

# Oregon **TECH**

## 2016 Annual Financial Report Oregon Institute of Technology



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*Hands-on education for real-world achievement*





# Oregon Institute of Technology 2016 Annual Report

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## Oregon Tech Board of Trustees

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<b>Melissa Ceron</b>	Klamath Falls
<b>Bill Goloski</b>	Wilsonville
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## Oregon Tech Executive Officers

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Christopher G. Maples  
*President*

Brad Burda  
*Provost and Vice President for Academic Affairs*

Jay Kenton  
*Interim Vice President for Finance and Administration*

Erin M. Foley  
*Vice President for Student Affairs and Dean of Students*

Laura McKinney  
*Vice President for the Wilsonville Campus*

Lita Colligan  
*Associate Vice President for Strategic Partnerships*

Tracy Ricketts  
*Associate Vice President for Development & Alumni Relations*

Di Saunders  
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Paul Rowan  
*Associate Vice President for Information Technology and Chief Information Officer*

Sandra Fox  
*Board Secretary*





### About the University

The Oregon Institute of Technology (Oregon Tech) is an institution founded on the principles of excellence through hands-on knowledge. We believe in giving students a rigorous, practical education while applying cutting-edge concepts for real-world solutions.

As the Pacific Northwest's only polytechnic university, we take pride in our mission to deliver technology education. We continually partner with industry leaders to ensure that we adapt to new technology and that our programs and classes are high-quality to prepare students for workforce demands.

This real-world focus gives our students a competitive edge: almost 90 percent are either employed or enrolled in graduate school within six months after graduation. Year after year, our baccalaureate graduates earn excellent starting salaries. New graduates earn an average starting salary of \$54,000 per year. We also attribute this to our dedicated professors, who provide personalized attention and are genuinely invested in their students' learning. A total enrollment of about 4,800 allows for an intimate campus environment distinguished by small classes and a student-to-faculty ratio of 20:1. This personal approach provides many benefits of a private education at a public price.

### Hands-on Education

Our individualized and applied approach to teaching, which blends theory and practice, is the main reason our graduates are so avidly recruited. Whether they study software engineering, vascular technology, management, or dental hygiene, Oregon Tech students have amazing opportunities to apply what they learn in lab-based classes, clinics, externships and workplaces. This practical focus is reinforced in the classroom by instructors who come to Oregon Tech with relevant business, industrial, or clinical experience.

And in every program, major studies are underscored by a general-education core that broadens students' understanding of the world and teaches them to communicate effectively, solve problems and think for themselves. Oregon Tech is best known for its traditional engineering and technological core, but new degree options (and surprising twists on old ones) are remarkably multi-dimensional. A Geomatics student might use GIS technology to survey an archeological excavation, or a Mechanical Engineering student may complete a cross-disciplinary application in sustainability. A Communication Studies major might compile a technical manual for an Oregon Renewable Energy Center project. Information Technology and Health Informatics or Management students might specialize in allied health management.





## MISSION

Oregon Institute of Technology offers innovative and rigorous applied degree programs in the areas of engineering, engineering technologies, health technologies, management, and the arts and sciences. To foster student and graduate success, the university provides an intimate, hands-on learning environment, focusing on application of theory to practice. Oregon Tech offers statewide educational opportunities for the emerging needs of Oregon's citizens and provides information and technical expertise to state, national and international constituents.

## CORE THEMES

- Applied Degree Programs
- Student and Graduate Success
- Statewide Educational Opportunities
- Public Service

Oregon Tech Strategic Plan:

[www.oit.edu/faculty-staff/resources/strategic-plan](http://www.oit.edu/faculty-staff/resources/strategic-plan)









## Message from the President

The 2015-16 year brought tremendous successes and new opportunities for Oregon Tech, accelerating and deepening our polytechnic university's impact in Oregon, the Pacific Northwest, and beyond. Oregon Tech's strong value proposition for our graduates increasingly is being recognized: about 90% are employed or continuing their education for an advanced degree within six months of commencement; they earn average annual starting salaries of almost \$55,000; and they bring in-demand skill sets to organizations eager to hire graduates with experience unique to Oregon Tech's hands-on learning.

As seen in the summary of Oregon Tech's financial standing in this report, the university demonstrated fiscal as well as programmatic strength and stability in 2015-16. As a public university, Oregon Tech serves an increasingly diverse population of Oregonians and non-residents, using tuition, state, and other revenues to provide our engineering, technology, healthcare, and other applied degrees.

### The Polytechnic Experience

Several new academic programs that are responsive to student and industry demand were launched or completed their first full year of operation in 2015-16, contributing to continued robust, and record, enrollment growth of 3.4% for undergraduate and graduate students, and 12% growth when including high school students earning college credits from Oregon Tech. Over the last decade, Oregon Tech's headcount enrollment has increased 43%. Contributing to recent increases were newly launched or expanded programs and online offerings, attracting more students seeking in-demand, high-value degrees.

A new Masters in Marriage and Family Therapy attracted a solid first class of students, primarily working adults, who will begin in Fall 2016. Students will be educated as mental health therapists in a rural-focused program rich in real-life field experiences. A collaborative Masters of Education Degree with Southern Oregon University was also launched this year, with Oregon Tech providing the emphasis in Applied Behavior Analysis and Autism Spectrum Disorder, to train the next generation of therapists serving children with special needs. Two other programs completed their first year of operation, Population Health Management (PHM) and Emergency Medical Services Management (EMSM). The PHM program is breaking ground in training a new generation of sociologists who understand how to address the population-specific needs of any given community by assessing and addressing environmental, social, economic, and other factors that affect health and well-being, and then delivering targeted programs. Meeting a major shift in emergency medical care, Oregon Tech's EMSM bachelor's degree, which is awarded jointly with Oregon Health and Science University, is leading the country in the movement towards proactive, community based care for at-risk and frequent users of 911; and raising statewide expertise in advanced critical care and management of both ground and air transport situations.

### New Initiatives Igniting our Future

Over the last year, Oregon Tech has advanced the reach and scope of our university using its collective assets and engaging in a series of new and exciting opportunities in several areas. These multi-year projects have the potential to further the university's reach and its impact on students in the near term and well into the future. Oregon Tech's Board of Trustees, during their historic inaugural year, approved capital projects to be submitted to the Governor and the Legislature for consideration in the 2017 Session.

Leading these proposed investments is the \$42 million Center for

Excellence in Engineering and Technology. This multidisciplinary, collaborative Center of learning will expand access to Oregonians to the high-quality, applied-learning degrees that are sought after by industries across the state, the nation, and the world. Other capital investments submitted to the legislature include improvements to and expansion of student-engagement facilities in ways that enrich the overall education experience and lead to increased retention and graduation rates. One

such investment is Oregon Tech's new soccer field that was built on the site of Purvine Field on the Klamath Falls campus, which has been part of the university's long-standing facilities master plan.

Oregon Tech is fortunate to be at the early stages of a partnership with OHSU and Sky Lakes Medical Center in Klamath Falls focused on building rural healthcare expertise and a highly trained workforce in and for Oregon. The partnership, which addresses the shortage of medical providers in the state's rural communities, includes co-offered and co-housed health degrees in a new building to be constructed and funded by OHSU and Sky Lakes, along with many other joint initiatives. Oregon Tech's involvement in the project began right after the

university achieved a successful seven-year accreditation review from the Northwest Commission on Colleges and Universities in the Spring.

A unique opportunity began to be realized in 2016, for Oregon Tech to work with top industries to build a world-class education, training, and applied research collaborative. Called the Oregon Manufacturing Innovation Center (OMIC), this industry-driven educational facility has the potential to move Oregon Tech to a new level of excellence in meeting state STEM and industry needs for a large pool of quality talent. With a proposed location in Scappoose, Oregon, OMIC is modeled on the University of Sheffield Advanced Manufacturing Research Center in England. OMIC will involve numerous industries, such as Boeing and Daimler, and diverse higher education partners, including universities like Oregon Tech, and community colleges supporting apprenticeship programs. Students benefit by being embedded in a learning and applied-research environment with top faculty and industry engineers and others, and industry gains a training ground for the next generation of manufacturing and mechanical engineers to bolster company growth and jobs in Oregon.

There are many other accomplishments achieved and initiatives completed in 2015-16, with more of these outlined in the summary below. There are still more poised to move forward in 2016 and beyond. Oregon Tech's collective work in every part of the university is realizing our immense potential to educate and graduate a superior STEM workforce in and for Oregon. I have been proud to serve as Oregon Tech's president for the last eight years and leave knowing that investments and initiatives have ignited our university to excel in our service to students and the state. Go Owls!



Dr Chris Maples  
Oregon Tech President, 2008-2016



Chris Maples  
Oregon Tech President



## Top University Accomplishments

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- Record-setting enrollment growth of 12% for Oregon Tech – reaching almost 4,800 students in Fall 2015, and a total annual unduplicated headcount of 6,556 – began a year of growth and innovation. Over the last decade enrollment has risen 43% at Oregon Tech, driven by in-demand STEM degrees, high career and salary returns for graduates, and the university's student-centered, engaging approach to teaching and learning. Online enrollment grew 18% in headcount in Fall 2015 over the prior year, it added a Master of Science in Allied Health, began offering more than 20 digital badges in STEM-based skillsets, and completed development of the MRI specialization in Radiologic Sciences.
- In partnership with Southern Oregon University, the University began a collaborative Master's Degree in Education with an emphasis in Applied Behavior Analysis and Autism Spectrum Disorder. The program is designed to meet the growing demand for well-qualified professionals who provide services for families and individuals with ASD and other social/emotional conditions. Oregon Tech also added a Bachelor of Science in Mechanical Engineering at the Wilsonville campus to meet industry demand in the Portland-Metro area and surrounding region.
- Oregon Tech successfully completed its seven-year accreditation self-study and site visit by the Northwest Commission on Colleges and Universities during 2015-16. A process that involved more than 50 Oregon Tech faculty, staff and students, 8 NWCCU evaluators and liaisons, the massive effort is an effective effort that helps Oregon Tech meet its continuous improvement approach towards excellence in its programs and operations.
- Sponsored projects and grants awarded in 2015-16 totaled \$3.5 million, from sources including the federal, state and local government, foundations and nonprofit entities. This funding supports a wide variety of projects in areas such as STEM programs, curricular support, at-risk student engagement, and faculty environmental and social research. For example, the Tech Opportunities Program (TOP), a federal TRiO program, was awarded another 5-year grant of more than \$1.2 million to serve first-generation, low-income students and those with disabilities, with a variety of academic and other types of support, increasing students' success and graduation rates.
- The South Metro-Salem STEM Hub, housed on the Wilsonville campus, attracted over \$1.2 million in investments in 2015-16 to support the work of a growing network of regional partners, including 16 partnering school districts, 6 higher education institutions, and more than 30 industry, non-profit, and community partners. This included the Oregon Connections networking tool that connects STEM industry professionals with K-20 educators to expose students to real-world experiences and career pathways; and a 5-year collaborative agreement with NASA in support of a Northwest Earth and Space Science (education) Pipeline.
- Students at Oregon Tech remain very active in their respective programs while making news at local and national levels in a variety of special interest projects. A team of Renewable Energy Engineering students won the annual Portland State Cleantech Challenge; students in the Formula SAE and Baja SAE clubs designed and built competition cars to race against universities from all over the world; Dental Hygiene students traveled to Honduras to provide dental care to children within the community, which amounted to over \$211,000 in care; and last, but definitely not least, one of Oregon Tech's own students, Lydia Doza, was invited to attend the State of the Union Address as First Lady Michelle Obama's guest as a representative for Native American youth leaders.
- Oregon Tech continued to receive many accolades this year, with a growing number recognizing the high return on investment (ROI) our graduates gain. Among the most highly regarded: Top 100 Best Colleges in TIME MONEY; Forbes Top 20 percent of colleges and universities nationally and #3 in the nation; #8 for best baccalaureate colleges in the Western Region in US News and World Report's survey of Best Colleges 2015; and one of the best ROI's among colleges and universities in the Pacific Northwest by PayScale.com based on students' return on their tuition and borrowing investments, including most recently 7th out of 9 non- Ivy colleges with "better bang for the buck".
- With the retirement of storied Men's Basketball coach Danny Miles – which spanned the past 45 seasons for the Hustlin' Owls -- former Oregon Tech basketball standout Justin Parnell accepted the position of Head Coach for the program. Parnell, a NAIA First-Team All-American in 2010 for Tech, takes over the post beginning with the 2016-17 season. The Cascade Collegiate Conference renamed their men's basketball tournament trophy the "Danny Miles Trophy" in honor of his legacy. Also in athletics, Oregon Tech's Trustees approved a \$2.01 million soccer field project at Oregon Tech's Klamath Falls campus, a NCAA specification regulation synthetic turf soccer field which broke ground in May 2016 and is expected to be finished in Fall 2016.



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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 Oregon Tech (the University), a component unit of the State of Oregon, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2016 and 2015 financial statements of the Oregon Institute of Technology 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



## ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matters***

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

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 10 through 18, the Schedule of the University's Contributions, the Schedule of the University's Proportionate Share of the Net Pension Asset/Liability, and the Schedule of Funding Status of Other Postemployment Benefits listed as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

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

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



**CliftonLarsonAllen LLP**

Denver, Colorado  
December 27, 2016





# Management's Discussion and Analysis

## For the Year Ended June 30, 2016 (dollars in thousands)

### INTRODUCTION

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of Oregon Institute of Technology (Oregon Tech) for the fiscal year ended June 30, 2016 with comparative data for the fiscal years ended June 30, 2015 and June 30, 2014. This discussion has been prepared by management to assist readers in understanding the accompanying financial statements and footnotes.

### ANNUAL FULL TIME EQUIVALENT STUDENT ENROLLMENT SUMMARY:

	2016	2015	2014	2013	2012
Oregon Tech	3,188	2,983	2,993	2,900	2,743

### UNDERSTANDING THE FINANCIAL STATEMENTS

The MD&A focuses on Oregon Tech as a whole and is intended to foster a greater understanding of Oregon Tech'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 Oregon Tech 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 Oregon Tech owes to vendors, and net position delineated based upon their availability for future expenditures.

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

**Statement of Cash Flows (SCF)** provides information about Oregon Tech'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 Oregon Tech 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 Oregon Tech financial statements and in Notes 2 and 21.

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

### FINANCIAL SUMMARY

The University's financial position has improved over the past two years with an increase to Net Position as of June 30, 2016 of \$46,516 and an increase of \$5,583 in 2015, which was offset by an adjustment for a change in accounting principle of \$3,895. The largest increase to Net Position in 2016 was to the Net Investment in Capital Assets, which increased \$42,903 primarily due to the removal of state paid debt (see Note 18. "Change in Entity" for details) as part of the Oregon Tech change to an independent university. The 2016 Unrestricted Net Position increased \$10,360 due to business activities for budgeted and auxiliary operations. These increases were primarily offset by changes to the Net Pension Liability in 2016 which decreased Unrestricted Net Position by \$4,904.

The 2015 Net Position increase was affected primarily by \$2,052 due to business activities for budgeted and auxiliary operations and \$2,980 due to the close of the Oregon University System (OUS). These increases were offset by decreases of \$1,107 due to the implementation of GASB Statement Nos. 68 and 71 and \$2,043 for net investment of capital assets.

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

### STATEMENT OF NET POSITION

The term "Net Position" refers to the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources, and is an indicator of Oregon Tech's current financial condition as of June 30, 2016. Changes in net position that occur over time indicate improvement or deterioration in Oregon Tech's financial condition. The following summarizes Oregon Tech assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position:

#### Condensed Statement of Net Position

As of June 30,	2016	2015	2014
Current Assets	\$ 15,489	\$ 14,495	\$ 16,519
Noncurrent Assets	25,710	25,089	11,759
Capital Assets, Net	93,615	95,257	96,885
Total Assets	\$ 134,814	\$ 134,841	\$ 125,163
Deferred Outflows of Resources	\$ 1,483	\$ 3,475	\$ 1,795
Current Liabilities	\$ 13,711	\$ 15,628	\$ 11,446
Noncurrent Liabilities	48,239	92,208	90,836
Total Liabilities	\$ 61,950	\$ 107,836	\$ 102,282
Deferred Inflows of Resources	\$ 1,467	\$ 4,116	\$ -
Net Investment in Capital Assets	\$ 54,361	\$ 11,458	\$ 13,500
Restricted - Expendable	4,762	6,789	6,916
Unrestricted	13,757	8,117	4,260
Total Net Position	\$ 72,880	\$ 26,364	\$ 24,676



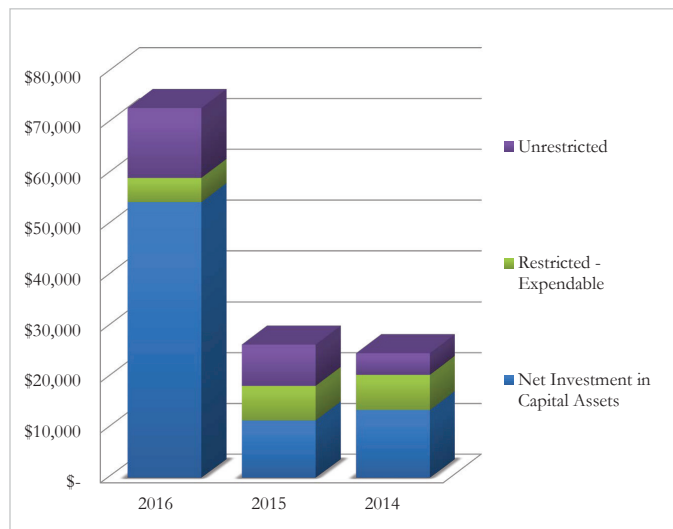


# Management's Discussion and Analysis

## For the Year Ended June 30, 2016 (dollars in thousands)

### TOTAL NET POSITION

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



### Comparison of fiscal year 2016 to fiscal year 2015

**Net Investment in Capital Assets** increased \$42,903.

- The net value of Capital Assets decreased \$1,642. See the discussion in the "Capital Assets and Related Financing" section of this MD&A for further details.
- The net value of Capital Assets is reduced by the Long Term Debt associated with the purchase of capital assets and increased by any unspent bond proceeds associated with debt. The Long Term Debt and unspent bond proceeds associated with capital assets decreased \$44,545 due primarily to the removal of state paid debt from Oregon Tech's books. Please see Note 18. "Change in Entity" for additional information.

**Restricted Expendable Net Position** decreased \$2,027.

- Net position relating to funds reserved for debt service decreased by \$1,399. The decrease is related to the removal of the state paid debt. Oregon Tech is no longer required to pay debt service on the debt that was removed, which decreases the amount of required debt service reserves in 2016 and future years.
- Net position relating to the funding of capital projects decreased \$842. The decrease is due to completed work on construction projects and the release of restriction on funds held in auxiliary equipment and replacement funds. During 2016, construction was completed on the Tunnel Project, Storm Drains related to the new soccer field, and other capital improvement projects. On July 1, 2015, when Oregon Tech became an independent university, ORS 351.615, which previously restricted the auxiliary operations equipment and replacement funds, was repealed by Senate Bill 80. This resulted in a decrease of \$637. These funds are now reflected in Unrestricted Net Position.
- Net position related to gifts, grants and contracts increased \$118 due to an increase in State of Oregon grants and gift funds.
- Net position related to student loans increased \$96 due to an increase in Perkins loan balances of \$68 and other long term loan program balances of \$38.

**Unrestricted Net Position** increased \$5,640 due in large part to the following:

- Increases due to Oregon Tech budgeted and auxiliary operations added \$10,360 to net position.
- Changes associated with year-end liability accruals for Compensated Absences, PERS State and Local Government Rate Pool (SLGRP), Other Post-Employment Benefits (OPEB), and Net Pension Liability decreased unrestricted net position by \$4,720.

See Note 10. "Unrestricted Net Position" for further details.

### Comparison of fiscal year 2015 to fiscal year 2014

**Net Investment in Capital Assets** decreased \$2,042. Net Capital Assets as of June 30, 2014 were \$96,885 and as of June 30, 2015 were \$95,257, a decrease of \$1,628. To determine the Net Investment in Capital Assets, Net Capital Assets are offset by the outstanding debt related to those capital assets less any unspent bond proceeds received in advance that have not been used to create an asset. Debt associated with capital assets decreased \$2,592 from June 30, 2014 to June 30, 2015, the decrease is due to a combination of principle payments and refunding of existing debt plus an increase due to the issuance of new XI-Q debt of \$3,625 for IT related equipment and capital repairs. Unspent bond proceeds increased from \$4,418 as of June 30, 2015 to \$6,596 as of June 30, 2016, an increase of \$2,178 primarily due to the addition of the XI-Q bond proceeds.

For additional information see Note 1L. "Net Position" for definition and the "Capital Assets and Related Financing Activities" section in the MD&A.

**Restricted Expendable Net Position** decreased \$127.

- Net position relating to funds reserved for debt service increased by \$3.
- Net position relating to the funding of capital projects decreased \$73 primarily as a result of the completion of capital renewal construction projects.
- Net position related to gifts, grants and contracts increased \$153 due mainly to an increase in State of Oregon grants and gift funds.
- Net position related to student loans decreased \$210 due primarily to an increase in the allowance for bad debt on Perkins Loans.

**Unrestricted Net Position** increased \$3,857 due primarily to the following:

- Increase from budgeted and auxiliary operations of \$2,052.
- Increase from the transfer of assets due to the closing of OUS of \$2,980.
- Increase due to a decrease in the SLGRP Liability of \$81.
- Decrease due to additional compensated absences liability of \$112.
- Decrease due to implementation of GASBs No. 68 of \$1,107.

### TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Total Assets decreased \$27, or less than 1 percent, during the year ended June 30, 2016. Total Assets increased \$9,678, or 8 percent, during the year ended 2015. Deferred Outflows of Resources decreased \$1,992 or 57 percent in 2016 and increased \$1,680 or 94 percent in 2015.

### Comparison of fiscal year 2016 to fiscal year 2015

**Current Assets** increased \$994 or 7 percent.

- Current Cash and Cash Equivalents increased \$1,710. The change is due to increases across almost all fund areas. The largest increases were due to a \$9,385 increase in cash associated with the primary





## Management's Discussion and Analysis

### For the Year Ended June 30, 2016 (dollars in thousands)

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business activities of the University and a \$383 increase in cash held to pay payroll vendor payments. These increases were offset by an increase of \$8,400 in cash moved to investments in the Oregon Intermediate Term Pool and the Long-Term Pool.

- Collateral from Securities Lending increased \$52.
- Accounts Receivable decreased \$1,116 primarily due to decreases in accounts receivable for student tuition and fees of \$756 and third party contracts receivable of \$435. In addition, due to the removal of state paid debt from Oregon Tech's books (see Note 9. "Long Term Liabilities" and Note 18. "Change in Entity" for additional information), the university no longer receives funds for lottery debt service. Therefore, in 2016, Oregon Tech did not record a receivable for these funds. In 2015, \$846 was recorded. These decreases were offset by increases in accounts receivable from the State of Oregon for construction projects of \$595 and a receivable for a deposit on the potential OMIC building purchase in Scappoose, Oregon.
- Current Notes Receivable increased \$163 due to a decrease in the allowance for doubtful accounts for Federal Perkins loans of \$210 and increases to Institutional and Other Student loans of \$53. These changes were offset by a decrease in Perkins loans of \$100.
- Inventories in storerooms decreased \$11.
- Prepaid Expenses increased \$196 primarily due to prepaid Direct Loans caused by timing differences in the application of payments on student accounts for the summer term.

**Noncurrent Assets** decreased \$1,021 or 1 percent.

- Noncurrent Cash decreased \$5,038 due mainly to the removal of cash held by trustee for construction projects of \$4,160 and a decrease in cash held for debt service payments of \$182. Alternatively, cash restricted for construction projects decreased \$1,304 because construction projects which are funded by bonds issued by the state are now on a cost reimbursable basis. There was also a reduction in the amount of restricted cash converted to investments of \$605.
- Investments increased \$8,075 due primarily to an increase in total cash combined with a greater percentage of cash being converted to investments as well as an increase in both unrealized and realized gains on investments.
- Noncurrent Notes Receivable decreased \$283 due to a decrease in notes receivable for federal Perkins loans of \$228 and an increase in the allowance for doubtful accounts of \$141. These changes were offset by an \$86 increase in notes receivable for Institutional and Other Student Loans.
- The Net Pension Asset as of June 30, 2015 of \$2,133 declined to zero because the June 30, 2016 balance is a Net Pension Liability. The change is primarily due to the Oregon Supreme Court ruling on the Moro decision, see "Changes to Plan Provisions" in Note 14. "Employee Retirement Plans".
- Capital Assets Additions of \$4,107 were offset by additions to accumulated depreciation of \$4,713 and net retirements of \$1,036, which resulted in a decrease in the net value of Capital Assets of \$1,642. See "Capital Assets" in this MD&A and Note 5. "Capital Assets" for additional information relating to these variances.

**Deferred Outflows of Resources** decreased \$1,992 or 57 percent.

- Deferred outflows decreased \$2,599 due to the removal of unamortized gains/losses on refunding of debt as part of the

removal of state paid debt and the removal of gains/losses from the institution paid debt.

- Net increases of \$607 related to changes in the reporting for Net Pension Liabilities.
- Also see Note 6. "Deferred Inflows and Outflows of Resources" for additional detail on these changes.

#### **Comparison of fiscal year 2015 to fiscal year 2014**

**Current Assets** decreased \$2,024 or 12 percent.

- The combination of an increase in cash due to the closing of OUS and a higher ratio of investments at June 30, 2015 compared to June 30, 2014, resulted in a total decrease in current cash and cash equivalents of \$3,537. Oregon Tech received cash payments of \$435 during 2015 due to the close out of OUS, see Note 18. "Change in Entity" for more detail. During 2014, a portion of investments were liquidated in anticipation of the University of Oregon's departure from the Oregon University System's cash and investment pool in July of 2014, resulting in a higher than average cash balance at year end. During 2015, cash balances in excess of policy targets were allocated into investments following the creation of the Public University Fund (PUF).
- Collateral from Securities Lending increased \$191.
- Accounts Receivable increased \$332 due to increases in accounts receivable for state, other government, and private gifts, grants, and contracts, as well as other accounts receivable. These increases were offset by decreased accounts receivable for student tuition and fees, auxiliary operations, and other accounts receivables.
- Current Notes Receivable decreased \$175 due primarily to an increase in the allowance for doubtful accounts.
- Inventories increased \$44.
- Prepaid Expenses increased \$1,121 primarily due to prepaid contributions to the sinking fund held by the State of Oregon in 2015, there were no contributions in 2014.

**Noncurrent Assets** increased \$11,702 or 11 percent.

- Noncurrent Cash and Cash equivalents increased \$2,624. During 2015, Oregon Tech received Student Building Fee Funds due to the closing of OUS of \$2,028. There was a larger portion of cash remaining in 2015 construction funds primarily due to XI-Q bond proceeds reserved for IT equipment and on-going capital renewal projects. During 2015, a larger portion of available cash was converted back to investments and held as investments at year end.
- Investments increased \$8,687 due primarily to a change in the OUS investment strategy resulting from the creation of and participation in the Public University Fund (PUF).
- Noncurrent Notes Receivable decreased \$114 due primarily to an increase in the allowance for doubtful accounts for federal Perkins loans.
- Oregon Tech recorded a net pension asset of \$2,133 due to the implementation of GASBs No. 68 and 71.
- Capital Assets, Net decreased \$1,628 due to an increase to accumulated depreciation of \$4,561; personal property additions of \$916 which were offset by net equipment retirements of \$71; and real property additions to construction in progress of \$2,088. See the "Capital Assets and Related Financing Activities" section of this MD&A and Note 5. "Capital Assets" for additional information.



## Management's Discussion and Analysis

### For the Year Ended June 30, 2016 (dollars in thousands)

**Deferred Outflows of Resources** increased \$1,680 or 94 percent.

- Deferred outflows related to deferred gain/loss on long-term debt bond refunding increased \$804. See Note 9. "Long Term Liabilities" for more information on this change.
- Oregon Tech recorded \$876 in deferred outflows as a result of the implementation of GASBs No. 68. See Note 14. "Employee Retirement Plans" for more information on this change.

#### **TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES**

Total Liabilities decreased \$45,886 or 43 percent during the year ended 2016. Total Liabilities increased \$5,554 or 5 percent during the year ended 2015. Deferred Inflows of Resources were first recorded in 2015 and decreased \$2,649 or 64 percent in 2016.

#### **Comparison of fiscal year 2016 to fiscal year 2015**

**Current Liabilities** decreased \$1,917 or 12 percent.

- The current portion of Long-Term Liabilities decreased by \$2,602 due primarily to the removal of state paid debt from Oregon Tech books as of July 1, 2015. See Note 18. "Change in Entity" for additional details.
- Accounts Payable and Accrued Liabilities increased \$45. See Note 7. "Accounts Payable and Accrued Liabilities" for details.
- Unearned Revenue increased by \$552 due primarily to increased direct student loans which were not yet distributed at June 30, 2016.
- Deposits increased \$36.
- Obligations Under Securities Lending increased \$52.

**Noncurrent Liabilities** decreased \$43,969 or 48 percent.

- Long-Term Liabilities decreased \$49,996 primarily due to the removal of \$50,947 in state paid debt. See Note 9. "Long-Term Liabilities" and Note 18. "Change in Entity" for further details.
- Net Pension Liability increased \$6,027 due to the change to a Net Pension Liability at June 30, 2016 from a Net Pension Asset as of June 30, 2015. This change is primarily due to the Oregon Supreme Court ruling on the *Moro* decision, see "Changes in Plan Provisions" in Note 14. "Employee Retirement Plans".

**Deferred Inflows of Resources** decreased \$2,649, or 64 percent, due to changes in reporting for pension liabilities, primarily changes in projected and actual earnings on pension plan investments. See Note 6. "Deferred Inflows and Outflows of Resources" for additional detail.

#### **Comparison of fiscal year 2015 to fiscal year 2014**

**Current Liabilities** increased \$4,182 or 37 percent.

- The current portion of Long-Term Liabilities increased by \$1,660 due to an increase in new debt for capital projects.
- Accounts Payable and Accrued Liabilities increased \$1,257 due mainly to increases in refunds payable, salaries and wages payable, and payroll related payables. These increases were offset by a decrease in service and supplies payable.
- Unearned Revenue increased by \$1,115 due to increased revenues received in advance for prepaid tuition and fees as well as for grant and gift funds.
- Deposits decreased \$41.
- Obligations Under Securities Lending increased \$191.

**Noncurrent Liabilities** increased \$1,372 or 2 percent, primarily due to debt issued for construction projects for information technology equipment and capital repairs.

**Deferred Inflows of Resources** were recorded for the first time in 2015. Oregon Tech recorded \$4,116 of Deferred Inflows to account for the difference between the projected and actual earnings on pension plan investments. See Note 14. "Employee Retirement Plans" and Note 6. "Deferred Inflows and Outflows of Resources" for more information on this change.

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

Due to the classification of certain revenues as nonoperating revenue, Oregon Tech 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 Oregon Tech:

#### **Condensed Statement of Revenues, Expenses and Changes in Net Position**

For the Year Ended June 30,	2016	2015	2014
Operating Revenues	\$ 34,559	\$ 33,026	\$ 30,208
Operating Expenses	70,517	61,379	58,836
Operating Loss	(35,958)	(28,353)	(28,628)
Nonoperating Revenues,			
Net of Expenses	36,494	26,866	24,332
Other Revenues	2,354	4,090	2,014
Special and Extraordinary Items	43,626	2,980	-
Increase in Net Position	46,516	5,583	(2,282)
Net Position, Beginning of Year	26,364	24,676	26,958
Change in Accounting Principle	-	(3,895)	-
Net Position, End of Year	\$ 72,880	\$ 26,364	\$ 24,676

#### **Total Revenues**

Total Revenues increased \$45,611 or 65 percent, in 2016 over 2015.

#### **Total Operating and Nonoperating Revenues and Special Items**

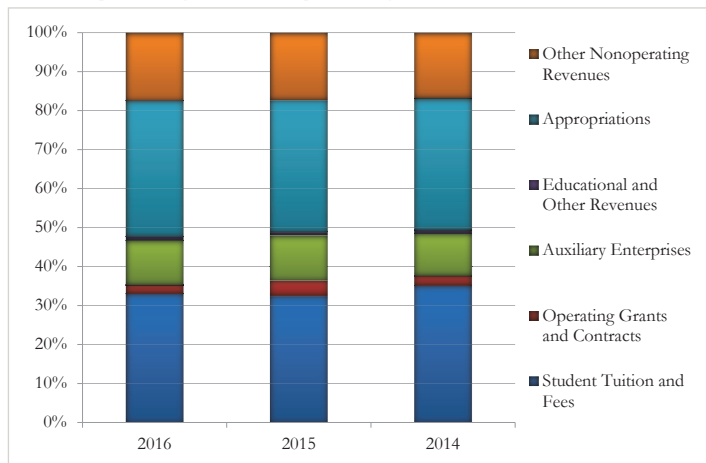
For the Year Ended June 30,	2016	2015	2014
Student Tuition and Fees	\$ 23,947	\$ 21,933	\$ 21,488
Grants and Contracts	1,665	2,684	1,528
Auxiliary Enterprises	8,327	7,852	6,609
Educational and Other	620	557	583
Total Operating Revenues	34,559	33,026	30,208
Appropriations	25,365	22,860	20,703
Financial Aid Grants	6,810	7,015	7,125
Gifts	2,875	2,741	2,364
Investment Activity	762	372	330
Capital Grants and Gifts	2,165	1,557	470
Special and Extraordinary Items	43,626	2,980	-
Total Nonoperating Revenues	81,603	37,525	30,992
Total Revenues	\$ 116,162	\$ 70,551	\$ 61,200





# Management's Discussion and Analysis For the Year Ended June 30, 2016 (dollars in thousands)

## Total Operating and Nonoperating Revenues



## Operating Revenues

Operating revenues increased \$1,533 in 2016, or 5 percent over 2015, to \$34,559. Operating revenues increased \$2,818 in 2015, or 9 percent over 2014.

### Comparison of fiscal year 2016 to fiscal year 2015

**Student Tuition and Fees** increased \$2,014 or 9 percent.

- Higher tuition and fee rates accounted for \$514 of the increase, while higher enrollment increased the total by \$2,136.
- Fee remissions and scholarship allowances reduced tuition and fees by \$602 more than in the prior period.
- Bad debt expense, primarily related to the maintenance of the allowance for bad debt, increased by \$34.

**Federal, State and Nongovernmental Grants and Contracts** decreased \$1,019 or 38 percent primarily due to the following:

- State and local grant activity decreased \$898 primarily due to decreases in revenues from the Oregon Department of Education for the Regional STEM Hub and from the Oregon Engineering and Technology Council, among other decreases in grant revenue from the State.
- Nongovernmental grant activity decreased \$120 primarily due to decreases in grant revenues from Oregon BEST of \$103.

**Auxiliary Enterprise** revenues increased \$475 or 6 percent due mainly to the following:

- Student Health and Incidentals Fee revenue increased \$170.
- Housing and Dining revenues increased \$160 due primarily to scholarship allowances, which decreased \$155.
- Other external sales increased \$145, with the biggest increase in lease income.

### Comparison of fiscal year 2015 to fiscal year 2014

**Student Tuition and Fees** increased \$445 or 2 percent.

- Higher tuition and fee rates accounted for \$841 of the increase, while decreased enrollment reduced the total by \$95.
- Fee remissions and scholarship allowances reduced tuition and fees by \$502 more than in the prior period.
- Bad debt expense, primarily related to the maintenance of the allowance for bad debt, decreased by \$201.

**Federal, State and Nongovernmental Grants and Contracts** increased \$1,156 or 76 percent.

- Federal grant and contract revenues decreased \$235 due to a decrease in federal grants awarded.
- State and local grant activity increased \$1,269 primarily due to increases in revenues from the Oregon Department of Education for the Regional STEM Hub and from the Oregon Engineering and Technology Council, among other decreases in grant revenue from the State of Oregon.
- Nongovernmental grant activity increased \$122 due mainly to increases in grants from foundations, associations, and societies.

**Auxiliary Enterprise** revenues increased \$1,243, or 19 percent, due mainly to the following:

- Student Health and Incidentals Fee revenue increased \$46.
- Housing and Dining revenues increased \$1,086 with revenues in 2015 of \$4,058, offset by scholarship allowances of \$658.
- Other external sales increased \$30.

## Nonoperating Revenues and Special Items

The increase in Nonoperating Revenues of \$44,078 during 2016 is primarily due to Oregon Tech becoming an independent university and the removal of state paid debt from the University's books. The increase in Nonoperating Revenues of \$6,533 during 2015 resulted mainly from the closeout of the OUS Chancellor's office and increased government appropriations.

### Comparison of fiscal year 2016 to fiscal year 2015

**Government Appropriations** increased \$2,505 or 11 percent.

- State appropriations for Oregon Tech operations increased by \$4,737 due to increased funding received from the State of Oregon.
- State appropriations for debt service decreased \$2,232 due to the removal of state paid debt from Oregon Tech's books.

See Note 13. "Government Appropriations" for additional information relating to changes in appropriations.

**Financial Aid Grants** decreased by \$205 or 3 percent.

**Gifts** increased \$134 or 5 percent.

- Gifts from private individuals increased \$191.
- Gifts from commercial businesses increased \$33.
- Gifts from foundations, associations, and societies increased \$43.
- These increases were offset by a decrease in gifts from the Oregon Tech Foundation of \$133.

**Investment Activity** revenues increased \$390 or 105 percent. See Note 11. "Investment Activity" for additional information relating to these changes.

**Capital Grants and Gifts** increased \$608, or 39 percent due primarily to the following:

- Capital grants from state bond funded construction projects of \$1,686 were received in 2016. In prior years, state bond funding was received as bond proceeds in exchange for debt. As an independent university, Oregon Tech no longer receives debt in exchange for assets for what is considered state paid debt. Under the new process, Oregon Tech receives capital grant funding as construction project expenses are paid to vendors and reimbursed by the State of Oregon. This was offset by a \$1,550 state grant received in 2015 for a geothermal project.
- Oregon Tech received equipment gifts in kind of \$325.

**Special Item - Change in Entity** increased \$40,646 primarily due to the removal of state paid debt from Oregon Tech's books. See Note 18. "Change in Entity" for more information.



# Management's Discussion and Analysis

## For the Year Ended June 30, 2016 (dollars in thousands)

### Comparison of fiscal year 2015 to fiscal year 2014

**Government Appropriations** increased \$2,157 or 10 percent.

- State appropriations for Oregon Tech operations increased by \$2,232 due to increased funding received from the State of Oregon.
- Debt service appropriations decreased \$75.

See Note 13. "Government Appropriations" for additional information relating to changes in appropriations.

**Financial Aid Grants** decreased by \$110 or 2 percent.

**Gifts** increased by \$377, or 16 percent, the largest portion of the increase was gifts from private individuals of \$355.

**Investment Activity** revenues increased \$42 or 13 percent due to higher return on investments. See Note 11. "Investment Activity" for additional information relating to these changes.

**Capital Grants and Gifts** increased \$1,087, or 231 percent due to the receipt of a capital grant of \$1,550 from the State of Oregon for a new Geothermal project.

**Special Item - Change in Entity** was first recorded in 2015. Oregon Tech recorded \$2,980 of cash and assets transferred to the University as a result of the closing of the OUS Chancellor's Office and the change in entity. See Note 18. "Change in Entity" for additional information.

### Expenses

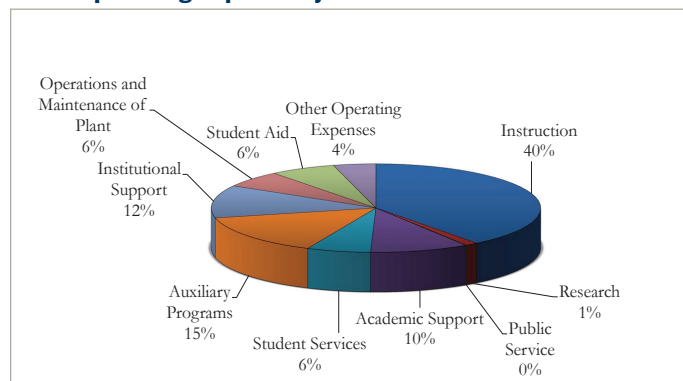
#### Operating Expenses

Operating expenses increased \$9,138 in 2016, or 15 percent over 2015, to \$70,517. Operating expenses increased \$2,543 in 2015, or 4 percent over 2014, to \$61,379. The following summarizes operating expenses by functional classification:

#### Operating Expense by Function

For the Year Ended June 30,	2016	2015	2014
Instruction	\$ 27,889	\$ 24,278	\$ 24,470
Research	848	574	448
Public Service	95	192	112
Academic Support	6,792	5,233	5,196
Student Services	4,412	3,800	3,371
Auxiliary Programs	10,291	9,546	7,927
Institutional Support	8,446	6,244	5,517
Operations and Maintenance of Plant	4,249	3,047	3,260
Student Aid	4,556	4,792	4,301
Other Operating Expenses	2,939	3,673	4,234
<b>Total Operating Expenses</b>	<b>\$ 70,517</b>	<b>\$ 61,379</b>	<b>\$ 58,836</b>

#### 2016 Operating Expense by Function



The implementation of GASBs Nos. 68 and 71 had a profound impact on the operating expenses reported by Oregon Tech. The following shows the effect of the implementation on operating expenses across the functional classifications. The \$4,904 difference is due to recording the components of Net Pension Liability required by GASBs Nos. 68 and 71; change in Net Pension Liability, changes in proportion, differences in expected and actual experience, differences between projected and actual earnings on investments, and amortization of Deferred Outflows of Resources and Deferred Inflows of Resources. See Note 15. "Employee Retirement Plans" for additional details.

#### The effect of GASBs No. 68 on Expenses by Functional Classifications

For the Year Ended June 30, 2016	as reported	without GASBs 68/71	difference
Instruction	\$ 27,889	\$ 25,766	\$ 2,123
Research	848	791	57
Public Service	95	92	3
Academic Support	6,792	6,151	641
Student Services	4,412	3,961	451
Auxiliary Programs	10,291	9,882	409
Institutional Support	8,446	7,654	792
Operations and Maintenance of Plant	4,249	3,828	421
Student Aid	4,556	4,556	-
Other Operating Expenses	2,939	2,932	7
<b>Total Operating Expenses</b>	<b>\$ 70,517</b>	<b>\$ 65,613</b>	<b>\$ 4,904</b>

For the Year Ended June 30, 2015	as reported	without GASBs 68/71	difference
Instruction	\$ 24,278	\$ 25,854	\$ (1,576)
Research	574	592	(18)
Public Service	192	191	1
Academic Support	5,233	5,542	(309)
Student Services	3,800	4,005	(205)
Auxiliary Programs	9,546	9,743	(197)
Institutional Support	6,244	6,441	(197)
Operations and Maintenance of Plant	3,047	3,334	(287)
Student Aid	4,792	4,792	-
Other Operating Expenses	3,673	3,673	-
<b>Total Operating Expenses</b>	<b>\$ 61,379</b>	<b>\$ 64,167</b>	<b>\$ (2,788)</b>

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

The following summarizes operating expenses by natural classification:

#### Operating Expenses by Natural Classification

For the Year Ended June 30,	2016	2015	2014
Compensation and Benefits	\$ 48,193	\$ 38,148	\$ 38,656
Services and Supplies	12,974	13,928	11,361
Scholarships and Fellowships	4,644	4,674	4,415
Depreciation and Amortization	4,713	4,561	4,262
Other Expenses	(7)	68	142
<b>Total Operating Expenses</b>	<b>\$ 70,517</b>	<b>\$ 61,379</b>	<b>\$ 58,836</b>

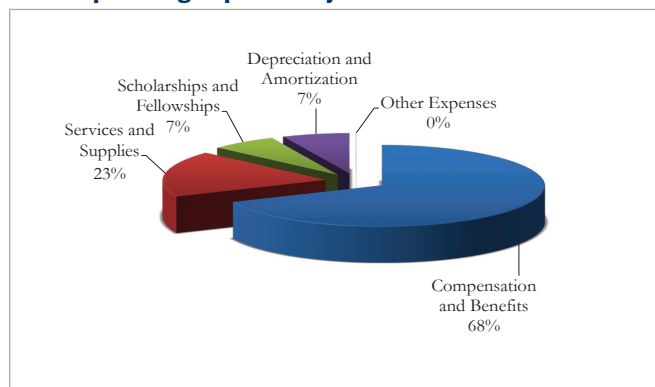




# Management's Discussion and Analysis

## For the Year Ended June 30, 2016 (dollars in thousands)

### 2016 Operating Expenses by Natural Classification



#### Comparison of fiscal year 2016 to fiscal year 2015

**Compensation and Benefits** costs increased \$10,045, or 26 percent, in 2016 compared to 2015 primarily due to:

- An increase of \$7,692 was a result of the change in reporting for the Net Pension Liability. The change from a Net Pension Asset to a Net Pension Liability is primarily due to the Oregon Supreme Court ruling on the *Moro* decision. See "Changes in Plan Provisions" in Note 14. "Employee Retirement Plans".
- Higher wage costs attributable to increased FTE and salary and wage increases contributed \$2,189 to the change, while increased costs for health and retirement benefits contributed \$873.
- The amount accrued for the Other Post-Employment Benefits (OPEB) liability decreased \$731.

**Services and Supplies** expense decreased \$954 or 7 percent. This decrease was seen across many categories including general supplies, communication supplies, utilities, maintenance and repairs, and fees and services expense. This was partially offset by higher utilities, travel, and rentals and leases.

**Scholarships and Fellowships** expenses decreased \$30, or 1 percent, primarily due to a decrease in Pell grants of \$367, offset by an increase in state need grants and foundation scholarships. This expense category does not include fee remissions, which are reported as reductions to Student Tuition and Fee Revenues.

**Depreciation and Amortization** expense increased \$152 during 2016 primarily due to the Large Power Plant being put into service during the last half of 2015.

**Other Operating Expenses** decreased \$75 due primarily to decreased bad debt expenses for student loans.

#### Comparison of fiscal year 2015 to fiscal year 2014

**Compensation and Benefits** costs decreased \$508, or 1 percent, in 2015 compared to 2014 primarily due to:

- Employee FTE remained relatively the same for unclassified and classified staff. Student FTE increased 23 percent.
- Unclassified pay increased \$1,148, or 5 percent, primarily due to COLA increases.
- Classified pay increased \$451, or 9 percent, due to COLA and step increases per union contracts.
- Student pay increased \$289, or 19 percent, due to an increase in FTE for student employees.
- Other employee expenses for taxes and health benefits increased \$610 or 5 percent.
- The implementation of GASBs Nos. 68 and 71 decreased compensation and benefits by \$2,788. This is a reporting requirement that does not affect cash payments for compensation and benefits.
- Other GASB reporting requirements such as changes to OPEB

and SLGRP expenses increased \$219.

**Services and Supplies** expense increased \$2,567, or 23 percent, during 2015. This increase was seen across many categories including communication, utilities, rentals and leases, travel, and fees and services, which had the largest increase. This was partially offset by lower general supplies, maintenance and repairs, and other miscellaneous services and supplies.

**Scholarships and Fellowships** expenses increased \$259, or 6 percent, when comparing 2015 to 2014. This net increase corresponds to increases in scholarships from the Oregon Student Assistance Commission as well as from other sources. The increases were offset by a decrease in federal Pell Grants awarded. This expense category does not include fee remissions, which are reported as reductions to Student Tuition and Fee Revenues.

**Depreciation and Amortization** expense increased \$299 during 2015 primarily due to recently completed infrastructure for geothermal operations and additions to buildings. These increases were offset by a decrease in the depreciation for library books.

**Other Operating Expenses** decreased \$74, or 52%, due primarily to decreases in loan payments to students, collection costs, principal and interest assigned to the federal government due to default, and principal and interest cancelled.

### Nonoperating Expenses

Nonoperating expenses decreased \$4,460, or 124 percent in 2016, as compared to 2015 and increased \$1,057, or 23 percent in 2015.

#### Comparison of fiscal year 2016 to fiscal year 2015

- **Gain (Loss) on Sale of Assets** went from a loss of \$2 in 2015 to a gain of \$3,174 in 2016 due to the sale of the Harmony building in 2016. This reduced nonoperating expenses by \$3,176.
- **Interest Expense** decreased \$1,386 primarily due to a decrease in the amount of bond interest recorded as a result of the change in entity and the removal of state paid debt.
- **Transfers** to Oregon Tech from OUS moved to zero in 2016 due to Oregon Tech becoming an independent university.
- Other changes included an decrease of \$10 in adjustments to fixed assets.

#### Comparison of fiscal year 2015 to fiscal year 2014

- **Gain (Loss) on Sale of Assets** decreased \$1,031 or 100 percent primarily due to the write-off of library books.
- **Interest Expense** increased \$1,002, or 38 percent, primarily due to new debt issued in 2015.
- **Transfers** to Oregon Tech from OUS increased \$1,064 primarily due to a larger amount of transfers in 2014 than in 2015 related to bond proceeds for construction projects.
- Other changes included an increase of \$48 in prior year adjustments to fixed assets, offset by prior year adjustments to the pre-SLGRP liability and a decrease in internal bank interest expense.

## CAPITAL ASSETS AND RELATED FINANCING ACTIVITIES

### Capital Assets

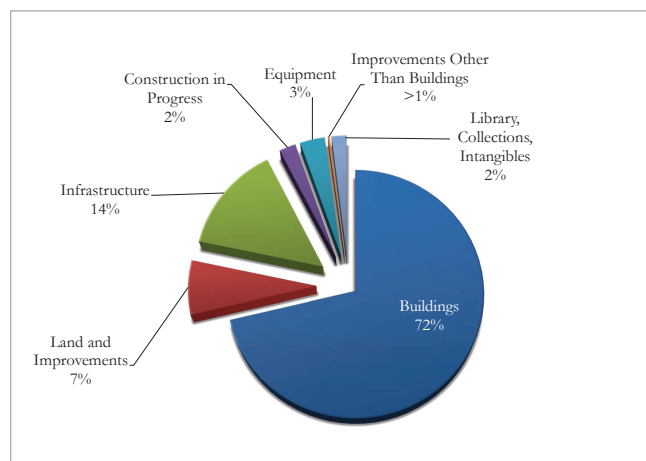
At June 30, 2016, Oregon Tech had \$165,616 in capital assets, less accumulated depreciation of \$72,001, for net capital assets of \$93,615. At June 30, 2015, Oregon Tech had \$163,931 in capital assets, less accumulated depreciation of \$68,674, for net capital assets of \$95,257.



# Management's Discussion and Analysis

## For the Year Ended June 30, 2016 (dollars in thousands)

### 2016 Capital Assets, Net - \$93,615 thousand



### Changes to Capital Assets

	2016	2015	2014
Capital Assets, Beginning of Year	\$ 163,931	\$ 163,006	\$ 160,591
Add: Purchases/Construction	4,107	3,004	3,513
Less: Retirements/Disposals/Adjustments	(2,422)	(2,079)	(1,098)
<b>Total Capital Assets, End of Year</b>	<b>165,616</b>	<b>163,931</b>	<b>163,006</b>
Accum. Depreciation, Beginning of Year	(68,674)	(66,121)	(61,926)
Add: Depreciation Expense	(4,713)	(4,561)	(4,262)
Less: Retirements/Disposals/Adjustments	1,386	2,008	67
<b>Total Accum. Depreciation, End of Year</b>	<b>(72,001)</b>	<b>(68,674)</b>	<b>(66,121)</b>
<b>Total Capital Assets, Net, End of Year</b>	<b>\$ 93,615</b>	<b>\$ 95,257</b>	<b>\$ 96,885</b>

Capital additions totaled \$4,107 for 2016, \$3,004 for 2015, and \$3,513 for 2014.

Capital Asset additions for 2016 included:

- \$1,028 for equipment, which includes a \$325 gift in kind donation of an Infrascan Inventory System, and \$105 in new computer labs.
- \$366 for vehicles also classified as equipment in Note 5. "Capital Assets" which included the addition of \$342 for a used motor coach and \$24 for a used snow plow.
- Equipment CIP of \$751 is primarily related to IT upgrades and classroom labs funded by XI-Q bonds.
- Construction in Progress includes \$918 for the new Soccer & Track field.
- Additions to Infrastructure includes \$718 for the completion of the Tunnel Project; \$150 in prior year CIP was transferred to Infrastructure for this project.

Capital Asset Retirements totaled \$2,422 for 2016, \$2,079 in 2015 and \$1,031 in 2014. During 2016, retirements were primarily related to the sale of the Harmony building, which reduced capital assets by \$2,150, and retirements of library materials of \$219.

During 2016, accumulated depreciation increased \$4,713 due to depreciation of existing assets. This was offset primarily by a decrease due to the sale of the Harmony building of \$1,201 and the retirement of library materials of \$190.

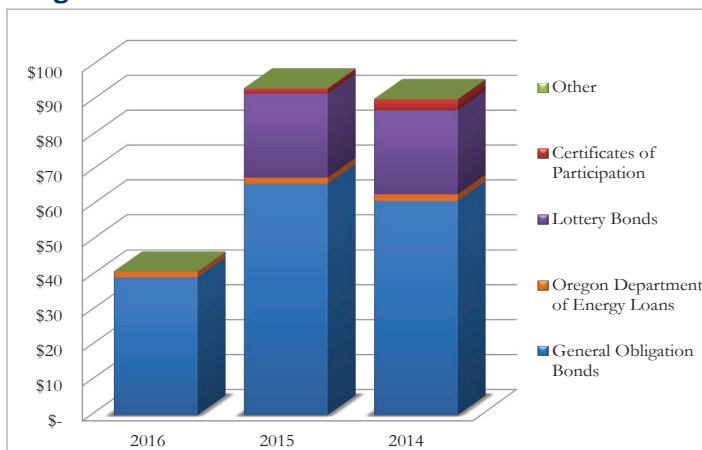
See Note 5. "Capital Assets" for additional information.

### Debt Administration

During 2016, long-term debt held by Oregon Tech decreased by \$52,458, or 56 percent, from \$93,594 to \$41,136.

- Oregon Tech's long term liabilities decreased \$50,947 due to the removal of state paid debt from Oregon Tech's books. See Note 18. "Change in Entity" for additional information.
- Long term debt decreased \$1,434 due to principal payments on General Obligations due to the State of Oregon.
- Accreted Interest on General Obligation bonds increased \$79 due to increases of \$177 and decreases of \$98.
- Long term debt also decreased \$156 due to principal payments on Oregon Department of Energy loans.

### Long-term Debt



### ECONOMIC OUTLOOK

Funding for the major activities of Oregon Tech comes from a variety of sources, including tuition and fees, financial aid programs, state and federal appropriations, grants, private and government contracts, donor gifts, and investment earnings. Among these many sources, tuition and fees (net of fee remissions) and state appropriations are by far the largest, representing 33.0 percent and 35.0 percent, respectively, and combining for 68.0 percent of the combined operating and non-operating revenues, less the revenue due to the closing of the Oregon University System, during fiscal year 2016. The third largest revenue source, Auxiliary Enterprise Revenues, represents a mere 11.5 percent of operating and non-operating revenues and, like tuition, is strongly correlated with enrollment.

State funding levels in Oregon have consistently lagged behind those of other states on a per student basis and have been highly volatile, suffering significant and long-term disinvestment since the early 1990's with minor reinvestments during periods of state revenue growth. Reliance on state funding, though critical to Oregon Tech's continued success, continues to challenge the institution and its mission as the Pacific Northwest's only polytechnic university. The innovative and rigorous applied degree programs in various fields including engineering and engineering technology, allied health, business and management, and applied arts and sciences offered by Oregon Tech are inherently equipment intensive and require relatively low student-to-faculty ratios. Each of these major expenditures, equipment and faculty, are long-term investments. When paired with volatile state funding, this creates periodic mismatches between revenue and expense drivers.

While state funding has increased coming out of the 2008 recession, and in fact increased substantially during the current biennium, it is still lower than pre-recessionary levels. Expenses, particularly those



## Management's Discussion and Analysis

### For the Year Ended June 30, 2016 (dollars in thousands)

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related to salary and benefits, continue to rise. The underlying dynamics associated with each are to some extent beyond the control of Oregon Tech. Specifically, state funding is a function of legislative control and non-salary payroll expenses, such as health and retirement benefits, are mandated by the state. This has put significant upward pressure on tuition. The variability in overall state revenues, relative priority of university funding, and retirement (PERS) increases and health care liabilities of the state will likely pose continued threats to Oregon Tech's revenues.

As mentioned previously, Oregon Tech is mandated by statute to participate in two employee benefit areas. The first concerns retirement benefits and includes a defined retirement benefit program managed by the Public Employee Retirement System (PERS) and a 401(a) plan managed by the public universities. The second concerns health, dental and other employment related benefits which are managed by the Public Employee Benefit Board (PEBB). As a mandatory purchaser of these services for university employees, Oregon Tech has no control over the cost of benefits. These benefits are very expensive and significantly above the norm for comparator public and private employers. For fiscal year 2016, retirement expenses averaged 11.6 percent of total payroll costs, while employee health care benefits averaged approximately \$16,000 per employee. Due to a recent Oregon Supreme Court decision (*Moro v. State of Oregon*, 354 Or 657 (2014)) and low investment returns, PERS expenses are expected to increase significantly over the upcoming years.

Academic year 2016 was the final year of a planned three year phase-in of differential tuition. This effected certain high-cost and high-return programs in both the College of Engineering, Technology and Management as well as the College of Health, Arts and Sciences. In academic year 2016, tuition rates increased three to five percent, while overall tuition revenue increased 9.2 percent. The overall growth was due to the combination of increased tuition rates, the mix of students (resident and non-resident, undergraduate and graduate), as well as overall growth in enrollment. Increased focus on enrollment management, retention, and the pipeline of students into, through and out of Oregon Tech, as well general interest from students and families in high return on investment technical, STEM, and health oriented degree programs bodes well for Oregon Tech's market position and future enrollments.

The State's Higher Education Coordinating Commission (HECC) instituted a new funding formula, the Student Success and Completion Model (SSCM) during FY2016. During FY2017 and FY2018, the model will continue to be phased in, until fully implemented during FY2019. The SSCM shifts the way in which funds are distributed to focus on both enrollment and the completion of students. The funding formula includes additional weighting for students who enroll and complete in high-cost STEM and health degree areas, for dual-credit partnerships, and for students from certain priority populations. These are areas and students which Oregon Tech has a reputation for successfully serving. The institution has invested in, and is keenly focused on, initiatives designed to improve performance in student retention and completion. Early results are promising, including a graduating class during academic year 2016 which was larger than forecast. These investments and lessons learned will take time to fully bear fruit.

Although Oregon Tech faces several external financial challenges, some within and some outside of the institution's control, it is financially healthy and enjoys a strong and growing market position. As the Northwest's only polytechnic university, it continues to see strong

student demand and is actively sought by government, industry, and educational partners. The assumption of governing authority by the Oregon Tech Board of Trustees as of July 1, 2015 from the former Oregon University System has provided an additional source of vigor to the university and brought a focus to institutional performance previously unseen. The Board of Trustees and management are actively pursuing strategic investments which will build upon current momentum, increasing enrollment and prestige of the institution while restructuring the management systems and decision making process to create a more efficient and effective institution.



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# Statement of Net Position - Oregon Institute of Technology

As of June 30,	University	
	2016	2015
	(In thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	\$ 8,110	\$ 6,400
Collateral from Securities Lending (Note 2)	1,241	1,189
Accounts Receivable, Net (Note 3)	3,941	5,057
Notes Receivable, Net (Note 4)	368	205
Inventories	118	129
Prepaid Expenses	1,711	1,515
Total Current Assets	15,489	14,495
Noncurrent Assets		
Cash and Cash Equivalents (Note 2)	1,282	6,320
Investments (Note 2)	22,367	14,292
Notes Receivable, Net (Note 4)	2,061	2,344
Net Pension Asset (Note 14)	-	2,133
Capital Assets, Net of Accumulated Depreciation (Note 5)	93,615	95,257
Total Noncurrent Assets	119,325	120,346
Total Assets	\$ 134,814	\$ 134,841
DEFERRED OUTFLOWS OF RESOURCES (Note 6)		
	\$ 1,483	\$ 3,475
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities (Note 7)	\$ 5,221	\$ 5,176
Deposits	106	70
Obligations Under Securities Lending (Note 2)	1,241	1,189
Current Portion of Long-Term Liabilities (Note 9)	2,924	5,526
Unearned Revenues	4,219	3,667
Total Current Liabilities	13,711	15,628
Noncurrent Liabilities		
Long-Term Liabilities (Note 9)	42,212	92,208
Net Pension Liability (Note 14)	6,027	-
Total Noncurrent Liabilities	48,239	92,208
Total Liabilities	\$ 61,950	\$ 107,836
DEFERRED INFLOWS OF RESOURCES (Note 6)		
	\$ 1,467	\$ 4,116
NET POSITION		
Net Investment in Capital Assets	\$ 54,361	\$ 11,458
Restricted For:		
Expendable:		
Gifts, Grants and Contracts	780	662
Student Loans	3,298	3,202
Capital Projects	406	1,248
Debt Service	278	1,677
Unrestricted (Note 10)	13,757	8,117
Total Net Position	\$ 72,880	\$ 26,364

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



## Statement of Financial Position - Oregon Tech Foundation

As of June 30,	Component Unit	
	2016	2015
	(In thousands)	
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 214	\$ 284
Accounts Receivable	397	234
Accounts Receivable - due from University	-	3
Prepaid Expenses	28	26
Investments	21,061	22,068
Split-Interest Agreements	635	875
Unconditional Promises to Give	121	182
Other Assets	373	374
<b>Total Assets</b>	<b>\$ 22,829</b>	<b>\$ 24,046</b>
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 220	\$ 273
Liabilities Under Split-Interest Agreements	99	137
Funds Held for Distribution	987	1,004
<b>Total Liabilities</b>	<b>\$ 1,306</b>	<b>\$ 1,414</b>
<b>NET ASSETS</b>		
Unrestricted	\$ 8,303	\$ 8,894
Temporarily Restricted	4,156	5,286
Permanently Restricted	9,064	8,452
<b>Total Net Assets</b>	<b>\$ 21,523</b>	<b>\$ 22,632</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 22,829</b>	<b>\$ 24,046</b>

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





# Statement of Revenues, Expenses and Changes in Net Position - Oregon Institute of Technology

For the Year Ended June 30,	University	
	2016	2015
	(In thousands)	
<b>OPERATING REVENUES</b>		
Student Tuition and Fees (Net of Allowances of \$7,431 and \$7,180, Note 1P)	\$ 23,947	\$ 21,933
Federal Grants and Contracts	674	675
State and Local Grants and Contracts	408	1,306
Nongovernmental Grants and Contracts	583	703
Educational Department Sales and Services	312	320
Auxiliary Enterprises Revenues (Net of Allowances of \$505 and \$657, Note 1P)	8,327	7,852
Other Operating Revenues	308	237
<b>Total Operating Revenues</b>	<b>34,559</b>	<b>33,026</b>
<b>OPERATING EXPENSES</b>		
Instruction	27,889	24,278
Research	848	574
Public Service	95	192
Academic Support	6,792	5,233
Student Services	4,412	3,800
Auxiliary Programs	10,291	9,546
Institutional Support	8,446	6,244
Operation and Maintenance of Plant	4,249	3,047
Student Aid	4,556	4,792
Other Operating Expenses	2,939	3,673
<b>Total Operating Expenses (Note 12)</b>	<b>70,517</b>	<b>61,379</b>
<b>Operating Loss</b>	<b>(35,958)</b>	<b>(28,353)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Government Appropriations (Note 13)	25,176	20,439
Financial Aid Grants	6,810	7,015
Gifts	2,875	2,741
Investment Activity (Note 11)	762	372
Gain (Loss) on Sale of Assets, Net	3,174	(2)
Interest Expense	(2,266)	(3,652)
Other Nonoperating Items	(37)	(47)
<b>Net Nonoperating Revenues</b>	<b>36,494</b>	<b>26,866</b>
<b>Income (Loss) Before Other Nonoperating Revenues</b>	<b>536</b>	<b>(1,487)</b>
Capital and Debt Service Appropriations (Note 13)	189	2,421
Capital Grants and Gifts	2,165	1,557
Transfers within OUS	-	112
<b>Total Other Nonoperating Revenues</b>	<b>2,354</b>	<b>4,090</b>
<b>Increase (Decrease) In Net Position Prior to Special/ Extraordinary Items</b>	<b>2,890</b>	<b>2,603</b>
<b>SPECIAL AND EXTRAORDINARY ITEMS</b>		
Special Item - Change in Entity (Note 18)	43,626	2,980
<b>Increase (Decrease) In Net Position After Special/ Extraordinary Items</b>	<b>46,516</b>	<b>5,583</b>
<b>NET POSITION</b>		
Beginning Balance	26,364	24,676
Change in Accounting Principle	-	(3,895)
Beginning Balance, Restated	26,364	20,781
<b>Ending Balance</b>	<b>\$ 72,880</b>	<b>\$ 26,364</b>

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

# Statement of Activities - Oregon Tech Foundation

For the Year Ended June 30,	Component Unit	
	2016	2015
	(Restated)	
	(in thousands)	
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		
<b>REVENUES</b>		
Contributions and Grants	\$ 158	\$ 146
In-Kind Donations	1	-
Investment Income	(255)	307
Other	15	19
Net Assets Released From Restrictions	1,295	700
<b>Total Revenues</b>	<b>1,214</b>	<b>1,172</b>
<b>EXPENSES</b>		
Program Services	1,183	909
Management and General	400	706
Fundraising	19	25
Impairment of Investment	200	-
Change in Reserve for Uncollectible Pledges	3	27
<b>Total Expenses</b>	<b>1,805</b>	<b>1,667</b>
<b>Increase (Decrease) In Unrestricted Net Assets</b>	<b>(591)</b>	<b>(495)</b>
Beginning Balance, Unrestricted Net Assets	8,894	9,389
<b>Ending Balance, Unrestricted Net Assets</b>	<b>\$ 8,303</b>	<b>\$ 8,894</b>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>		
<b>REVENUES</b>		
Contributions and Grants	413	626
In-Kind Donations	347	141
Investment Income	(590)	(6)
Other	32	22
Net Assets Released From Restrictions	(1,332)	(700)
<b>Increase (Decrease) In Temporarily Restricted Net Assets</b>	<b>(1,130)</b>	<b>83</b>
Beginning Balance, Temporarily Restricted Net Assets	5,286	5,203
<b>Ending Balance, Temporarily Restricted Net Assets</b>	<b>\$ 4,156</b>	<b>\$ 5,286</b>
<b>CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>		
<b>REVENUES</b>		
Contributions and Grants	599	381
Change in Value of Split Interest Agreements	(24)	(97)
Net Assets Released From Restrictions	37	-
<b>Increase (Decrease) In Permanently Restricted Net Assets</b>	<b>612</b>	<b>284</b>
Beginning Balance, Permanently Restricted Net Assets	8,452	8,293
Prior Period Adjustment and Restatement		(125)
<b>Ending Balance, Permanently Restricted Net Assets</b>	<b>\$ 9,064</b>	<b>\$ 8,452</b>
Beginning Balance, Total Net Assets	22,632	22,885
Total Change in Net Assets	(1,109)	(128)
Prior Period Adjustment and Restatement		(125)
<b>Ending Balance, Total Net Assets</b>	<b>\$ 21,523</b>	<b>\$ 22,632</b>

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





## Statement of Cash Flows - Oregon Institute of Technology

For the Year Ended June 30,	University	
	2016	2015
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and Fees	\$ 24,908	\$ 22,614
Grants and Contracts	705	2,555
Educational Department Sales and Services	312	320
Auxiliary Enterprises Operations	8,306	7,950
Payments to Employees for Compensation and Benefits	(43,116)	(39,837)
Payments to Suppliers	(13,072)	(14,910)
Student Financial Aid	(4,644)	(4,674)
Other Operating Receipts	800	522
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(25,801)</b>	<b>(25,460)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Government Appropriations	25,176	20,439
Financial Aid Grants	7,280	7,998
Other Gifts and Private Contracts	2,875	2,694
Net Agency Fund Receipts (Payments)	36	(41)
Net Transfers Within OUS	-	112
Cash Transfers Due Change in Entity	(4,340)	2,463
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>31,027</b>	<b>33,665</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Debt Service Appropriations	189	1,575
Capital Grants and Gifts	1,840	1,557
Bond Proceeds from Capital Debt	177	23,438
Sales of Capital Assets	4,209	69
Purchases of Capital Assets	(3,816)	(3,138)
Interest Payments on Capital Debt	(2,152)	(3,642)
Principal Payments on Capital Debt	(1,688)	(20,662)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(1,241)</b>	<b>(803)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Sales (Purchases) of Investments	(7,930)	(8,390)
Income on Investments and Cash Balances	617	75
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(7,313)</b>	<b>(8,315)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(3,328)</b>	<b>(913)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning Balance	12,720	13,633
<b>Ending Balance</b>	<b>\$ 9,392</b>	<b>\$ 12,720</b>

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



## Statement of Cash Flows (Continued) - Oregon Institute of Technology

For the Year Ended June 30,	University	
	2016	2015
	(In thousands)	
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (35,958)	\$ (28,353)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	4,713	4,561
Changes in Assets and Liabilities:		
Accounts Receivable	270	514
Notes Receivable	120	289
Inventories	11	(44)
Prepaid Expenses	(196)	(1,121)
Accounts Payable and Accrued Liabilities	393	1,381
Long-Term Liabilities	(140)	(31)
Unearned Revenue	82	132
Pension Expense Related to Net Pension Liability	4,904	(2,788)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (25,801)</b>	<b>\$ (25,460)</b>
<b>NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS</b>		
Capital Assets Acquired by Gifts-in-Kind	\$ 325	\$ -
Increase in Fair Value of Investments Recognized as a Component of Investment Activity	145	56
Removal of State Paid Debt	50,947	-

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





## 1. Organization and Summary of Significant Accounting Policies

### A. Reporting Entity

The Oregon Institute of Technology (Oregon Tech) is governed by the Oregon Tech Board of Trustees (Board), a citizen board appointed by the Governor with confirmation by the State Senate. Prior to July 1, 2015, Oregon Tech was a member university of the Oregon University System (OUS) governed by the State Board of Higher Education (SBHE). With the passage of Senate Bill (SB) 270 by the Oregon Legislature in 2013, Oregon Tech became an independent public university on July 1, 2015.

The Oregon Tech financial reporting entity is reported under the heading of University on the Basic Financial Statements. Oregon Tech has two campuses, located in Klamath Falls and Wilsonville. The Oregon Tech reporting entity also includes one university foundation which is reported as a discretely presented component unit in the Oregon Tech Financial Statements. See Note 21 "University Foundation" for additional information relating to this component unit. Organizations that are not financially accountable to Oregon Tech, such as booster and alumni organizations, are not included in the reporting entity.

Oregon Tech is a component unit of the State of Oregon (State) and is included as a discretely presented component unit of the State's Comprehensive Annual Financial Report (CAFR) starting with the fiscal year ended June 30, 2016 financial report.

### B. Financial Statement Presentation

Oregon Tech financial accounting records are maintained in accordance with U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB). The financial statement presentation required by GASBs No. 35 *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34* provides a comprehensive, entity-wide perspective of Oregon Tech assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

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

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

#### NEWLY IMPLEMENTED ACCOUNTING STANDARDS

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

Oregon Tech implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions*

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

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

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

#### UPCOMING ACCOUNTING STANDARDS

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASBs No. 75 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability and is effective for the fiscal year ending June 30, 2018. Oregon Tech does not currently have enough information from the PEBB actuary to determine the potential fiscal impact of GASBs No. 75. However, the adoption is expected to cause an expansion in the required note disclosures and could potentially impact the amount of the OPEB liability.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective June 30, 2016. GASBs No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. GASBs No. 79 is effective for the fiscal year ending June 30, 2017. Oregon Tech is analyzing the effects of the adoption of GASBs No. 79 in relation to its membership in the Public University Fund and is uncertain of the impact on the financial statements and related reporting requirements at this time.



# Notes to the Financial Statements

## For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

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

### C. Basis of Accounting

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

### D. Cash and Cash Equivalents

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

### E. Investments

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

### F. Inventories

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

### G. Capital Assets

Capital assets are recorded at cost on the date acquired or at fair market value on the date donated. Oregon Tech capitalizes equipment with unit costs of five thousand dollars or more and an estimated useful life of greater than one year. Oregon Tech 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. In addition, a group of related assets may be capitalized as a single asset when there is a major asset with related underlying assets, valued separately at under five thousand dollars, which will be depreciated separately, but must also be capitalized. Expenditures below the capitalization threshold and repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Oregon Tech capitalizes interest expense as part of the historical cost of acquiring capital assets. The amount of interest capitalized is the portion of the interest cost incurred during the assets' acquisition periods that could have been avoided if outlays for the assets had not been made. For the fiscal years ended June 30, 2016 and 2015, no projects qualified for capitalized interest.

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

### H. Unearned Revenues

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

### I. Compensated Absences

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

### J. Net Pension Asset/Liability

The net pension asset/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. Oregon Tech is included in the proportionate share for all state agencies. The Oregon Tech proportionate share of all state agencies is allocated by the Oregon State Department of Administrative Services. The system-wide Plan uses the accrual basis of accounting. For more information, see Note 14. "Employee Retirement Plans".

### K. Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources represent the use of resources in one period that is applicable to, and will be recognized in, a period which is more than a year in the future. Deferred inflows of resources represent the acquisition of resources that is applicable to, and will be recognized in, a period which is more than a year in the future. Deferred outflows of resources are related to defined benefit pension plans and deferred gains and losses on the refunding of debt. Deferred inflows of resources are related to defined benefit pension plans.

### L. Net Position

Oregon Tech'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 – EXPENDABLE

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





# Notes to the Financial Statements

## For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

### UNRESTRICTED

Unrestricted are resources that may be used at the discretion of the Board.

When an expense is incurred that can be paid using either restricted or unrestricted resources, restricted resources are applied first.

### M. Endowments

The University has the authority to use the interest, income, dividends, or profits of endowments. The Oregon Tech Board policy is to annually distribute, for spending purposes, four percent of the preceding 20 quarter moving average of the market value of the endowment funds and to maintain the purchasing power of the funds as nearly as prudent investment permits. In accordance with current Board policy, the amount available for distribution during fiscal year 2017 is estimated to be \$11.

Oregon Tech's endowments are not true endowments (in that the donor does not require the corpus to remain intact in perpetuity) and are included in the Expendable Gifts, Grants, and Contracts on the Statement of Net Position. See Note 2B. "Investments" for additional information.

### N. Income Taxes

Oregon Tech is treated as a governmental entity for tax purposes. As such, Oregon Tech is generally not subject to federal and state income taxes. However, Oregon Tech 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 provision has been recorded for the year ended June 30, 2016 because there is no significant amount of taxes on such unrelated business income for Oregon Tech.

### O. Revenues and Expenses

Oregon Tech 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 for capital assets.

Nonoperating revenues generally have the characteristics of nonexchange transactions. In a nonexchange transaction, Oregon Tech 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 GASBs No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASBs No. 34. Examples of nonoperating expenses include interest on capital asset related debt expenses.

### P. Allowances

Student tuition and fees and campus housing revenues included in auxiliary enterprises revenues are reported net of scholarship allowances. A scholarship allowance is the difference between the stated charge for tuition, fees, and housing provided by the university and the amount that is billed to the student and/or third parties making payments on behalf of the student. Oregon Tech has two types of scholarship allowances that net into tuition and fees. Tuition and housing waivers, provided directly by Oregon Tech, amounted to \$3,245 and \$3,074 for the fiscal years ended 2016 and 2015, respectively. Revenues from financial aid programs (e.g., Pell Grants, Supplemental Educational Opportunity Grants, and Oregon Opportunity Grants) used for paying student tuition and fees and campus housing was estimated to be \$4,715 and \$4,703 for the fiscal year ended 2016 and 2015, respectively. Bad debt expense is included as an allowance to operating revenues and is estimated to be (\$24) and \$60 for the fiscal years ended 2016 and 2015, respectively.

### Q. Federal Student Loan Programs

Oregon Tech receives proceeds from the Federal Direct Student Loan Program. Since Oregon Tech transmits these grantor supplied moneys without having administrative or direct financial involvement in the program, these loans are not reported in operations. Federal student loans received by Oregon Tech students but not reported in operations was \$19,203 and \$19,111 for the fiscal years ended 2016 and 2015, respectively.

### R. Use of Estimates

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

### S. Change in Accounting Principle

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

Restated Net Position due to Change in Accounting Principle

	July 1, 2014
Beginning Net Position	\$ 24,676
Less Beginning Net Pension Liability	(4,803)
Plus Beginning Deferred Outflows	908
Total Change in Accounting Principle	\$ (3,895)
Restated Beginning Net Position	\$ 20,781



# Notes to the Financial Statements

## For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

### T. Reclassifications

Certain amounts within the June 30, 2015 financial statements have been reclassified to conform to the June 30, 2016 presentation. The reclassifications had no effect on previously reported total net position.

### 2. Cash and Investments

At June 30, 2016 and 2015, the majority of Oregon Tech's current cash and investments were held in custody with the Oregon State Treasury (State Treasury). These invested assets are managed through several commingled investment pools at the State Treasury. The operating funds of Oregon Tech are commingled with cash and investments from other public universities in Oregon and referred to collectively as the Public University Fund (PUF). The investments held in the PUF are managed by the State Treasury and administered by the statutorily defined Designated University. Oregon State University is currently serving as the Designated University for the PUF. Each underlying investment pool has an investment policy and set of objectives identifying risk and return parameters. The State Treasury invests these deposits in high grade, dollar-denominated, short and intermediate-term fixed income securities. The Oregon Investment Council (OIC) provides oversight and counsel on the investment policies for each investment pool held in the PUF.

In general, deposits and investment securities as described below are exposed to various risks such as credit, concentration of credit, custodial credit, and interest rate. 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 full disclosure regarding cash and investments held at the State Treasury, a copy of the State Treasury audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St. N.E., Suite 100, Salem, OR 97301-3896 or by linking via the internet at [oregon.gov/treasury/Reports/Pages/Annual-Reports.aspx](http://oregon.gov/treasury/Reports/Pages/Annual-Reports.aspx).

### A. Cash and Cash Equivalents

#### DEPOSITS WITH STATE TREASURY

Oregon Tech maintains the majority of its current cash balances on deposit with the State Treasury. These deposits are held, on a pooled basis as described above, in the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool for use by all state and related agencies. The State Treasurer invests these deposits in high-grade short-term investment securities. Because Oregon Tech banks through the State Treasury, the University does not have a statutory requirement to collateralize deposits, but does have a contractual obligation through their banking agreement with the State to collateralize deposits within 24 hours of receipt. At the fiscal years ended June 30, 2016 and 2015, respectively, Oregon Tech cash and cash equivalents on deposit at State Treasury was \$9,333 and \$8,432.

Cash and Cash Equivalents on deposit with the State Treasury are classified as current and noncurrent which include both restricted and unrestricted cash and are summarized at June 30, 2016 and 2015 as follows:

	June 30, 2016	June 30, 2015
<b>Current</b>		
Unrestricted	\$ 6,754	\$ 5,316
Restricted For:		
Gifts, Grants and Contracts	135	130
Debt Service	407	187
Student Aid	304	261
Endowments	91	117
Payroll Vendor Payments	360	310
<b>Total Current</b>	<b>8,051</b>	<b>6,321</b>
<b>Noncurrent</b>		
Restricted For:		
Capital	724	1,374
Debt Service	551	729
Student Groups and Campus Organizations	7	8
<b>Total Noncurrent</b>	<b>1,282</b>	<b>2,111</b>
<b>Total</b>	<b>\$ 9,333</b>	<b>\$ 8,432</b>

#### 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. Oregon Tech cash balances held on deposit at the State Treasury are invested continuously, therefore, custodial credit risk exposure to the State Treasury is low.

#### FOREIGN CURRENCY RISK—DEPOSITS

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

#### OTHER DEPOSITS

For the years ended June 30, 2016 and 2015, respectively, Oregon Tech had vault and petty cash balances of \$59 and \$79. Additionally, Oregon Tech had cash held by trustee related to capital construction bonds in the amount of \$4,209 for the fiscal year ended June 30, 2015. There was no cash held by trustee for the fiscal year ended June 30, 2016. Cash held by trustee is included in noncurrent cash in the Statement of Net Position.

### B. Investments

Oregon Tech's operating funds and quasi-endowments are invested in the PUF. The investment policies are approved by the Board, with counsel and oversight from the OIC. Investments of those funds are managed as a prudent investor would do, exercising reasonable care, skill and caution. While the State Treasury is authorized to utilize demand deposit accounts and fixed-income investments, equity investments must



# Notes to the Financial Statements

## For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

be directed by external investment managers who are under contract to the OIC.

Investments are all classified as noncurrent and include both restricted and unrestricted funds. At June 30, 2016, Oregon Tech had \$22,367 in investments; of this, \$209 are temporarily restricted endowments, \$858 are funds held for payroll liabilities and undistributed student loans, \$1,690 are restricted for capital, and \$2,237 are funds held for debt service payments.

At June 30, 2015, Oregon Tech had \$14,292 in investments; of this, \$190 were temporarily restricted endowments, \$523 were funds held for payroll liabilities and undistributed student loans, and \$1,551 were funds held for debt service payments.

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

Significant events in domestic and international investment markets or aggressive action by the Federal Open Market Committee to influence both short and long-term interest rates contribute to price volatility. Consequently, the fair value of Oregon Tech's portion of PUF pooled investments is exposed to price volatility which could result in a substantial change in the fair value of certain investments from the amounts reported as of June 30, 2016.

As of June 30, 2016, \$14,010 was invested in the Oregon Intermediate Term Pool managed by State Treasury, \$8,148 was the PUF Long Term Pool managed by State Treasury, and \$209 are temporarily restricted endowments. As of June 30, 2015, \$8,894 was invested in an intermediate-term fixed income pool managed by State Treasury and \$5,398 was in a long-term fixed income pool managed by State Treasury. Investments of the Oregon Tech discretely presented component unit are summarized at June 30, 2016 and 2015, respectively as follows:

### COMPONENT UNIT

Fair Value at June 30, Investment Type:	2016	2015
Corporate Equity Securities	\$ 17,743	\$ 18,327
Investment in Partnership	1,616	1,816
Alternative Investments	1,340	1,455
Money Market Funds	362	470
Total Investments	<u>\$ 21,061</u>	<u>\$ 22,068</u>

### CREDIT RISK

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. Oregon Tech has an investment policy for each segment of its investment portfolio. As of June 30, 2016 and 2015, approximately 98.5 percent and 96.8 percent, respectively, of investments in the PUF Pool 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 \$305,760 and \$280,630 in fiscal year 2016 and 2015, respectively. Fixed income securities which have not been evaluated by the rating agencies totaled \$10,935 and \$16,843 in fiscal year 2016 and 2015, respectively. The PUF Investment Pool totaled \$321,409 and \$307,454 at June 30, 2016 and 2015, respectively, of which Oregon Tech owned \$22,367 or 7.0 percent and \$14,292 or 4.6 percent.

### CUSTODIAL CREDIT RISK

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The OIC has no formal policy regarding the holding of securities by a custodian or counterparty. For the years ended June 30, 2016 and 2015, the University's investments were exposed to custodial credit risk through the State Treasury.

### CONCENTRATION OF CREDIT RISK

Concentration of credit risk refers to potential losses if total investments are concentrated with one or few issuers. The policy for reducing this risk for fixed income securities is that, with the exception of U.S. Government and Agency issues, no more than five percent of the bond portfolio, at par value, will be invested in securities of a single issuer or no more than five percent of the individual issue. For all other types of fixed income investments, not more than three percent of the market value of any investment fund was invested in any single security, unless part of an index fund. Per policy, no total investments with any 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. No Oregon Tech investments had reportable foreign currency risk at either June 30, 2016 or 2015.

### INTEREST RATE RISK

Investments in fixed income securities are subject to the risk that changes in interest rates will adversely affect the fair value of the investments. As of June 30, 2016 and 2015, respectively, securities in the PUF Investment Pool held subject to interest rate risk totaling \$316,695 and \$297,473 had an average duration of 3.00 and 2.74 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 MEASUREMENTS

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

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted market prices that are observable for the asset, either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3 – Inputs that are unobservable. These are only used if relevant Level 1 and Level 2 inputs are not available.

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

At June 30, 2016 the PUF Investment Pool totaled \$321,409. 100 percent of the total was valued using level 2 inputs.





# Notes to the Financial Statements

## For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

### 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. Oregon Tech's cash on deposit with the State Treasury is subject to securities lending. There were no significant violations of the provisions of securities lending agreements during the years ended June 30, 2016 and 2015.

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

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

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

The maturities of investments made with the cash collateral generally do not match the maturities of the securities loaned. Since the securities loaned are callable on demand by either the lender or borrower, the life of the loans at June 30, 2016 and 2015, is effectively one day. As of June 30, 2016 and 2015, the state had no credit risk exposure to borrowers because the amounts owed to borrowers exceeded the amounts borrowers owed to the State.

The fair value of the University's share of securities lending balances on loan as of June 30, 2016 and 2015 comprised the following:

	June 30, 2016	June 30, 2015
<b>Investment Type</b>		
U.S. Treasury and Agency Securities	\$ 1,070	\$ 1,242
Domestic Fixed Income Securities	360	375
<b>Total</b>	<b>\$ 1,430</b>	<b>\$ 1,617</b>

The fair value of the University's share of total cash and securities collateral received as of June 30, 2016 and 2015 was \$1,459 and \$1,651,

respectively. The fair value of the University's share of investments purchased with cash collateral as of June 30, 2016 and 2015 was \$1,241 and \$1,189, respectively.

### 3. Accounts Receivable

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

	June 30, 2016	June 30, 2015
Student Tuition and Fees	\$ 1,563	\$ 2,319
State, Other Government, and Private		
Gifts, Grants and Contracts	1,168	243
Federal Grants and Contracts	241	206
Auxiliary Enterprises and Other		
Operating Activities	274	254
Component Units	206	192
Other	696	2,047
	<u>4,148</u>	<u>5,261</u>
Less: Allowance for Doubtful Accounts	(207)	(204)
Accounts Receivable, Net	<u>\$ 3,941</u>	<u>\$ 5,057</u>

### 4. Notes Receivable

Oregon Tech Notes Receivable has two 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. Oregon Tech has provided an allowance for uncollectible loans which is calculated using the cohort default rate reported to the federal government.

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

	June 30, 2016		
	Current	Noncurrent	Total
Institutional and Other			
Student Loans	\$ 86	\$ 838	\$ 924
Federal Student Loans	326	1,421	1,747
	<u>412</u>	<u>2,259</u>	<u>2,671</u>
Less: Allowance for Doubtful			
Accounts	(44)	(198)	(242)
Notes Receivable, Net	<u>\$ 368</u>	<u>\$ 2,061</u>	<u>\$ 2,429</u>

	June 30, 2015		
	Current	Noncurrent	Total
Institutional and Other			
Student Loans	\$ 33	\$ 752	\$ 785
Federal Student Loans	426	1,649	2,075
	<u>459</u>	<u>2,401</u>	<u>2,860</u>
Less: Allowance for Doubtful			
Accounts	(254)	(57)	(311)
Notes Receivable, Net	<u>\$ 205</u>	<u>\$ 2,344</u>	<u>\$ 2,549</u>



# Notes to the Financial Statements

## For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

### 5. Capital Assets

The following schedule reflects the changes in capital assets:

	Balance July 1, 2014	Additions	Transfer Completed Assets	Retire. And Adjust.	Balance June 30, 2015	Additions	Transfer Completed Assets	Retire. And Adjust.	Balance June 30, 2016
<b>Capital Assets,</b>									
<b>Non-depreciable/Non-amortizable</b>									
Land	\$ 5,474	\$ -	\$ -	\$ -	\$ 5,474	\$ -	\$ -	\$ (157)	\$ 5,317
Capitalized Collections	1,039	-	-	1	1,040	-	-	(28)	1,012
Construction in Progress	8,745	2,088	(10,451)	-	382	1,873	(249)	(5)	2,001
<b>Total Capital Assets,</b>									
<b>Non-depreciable/Non-amortizable</b>	<u>15,258</u>	<u>2,088</u>	<u>(10,451)</u>	<u>1</u>	<u>6,896</u>	<u>1,873</u>	<u>(249)</u>	<u>(190)</u>	<u>8,330</u>
<b>Capital Assets, Depreciable/Amortizable:</b>									
Equipment	12,828	823	30	(1,917)	11,764	1,394	99	-	13,257
Library Materials	9,738	93	-	(163)	9,668	120	-	(191)	9,597
Buildings	109,324	-	935	-	110,259	1	-	(2,041)	108,219
Land Improvements	3,278	-	-	-	3,278	-	-	-	3,278
Improvements Other Than Buildings	401	-	55	-	456	1	-	-	457
Infrastructure	10,209	-	9,431	-	19,640	718	150	-	20,508
Intangible Assets	1,970	-	-	-	1,970	-	-	-	1,970
<b>Total Capital Assets, Depreciable/Amortizable</b>	<u>147,748</u>	<u>916</u>	<u>10,451</u>	<u>(2,080)</u>	<u>157,035</u>	<u>2,234</u>	<u>249</u>	<u>(2,232)</u>	<u>157,286</u>
<b>Less Accumulated Depreciation/Amortization for:</b>									
Equipment	(10,727)	(725)	-	1,914	(9,538)	(705)	-	-	(10,243)
Library Materials	(8,811)	(170)	-	94	(8,887)	(181)	-	190	(8,878)
Buildings	(37,061)	(2,770)	-	-	(39,831)	(2,742)	-	1,196	(41,377)
Land Improvements	(1,938)	(103)	-	-	(2,041)	(103)	-	-	(2,144)
Improvements Other Than Buildings	(190)	(38)	-	-	(228)	(39)	-	-	(267)
Infrastructure	(5,634)	(676)	-	-	(6,310)	(890)	-	-	(7,200)
Intangible Assets	(1,760)	(79)	-	-	(1,839)	(53)	-	-	(1,892)
<b>Total Accumulated Depreciation/Amortization</b>	<u>(66,121)</u>	<u>(4,561)</u>	<u>-</u>	<u>2,008</u>	<u>(68,674)</u>	<u>(4,713)</u>	<u>-</u>	<u>1,386</u>	<u>(72,001)</u>
<b>Total Capital Assets, Net</b>	<u>\$ 96,885</u>	<u>\$ (1,557)</u>	<u>\$ -</u>	<u>\$ (71)</u>	<u>\$ 95,257</u>	<u>\$ (606)</u>	<u>\$ -</u>	<u>\$ (1,036)</u>	<u>\$ 93,615</u>
<b>Capital Assets Summary</b>									
Capital Assets, Non-depreciable/Non-amortizable	\$ 15,258	\$ 2,088	\$ (10,451)	\$ 1	\$ 6,896	\$ 1,873	\$ (249)	\$ (190)	\$ 8,330
Capital Assets, Depreciable/Amortizable	147,748	916	10,451	(2,080)	157,035	2,234	249	(2,232)	157,286
<b>Total Cost of Capital Assets</b>	<u>163,006</u>	<u>3,004</u>	<u>-</u>	<u>(2,079)</u>	<u>163,931</u>	<u>4,107</u>	<u>-</u>	<u>(2,422)</u>	<u>165,616</u>
<b>Less Accumulated Depreciation/Amortization</b>	<u>(66,121)</u>	<u>(4,561)</u>	<u>-</u>	<u>2,008</u>	<u>(68,674)</u>	<u>(4,713)</u>	<u>-</u>	<u>1,386</u>	<u>(72,001)</u>
<b>Total Capital Assets, Net</b>	<u>\$ 96,885</u>	<u>\$ (1,557)</u>	<u>\$ -</u>	<u>\$ (71)</u>	<u>\$ 95,257</u>	<u>\$ (606)</u>	<u>\$ -</u>	<u>\$ (1,036)</u>	<u>\$ 93,615</u>



# Notes to the Financial Statements

## For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

### 6. Deferred Inflows and Outflows of Resources

Deferred Inflows and Outflows of Resources comprised the following:

	June 30, 2014	Additions	Reductions	June 30, 2015	Additions	Reductions	June 30, 2016
<b>Deferred Outflows of Resources</b>							
Deferred Gain/Loss on Refunding of Debt	\$ 1,795	\$ 1,280	\$ (476)	\$ 2,599	\$ -	\$ (2,599)	\$ -
Pension Contributions Subsequent to the Measurement Date	-	1,746	(908)	838	1,004	(838)	1,004
Differences Between Pension Contributions and Proportionate Share of Contributions	-	38	-	38	153	(37)	154
Difference Between Expected and Actual Experience	-	-	-	-	399	(74)	325
<b>Total</b>	<b>\$ 1,795</b>	<b>\$ 3,064</b>	<b>\$ (1,384)</b>	<b>\$ 3,475</b>	<b>\$ 1,556</b>	<b>\$ (3,548)</b>	<b>\$ 1,483</b>
<b>Deferred Inflows of Resources</b>							
Differences Between Pension Contributions and Proportionate Share of Contributions	\$ -	\$ -	\$ -	\$ -	\$ 250	\$ (46)	\$ 204
Difference Between Projected and Actual Earnings on Pension Plan Investments	-	4,116	-	4,116	1,020	(3,873)	1,263
<b>Total</b>	<b>\$ -</b>	<b>\$ 4,116</b>	<b>\$ -</b>	<b>\$ 4,116</b>	<b>\$ 1,270</b>	<b>\$ (3,919)</b>	<b>\$ 1,467</b>

### 7. Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities comprised the following:

	June 30, 2016	June 30, 2015
Salaries and Wages	\$ 1,872	\$ 1,745
Accrued Interest	863	1,211
Payroll Benefits Related	1,239	1,053
Services and Supplies	1,245	928
Financial Aid	17	3
Refunds Payable	(15)	236
<b>Total</b>	<b>\$ 5,221</b>	<b>\$ 5,176</b>

### 8. Operating Leases

#### A. Receivables/Revenues

Oregon Tech receives income for land, property and equipment that is leased to non-State entities. Rental income received from leases was \$516 and \$549 for the year ended June 30, 2016 and 2015, respectively. The original cost of assets leased, net of depreciation, was \$5,104 and \$6,064 for the year ended June 30, 2016 and 2015, respectively. Minimum future lease revenue for noncancelable operating leases at June 30, 2016 were:

For the year ending June 30,

2017	\$ 674
2018	737
2019	759
2020	128
2021	1
2022-2026	7
2027-2031	7
2032-2036	7
2037-2041	7
2042-2046	7
2047-2051	3
<b>Total Minimum Operating Lease Revenues</b>	<b>\$ 2,337</b>

#### B. Payables/Expenses

Oregon Tech leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases and rents were \$697 and \$691 for the year ended June 30, 2016 and 2015, respectively. Minimum future lease payments on operating leases at June 30, 2016 were:

For the year ending June 30,

2017	\$ 610
2018	324
2019	211
2020	215
2021	209
<b>Total Minimum Operating Lease Payments</b>	<b>\$ 1,569</b>





Notes to the Financial Statements  
For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

## 9. Long-Term Liabilities

Long-term liability activity was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amount Due Within One Year	Long-Term Portion
<b>Long-Term Debt</b>						
Due to State of Oregon:						
General Obligation Bonds XI-F(1) Contracts	\$ 45,928	\$ 177	\$ (6,568)	\$ 39,537	\$ 1,526	\$ 38,011
General Obligation Bonds XI-G	13,651		(13,651)	-		-
General Obligation Bonds XI-Q	6,725		(6,725)	-		-
Certificates of Participation (COPs)	1,424		(1,424)	-		-
Lottery Bonds	24,111		(24,111)	-		-
Oregon Department of Energy Loans (SELP)	1,755	-	(156)	1,599	158	1,441
Total Long-Term Debt	93,594	177	(52,635)	41,136	1,684	39,452
<b>Other Noncurrent Liabilities</b>						
PERS pre-SLGRP pooled Liability	1,783	-	(61)	1,722	61	1,661
Compensated Absences	1,458	932	(987)	1,403	1,004	399
Other Postemployment Benefits	662	-	(68)	594	-	594
Employee Termination Liabilities	-	124	-	124	124	-
Early Retirement Liability	237	-	(80)	157	51	106
Total Other Noncurrent Liabilities	4,140	1,056	(1,196)	4,000	1,240	2,760
<b>Total Long-Term Liabilities</b>	<b>\$ 97,734</b>	<b>\$ 1,233</b>	<b>\$ (53,831)</b>	<b>\$ 45,136</b>	<b>\$ 2,924</b>	<b>\$ 42,212</b>

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Amount Due Within One Year	Long-Term Portion
<b>Long-Term Debt</b>						
Due to State of Oregon:						
General Obligation Bonds XI-F(1)	\$ 46,876	\$ 9,165	\$ (10,113)	\$ 45,928	\$ 1,785	\$ 44,143
General Obligation Bonds XI-G	13,653	5,689	(5,691)	13,651	594	13,057
General Obligation Bonds XI-Q	835	5,934	(44)	6,725	511	6,214
Certificates of Participation (COPs)	3,158	-	(1,734)	1,424	157	1,267
Lottery Bonds	24,108	2,650	(2,647)	24,111	1,186	22,925
Oregon Department of Energy Loans (SELP)	1,901	-	(146)	1,755	151	1,604
Total Long-Term Debt	90,531	23,438	(20,375)	93,594	4,384	89,210
<b>Other Noncurrent Liabilities</b>						
PERS pre-SLGRP pooled Liability	1,864	-	(81)	1,783	72	1,711
Compensated Absences	1,346	1,094	(982)	1,458	988	470
Other Postemployment Benefits	624	38	-	662	-	662
Early Retirement Liability	337	-	(100)	237	82	155
Total Other Noncurrent Liabilities	4,171	1,132	(1,163)	4,140	1,142	2,998
<b>Total Long-Term Liabilities</b>	<b>\$ 94,702</b>	<b>\$ 24,570</b>	<b>\$ (21,538)</b>	<b>\$ 97,734</b>	<b>\$ 5,526</b>	<b>\$ 92,208</b>



## Notes to the Financial Statements

### For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

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

For the Year Ending June 30,	Contracts XI-F(1)	SELP	Total Payments	Principal	Interest
2017	\$ 3,262	\$ 247	\$ 3,509	\$ 1,529	\$ 1,980
2018	3,197	187	3,384	1,553	1,831
2019	3,188	157	3,345	1,582	1,763
2020	3,130	157	3,287	1,580	1,707
2021	3,053	157	3,210	1,654	1,556
2022-2026	15,128	786	15,914	9,040	6,874
2027-2031	13,541	617	14,158	9,441	4,717
2032-2036	10,178	-	10,178	7,731	2,447
2037-2041	5,799	-	5,799	4,913	886
2042-2046	1,798	-	1,798	1,670	128
Accreted Interest				443	(443)
				<b>\$ 41,136</b>	<b>\$ 23,446</b>
<b>Total Future Debt Service</b>	<b>62,274</b>	<b>2,308</b>	<b>64,582</b>		
Less: Interest Component of Future Payments	(22,737)	(709)	(23,446)		
<b>Principal Portion of Future Payments</b>	<b>\$ 39,537</b>	<b>\$ 1,599</b>	<b>\$ 41,136</b>		

The State of Oregon issues various debt instruments to fund capital projects at Oregon Tech. These debt instruments include General Obligation Bonds under articles XI-F(1), XI-G, and XI-Q of the Oregon Constitution, and Lottery Bonds. In addition, Oregon Tech also borrows funds from the Oregon Department of Energy. Due to Oregon Tech becoming a discretely presented component unit rather than an enterprise fund of the State for financial reporting, as of the fiscal year ended June 30, 2016, all state paid bonded debt recorded by Oregon Tech as a long-term liability was removed and is now recorded by the State as the owner of the debt. The State has entered into contractual agreements with Oregon Tech for the payment of the principal and interest amounts due relating to the University's share of XI-F(1). Principal and interest amounts due related to SELP are payable to the State as well.

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

Oregon Tech has entered into loan agreements with the State of Oregon for repayment of XI-F(1) bonds issued by the State on behalf of Oregon Tech for capital construction and refunding of previously issued debt. Oregon Tech makes loan payments (principal and interest) to the State in accordance with the loan agreements. Loans, with interest rates ranging from 0.87 percent to 7.0 percent, are due serially through 2044.

During the fiscal year ended June 30, 2016, no new XI-F(1) bonds were issued by the State on behalf of Oregon Tech. As of July 1, 2015, \$5,036 in premiums and discounts associated with XI-F(1) debt were removed from the long-term liabilities of Oregon Tech, as discussed previously in this note. See Note 18. "Change in Entity" for additional information.

During the fiscal year ended June 30, 2015, the State issued bonded indebtedness on behalf of Oregon Tech as follows:

- \$7,635 Series 2015B tax exempt bonds with an effective rate of 4.68 percent, due serially through 2039 for refunding.

#### B. General Obligation Bonds XI-G

As of the fiscal year ended June 30, 2016, \$13,651 in XI-G bonded debt was removed from the long-term liabilities of Oregon Tech. Oregon Tech retained no amount of XI-G bonded debt, as discussed previously in this note. See Note 1. "Organization and Summary of Significant Accounting Policies" and Note 18. "Change in Entity" for additional information on the change in legal status.

The State no longer issues XI-G bonds which result in a liability to the university.

#### C. General Obligation Bonds XI-Q

As of the fiscal year ended June 30, 2016, \$6,725 in XI-Q bonded debt was removed from the long-term liabilities of Oregon Tech. Oregon Tech retained no amount of XI-Q bonded debt, as discussed previously in this note. See Note 1. "Organization and Summary of Significant Accounting Policies" and Note 18. "Change in Entity" for additional information on the change in legal status. The state may, in the future, issue XI-Q bonds which result in a liability of the University. XI-Q bonds to be repaid by the State but received by the university from the State are recorded as capital grants.

#### D. Oregon Department of Energy Loans

Oregon Tech 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 Oregon Tech. Oregon Tech makes monthly loan payments (principal and interest) to the DOE in accordance with the loan agreements. SELP loans, with interest rates ranging from 3.2 percent to 5.67 percent, are due through 2030.



# Notes to the Financial Statements

## For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

### E. Certificates of Participation

As of the fiscal year ended June 30, 2016, \$1,424 in COPs debt was removed from the long-term liabilities of Oregon Tech. Oregon Tech retained no amount of COPs debt, as discussed previously in this note. See Note 1. "Organization and Summary of Significant Accounting Policies" and Note 18. "Change in Entity" for additional information on the change in legal status. The State no longer issues COPs.

### F. Lottery Bonds

As of the fiscal year ended June 30, 2016, \$24,111 in Lottery bonded debt was removed from the long-term liabilities of Oregon Tech. Oregon Tech retained no amount of Lottery bonded debt, as discussed previously in this note. See Note 1. "Organization and Summary of Significant Accounting Policies" and Note 18. "Change in Entity" for additional information on the change in legal status.

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

### G. Defeased Debt

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

During the fiscal year ended June 30, 2015, the State issued on behalf of Oregon Tech \$7,635 in XI-F(1) bonds with an average interest rate of 4.68 percent to refund \$8,306 in XI-F(1) bonds with an average interest rate of 4.76 percent. The net proceeds of the bonds were \$9,081 (after payment of \$53 in underwriting costs and bond premium of \$1,499).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$530. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 23 years by \$1,644 and resulted in an economic gain of \$1,297.

The total amount of the defeased debt outstanding but removed from the financial statements amounted to \$20,721 at June 30, 2015. Total amount of defeased debt outstanding amounted to \$20,343 as of June 30, 2016.

### H. State and Local Government Rate Pool

Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), and local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP effective January 1, 2002, at which time a transitional, pre-SLGRP liability was created. The pre-SLGRP liability is essentially a debt owed to the SLGRP by the SCCP employers. The balance of the pre-SLGRP pooled liability attributable to the State is being amortized over the period ending December 31, 2027. The liability is allocated by the State of Oregon, based on salaries and wages, to all proprietary funds and the government-wide reporting fund in the State Comprehensive Annual Financial Report. Interest expense was paid by Oregon Tech in the amount of \$121 and \$125 for June 30, 2016 and 2015, respectively. Principal payments of \$61 and \$72 were applied to the liability for June 30, 2016 and 2015, respectively. A

prior period adjustment of \$10 was applied to the Oregon Tech SLGRP liability by the state at June 30, 2015.

### I. Early Retirement Liability

Oregon Tech offered a tenure relinquishment plan that closed December 31, 2013. Faculty that accepted the plan retired by December 31, 2013 and are receiving a fixed subsidy amount for health benefits covering the term until the faculty member turns 65. Four faculty members continue to receive payments under this plan and a \$157 liability will be paid out through fiscal year 2021.

### 10. Unrestricted Net Position

Unrestricted net position is comprised of the following:

	June 30, 2016	June 30, 2015
University Operations	\$ 23,487	\$ 13,127
Compensated Absences Liability (Note 9)	(1,403)	(1,458)
Other Post-Employment Benefits Liability (Notes 9 and 15)	(594)	(662)
State and Local Government Rate Pool (Note 9)	(1,722)	(1,783)
Net Pension Asset/(Liability)	(6,027)	2,133
Pension Related Deferred Outflows (Note 6)	1,483	876
Pension Related Deferred Inflows (Note 6)	(1,467)	(4,116)
<b>Total Unrestricted Net Position</b>	<b>\$ 13,757</b>	<b>\$ 8,117</b>

### 11. Investment Activity

Investment Activity detail is as follows:

	June 30, 2016	June 30, 2015
Net Appreciation of Investments	\$ 145	\$ 56
Investment Earnings	616	300
Temporarily Restricted Endowment Income	-	10
Interest Income	1	6
<b>Total Investment Activity</b>	<b>\$ 762</b>	<b>\$ 372</b>





# Notes to the Financial Statements

## For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

### 12. Operating Expenses by Natural Classification

The Statement of Revenues, Expenses and Changes in Net Position reports operating expenses by their functional classification. The table below displays operating expenses by both their functional classification and their natural classification. Beginning with the fiscal year ended June 30, 2015, the reporting of the Net Pension Asset, and then the Net Pension Liability for fiscal year ended June 30, 2016, affected the reported Compensation and Benefit Expenses of Oregon Tech. For the fiscal year ended June 30, 2016, changes in the Net Pension Liability and associated reporting requirements increased the reported Compensation and Benefit expenses of Oregon Tech by \$4,904. For the fiscal year ended June 30, 2015, change in the Net Pension Asset and associated reporting requirement decreased reported Compensation and Benefit expenses by \$2,788. See page 15 of the Management's Discussion & Analysis section of this report for additional details and discussion of the impact of this change.

June 30, 2016	Compensation and Benefits	Services and Supplies	Scholarships and Fellowships	Depreciation and Amortization	Other	Total
Instruction	\$ 25,403	\$ 2,486	\$ -	\$ -	\$ -	\$ 27,889
Research	651	192	5	-	-	848
Public Services	51	43	1	-	-	95
Academic Support	5,431	1,361	-	-	-	6,792
Student Services	3,629	769	14	-	-	4,412
Auxiliary Services	3,958	4,769	61	1,503	-	10,291
Institutional Support	6,324	2,122	-	-	-	8,446
Operation & Maintenance	2,658	1,591	-	-	-	4,249
Student Aid	-	-	4,563	-	(7)	4,556
Other	88	(359)	-	3,210	-	2,939
<b>Total</b>	<b>\$ 48,193</b>	<b>\$ 12,974</b>	<b>\$ 4,644</b>	<b>\$ 4,713</b>	<b>\$ (7)</b>	<b>\$ 70,517</b>

June 30, 2015	Compensation and Benefits	Services and Supplies	Scholarships and Fellowships	Depreciation and Amortization	Other	Total
Instruction	\$ 21,185	\$ 3,093	\$ -	\$ -	\$ -	\$ 24,278
Research	314	241	19	-	-	574
Public Services	130	62	-	-	-	192
Academic Support	3,909	1,324	-	-	-	5,233
Student Services	2,718	1,037	45	-	-	3,800
Auxiliary Services	3,347	4,788	118	1,293	-	9,546
Institutional Support	4,550	1,693	1	-	-	6,244
Operation & Maintenance	1,960	1,087	-	-	-	3,047
Student Aid	-	233	4,491	-	68	4,792
Other	35	370	-	3,268	-	3,673
<b>Total</b>	<b>\$ 38,148</b>	<b>\$ 13,928</b>	<b>\$ 4,674</b>	<b>\$ 4,561</b>	<b>\$ 68</b>	<b>\$ 61,379</b>

### 13. Government Appropriations

Oregon Tech receives support from the State of Oregon in the form of General Fund and Lottery appropriations. These appropriations are in support of the operations of the University and debt service of XI-G and XI-Q general obligation bonds, COPs, SELP, and Lottery bonds. With the removal of state paid debt on July 1, 2015, the University will no longer receive appropriations for debt service for XI-G and XI-Q general obligation bonds, COPS or Lottery bonds. Appropriations for SELP debt service are dependent upon the loan agreements between the University and the Oregon Department of Energy. Government appropriations comprised the following:

	June 30, 2016		
	General Operations	Debt Service	Total
State General Fund	\$ 24,719	\$ 189	\$ 24,908
State Lottery Funding	457	-	457
<b>Total Appropriations</b>	<b>\$ 25,176</b>	<b>\$ 189</b>	<b>\$ 25,365</b>

	June 30, 2015		
	General Operations	Debt Service	Total
State General Fund	\$ 19,996	\$ 1,580	\$ 21,576
State Lottery Funding	443	841	1,284
<b>Total Appropriations</b>	<b>\$ 20,439</b>	<b>\$ 2,421</b>	<b>\$ 22,860</b>

### 14. Employee Retirement Plans

Oregon Tech offers various retirement plans to qualified employees as described below.

#### A. Public Employees Retirement Plan (PERS)

**Organization:** Oregon Tech 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



## Notes to the Financial Statements For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

Individual Account Program (IAP). The IAP is a defined contribution plan. Membership includes public employees hired on or after August 29, 2003.

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

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

[http://www.oregon.gov/pers/Pages/section/financial\\_reports/financials.aspx](http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx)

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

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

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

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

**Changes to Plan Provisions:** Since the December 31, 2013 actuarial valuation, the system-wide actuarial accrued liability has increased primarily due to the Moro decision and assumption changes, along with interest on the liability as current active members get closer to retirement. The Oregon Supreme Court decision in *Moro v. State of Oregon*, issued on April 30, 2015, reversed a significant portion of the reductions the 2013 Oregon Legislature made to future system Cost of Living Adjustments (COLA) through Senate Bills 822 and 861. This reversal increased the benefits projected to be paid by Employers compared to those developed in the prior actuarial valuation, and consequently increased plan liabilities. The employers' projected long-

term contribution effort has been adjusted for the estimated impact of the *Moro* Decision. In accordance with statute, a biennial review of actuarial methods and assumptions was completed in 2015 to be used for the December 31, 2014 actuarial valuation. After completion of this review and subsequent to the measurement date, the PERS Board adopted several assumption changes, including lowering the investment return assumption to 7.50%, which will be effective January 1, 2016.

**Pension Plan Liability:** The components of the collective net pension liability are as follows (dollars in millions):

	June 30, 2015
Total Pension Liability	\$ 70,665
Plan Fiduciary Net Position	64,924
Collective Net Pension Liability	\$ 5,741

### OREGON PERS PENSION (CHAPTER 238) PROGRAM

#### Pension Benefits

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results. Monthly payments must be a minimum of \$200 per month or the member will receive a lump-sum payment of the actuarial equivalence of benefits to which he or she is entitled. A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer. General Service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

#### Death Benefits

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

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

#### Disability Benefits

A member with 10 or more years of creditable service who becomes



## Notes to the Financial Statements

### For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

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

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

##### Pension Benefits

The OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

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

##### Death Benefits

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

##### Disability Benefits

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

#### Benefit Changes After Retirement

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

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

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. Upon retirement, a member of the OPSRP IAP may receive the amounts in his or her employee account, rollover account, and vested employer

account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

#### Pension Plan Contributions

PERS and OPSRP employee contribution requirements are established by ORS 238.200 and ORS 238A.330, respectively, and are credited to an employee's account in the Individual Account Program and may be amended by an act of the Oregon Legislature. PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

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

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

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

Employer required contributions for the years ended June 30, 2016 and June 30, 2015 were \$1,186 and \$1,034, respectively, including amounts to fund employer specific liabilities.

#### Net Pension (Asset) Liability

At June 30, 2016, the University reported a liability of \$6,027 for its proportionate share of the PERS net pension liability. At June 30, 2015, the University reported an asset of \$2,133 for its proportionate share of the PERS net pension asset. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. The net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2012. The PERS system does not provide Oregon Tech an audited proportionate share as a separate employer; the University is a proportionate share of PERS employer state agencies which includes all state agencies. The State of Oregon Department of Administrative Services calculated Oregon Tech's proportional share of all state agencies internally based on fiscal year 2015 actual contributions by Oregon Tech compared to the total for employer state agencies. The State of Oregon Audits Division reviewed this internal calculation. At June 30, 2016, Oregon Tech's proportion was 0.10 percent of the statewide pension plan and 0.41 percent of employer state agencies. At June 30, 2015, Oregon Tech's proportion was 0.09 percent of the statewide pension plan, and





## Notes to the Financial Statements

### For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

0.40 percent of employer state agencies.

For the year ended June 30, 2016, Oregon Tech recorded pension expense of \$5,908 due to the increase in net pension liability and changes to deferred inflows and outflows. For the year ended June 30, 2015, Oregon Tech recorded a negative pension expense of \$1,950 due to the implementation of GASB Statement Nos. 68 and 71.

At June 30, 2016, Oregon Tech 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	\$ 325	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,263
Changes in proportion and differences between System's contributions and proportionate share of contributions	154	204
<b>Total</b>	<b>\$ 479</b>	<b>\$ 1,467</b>
Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD)		\$ (988)
Contributions Subsequent to the MD	1,004	
Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD		<b>\$ 16</b>

Of the amount reported as deferred outflows of resources, \$1,004 is related to pensions resulting from Oregon Tech contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Outflow/(Inflow) of Resources
Year Ended June 30:	
2017	\$ (539)
2018	(539)
2019	(538)
2020	606
2021	22
	<b>\$ (988)</b>

#### Deferred Items

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

- A difference between expected and actual experience, which is being amortized over 5.4 years, the remaining service lives of all plan participants, including retirees. One year of this amortization is recognized in the employer's total pension expense for the fiscal year 2016.
- A net difference between projected and actual earnings which is

being amortized over a closed five-year period. One year of this amortization is being recognized in the employer's total pension expense for fiscal year 2016.

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

#### Actuarial Methods and Assumptions

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

Actuarial Methods:	
Valuation Date Net Pension Liability	December 31, 2013
Valuation Date Net Pension Asset	December 31, 2012
Measurement Date Net Pension Liability	June 30, 2015
Measurement Date Net Pension Asset	June 30, 2014
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Actuarial assumptions:	
Inflation rate	2.75 percent
Long-Term expected rate of return	7.75 percent
Discount rate	7.75 percent
Projected salary increases	3.75 percent
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision; blend based on service
Mortality	<i>Healthy retirees and beneficiaries:</i>
	RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.
	<i>Active members:</i>
	Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.
	<i>Disabled retirees:</i>
	Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

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

#### Discount Rate

The discount rate used to measure the total pension asset/liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as



## Notes to the Financial Statements

### For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

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

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

	Oregon Tech's proportionate share of the net pension liability	
	June 30, 2016	June 30, 2015
1 % Decrease 6.75%	\$ 14,546	\$ 4,518
Current Discount Rate 7.75%	\$ 6,027	\$ (2,133)
1 % Increase 8.75%	\$ (1,152)	\$ (7,759)

#### Depletion Date Projection

GASBs 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 GASBs No. 68 will often require that the actuary perform complex projections of future benefit payments and pension plan investments. GASBs No. 68 (paragraph 67) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

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

- Oregon PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASBs No. 68 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, it is the independent actuary's opinion that the detailed depletion date projections outlined in GASBs No. 68 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

#### Assumed Asset Allocation

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

#### Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. Each asset assumption is based on a consistent set of underlying assumptions and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model. The table on the following page shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. For more information on the Plan's portfolio, assumed asset allocation, and the long-term expected rate of return for each major asset class, calculated using both arithmetic and geometric means, see PERS' audited financial statements at: [http://www.oregon.gov/pers/Pages/docs/financial\\_reports/2015\\_cafr.pdf](http://www.oregon.gov/pers/Pages/docs/financial_reports/2015_cafr.pdf)

# Notes to the Financial Statements

## For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

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

### Bond Debt

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

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

The payroll assessment for the pension obligation bond began May 2004. The assessment rate for fiscal year 2016 was 6.7 percent through October 31, 2015. The rate was reduced to 6.0 percent effective November 1, 2015. The assessment rate for fiscal year 2015 was 6.7 percent. Payroll assessments for the fiscal years ended June 30, 2016 and 2015 were \$787 and \$780, respectively.

## B. Other Retirement Plans

### OPTIONAL RETIREMENT PLAN

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

may invest the employee and employer contributions in one of two investment companies, either Fidelity or TIAA.

The ORP consists of four tiers. Membership under ORP Tier One and Tier Two is determined using the same date of entry criteria as PERS. The third tier is determined by the date of entry applicable to the OPSRP. Employees hired on or after July 1, 2014 who elected the ORP are Tier Four members. The first contributions for Tier Four were payable January 2015 after six-months of qualifying service. Tier Four is a departure from the other three tiers. The employee is entitled to an employer contribution plus a “match” contribution based on the employee’s participation in the voluntary 403(b) investment plan. The employer contribution is fixed at 8 percent by plan rules and is unaffected by PERS rates, unlike the other tiers. The employer provides an ORP match contribution equal to 403(b) deferrals up to a 4 percent maximum. Under the ORP Tiers One, Two and Three, the employee’s contribution rate is 6 percent and is paid by the employer.

The employer contribution rates for the ORP are as follows:

	2016	2015
Tier One/Two	20.45%	16.50%
Tier Three	7.94%	6.42%
Tier Four	8.00%	8.00%

### OREGON PUBLIC UNIVERSITIES 401(A) DEFINED CONTRIBUTION PLAN

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

### SUMMARY OF OTHER PENSION PAYMENTS

Oregon Tech total payroll for the year ended June 30, 2016 was \$29,724, of which \$11,427 was subject to retirement plan contributions. The following schedule lists payments made by Oregon Tech for the fiscal year:

	June 30, 2016			
	Employer Contribution	As a % of Covered Payroll	Employee Contribution	As a % of Covered Payroll
ORP	\$ 1,442	12.62%	\$ 733	6.42%
TIAA	7	0.06%	7	0.06%
Total	\$ 1,449	12.68%	\$ 740	6.48%

Of the employee share, Oregon Tech paid \$704 of the ORP and \$7 of the TIAA employee contribution amounts on behalf of their employees during the fiscal year ended June 30, 2016.





## Notes to the Financial Statements

### For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

Oregon Tech total payroll for the year ended June 30, 2015 was \$28,218, of which \$11,255 was subject to retirement contributions. The following schedule lists payments made by Oregon Tech for the fiscal year:

	Employer Contribution	June 30, 2015		Employee Contribution	As a % of Covered Payroll
		As a % of Covered Payroll	As a % of Covered Payroll		
ORP	\$ 1,173	10.42%	\$ 677	6.02%	
TIAA	7	0.06%	7	0.06%	
Total	\$ 1,180	10.48%	\$ 684	6.08%	

Of the employee share, Oregon Tech paid \$672 of the ORP and \$7 of the TIAA employee contribution amounts on behalf of their employees during the fiscal year ended June 30, 2015.

## 15. Other Postemployment Benefits (OPEB)

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

The PEBB plan allows qualifying Oregon Tech employees retiring under PERS or OPSRP to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. The PEBB Plan allows qualifying retired employees to continue their "active" health insurance coverage on a self-pay basis until they are eligible for Medicare, usually at age 65. Participating retirees pay their own monthly premiums. However, the premium amount is based on a blended rate that is determined by pooling the qualifying retirees with active employees, thus, creating an "implicit rate subsidy" under GASBs No. 45. Health care premiums priced only for retirees, who on average incur higher health care claims costs than younger active employees, would be more expensive than health care premiums that are priced to cover the average costs of both active and retirees combined. GASBs No. 45 states that this implicit subsidy must be included in the liabilities and costs reported on the entity's financial statements.

The PEBB plan is also offered to retirees of other Oregon state agencies. Therefore, the amounts presented in this note are limited to Oregon Tech's share, estimated at 0.82 percent of the total PEBB plan costs attributable to the State of Oregon. This allocation was based on health insurance premiums paid by state agencies during fiscal year 2016.

**Funding Policy:** The PEBB's funding policy provides for employer contributions in amounts sufficient to fund the cost of active employee health benefits, including the retiree rate subsidy, on a pay-as-you-go basis. For fiscal years 2016 and 2015, Oregon Tech paid healthcare insurance premiums of \$6,569 and \$6,251, respectively. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be \$39 and \$49 for the fiscal years ended 2016 and 2015, respectively.

**Annual OPEB Cost and Net OPEB Obligation:** The Annual Required Contribution (ARC) is the amount PEBB would be required to report as an

expense for the fiscal year under GASBs No. 45. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL). As of June 30, 2015, the UAAL amortization was a level percentage of payroll over a period of 15 years. The amortization period is "open" which means that on each valuation date, the amortization amount is recalculated assuming 15 years' worth of future payments. Beginning with the July 1, 2015 UAAL, the amortization method is level dollar over a period of one year. Note, the ARC represents an accounting expense, but neither PEBB nor its covered agencies are required to contribute the ARC to a separate trust. Because funds are not set aside equal to the ARC each year, the Annual OPEB Cost (less actual benefit payments) will accumulate as a liability (Net OPEB Obligation) on PEBB's and Oregon Tech's Statement of Net Position. The Net OPEB obligation is allocated to the participating entities based on their proportionate share of annual health insurance premium costs.

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

	June 30, 2016	June 30, 2015
Annual Required Contribution	\$ 644	\$ 107
Interest on Net OPEB Obligation	24	22
Adjustment to Annual Required Contribution	(697)	(42)
Annual OPEB Cost	(29)	87
Contributions Made	(39)	(49)
Increase (Decrease) in Net OPEB Obligation	(68)	38
Net OPEB Obligation - Beginning of Year	662	624
Net OPEB Obligation - End of Year	\$ 594	\$ 662

The Oregon Tech annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the change in net OPEB obligation for the fiscal year ended June 30, 2016, 2015 and 2014 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ (29)	-5%	\$ 594
2015	87	13%	662
2014	131	21%	624

**Funding Status and Funding Progress:** The funded status of the Oregon Tech OPEB plan for June 30, 2016 and 2015 were as follows:

	June 30, 2016	June 30, 2015
Actuarial Accrued Liabilities	\$ 591	\$ 842
Actuarial Value of Plan Assets	-	-
Unfunded Actuarial Accrued Liability	\$ 591	\$ 842
Funded Ratio	0.00%	0.00%
Covered Payroll (active plan members)	\$ 24,339	\$ 23,146
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	2.43%	3.64%

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



# Notes to the Financial Statements

## For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

**Accrual Methods and Assumptions:** Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between Oregon Tech and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The PEBB postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by the PEBB consulting actuary at July 1, 2015. Significant methods and assumptions were as follows:

	June 30, 2016	June 30, 2015
Actuarial Valuation Date	7/1/2015	7/1/2013
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar	Level Percentage
Amortization Period	1 year (open)	15 Years (open)
Investment Rate of Return	3.5%	3.5%
Initial Healthcare Inflation Rates	5.1% (medical), 2.3% (dental)	3.6% (medical) 2.2% (dental)
Ultimate Healthcare Inflation Rates	5% (medical), 5% (dental)	5.4% (medical) 5.0% (dental)

## 16. Risk Financing

Oregon Tech 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, Oregon Tech transfers the following risk to the Trust:

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

Oregon Tech retains risk for losses under \$5, which is the deductible per claim for insurance purchased through the Trust.

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

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

In addition, Oregon Tech 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.

## 17. Commitments and Contingent Liabilities

Outstanding commitments on partially completed and planned but not initiated construction projects totaled approximately \$3,577 and \$578 at June 30, 2016 and 2015, respectively. These commitments will be primarily funded from gifts and grants, bond proceeds, and other Oregon Tech funds. Refer to the table accompanying this note for projects relating to construction commitments as of June 30, 2016.

Oregon Tech 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.

Oregon Tech 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. Oregon Tech 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 Oregon Tech cannot be reasonably determined at June 30, 2016.

### CONSTRUCTION COMMITMENTS AS OF JUNE 30, 2016

	Total Commitment	Completed to Date	Outstanding Commitment
Soccer Project	\$ 2,050	\$ 1,082	\$ 968
Capital Repair & Renewal	1,077	41	1,036
Faculty & Student Services Remodel	317	-	317
Information Technology Capital Renewal	1,990	1,033	957
Utility Tunnel Repair	1,093	794	299
	<u>\$ 6,527</u>	<u>\$ 2,950</u>	<u>\$ 3,577</u>

## 18. Change in Entity

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

The change in entity also changed the allocation of bond debt held in the name of the State. The Oregon Department of Administrative Services, State Treasury, and Department of Justice all concluded that a portion of the debt previously allocated to OUS and the seven member institutions



# Notes to the Financial Statements

## For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

as state agencies was the responsibility of the State to repay. Oregon Tech still has responsibility to repay XI-F(1) and SELP debt. See Note 9. "Long Term Liabilities" for additional information.

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

	<u>June 30, 2016</u>
<b>State Paid Debt Transferred to the State Resulting in an Increase (Decrease) in Net Position</b>	
General Obligation Bonds XI-F(1)	\$ 5,036
General Obligation Bonds XI-G	13,651
General Obligation Bonds XI-Q	6,725
Certificates of Participation	1,424
Lottery Bonds	24,111
Deferred Outflows - Unamortized Gain/Loss on Refunding	(2,599)
Accrued Interest Payable Removed	464
<b>Total Debt Transferred to the State</b>	<u>\$ 48,812</u>
<b>Other Changes</b>	
Lottery Accrual for State Paid Debt Reversed	(846)
Cash Held by Trustee for State Paid Debt Removed	(4,340)
<b>Total Change due to Change in Entity</b>	<u>\$ 43,626</u>
	<u>June 30, 2015</u>
<b>Assets transferred from OUS resulting in increase to Net Position</b>	
Cash Distribution From/For:	
Closing of OUS Internal Bank	\$ 128
Student Building Fee Fund	2,028
Lottery Debt Service Funds	2
Fraud Prevention Funds	20
Support from Chancellor's Office	250
Remaining cash at close of Chancellor's Office	35
<b>Total Assets Transferred from OUS</b>	<u>2,463</u>
<b>Liabilities transferred from OUS resulting in decrease to Net Position</b>	
Chancellor's Office Debt Associated with Oregon Tech's assets	(70)
<b>Other Changes</b>	
Principal & Interest Payments on institution debt paid by Chancellor's Office	587
<b>Total Change in Entity</b>	<u>\$ 2,980</u>

## 19. Transfer of Operations

On July 1, 2015, Oregon Tech was established as an independent public body legally separate from the Oregon University System (OUS). In conjunction with the transfer of operations from the OUS to Oregon Tech, the following balances were transferred on July 1, 2015:

See Note 18. "Change in Entity" for other significant adjustments due to the change in entity.

	<u>July 1, 2015</u>
Current Assets	14,495
Noncurrent Assets	25,089
Capital Assets, Net	95,257
<b>Total Assets</b>	<u>\$ 134,841</u>
Deferred Outflows of Resources	<u>\$ 3,475</u>
Current Liabilities	15,628
Noncurrent Liabilities	92,208
<b>Total Liabilities</b>	<u>\$ 107,836</u>
Deferred Inflows of Resources	<u>\$ 4,116</u>
Net Investment in Capital Assets	\$ 10,858
Restricted - Expendable	6,789
Unrestricted	8,717
<b>Total Net Position</b>	<u>\$ 26,364</u>

## 20. Subsequent Events

### PURCHASE OF REAL PROPERTY

Subsequent to June 30, 2016, Oregon Tech purchased real property for \$4.15 million. Prior to June 30, 2016, the university had funds on deposit in escrow for the purchase of \$500 thousand. An additional \$1 million escrow deposit was made subsequent to June 30, 2016 and an additional \$150 thousand was paid in cash at closing. The university received a bridge loan from the Oregon Business Development Department for \$2.5 million, which will be replaced with permanent financing upon the sale of Lottery Bonds. The purchase of this land and building is part of the creation of the Oregon Manufacturing Innovation Center (OMIC), a Research and Development (R&D) Center and Training Center in Columbia County, Oregon. The building will serve as the OMIC R&D center; the university will use a portion of the space for metals manufacturing research with the majority of the space leased to research tenants. The Boeing Company, Oregon State University, and Portland State University will be anchor tenants of the building.

## 21. University Foundation

Under policies approved by the Board, individual university foundations may be established to provide assistance in fund raising, public outreach and other support for the mission of Oregon Tech. The Oregon Tech Foundation (Foundation) is a legally separate, tax-exempt entity with an independent governing board. Although Oregon Tech 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





## Notes to the Financial Statements

### For the Years Ended June 30, 2016 and 2015 (dollars in thousands)

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benefit of, the university, the foundation is considered a component unit of Oregon Tech and is discretely presented in the financial statements. The financial activity is reported for the year ended June 30, 2016.

During the year ended June 30, 2016 gifts of \$531 were transferred from the Foundation to Oregon Tech. The Oregon Tech affiliated foundation is audited annually and received an unmodified audit opinion.

Please see the financial statements for the Oregon Tech component unit on pages 21 and 23 of this report.

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

Oregon Tech Foundation, 3201 Campus Drive, Klamath Falls, OR  
97601-8801



## Required Supplementary Information (dollars in thousands)

### SCHEDULE OF OREGON TECH'S CONTRIBUTIONS \* Public Employees Retirement System

	2016	2015	2014	2013	2012
Contractually required contribution	\$ 1,004	\$ 838	\$ 780	\$ 710	\$ 688
Contributions in relation to the contractually required contribution	1,004	838	780	710	688
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Oregon Tech's covered payroll	\$ 12,912	\$ 11,891	\$ 10,803	\$ 10,215	\$ 9,967
Contributions as a percentage of covered payroll	7.8%	7.0%	7.2%	7.0%	6.9%

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

As of June 30,	2016	2015
Oregon Tech's proportion of the net pension asset /liability	0.10%	0.09%
Oregon Tech's proportionate share of the net pension asset/(liability)	\$ (6,027)	\$ 2,133
Oregon Tech's covered payroll	\$ 12,912	\$ 11,891
Oregon Tech's proportionate share of the net pension asset/liability as a percentage of its covered payroll	-46.68%	17.94%
Plan fiduciary net position as a percentage of the total pension asset /liability	91.88%	103.59%

### FUNDING STATUS OF OTHER POSTEMPLOYMENT BENEFITS

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2012	7/1/2011	\$ -	\$ 1,198	\$ 1,198	0.0%	\$ 19,833	6.0%
6/30/2013	7/1/2011	-	1,232	1,232	0.0%	20,784	5.9%
6/30/2014	7/1/2013	-	837	837	0.0%	21,484	3.9%
6/30/2015	7/1/2013	-	842	842	0.0%	23,146	3.6%
6/30/2016	7/1/2015	-	591	591	0.0%	24,339	2.4%

\*These schedules will eventually contain 10 years' worth of data. Only the data shown above was available at this time.



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

Vice President for Finance and Administration  
Oregon Institute of Technology  
3201 Campus Drive  
Klamath Falls, OR 97601  
541-885-1105

