirement Health Insurance Account (RHIA) and the Retiree Health Insurance Premium Account (RHIPA). Only Tier One and Tier Two PERS members are eligible to participate in the RHIA and RHIPA plans. (Refer to "Note 15. Employee Retirement Plans" for details concerning Tier One and Tier Two membership in PERS.)

The RHIA is a cost-sharing multiple-employer defined benefit OPEB plan in which the university participates. Established under Oregon Revised Statute (ORS) 238.420, the plan provides a payment of up to $60 toward the monthly cost of health insurance for eligible PERS members. To be eligible to receive the RHIA subsidy, the member must (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991. The Legislature has sole authority to amend the benefit provisions and employer obligations for the RHIA plan.

Established under ORS 238.415, the RHIPA is considered a cost-sharing multiple-employer defined benefit OPEB plan for financial reporting purposes. The plan provides payment of the average difference between the health insurance premiums paid by retired state employees under contracts entered into by the PERS Board and health insurance premiums paid by state employees who are not retired. PERS members are qualified to receive the RHIPA subsidy if they have eight or more years of qualifying service in PERS at the time of retirement or receive a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage. A surviving spouse or dependent of a deceased retired state employee is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired on or after September 29, 1991. The Legislature has sole authority to amend the benefit provisions and employer obligations of the RHIPA plan.

Both RHIA and RHIPA are closed to employees hired on or after August 29, 2003, who had not established PERS membership prior to that date.

OPEB Plans Report

The PERS RHIA and RHIPA defined benefit OPEB plans are reported separately under Other Employee Benefit Trust Funds in the fiduciary funds combining statements and as part of the Pension and Other Employee Benefit Trust in the State's Comprehensive Annual Financial Report. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. The report may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, PO Box 23700, Tigard, OR 97281-3700. The report may also be accessed online at: http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx

Summary of Significant Accounting Policies

Employers participating in PERS are required to report OPEB information in their financial statements for fiscal periods beginning on or after June 15, 2017, in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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

Basis of Accounting

The financial statements for the PERS OPEB plans are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Benefits are recognized in the month they are earned and withdrawals are recognized in the month they are due and payable. Plan investments are reported at fair value.

Proportionate Share Allocation Methodology

The basis for the employer's proportion is determined by comparing the employer's actual, legally required contributions made during the fiscal year to the Plan with the total actual contributions made in the fiscal year of all employers.

OPEB Plan (Asset)/Liability

The components of the total PERS Net OPEB liability (asset) for the OPEB plans as of the measurement date of June 30, 2017 are as follows (in millions):

Net OPEB - RHIA (Asset)	June 30, 2017	Net OPEB - RHIPA Liability	June 30, 2017
Total OPEB - RHIA Liability	$ 470.0	Total OPEB - RHIPA Liability	$ 70.9
Plan Fiduciary Net Position	511.8	Plan Fiduciary Net Position	24.3
Employer's Net OPEB - RHIA (Asset)	**$ (41.8)**	Employer's Net OPEB - RHIA Liability	**$ 46.6**
Plan net position as a percentage of Total OPEB - RHIA Liability	108.9%	Plan net position as a percentage of Total OPEB - RHIPA Liability	34.3%

Changes Subsequent to the Measurement Date

The PERS Board reviews the discount rate in odd-numbered years as part of the Board's adoption of actuarial methods and assumptions. That rate is then adopted in an administrative rule at the time the Board sets the new rate. On July 28, 2017, the PERS Board adopted a 7.20 percent assumed rate. The rule specifies that the adopted assumed rate will be effective for PERS transactions with an effective date of January 1, 2018.

Contributions

Both of the OPEB plans administered by PERS are funded through actuarially determined employer contributions.

For the fiscal year ended June 30, 2018, the University contributes 0.07 percent of PERS-covered payroll for Tier One and Tier Two plan members to fund the normal cost portion of RHIA benefits. In addition, the University contributes 0.43 percent of all PERS-covered payroll to amortize the unfunded actuarial accrued liability over a fixed period with new unfunded actuarial accrued liabilities amortized over 20 years. The required employer contribution was approximately $117 for the year ended June 30, 2018. The actual contribution equaled the annual required contribution for the fiscal year.

For the fiscal year ended June 30, 2018, the University contributed 0.11 percent of PERS-covered payroll for Tier One and Tier Two plan members to fund the normal cost portion of RHIPA benefits. In addition, the University contributes 0.38 percent of all PERS-covered payroll to amortize the unfunded actuarial accrued liability over a fixed period with new unfunded actuarial accrued liabilities amortized over 20 years. The required employer contribution was approximately $109 for the year ended June 30, 2018. The actual contribution equaled the annual required contribution for the fiscal year

Net OPEB Asset/Liability

a. RHIA

At June 30, 2018, the University reported an asset of $105 for its proportionate share of the PERS RHIA net OPEB asset. The net OPEB asset as of June 30, 2018 was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2015. The PERS system does not provide SOU an audited proportionate share as a separate employer; the University is allocated a proportionate share of PERS employer state agencies. The state Department of Administrative Services (DAS) calculated SOU's proportionate share of all state agencies internally based on actual contributions by SOU as compared to the total for employer state agencies. The Oregon Audits Division reviewed this internal calculation. At June 30, 2018, SOU's proportion was 0.25 percent of the statewide OPEB plan.

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For the year ended June 30, 2018, SOU recorded total OPEB expense of $3 due to the change in the net PERS RHIA OPEB asset, changes to deferred outflows and deferred inflows, and amortization of deferred amounts.

b. RHIPA

At June 30, 2018, the University reported a liability of $381 for its proportionate share of the PERS RHIPA net OPEB liability. The net OPEB liability as of June 30, 2018 was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2015. The PERS system does not provide SOU an audited proportionate share as a separate employer; the University is allocated a proportionate share of PERS employer state agencies. DAS calculated SOU's proportionate share of all state agencies internally based on actual contributions by SOU as compared to the total for employer state agencies. The Oregon Audits Division reviewed this internal calculation. At June 30, 2018, SOU's proportion was 0.82 percent of the statewide OPEB plan.

For the year ended June 30, 2018, SOU recorded total OPEB expense of $54 due to the increase in the net PERS RHIPA OPEB liability, changes to deferred outflows and deferred inflows, and amortization of deferred amounts.

Deferred Items

a. RHIA

Deferred inflows of resources and deferred outflows of resources are calculated at the system-wide level and are allocated to employers based on their proportionate share. For the measurement period ended June 30, 2017, there were:

- No difference between expected and actual experience
- No difference due to changes in assumptions
- Changes in employer proportion since the prior measurement date
- A difference between projected and actual earnings
- A difference between employer contributions and proportionate share of contributions

Differences between expected and actual experience, changes in assumption, and changes in employer proportion are amortized over the average remaining service lives of all plan participants, including retirees, determined as of the beginning of the respective measurement period. Employers are required to recognize OPEB expense based on the balance of the closed period "layers" attributable to each measurement period. The average remaining service lives determined as of the beginning of the measurement period ended June 30, 2017 is 3.7 years.

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

One year of amortization is recognized in the University's total OPEB expense for fiscal years 2018.

At June 30, 2018, SOU reported deferred outflows of resources and deferred inflows of resources related to RHIA OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	-	$ 49
Change in proportionate share	10	-
Difference between contributions and proportionate share of contributions	-	3
Total	$ 10	$ 52
Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD)	(42)	
Contributions Subsequent to the MD	117	
Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD	$ 75	

Of the amount reported as deferred outflows of resources, $117 are related to contributions subsequent to the measurement date and will be recognized as an increase of the net OPEB asset in the year ended June 30, 2019.

As of June 30, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to RHIA OPEB will be recognized in OPEB expense as follows:

	Deferred Outflow/(Inflow) of Resources
Year Ended June 30:	
2019	(10)
2020	(10)
2021	(10)
2022	(12)
	$ (42)

b. RHIPA

Deferred inflows of resources and deferred outflows of resources are calculated at the system-wide level and are allocated to employers based on their proportionate share. For the measurement period ended June 30, 2017, there were:

- No difference due to changes in assumptions
- No difference between expected and actual experience
- Changes in employer proportion since the prior measurement date
- A difference between projected and actual earnings

Differences between expected and actual experience and changes in assumption are amortized over the average remaining service lives of all plan participants, including retirees, determined as of the beginning of the respective measurement period. Employers are required to recognize OPEB expense based on the balance of the closed period "layers" attributable to each measurement period. The average remaining service lives determined as of the beginning of the measurement period ended June 30, 2017 is 7.2 years.

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

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One year of amortization is recognized in the University's total OPEB expense for fiscal years 2018.

At June 30, 2018, SOU reported deferred outflows of resources and deferred inflows of resources related to RHIPA OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	-	$ 4
Change in proportionate share	63	-
Total	$ 63	$ 4
Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD)	59	
Contributions Subsequent to the MD	109	
Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD	$ 168	

Of the amount reported as deferred outflows of resources, $109 are related to contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

As of June 30, 2018, other amounts reported as deferred outflows of resources and deferred inflows of resources related to RHIPA OPEB will be recognized in OPEB expense as follows:

	Deferred Outflow/(Inflow) of Resources
Year Ended June 30:	
2019	9
2020	9
2021	9
2022	9
2023	10
Thereafter	13
	$ 59

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown below are based on the 2014 Experience Study, which reviewed experience for the four-year period ended on December 31, 2014.

Actuarial Methods and Assumptions:		
	RHIA	RHIPA
Valuation Date	December 31, 2015	December 31, 2015
Measurement Date	June 30, 2017	June 30, 2017
Experience Study Report	2014, published September 2015	
Actuarial Assumptions:		
Actuarial Cost Method	Entry Age Normal	
Inflation Rate	2.50 percent	
Long-Term Expected Rate of Return	7.50 percent	
Discount Rate	7.50 percent	
Projected Salary Increases	3.50 percent	
Retiree Healthcare Participation	Healthy retirees: 38%; Disabled retirees: 20%	Varies by service at decrement, increasing from 10% at eight years of service to 38% at 30 years of service
Healthcare Cost Trend Rate	Not applicable	Applied at beginning of plan year, starting with 6.3% for 2016, decreasing to 5.3% for 2019, increasing to 6.5% for 2029, and decreasing to an ultimate rate of 4.4% for 2094 and beyond.
Mortality	*Healthy retirees and beneficiaries:*	
	RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.	
	Active members:	
	Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.	
	Disabled retirees:	
	Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per scale BB, disabled mortality table.	

Discount Rate

The discount rate used to measure the total OPEB liability/(asset) at June 30, 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the OPEB plans' 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 OPEB plan investments for the OPEB Plans was applied to all periods of projected benefit payments to determine the total OPEB liability.

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Sensitivity Analysis

The sensitivity analysis below shows the sensitivity of the University's proportionate share of the net OPEB liability/(asset) calculated using the discount rate of 7.50 percent, as well as what the net OPEB liability/(asset) would be if it were calculated using a discount rate that is one percent lower or one percent higher than the current rate:

Discount Rate	RHIA	RHIPA
1% Decrease 6.5%	$ 15	$ 421
Current Discount Rate 7.5%	(105)	381
1% Increase 8.5%	(207)	344

The sensitivity analysis below shows the sensitivity of the University's proportionate share of the net OPEB liability/(asset) calculated using the current healthcare cost trend rates, as well as what the net OPEB liability/(asset) would be if it were calculated using healthcare trend rates that are one percentage point lower, or one percentage point higher than the current rates:

Healthcare Cost Rate	RHIA	RHIPA
1% Decrease	$ (105)	$ 329
Current Trend Rate	(105)	381
1% Increase	(105)	440

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the 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 a summary of long-term expected rate of return by asset class. 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: www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx

Long-term expected rate of return is as follows:

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

Depletion Date Projection

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, generally requires that a blended discount rate be used to measure the Total OPEB 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 Statement No. 75 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB Statement No. 75 (paragraph 39) 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.

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- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100 percent funded position by the end of the amortization period if future experience follows assumption.
- GASB Statement No. 75 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 that 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 Statement No. 75 would clearly indicate that the fiduciary net position is always projected to be sufficient to cover benefit payments and administrative expenses.

B. Public Employees' Benefit Board (PEBB)

Plan Description

SOU participates in a defined benefit postemployment healthcare plan administered by the Public Employees Benefit Board (PEBB). This plan offers healthcare assistance to eligible retired employees and their beneficiaries. Chapter 243 of the Oregon Revised Statutes (ORS) gives PEBB the authority to establish and amend the benefit provisions of the PEBB Plan. The PEBB Plan is considered a cost-sharing multiple-employer plan for financial reporting purposes and has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. PEBB does not issue a separate, publicly available financial report.

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. 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".

Summary of Significant Accounting Policies

Employers participating in PEBB are required to report OPEB information in their financial statements for fiscal periods beginning on or after June 15, 2017, in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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

Proportionate Share Allocation Methodology

The basis for the employer's proportion is determined by comparing the employer's actual contributions made during the fiscal year with the total actual contributions made in the fiscal year of all employers.

Total OPEB Liability

At June 30, 2018, the University reported a liability of $1,618 for its proportionate share of the total PEBB OPEB liability. The total PEBB OPEB liability as of June 30, 2018 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017. PEBB does not provide SOU an audited proportionate share as a separate employer; the University is allocated a proportionate share of PEBB participating employers. DAS calculated SOU's proportionate share of all participating employers internally based on actual contributions by SOU as compared to the total for participating employers. The Oregon Audits Division reviewed this internal calculation. At June 30, 2018, SOU's proportion was 1.09 percent of participating employers.

For the year ended June 30, 2018, SOU recorded total OPEB expense of $153 due to the increase in the total PEBB OPEB liability, changes to deferred outflows and deferred inflows, and amortization of deferred amounts.

Deferred Items

Deferred inflows of resources and deferred outflows of resources are calculated at the system-wide level and are allocated to employers based on their proportionate share. For the measurement period ended June 30, 2018, there were:

- Changes in assumptions
- Changes in employer proportion since the prior measurement date

Changes in assumption and changes in proportion are amortized over the closed period equal to the average expected remaining service lives of all covered active and inactive participants. Employers are required to recognize OPEB expense based on the balance of the closed period "layers" attributable to each measurement period. The weighted average expected remaining service lives, assuming zero years for all retirees, determined as of the beginning of the measurement period ended June 30, 2018 is 8.2 years.

One year of amortization is recognized in the University's total OPEB expense for fiscal years 2018.

At June 30, 2018, SOU reported deferred outflows of resources and deferred inflows of resources related to PEBB OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	-	$ 35
Change in proportionate share	-	15
Total		$ 50

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As of June 30, 2018, amounts reported as deferred outflows of resources and deferred inflows of resources related to PEBB OPEB will be recognized in OPEB expense as follows:

	Deferred Outflow/(Inflow) of Resources
Year Ended June 30:	
2019	(7)
2020	(7)
2021	(7)
2022	(7)
2023	(7)
Thereafter	(15)
	$ (50)

Actuarial Methods and Assumptions

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.

Actuarial Methods and Assumptions:	
Valuation Date	July 1, 2017
Measurement Date	June 30, 2018
Actuarial Assumptions:	
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.50 percent
Discount Rate	3.87 percent
Projected Salary Increases	3.50 percent
Withdrawal, retirement, and mortality rates	December 31, 2016 Oregon PERS valuation
Healthcare Cost Trend Rate	*Medical and vision cost increases:*
	0.80% in the first year; 5.10% in the second year; 5.30% in the third year; varying from 6.20% to 4.20% over the remainder of the projection period
	Dental cost changes:
	decrease 1.10% in the first year; increase 3.10% in the second year; increase 4.00% per year thereafter
Election and lapse rates	30% of eligible employees
	60% spouse coverage for males, 35% for females
	7% annual lapse rate

Discount Rate

Unfunded plans must use a discount rate that reflects a 20-year tax-exempt municipal bond yield or index rate. The Bond Buyer 20-Year General Obligation Bond Index was used to determine the discount rate for the OPEB liability. The discount rate in effect for the June 30, 2018 reporting date is 3.87 percent.

Sensitivity Analysis

The sensitivity analysis below shows the sensitivity of the University's proportionate share of the total OPEB liability calculated using the discount rate of 3.87 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher than the current rate:

Discount Rate	June 30, 2018
1% Decrease 2.87%	$ 1,760
Current Discount Rate 3.87%	1,618
1% Increase 4.87%	1,487

The sensitivity analysis below shows the sensitivity of the University's proportionate share of the total OPEB liability calculated using the current healthcare cost trend rates, as well as what the net OPEB liability would be if it were calculated using healthcare trend rates that are one percentage point lower, or one percentage point higher than the current rates:

Healthcare Cost Rate	June 30, 2018
1% Decrease	$ 1,425
Current Trend Rate	1,618
1% Increase	1,847

17. RISK FINANCING

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

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

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

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

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

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017 (DOLLARS IN THOUSANDS)

18. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed and planned but not initiated construction projects totaled approximately $14,135 and $46,339 at June 30, 2018 and 2017, 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, 2018.

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, 2018.

CONSTRUCTION COMMITMENTS AS OF JUNE 30, 2018

	Total Commitment	Completed to Date	Outstanding Commitment
Britt Hall Renovation	$ 4,718	$ 41	$ 4,677
Capital Repair	7,387	2,779	4,608
Lithia Pavilion	23,798	20,939	2,859
Student Recreation Center	13,835	12,525	1,310
Theatre Arts Remodel	10,998	10,426	572
Jefferson Public Radio Addition	1,250	1,209	41
Science Building	75	7	68
	$ 62,061	$ 47,926	$ 14,135

19. SUBSEQUENT EVENTS

SOU management has reviewed events and transactions that occurred subsequent to the Statement of Net Position date of June 30,2018 and has found none that required adjustment or disclosure in the financial statements.

20. UNIVERSITY FOUNDATION

Under policies approved by the Board, individual university foundations may be established to provide assistance in fund raising, public outreach and other support for the mission of SOU. The SOU Foundation (Foundation) is a legally separate, tax-exempt entity with an independent governing board. Although SOU does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of SOU and is discretely presented in the financial statements. The financial activity is reported for the years ended June 30, 2018 and 2017.

During the years ended June 30, 2018 and 2017, gifts of $2,421 and $3,268, respectively, were transferred from the Foundation to SOU. The Foundation is audited annually and received an unmodified audit opinion.

Please see the financial statements for the SOU component unit on pages 19 and 21 of this document.

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

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

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REQUIRED SUPPLEMENTARY INFORMATION (DOLLARS IN THOUSANDS)

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

	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	$ 3,018	$ 2,006	$ 1,988	$ 1,587	$ 1,705	$ 1,671	$ 1,615
Contributions in relation to the contractually required contribution	3,018	2,006	1,988	1,587	1,705	1,671	1,615
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
SOU's covered payroll	$ 25,636	$ 24,855	$ 23,605	$ 22,474	$ 22,980	$ 23,029	$ 22,465
Contributions as a percentage of covered payroll	11.8%	8.1%	8.4%	7.1%	7.4%	7.3%	7.2%

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

As of the Measurement Date June 30,	2017	2016	2015	2014	2013
SOU's proportion of the net pension asset / (liability)	0.22%	0.18%	0.20%	0.21%	0.21%
SOU's proportionate share of the net pension asset/ (liability)	$ (30,120)	$ (27,369)	$ (11,423)	$ 4,707	$ (10,597)
SOU's covered payroll	$ 24,855	$ 23,605	$ 22,474	$ 22,980	$ 23,029
SOU's proportionate share of the net pension asset/ (liability) as a percentage of its covered payroll	121.18%	115.95%	50.83%	20.48%	46.02%
Plan fiduciary net postion as a percentage of the total pension asset/ (liability)	83.12%	80.53%	91.88%	103.59%	91.97%

SCHEDULE OF SOUTHERN OREGON UNIVERSITY'S PROPORTIONATE SHARE TOTAL PEBB OPEB LIABILITY*

As of June 30,	2018	2017
SOU's allocation of the total OPEB liability	1.09%	1.10%
SOU's proportionate share of the total OPEB liability	$ 1,618	$ 1,593
SOU's covered payroll	33,266	32,056
SOU's proportionate share of the total OPEB liability as a percentage of its covered payroll	4.86%	4.97%
Total OPEB liability as a percentage of total covered payroll	4.42%	4.45%

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

REQUIRED SUPPLEMENTARY INFORMATION (DOLLARS IN THOUSANDS)

SCHEDULE OF SOUTHERN OREGON UNIVERSITY PERS RHIA OPEB EMPLOYER CONTRIBUTION*

For Fiscal Years Ended June 30,	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contributions[1]	$ 117	$ 121	$ 115	$ 122	$ 126	$ 125	$ 123	$ 47	$ 47
Contributions in relation to the actuarially determined contributions	117	121	115	122	126	125	123	47	47
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 25,632	$ 24,850	$ 23,600	$ 22,469	$ 22,987	$ 22,535	$ 21,962	$ 18,443	$ 18,072
Contributions as a percentage of covered payroll	0.46%	0.49%	0.49%	0.54%	0.55%	0.55%	0.56%	0.25%	0.26%

[1]For Actuarial Assumptions and Methods, see table in Note 16

SCHEDULE OF SOUTHERN OREGON UNIVERSITY'S PROPORTIONATE SHARE NET PERS RHIA OPEB LIABILITY/(ASSET)*

As of the Measurement Date of June 30,	2017	2016
SOU's allocation of the net OPEB liability/(asset)	0.25%	0.20%
SOU's proportionate share of the net OPEB liability/(asset)	$ (105)	$ 54
SOU's covered payroll	$ 24,850	$ 23,600
SOU's proportionate share of the net OPEB liability/(asset) as a percentage of covered payroll	0.42%	0.23%
Plan fiduciary net position as a percentage of the total OPEB liability/(asset)	108.88%	94.15%

SCHEDULE OF SOUTHERN OREGON UNIVERSITY PERS RHIPA OPEB EMPLOYER CONTRIBUTION*

For Fiscal Years Ended June 30,	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contributions[1]	$ 109	$ 97	$ 93	$ 53	$ 55	$ 32	$ 31	$ 11	$ 11
contributions	109	97	93	53	55	32	31	11	11
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 25,632	$ 24,850	$ 23,600	$ 22,469	$ 22,987	$ 22,535	$ 21,962	$ 18,443	$ 18,072
Contributions as a percentage of covered payroll	0.43%	0.39%	0.39%	0.24%	0.24%	0.14%	0.14%	0.06%	0.06%

[1]For Actuarial Assumptions and Methods, see table in Note 16

SCHEDULE OF SOUTHERN OREGON UNIVERSITY'S PROPORTIONATE SHARE NET PERS RHIPA OPEB LIABILITY/(ASSET)*

As of the Measurement Date June 30,	2017	2016
SOU's allocation of the net OPEB liability/(asset)	0.82%	0.68%
SOU's proportionate share of the net OPEB liability/(asset)	$ 381	$ 365
SOU's covered payroll	$ 24,850	$ 23,600
SOU's proportionate share of the net OPEB liability/(asset) as a percentage of covered payroll	1.53%	1.55%
Plan fiduciary net position as a percentage of the total OPEB liability/(asset)	34.25%	21.87%

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

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

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