

Oregon **TECH**

2017 Annual Financial Report Oregon Institute of Technology



www.oit.edu

Hands-on education for real-world achievement

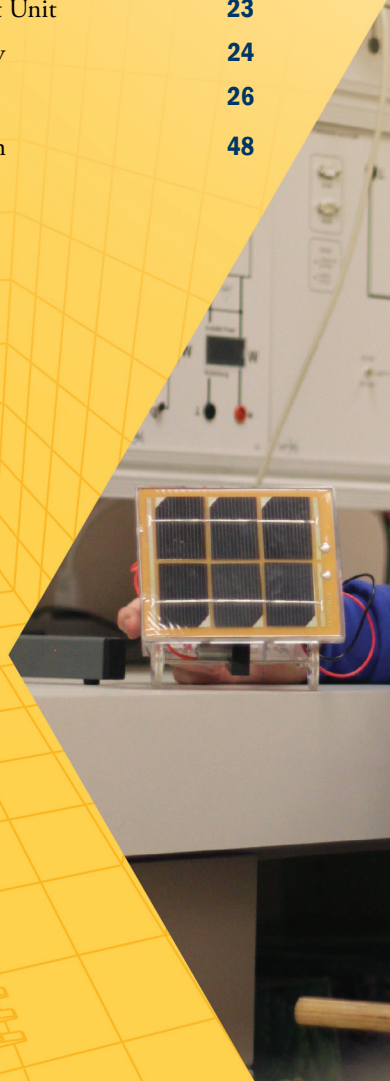




Oregon Institute of Technology 2017 Annual Report

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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.

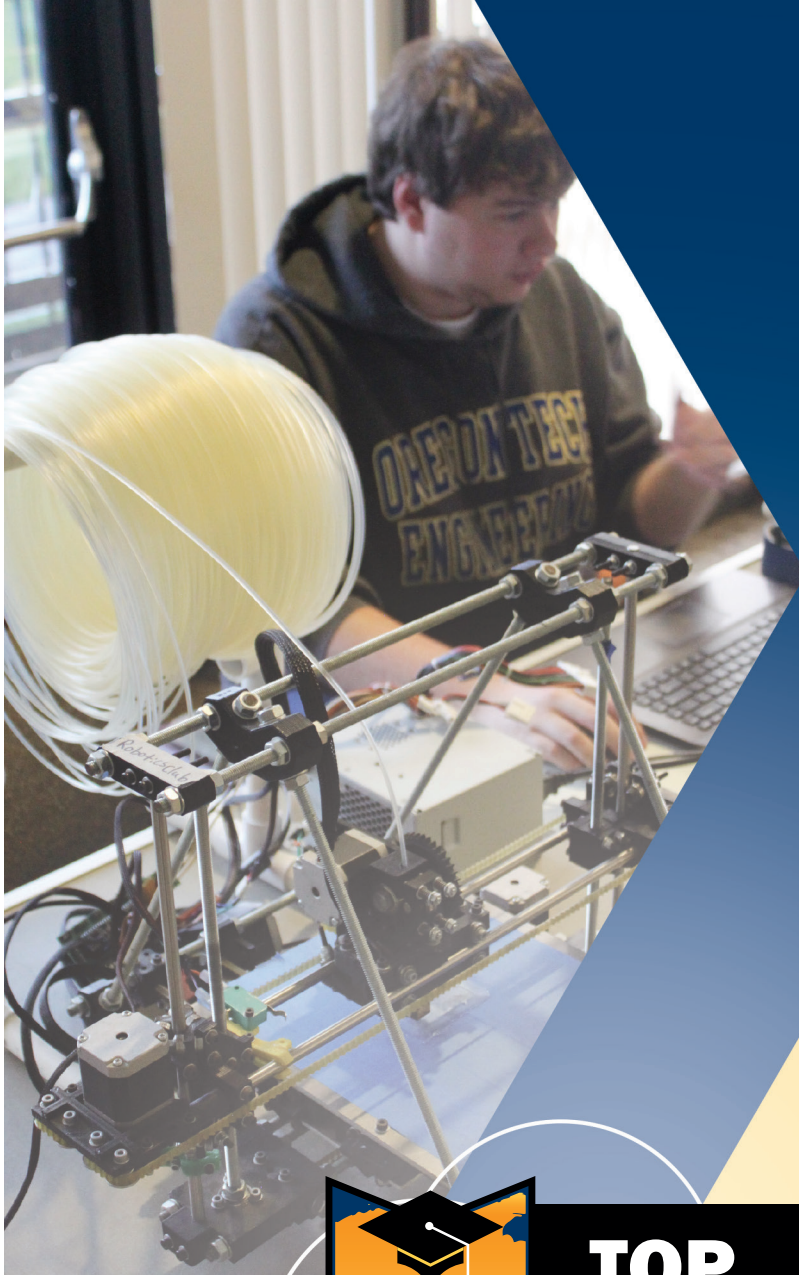
As the Pacific Northwest's only polytechnic university, we take pride in our mission to deliver technology education. We continually partner with industry leaders to ensure that we adapt to new technology and that our programs and classes are high-quality to prepare students for workforce demands.

This real-world focus gives our students a competitive edge: almost 95 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 \$56,000 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 5,200 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 university.

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.



**TOP
PUBLIC
WEST
REGIONAL
COLLEGE**

*U.S. News and
World Report*
2016

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



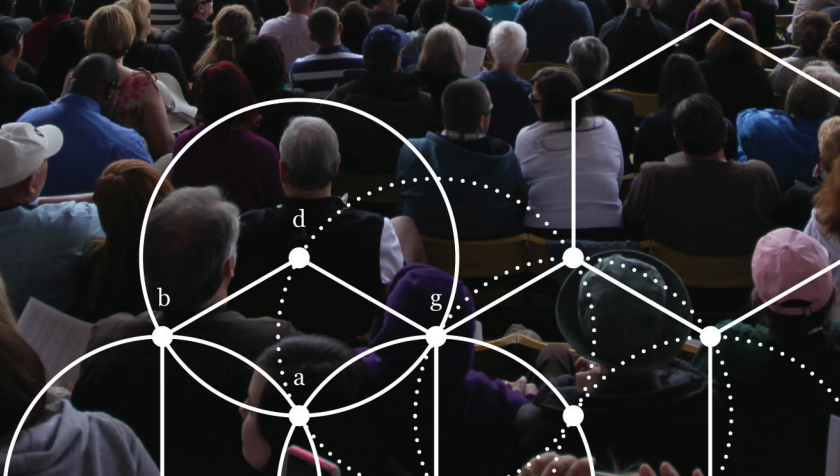


NO. 2
2016

BEST WEST COLLEGES FOR VETERANS
U.S. NEWS AND WORLD REPORT

3 BESTWEST
Regional Colleges
U.S. News and World Report

2016



Message from the President

As Oregon's Institute of Technology, the university had another year of amazing accomplishments and milestones that have moved us forward in significant ways. Now in our 70th year, Oregon Tech can boast new program opportunities, exciting industry partnerships and a growing recognition of its unique programs and the value that our graduates find in their careers.

I was honored to be appointed as Oregon Tech's 7th president this year to lead the university at an opportune time in its history. The Board of Trustees and the university join me in thanking Dr. Jay Kenton who served as interim president for Oregon Tech for one-year beginning in spring of 2016. Among other things, Dr. Kenton also began the process of bringing in new leadership in several areas. We have been able to bring several of the searches that were pending during the transition to a successful conclusion, including the appointment of our new provost and chief information officer. I would also like to thank Lita Colligan for her special contributions as our associate vice president of government affairs and strategic partnerships and wish her an enjoyable retirement. Our new hires are joining the strong team already in place across Oregon Tech's campuses and sites are bringing new expertise and energy to our work.

Building an innovation eco-system

At the very end of Oregon's 2017 Legislative Session, Oregon Tech's proposed Center of Excellence in Engineering and Technology (CEET) was approved, providing \$40 million in state bonding authority which will be matched by \$2 million in university investment and donations. For Oregon Tech, CEET is not just a new building on the Klamath Falls campus, it is an innovation eco-system that will help us chart a new trajectory in technology and business, innovation and entrepreneurship. This is a game changer for Oregon Tech's students and faculty, and for our industry partners as well as the state. Oregon's economy, particularly its rural areas, calls for the education and training of student entrepreneurs who learn in real-world laboratories and classrooms, nurturing an innovation culture that has a direct and positive return for Oregon's economy.

The CEET will also strengthen our community in Klamath Falls. This investment will draw more industries, companies and college-educated professionals to the region, and a growing tax base that will bolster the city and the county for real, permanent growth and stability. The project, which completes the new CEET and renovates Cornett Hall, will be home to expanded interdisciplinary space, providing an innovative model of learning that creates an interactive workspace of classrooms, maker spaces, labs, and offices that ignite innovation and collaboration, preparing students for professional practice.

Partnerships bring new opportunities to excel

Last year Oregon Tech's Trustees took a major step in elevating our relationship with industry when we became a partner in the Oregon Manufacturing Innovation Center Research and Development (OMIC R&D). Modeled after Advanced Manufacturing Research Centers previously developed by Boeing worldwide, OMIC R&D brings together manufacturing industry partners with Oregon Tech and two other Oregon public universities in an R&D facility being developed in Scappoose, Oregon. This collaboration will develop advanced metals manufacturing technologies to increase commercial productivity and augment state and regional capabilities. OMIC R&D's state-of-the-art facility will comprise talented engineers and technologists from industry and university faculty, and undergraduate and graduate students who will provide "outside-in" applied research, technical advice, and support driven by manufacturing enterprises of all sizes to define the R&D focus. Besides Boeing, other partners include Blount International, Daimler Trucks North America, and ATI, among others. Oregon Tech has a major role in OMIC R&D, having been selected to serve as the host university

responsible for the organizational functions, including facilitating the work of the Board of Governors and working collaboratively with industry to accomplish its research goals. The Center will be a true training ground for our students and an outstanding applied research and innovation proving ground for our faculty, as we solve technology problems presented by manufacturing partners and clients with state of the art equipment and machinery. This is a great opportunity for us to demonstrate and elevate our commitment to applied, hands-on education and innovation at Oregon Tech.

Another collaboration that has great potential is the Rural Health Partnership (RHP) that Oregon Tech joined this year with Sky Lakes Medical Center and Oregon Health & Science University. As a strategic partnership, the RHP will accelerate the education of inter-disciplinary teams of emerging rural health professionals, provide opportunities for health occupations' students to practice in rural settings, and gain benefits for our students from shared clinical space and faculty expertise. Oregon Tech will develop three new health occupations degrees, including a Doctorate of Physical Therapy, the first public offering of this program in the state. We have also begun operating the Population Health Management Research Center, in partnership with OHSU and Klamath County Public Health, to provide inter-professional educational research opportunities for the OHSU Rural Campus Cohort and Oregon Tech students.

Oregon Tech accomplished another milestone this year when we officially became a Blue Zone university, the first in the nation to do so. The Blue Zones partnership in Klamath Falls has helped guide us in incorporating into our lifestyle the health principles that will transform Oregon Tech and our City into a place where people can live longer, healthier lives. By shaping our workplace environment to support healthy behaviors, we can improve productivity, decrease turnover, and see a reduction in overall healthcare costs.

Building reputational capital and a world-class polytechnic

Besides the high-potential partnerships and initiatives underway, Oregon Tech has a solid foundation of assets that take us forward, including a record number of degrees awarded over the past year; a successful accreditation review that reinforced our strengths; top ranking in online programs, and continued high marks from external reviewers of the value that our in-demand degrees provide to our graduates, and to the industries and organizations who hire them.

Just looking at the top companies who hire our graduates is very telling of the quality "output" we produce: Boeing, Intel, Microsoft, Jeld-Wen, Providence Health & Services, Sky Lakes Medical Center, OHSU, International Game Technology, Daimler, and Nike, just to name the top ten. Oregon Tech's value proposition is becoming our calling card for students who want a meaningful return on their higher education investment. Our graduates now have the highest ROI in the state, as marked by national ranking organizations, with average starting salaries now in excess of \$56,000, and with a 95% success rate of graduates being employed or in graduate school within six months of earning their degree.

Oregon Tech is thriving, growing and extending our influence more each year. I would like to thank everyone who helped make this year in particular so successful: our dedicated faculty, staff, and Trustees, our diligent students, committed partners, caring legislative leaders, generous donors and alumni, and the communities in which we offer our innovative education programs. We are who we are because of you. Go Owls!



Nagi G. Naganathan, Ph.D., ASME fellow
President, Oregon Institute of Technology



Nagi G. Naganathan
Oregon Tech President



Top University Accomplishments

- Dr. Nagi Naganathan joined Oregon Tech in 2017, in its 70th year and as its 7th president, officially beginning his duties in April.
- Oregon Tech continues to generate great student interest in STEM education and polytechnic degree programs. In fall 2016, Oregon served 446 additional students than the previous fall term. This is a 9.3% percent growth in headcount in Fall 2016. Student enrollment in Oregon Tech has increased more than 65% over the last ten years as the university has expanded its footprint in Oregon, including growth at its Portland-Metro (Wilsonville) and Online locations, new degree offerings in Klamath Falls and other sites, and the growing value and recognition of applied, relevant education approaches.
- The University continued to move forward as a partner and host of the Oregon Manufacturing Innovation Center Research and Development (OMIC R&D), with plans to open the facility in 2017 (see President's Message). OMIC R&D is an industry/higher education model of advancing regional manufacturing through industry-relevant research and development with universities, and community college training and apprenticeship programs.
- A new Bachelor of Science in Professional Writing was approved this year and will launch in 2017. The program focuses on professional, technical, business, and scientific writing; and prepares individuals for academic positions or for professional careers as writers, editors, researchers, and related careers in business, government, nonprofit sector, and the professions.
- Ranking the top university in Oregon for Best Return on Investment, Oregon Tech is also in the top one percent in the nation in PayScale's most recent release of top colleges based on graduates' return on tuition and borrowing investments. An Oregon Tech degree is noted as having the highest return on investment (ROI) of any college or university in Oregon. PayScale examines which colleges and universities offer the best career and salary return against tuition costs and any debt load that students have incurred. Oregon Tech is tied as 17th out of approximately 1,400 schools nationally for annual ROI, which is the 20-year ROI annualized to represent the percent of expected ROI received each year after graduation.
- For nearly 15 years Oregon Tech Online has been providing students and professionals an affordable way to earn a reputable bachelor's degree from a leading institution. Our Online program is nationally recognized as a Best Online Program by U.S. News & World Report, and many of our individual online degrees have their own accolades such as Diagnostic Medical Sonography, Radiology, Health Informatics, Applied Psychology, and Information Technology.
- The third annual Catalyze Klamath Falls Challenge brought in more competing student teams—and prize money—than ever before. Six teams competed for \$20,000 in prize money and services to set up their innovative businesses in Klamath Falls. The winning project, Helios Hive, is an invention by Renewable Energy Engineering student, Mathias Dean. The project is a solar bee hive heating system that regulates temperature within a hive to eliminate a parasite currently leading to mass losses in bee populations because of hive collapse.
- The Oregon Tech Owls broke ground on a new Soccer Field in September with both soccer teams winning their first ever games on the new field starting in spring 2017. The record setting 2016-17 season was the first winning season for men's soccer while also marking the first time the program made the Cascade Collegiate Conference (CCC) post season.
- Both of Cross Country teams finished with the highest ranking in Oregon Tech's history as the women finished No. 8 nationally and the men finished at No. 19. Women's basketball had another strong year and made the National Tournament for the 4th year in a row. The men hosted the CCC Championship game for the first time since 2012, also qualifying for the National Tournament for the first time in five years. Women's Golf won both the regular season and the CCC Championship Tournament on the way to a 15th place finish at the NAIA National Tournament, making their first appearance in school history. Softball made the NAIA National Tournament Opening Round for the 4th time in 5 years. Track and Field had strong years with each team earning over 100 points at the CCC Tournament for the first time in 9 years.



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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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2017 and 2016 financial statements of the Oregon Tech Foundation (the Foundation), which represents 100 percent of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 10 through 19, the Schedule of the University's Contributions, the Schedule of the University's Proportionate Share of the Net Pension Asset/Liability, and the Schedule of Funding Status of Other Postemployment Benefits listed as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
October 30, 2017



Management's Discussion and Analysis

For the Year Ended June 30, 2017 (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)/(University) for the fiscal year ended June 30, 2017 with comparative data for the fiscal years ended June 30, 2016 and June 30, 2015. 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:

	2017	2016	2015	2014	2013
Oregon Tech	3,299	3,159	2,983	2,993	2,900

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 Oregon Tech's 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 20.

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, 2017 of \$3,543 and an increase of \$46,516 in 2016. The largest increase to Net Position in 2017 was to the Net Investment in Capital Assets, which increased \$4,298. The 2017 Unrestricted Net Position decreased \$1,277 due to changes to the Net Pension Liability and other employment related liabilities in 2017 which decreased Unrestricted Net Position by \$2,270. These decreases were offset by increases of \$993 in business activities for budgeted and auxiliary operations.

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 and other employee related liabilities in 2016 which decreased Unrestricted Net Position by \$4,720.

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. 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,	2017	2016	2015
Current Assets	\$ 15,407	\$ 15,569	\$ 14,606
Noncurrent Assets	24,858	25,630	24,978
Capital Assets, Net	97,159	93,615	95,257
Total Assets	\$ 137,424	\$ 134,814	\$ 134,841
Deferred Outflows of Resources	\$ 9,011	\$ 1,483	\$ 3,475
Current Liabilities	\$ 12,447	\$ 13,711	\$ 15,628
Noncurrent Liabilities	57,404	48,239	92,208
Total Liabilities	\$ 69,851	\$ 61,950	\$ 107,836
Deferred Inflows of Resources	\$ 161	\$ 1,467	\$ 4,116
Net Investment in Capital Assets	\$ 58,659	\$ 54,361	\$ 11,458
Restricted - Expendable	5,284	4,762	6,789
Unrestricted	12,480	13,757	8,117
Total Net Position	\$ 76,423	\$ 72,880	\$ 26,364

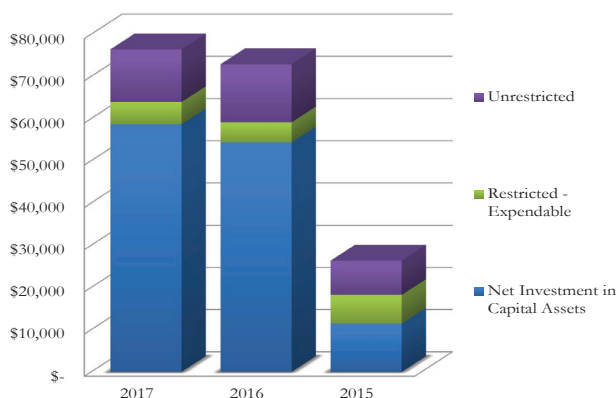


Management's Discussion and Analysis

For the Year Ended June 30, 2017 (dollars in thousands)

TOTAL NET POSITION

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



Comparison of fiscal year 2017 to fiscal year 2016

Net Investment in Capital Assets increased \$4,298 or 8 percent.

- The net value of Capital Assets increased \$3,544. See the discussion in the “Capital Assets and Related Financing” section of this MD&A and Note 5. “Capital Assets” 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 \$754 due primarily to increased principal payments on long term debt, a decrease of debt principal due to a refunding, and decreased unspent bond proceeds. Please see Note 9. “Long-Term Liabilities” for additional information.

Restricted Expendable Net Position increased \$522 or 11 percent.

- Net position relating to funds reserved for debt service decreased by \$102. This is primarily related to a decrease in debt service payments on student building fee funded projects.
- Net position relating to the funding of capital projects increased \$680. The increase is primarily due to matching funds reserved for the renovation of Cornett Hall.
- Net position related to gifts, grants and contracts remained relatively unchanged, with an increase of \$14.
- Net position related to student loans decreased \$70 due to a decrease in Perkins loan balances of \$107, offset by increases to other loan program balances of \$37.

Unrestricted Net Position decreased \$1,277, or 9 percent, due in large part to the following:

- Increases due to Oregon Tech budgeted and auxiliary operations added \$993 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 \$2,270.

See Note 10. “Unrestricted Net Position” for further details.

Comparison of fiscal year 2016 to fiscal year 2015

Net Investment in Capital Assets increased \$42,903 or 374 percent.

- The net value of Capital Assets decreased \$1,642. See the discussion in the “Capital Assets and Related Financing” section of this MD&A and Note 5. “Capital Assets” 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 or 30 percent.

- 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 primarily due to an increase in Perkins loan balances of \$68 and other long term loan program balances of \$38. These increases were offset by other nominal amounts.

Unrestricted Net Position increased \$5,640, or 69 percent, 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.



Management's Discussion and Analysis

For the Year Ended June 30, 2017 (dollars in thousands)

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Total Assets increased \$2,610, or 2 percent, during the year ended 2017. Total Assets decreased \$27, or less than 1 percent, during the year ended June 30, 2016. Deferred Outflows of Resources increased \$7,528 in 2017 and decreased \$1,992 in 2016.

Comparison of fiscal year 2017 to fiscal year 2016

Current Assets decreased \$162 or 1 percent.

- Current Cash and Cash Equivalents decreased \$434. The decrease is primarily due to a decrease in cash associated with the primary business activities of the University. This decrease was offset by less cash held as investments at year-end as well as increases in cash held for student loans and cash held for repair and replacement.
- Collateral from Securities Lending decreased \$604.
- Accounts Receivable increased \$2,135 due to increases across most categories. The largest increases included a \$746 increase to accounts receivable for capital construction gifts; a \$552 increase in other receivables, which includes receivables for third party contracts; and a \$393 increase in accounts receivable for student tuition and fees.
- Current Notes Receivable increased \$36.
- Inventories in storerooms increased \$60.
- Prepaid Expenses decreased \$1,355 primarily due to a decrease in prepaid Direct Loans caused by timing differences in the application of payments on student accounts for the summer term.

Noncurrent Assets increased \$2,772 or 2 percent.

- Noncurrent Cash decreased \$341 due mainly to decreases in cash held for construction projects of \$1,366 and student building fee funds of \$111. These decreases were offset by less cash being held as investments at year end.
- Investments decreased \$605 due primarily to a decrease in the amount of cash being converted to investments of \$7,564 as well as a decrease in both unrealized and realized gains on investments. These decreases were offset by the establishment of a board designated quai-endowment in the amount of \$7,500.
- Noncurrent Notes Receivable increased \$174 primarily due to an increase in notes receivable for federal Perkins loans of \$147.
- Capital Assets additions of \$8,723 were offset by additions to accumulated depreciation of \$5,010 and net retirements of \$169, which resulted in an increase in the net value of Capital Assets of \$3,544. See "Capital Assets" in this MD&A and Note 5. "Capital Assets" for additional information relating to these variances.

Deferred Outflows of Resources increased \$7,528 or 508 percent due in full to net increases related to changes in the reporting of pension deferrals. Also see Note 6. "Deferred Inflows and Outflows of Resources" for additional detail on these changes.

Comparison of fiscal year 2016 to fiscal year 2015

Current Assets increased \$963 or 7 percent.

- Current Cash and Cash Equivalents increased \$1,679. The change is due to increases across almost all fund areas. The largest increases were due to an increase in cash associated

with the primary business activities of the University and a \$385 increase in cash held to pay payroll vendor payments. These increases were offset by an increase of \$8,416 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 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 \$990 or 1 percent.

- Noncurrent Cash decreased \$5,007 due mainly to decreases in cash held for construction projects of \$5,464 and student building fee funds of \$165. Cash held for construction projects decreased because construction projects which are funded by bonds issued by the state are now on a cost reimbursable basis. These decreases were offset by increases in cash due to less cash converted to investments of \$621.
- 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.



Management's Discussion and Analysis

For the Year Ended June 30, 2017 (dollars in thousands)

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.

TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

Total Liabilities increased \$7,901 or 13 percent during the year ended 2017. Total Liabilities decreased \$45,886 or 43 percent during the year ended 2016. Deferred Inflows of Resources decreased \$1,306 or 89 percent in 2017 and decreased \$2,649 or 64 percent in 2016.

Comparison of fiscal year 2017 to fiscal year 2016

Current Liabilities decreased \$1,264 or 9 percent.

- The current portion of Long-Term Liabilities increased by \$39 due primarily to the addition of a capital lease and increased principal payments due in the next fiscal year. See Note 9. "Long-Term Liabilities" for additional information on these changes.
- Accounts Payable and Accrued Liabilities increased \$537. The increase was seen across most categories with the largest increase coming from payables for payroll benefits. The amount of payables in this category depends on the timing of payments made to the various benefit vendors. Other large increases were to payables for services and supplies and to salaries and wages payable due to the timing of payment for wages earned in fiscal year 2017. See Note 7. "Accounts Payable and Accrued Liabilities" for details.
- Unearned Revenue decreased by \$1,224 due primarily to decreased direct student loans which were not yet distributed at June 30, 2017.
- Deposits decreased \$12.
- Obligations Under Securities Lending decreased \$6046.

Noncurrent Liabilities increased \$9,165 or 19 percent. A decrease of \$1,777 in Long-Term Liabilities was offset by an increase to the Net Pension Liability of \$10,942. See "Debt Administration" in this MD&A, Note 9. "Long-Term Liabilities", and Note 14 "Employee Retirement Plans" for further details.

Deferred Inflows of Resources decreased \$1,306, or 89 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 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.

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 Years Ended June 30,	2017	2016	2015
Operating Revenues	\$ 37,926	\$ 34,590	\$ 33,035
Operating Expenses	75,017	70,548	61,388
Operating Loss	(37,091)	(35,958)	(28,353)
Nonoperating Revenues,			
Net of Expenses	35,540	36,494	26,866
Other Revenues	5,094	2,354	4,090
Special and Extraordinary Items	-	43,626	2,980
Increase in Net Position	3,543	46,516	5,583
Net Position, Beginning of Year	72,880	26,364	24,676
Change in Accounting Principle	-	-	(3,895)
Net Position, End of Year	\$ 76,423	\$ 72,880	\$ 26,364



Management's Discussion and Analysis

For the Year Ended June 30, 2017 (dollars in thousands)

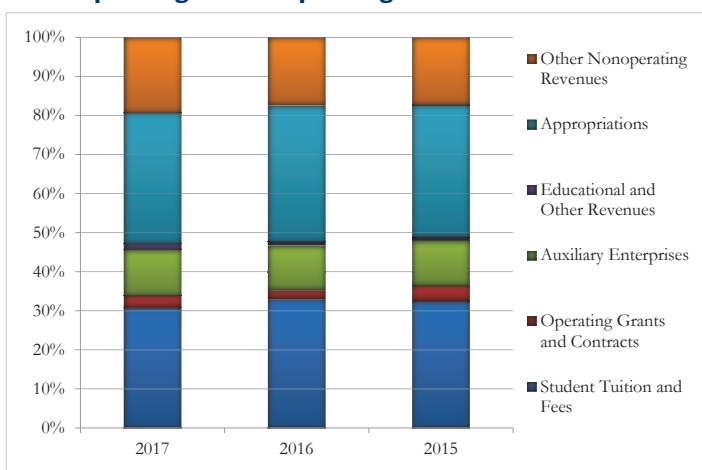
Total Revenues

Total Revenues decreased \$35,986, or 31 percent, in 2017 over 2016. Revenues increased \$7,640, or 11%, excluding the decrease due to the 2016 change in entity of \$43,626.

Total Operating and Nonoperating Revenues and Special Items

For the Year Ended June 30,	2017	2016	2015
Student Tuition and Fees	\$ 24,673	\$ 23,947	\$ 21,933
Grants and Contracts	2,532	1,665	2,684
Auxiliary Enterprises	9,456	8,327	7,852
Educational and Other	1,265	651	566
Total Operating Revenues	37,926	34,590	33,035
Appropriations	26,845	25,365	22,860
Financial Aid Grants	7,060	6,810	7,015
Gifts	3,133	2,875	2,741
Investment Activity	339	762	372
Capital Grants and Gifts	4,904	2,165	1,557
Special and Extraordinary Items	-	43,626	2,980
Total Nonoperating Revenues	42,281	81,603	37,525
Total Revenues	\$ 80,207	\$ 116,193	\$ 70,560

Total Operating and Nonoperating Revenues



Operating Revenues

Operating Revenues increased \$3,336 in 2017, or 10 percent, over 2016, to \$37,926. Operating revenues increased \$1,555 in 2016, or 5 percent over 2015, to \$34,590.

Comparison of fiscal year 2017 to fiscal year 2016

Student Tuition and Fees increased \$726, or 3 percent.

- Higher enrollment increased the total by \$1,132 while lower fee rates accounted for a decrease of \$11.
- Fee remissions and scholarship allowances reduced tuition and fees by \$41 more than in the prior period.
- Bad debt expense, primarily related to the maintenance of the allowance for bad debt, increased by \$354, causing a reduction to tuition.

Federal, State and Nongovernmental Grants and Contracts increased \$867, or 52, percent due to the following:

- Federal grant and contract revenue increased \$172 primarily due to an increase in grant revenues received as a subrecipient of awards from the US Department of Labor.

- State and local grant activity increased \$966 primarily due to increased grant revenues from the Oregon Department of Education for the Regional STEM Hub and from the Oregon Employment Department Oregon Talent Council (OTC) for cybersecurity and autism training.
- Nongovernmental grant activity decreased \$271 primarily due to decreases in revenues from a commercial contract for dental operations.

Auxiliary Enterprise revenues increased \$1,129, or 14 percent, due mainly to the following:

- Student Health and Incidental Fee revenue increased \$51.
- Housing and Dining revenues increased \$737 due primarily to increased revenue for room and board.
- An insurance recovery also increased auxiliary revenues by \$371.
- Other rental income increased \$162, with the largest increase in lease income.
- Revenue and reimbursements generated by the Bookstore decreased \$93.
- Athletics revenue decreased \$47 due primarily to decreased revenue for special events.

Educational Department Sales and Services revenues increased \$668, or 214 percent, mainly due to membership dues received as part of a collaboration agreement.

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 \$928 of the increase, while higher enrollment increased the total by \$2,017.
- Fee remissions and scholarship allowances reduced tuition and fees by \$897 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 Incidental 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.

Nonoperating Revenues and Special Items

Both the decrease of \$39,322, or 48 percent, during 2017 and the increase of \$44,078, or 117 percent, during 2016 in Nonoperating Revenues are primarily due to the recording of a special item in 2016. The special item was a change in entity due to Oregon Tech becoming an independent university and the removal of state paid debt from the University's books.



Management's Discussion and Analysis

For the Year Ended June 30, 2017 (dollars in thousands)

Comparison of fiscal year 2017 to fiscal year 2016

Government Appropriations increased \$1,480, or 6 percent, due to an increase in State appropriations for Oregon Tech operations. See Note 13. "Government Appropriations" for additional information relating to changes in appropriations.

Financial Aid Grants increased by \$250, or 4 percent, primarily due to an increased number of PELL grants awarded.

Gifts increased \$258, or 9 percent.

- Gifts from private individuals increased \$270.
- Gifts from commercial businesses increased \$37.
- Gifts from the Oregon Tech Foundation increased \$169.
- Gifts from foundations, associations, and societies decreased \$218.

Investment Activity revenues decreased \$423, or 56 percent. See Note 11. "Investment Activity" for additional information relating to these changes.

Capital Grants and Gifts increased \$2,739, or 127 percent, due primarily to the following:

- Oregon Tech received a grant from the State for \$2,500 to purchase the OMIC facility in Scappoose.
- Oregon Tech received a perpetual access easement as a gift in kind worth \$420 for access to the OMIC facility.

Special Item - Change in Entity decreased \$43,626 to zero as there were no special items to record.

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 the University's books. Oregon Tech will no longer receive general fund or lottery funds for the repayment of XI-G, XI-Q, COPs, and lottery debt which is paid by the State.

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

Financial Aid Grants decreased by \$205, or 3 percent, primarily due to a decreased number of PELL grants awarded.

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.

Expenses

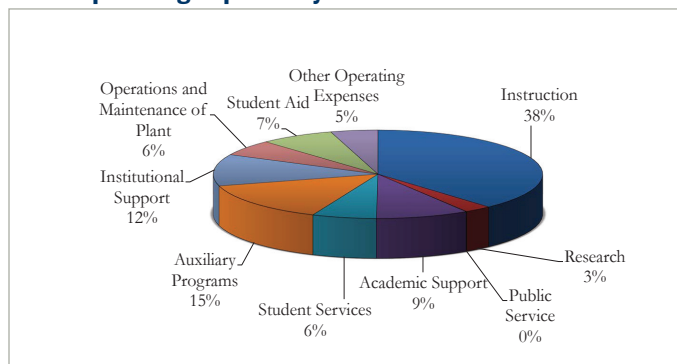
Operating Expenses

Operating expenses increased \$4,469 in 2017, or 6 percent over 2016, to \$75,017. Operating expenses increased \$9,160 in 2016, or 15 percent over 2015, to \$70,548. The following summarizes operating expenses by functional classification:

Operating Expense by Function

For the Years Ended June 30,	2017	2016	2015
Instruction	\$ 28,721	\$ 27,919	\$ 24,286
Research	2,018	849	574
Public Service	38	95	192
Academic Support	6,840	6,792	5,233
Student Services	4,729	4,412	3,801
Auxiliary Programs	10,682	10,291	9,546
Institutional Support	8,685	8,446	6,244
Operations and Maintenance of Plant	4,351	4,249	3,047
Student Aid	5,471	4,556	4,792
Other Operating Expenses	3,482	2,939	3,673
Total Operating Expenses	\$ 75,017	\$ 70,548	\$ 61,388

2017 Operating Expense by Function



Management's Discussion and Analysis For the Year Ended June 30, 2017 (dollars in thousands)

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 \$2,108 difference in expenses for 2017 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 14. "Employee Retirement Plans" for additional details.

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

For the Year Ended June 30, 2017	as reported	without GASBs 68/71	difference
Instruction	\$ 28,721	\$ 27,809	\$ 912
Research	2,018	1,994	24
Public Service	38	36	2
Academic Support	6,840	6,564	276
Student Services	4,729	4,535	194
Auxiliary Programs	10,682	10,507	175
Institutional Support	8,685	8,345	340
Operations & Maintenance of Plant	4,351	4,169	182
Student Aid	5,471	5,471	-
Other Operating Expenses	3,482	3,479	3
Total Operating Expenses	\$ 75,017	\$ 72,909	\$ 2,108

For the Year Ended June 30, 2016	as reported	without GASBs 68/71	difference
Instruction	\$ 27,919	\$ 25,796	\$ 2,123
Research	849	792	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 & Maintenance of Plant	4,249	3,828	421
Student Aid	4,556	4,556	-
Other Operating Expenses	2,939	2,932	7
Total Operating Expenses	\$ 70,548	\$ 65,644	\$ 4,904

For the Year Ended June 30, 2015	as reported	without GASBs 68/71	difference
Instruction	\$ 24,286	\$ 25,862	\$ (1,576)
Research	574	592	(18)
Public Service	192	193	(1)
Academic Support	5,233	5,541	(308)
Student Services	3,801	4,006	(205)
Auxiliary Programs	9,546	9,743	(197)
Institutional Support	6,244	6,441	(197)
Operations & Maintenance of Plant	3,047	3,333	(286)
Student Aid	4,792	4,792	-
Other Operating Expenses	3,673	3,673	-
Total Operating Expenses	\$ 61,388	\$ 64,176	\$ (2,788)

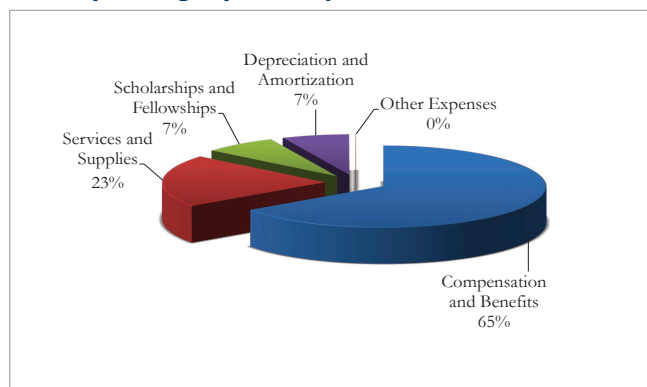
Due to the way in which expenses are incurred by Oregon Tech, variances are presented and explained by analyzing changes in the natural classification of expenses. Each natural classification analysis can be applied to many of the functional expense caption items.

The following summarizes operating expenses by natural classification:

Operating Expenses by Natural Classification

For the Year Ended June 30,	2017	2016	2015
Compensation and Benefits	\$ 48,913	\$ 47,962	\$ 37,920
Services and Supplies	15,573	13,234	14,164
Scholarships and Fellowships	5,491	4,644	4,674
Depreciation and Amortization	5,011	4,713	4,561
Other Expenses	29	(5)	69
Total Operating Expenses	\$ 75,017	\$ 70,548	\$ 61,388

2017 Operating Expenses by Natural Classification



Comparison of fiscal year 2017 to fiscal year 2016

Compensation and Benefits costs increased \$951, or 2 percent, primarily due to:

- Unclassified salaries increased \$1,966; classified salaries increased \$518; student wages decreased \$94; and pay for graduate teaching assistants decreased \$9.
- Costs for health and retirement benefits increased \$1,175.
- The pension expense recorded as a result of the required reporting for the Net Pension Liability decreased by \$2,796. See Note 14. "Employee Retirement Plans" for more information.

Services and Supplies expense increased \$2,339, or 18 percent. This increase was mainly caused by a \$1,057 increase in services and supplies for the University budgeted operations. In addition there were increases for services and supplies in the following areas:

- Gifts, grants, and contracts services and supplies increased \$584.
- Services and supplies for non-capitalized construction costs increased by \$404.
- Auxiliary programs services and supplies increased \$313.

Scholarships and Fellowships expenses increased \$847, or 18 percent, primarily due to an increase in Pell grants of \$221 as

Management's Discussion and Analysis For the Year Ended June 30, 2017 (dollars in thousands)

well as increases in scholarships from foundations and other scholarship organizations of \$255. Fee remissions of \$4,401 were reclassified to be recorded as reductions to Student Tuition and Fee Revenues. This is a reduction in the amount removed of \$314.

Depreciation and Amortization expense increased \$298, or 6 percent, primarily due to the acquisition of the OMIC property in Scappoose.

Other Operating Expenses increased \$34 due primarily to increased bad debt expenses for student loans.

Comparison of fiscal year 2016 to fiscal year 2015

Compensation and Benefits costs increased \$10,042, or 26 percent, 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 \$1,517 to the change, while increased costs for health and retirement benefits contributed \$907.
- The amounts accrued for the Other Post-Employment Benefits (OPEB) liability, State and the Local Government Rate Pool, and the compensated absences liabilities decreased a combined \$84.

Services and Supplies expense decreased \$930 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, or 3 percent, during 2016 primarily due to the Large Power Plant being put into service during the last half of 2015.

Other Operating Expenses decreased \$74, or 107 percent, due primarily to decreased bad debt expenses for student loans.

Nonoperating Expenses

Nonoperating expenses increased \$2,518, or 289, percent in 2017, as compared to 2016 and decreased \$4,460, or 124 percent, in 2016.

Comparison of fiscal year 2017 to fiscal year 2016

- **Gain (Loss) on Sale of Assets** decreased \$3,020 due to the gain in 2016 from the sale of the Harmony Building.
- **Interest Expense** decreased \$419 primarily due to a decrease in the amount of interest associated with capital construction liabilities.

- **Other Nonoperating Items** increased by \$83. Changes included an expense of \$115 due to the return of capital for the Perkins Loan program. This was mainly offset by a reduction of debt due to a refunding of underlying XI-F(1) bond debt by the State which resulted in a net reduction in Oregon Tech's contracts payable to the State of \$166.

Comparison of fiscal year 2016 to fiscal year 2015

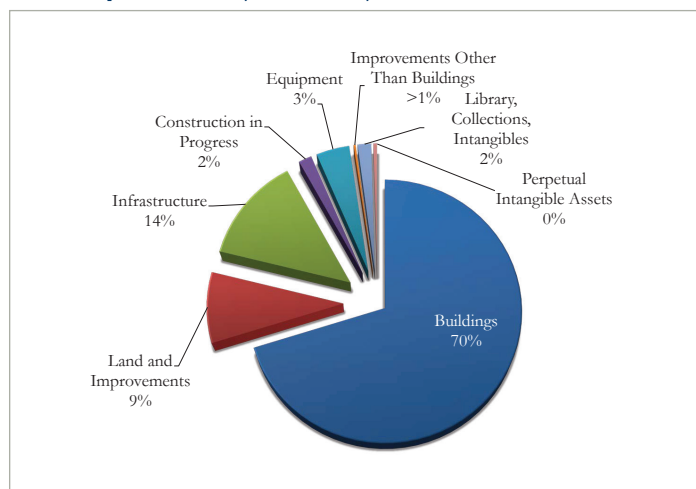
- **Gain (Loss) on Sale of Assets** went from a loss of \$2 in 2015 to a gain of \$3,174 in 2016 due to the sale of the Harmony building in 2016. This reduced nonoperating expenses by \$3,176.
- **Interest Expense** decreased \$1,386 primarily due to a decrease in the amount of bond interest recorded 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 Nonoperating Items** decreased by \$10 due to prior year adjustments to fixed assets.

CAPITAL ASSETS AND RELATED FINANCING ACTIVITIES

Capital Assets

At June 30, 2017, Oregon Tech had \$174,043 in capital assets, less accumulated depreciation of \$76,884, for net capital assets of \$97,159. 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.

2017 Capital Assets, Net - \$97,159 thousand



Management's Discussion and Analysis

For the Year Ended June 30, 2017 (dollars in thousands)

Changes to Capital Assets

	2017	2016	2015
Capital Assets, Beginning of Year	\$ 165,616	\$ 163,931	\$ 163,006
Add: Purchases/Construction	8,724	4,107	3,004
Less: Retirements/ Disposals/Adjustments	(297)	(2,422)	(2,079)
Total Capital Assets, End of Year	174,043	165,616	163,931
Accum. Depreciation, Beginning of Year	(72,001)	(68,674)	(66,121)
Add: Depreciation Expense	(5,011)	(4,713)	(4,561)
Less: Retirements/ Disposals/Adjustments	128	1,386	2,008
Total Accum. Depreciation, End of Year	(76,884)	(72,001)	(68,674)
Total Capital Assets, Net, End of Year	\$ 97,159	\$ 93,615	\$ 95,257

Capital additions totaled \$8,724 for 2017, \$4,107 for 2016, and \$3,004 for 2015.

Capital Asset additions for 2017 included:

- \$1,391 for equipment, which includes a \$517 of technology equipment purchased for campus upgrades.
- Equipment CIP of \$150 is primarily related to IT upgrades and classroom labs.
- \$4,105 for building CIP acquisitions and repair, including \$3,704 for the acquisition of the OMIC property in Scappoose, which was complete and put in service in June, 2017.
- CIP includes \$438 for renovations to Cornett Hall.
- Additions due to land improvements CIP totaled \$972, including \$940 for the soccer field project.
- Infrastructure CIP completed in 2017 included \$124 for the fiber network upgrade.
- Oregon Tech also added \$420 for a gift in kind of a perpetual access easement connected to the OMIC property.

Capital Asset Retirements totaled \$297 for 2017, \$2,422 for 2016, and \$2,079 in 2015. During 2017, retirements were primarily related to the sale of the president's residence, which reduced capital assets by \$209.

During 2017, accumulated depreciation increased \$4,883 due to depreciation of existing assets as well as the addition of the OMIC building.

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

Debt Administration

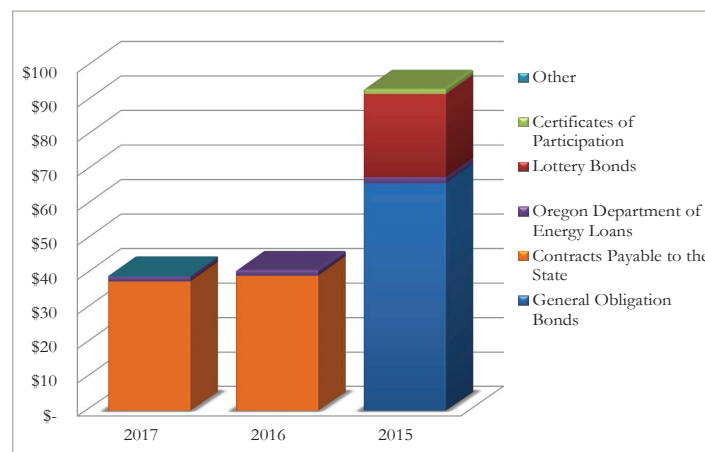
During 2017, long-term debt held by Oregon Tech decreased by \$1,793, or 4 percent, from \$41,136 to \$39,343.

- Long term debt decreased \$1,371 due to principal payments on contracts payable to the State of Oregon.
- Long term contracts payable to the State decreased \$166 due to refunding of underlying XI-F(1) bond debt by the State.
- Long term contracts payable to the State also decreased \$130 due to net changes in accreted interest.
- Long term debt also decreased \$175 due to principal payments on Oregon Department of Energy loans.
- A new capital lease increased long term debt \$49.

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 debt 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.
- Long term debt increased \$79 due to net changes in accreted interest.
- 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, student tuition and fees, net of allowances, and government appropriations are by far the largest, representing 33.6 percent and 36.3 percent, respectively, and combining for 69.9 percent of the combined operating and nonoperating revenues during the year ended June 30, 2017. The third largest revenue source, Auxiliary Enterprise revenues, represents 12.9 percent of operating and nonoperating 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. These programs require large fixed investments in equipment and faculty. When paired with volatile state funding, this creates periodic mismatches between revenue and expense drivers.



Management's Discussion and Analysis

For the Year Ended June 30, 2017 (dollars in thousands)

While state funding has increased coming out of the 2008 recession, and is set to increase again during the current biennium, it is still lower than pre-recession levels. Expenses, particularly those 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. Additionally, some contracts are bargained centrally with statewide labor unions.

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 their cost or benefit level for its employees. These benefits are significantly above comparator public and private employer rates, and Oregon Tech has historically had little cost sharing between the employer and employees. For fiscal year 2017, retirement expenses was 6.9 percent of total expenses while employee health care benefits averaged approximately \$18,600 per covered employee and has increased steadily over the years.

The large unfunded liability associated with PERS (described in Note 14) will continue to weigh against the state's budget and its ability to fund higher education as well as against Oregon Tech's internal cost equation. Recognizing the challenge ahead, the Governor has established a task force to explore solutions to defuse the liability, some of which are as drastic as asset sales, privatization of public resources and consolidation of universities to offset future cost of retiree benefits. The ultimate outcomes of this task force are unknown, but the seriousness and complexity of the issue cannot be overlooked. The PERS Board has decreased its assumed rate of return several times over the past years and is likely to continue doing so recognizing slowing domestic and global growth. The unfunded actuarial liability is highly sensitive to changes in the assumed rate of return. Significant increases in PERS rates are forecast for at least the next two biennia and may be extended if returns are less than those assumed by the state.

This has, and will continue to put significant upward pressure on tuition and require growth in enrollment while increased operational efficiency in order to maintain a strong financial position and highly effective university.

The full phase in of differential tuition for 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 has increased tuition revenue overall and better matches high cost programs with higher tuition rates. In academic year 2017, tuition rates increased three percent. For the year ended June 30, 2017 overall student tuition and fees revenue, net of allowances increased three percent over the prior year. 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 moderate growth in enrollment. During fiscal year 2017 Oregon Tech organized a new division focused on strategic enrollment management, bringing in a new Vice President and increasing its resource commitment and focus on enrollment management, retention, and the pipeline of students into, through and out of Oregon Tech. Investments in marketing and the physical plant are also geared towards increasing interest from students and families in the high return on investment technical, STEM, and health oriented degree programs offered by Oregon Tech.

The state's Higher Education Coordinating Commission (HECC) instituted a new funding formula, the Student Success and Completion Model (SSCM) during FY 2016. Fiscal Year 2018 will see the final year of transition before it is fully implemented during FY 2019. The SSCM distributes state support to the seven public universities based on primarily the number and type of degree granted and to a lesser extent on student enrollment and program mix. Additionally, the SSCM includes weighting for students who enroll and complete in high-cost STEM and health degree areas, for dual-credit (high school) enrollment, and for students from certain priority populations. These are areas and students which Oregon Tech has a history of 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 the largest graduating class in our history in June of 2017, and forecasts for increased continuation rates from spring to fall term. These investments and lessons learned will bear additional returns as they mature in the coming years.

Oregon Tech was successful in gaining additional operating funding, both recurring and one time from the legislature for our applied research and industry oriented centers, including the Oregon Renewable Energy Center and the Oregon Manufacturing Innovation Center. The legislature also approved funding of a \$42 million dollar investment in the Center for Excellence in Engineering and Technology as well as the completion of Phase II of the Cornett Hall renovation. These investments show increased prominence and strategic importance of Oregon Tech to the state, region and our industry partners.

Although Oregon Tech faces several external financial challenges, some within and some outside of the institution's control, it is financially healthy and enjoys growing recognition and market position. As the Northwest's only polytechnic university, it continues to see strong student demand and is actively sought by government, industry, and other educational partners.

The assumption of governing authority by the Oregon Tech Board of Trustees in 2015 from the former Oregon University System, and the selection of permanent senior leadership team has increased the stability and vigor at Oregon Tech headed into the years ahead. The Board of Trustees and management are actively pursuing strategic investments which will build upon current momentum, increase enrollment and prestige of the institution while restructuring the management systems and decision making process to create a more efficient and effective institution.



Statement of Net Position - Oregon Institute of Technology

As of June 30,	University	
	2017	2016
	(In thousands)	
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)	\$ 7,756	\$ 8,190
Collateral from Securities Lending (Note 2)	637	1,241
Accounts Receivable, Net (Note 3)	6,076	3,941
Notes Receivable, Net (Note 4)	404	368
Inventories	178	118
Prepaid Expenses	356	1,711
Total Current Assets	15,407	15,569
Noncurrent Assets		
Cash and Cash Equivalents (Note 2)	861	1,202
Investments (Note 2)	21,762	22,367
Notes Receivable, Net (Note 4)	2,235	2,061
Capital Assets, Net of Accumulated Depreciation (Note 5)	97,159	93,615
Total Noncurrent Assets	122,017	119,245
Total Assets	\$ 137,424	\$ 134,814
DEFERRED OUTFLOWS OF RESOURCES (Note 6)		
	\$ 9,011	\$ 1,483
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities (Note 7)	\$ 5,758	\$ 5,221
Deposits	94	106
Obligations Under Securities Lending (Note 2)	637	1,241
Current Portion of Long-Term Liabilities (Note 9)	2,963	2,924
Unearned Revenues	2,995	4,219
Total Current Liabilities	12,447	13,711
Noncurrent Liabilities		
Long-Term Liabilities (Note 9)	40,435	42,212
Net Pension Liability (Note 14)	16,969	6,027
Total Noncurrent Liabilities	57,404	48,239
Total Liabilities	\$ 69,851	\$ 61,950
DEFERRED INFLOWS OF RESOURCES (Note 6)		
	\$ 161	\$ 1,467
NET POSITION		
Net Investment in Capital Assets	\$ 58,659	\$ 54,361
Restricted For:		
Expendable:		
Gifts, Grants and Contracts	794	780
Student Loans	3,228	3,298
Capital Projects	1,086	406
Debt Service	176	278
Unrestricted (Note 10)	12,480	13,757
Total Net Position	\$ 76,423	\$ 72,880

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

Statement of Financial Position - Oregon Tech Foundation

As of June 30,	Component Unit	
	2017	2016
	(In thousands)	
ASSETS		
Cash and Cash Equivalents	\$ 1,247	\$ 214
Accounts Receivable	455	397
Accounts Receivable - due from University	23	-
Prepaid Expenses	32	28
Investments	23,931	21,061
Split-Interest Agreements	676	635
Unconditional Promises to Give	89	121
Other Assets	371	373
Total Assets	\$ 26,824	\$ 22,829
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 96	\$ 220
Liabilities Under Split-Interest Agreements	91	99
Funds Held for Distribution	903	987
Total Liabilities	\$ 1,090	\$ 1,306
NET ASSETS		
Unrestricted	\$ 9,489	\$ 8,303
Temporarily Restricted	6,133	4,156
Permanently Restricted	10,112	9,064
Total Net Assets	\$ 25,734	\$ 21,523
Total Liabilities and Net Assets	\$ 26,824	\$ 22,829

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 Years Ended June 30,	University	
	2017	2016
	(In thousands)	
OPERATING REVENUES		
Student Tuition and Fees (Net of Allowances of \$7,828 and \$7,431, Note 1S)	\$ 24,673	\$ 23,947
Federal Grants and Contracts	846	674
State and Local Grants and Contracts	1,374	408
Nongovernmental Grants and Contracts	312	583
Educational Department Sales and Services	980	312
Auxiliary Enterprises Revenues (Net of Allowances of \$449 and \$505, Note 1S)	9,456	8,327
Other Operating Revenues	285	339
Total Operating Revenues	37,926	34,590
OPERATING EXPENSES		
Instruction	28,721	27,919
Research	2,018	849
Public Service	38	95
Academic Support	6,840	6,792
Student Services	4,729	4,412
Auxiliary Programs	10,682	10,291
Institutional Support	8,685	8,446
Operation and Maintenance of Plant	4,351	4,249
Student Aid	5,471	4,556
Other Operating Expenses	3,482	2,939
Total Operating Expenses (Note 12)	75,017	70,548
Operating Loss	(37,091)	(35,958)
NONOPERATING REVENUES (EXPENSES)		
Government Appropriations (Note 13)	26,655	25,176
Financial Aid Grants	7,060	6,810
Gifts	3,133	2,875
Investment Activity (Note 11)	339	762
Gain on Sale of Assets, Net	154	3,174
Interest Expense	(1,847)	(2,266)
Other Nonoperating Items	46	(37)
Net Nonoperating Revenues	35,540	36,494
Income (Loss) Before Other Nonoperating Revenues	(1,551)	536
Capital and Debt Service Appropriations (Note 13)	190	189
Capital Grants and Gifts	4,904	2,165
Total Other Nonoperating Revenues	5,094	2,354
Increase In Net Position Prior to Special/ Extraordinary Items	3,543	2,890
SPECIAL AND EXTRAORDINARY ITEMS		
Special Item - Change in Entity (Note 18)	-	43,626
Increase In Net Position After Special/ Extraordinary Items	3,543	46,516
NET POSITION		
Beginning Balance	72,880	26,364
Ending Balance	\$ 76,423	\$ 72,880

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



Statement of Activities - Oregon Tech Foundation

For the Years Ended June 30,	Component Unit	
	2017	2016
	(in thousands)	
CHANGE IN UNRESTRICTED NET ASSETS		
REVENUES		
Contributions and Grants	\$ 772	\$ 158
In-Kind Donations	1	1
Investment Income	838	(255)
Other	7	15
Net Assets Released From Restrictions	851	1,295
Total Revenues	2,469	1,214
EXPENSES		
Program Services	839	1,183
Management and General	415	400
Fundraising	21	19
Impairment of Investment	-	200
Change in Reserve for Uncollectible Pledges	8	3
Total Expenses	1,283	1,805
Increase (Decrease) In Unrestricted Net Assets	1,186	(591)
Beginning Balance, Unrestricted Net Assets	8,303	8,894
Ending Balance, Unrestricted Net Assets	\$ 9,489	\$ 8,303
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
REVENUES		
Contributions and Grants	1,422	413
In-Kind Donations	15	347
Investment Income	1,377	(590)
Other	14	32
Net Assets Released From Restrictions	(851)	(1,332)
Increase (Decrease) In Temporarily Restricted Net Assets	1,977	(1,130)
Beginning Balance, Temporarily Restricted Net Assets	4,156	5,286
Ending Balance, Temporarily Restricted Net Assets	\$ 6,133	\$ 4,156
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS		
REVENUES		
Contributions and Grants	999	599
Change in Value of Split Interest Agreements	49	(24)
Net Assets Released From Restrictions	-	37
Increase (Decrease) In Permanently Restricted Net Assets	1,048	612
Beginning Balance, Permanently Restricted Net Assets	9,064	8,452
Ending Balance, Permanently Restricted Net Assets	\$ 10,112	\$ 9,064
Beginning Balance, Total Net Assets	21,523	22,632
Total Change in Net Assets	4,211	(1,109)
Ending Balance, Total Net Assets	\$ 25,734	\$ 21,523

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



Statement of Cash Flows - Oregon Institute of Technology

For the Years Ended June 30,	University	
	2017	2016
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	\$ 24,402	\$ 24,908
Grants and Contracts	1,566	705
Educational Department Sales and Services	120	312
Auxiliary Enterprises Operations	9,491	8,306
Payments to Employees for Compensation and Benefits	(46,385)	(42,885)
Payments to Suppliers	(15,175)	(13,334)
Student Financial Aid	(5,491)	(4,644)
Other Operating Receipts (Payments)	531	831
Net Cash Used by Operating Activities	(30,941)	(25,801)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Government Appropriations	26,655	25,176
Financial Aid Grants	6,940	7,280
Other Gifts and Private Contracts	3,133	2,875
Net Agency Fund Receipts (Payments)	59	36
Cash Transfers Due Change in Entity	-	(4,340)
Net Cash Provided by Noncapital Financing Activities	36,787	31,027
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt Service Appropriations	190	189
Capital Grants and Gifts	3,727	1,840
Sales of Capital Assets	323	4,209
Purchases of Capital Assets	(8,174)	(3,816)
Interest Payments on Capital Debt	(1,951)	(2,152)
Principal Payments on Capital Debt	(1,680)	(1,511)
Net Cash Used by Capital and Related Financing Activities	(7,565)	(1,241)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Sales (Purchases) of Investments	605	(7,930)
Income on Investments and Cash Balances	339	617
Net Cash Provided (Used) by Investing Activities	944	(7,313)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(775)	(3,328)
CASH AND CASH EQUIVALENTS		
Beginning Balance	9,392	12,720
Ending Balance	\$ 8,617	\$ 9,392

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

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

For the Years Ended June 30,	University	
	2017	2016
	(In thousands)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$ (37,091)	\$ (35,958)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	5,011	4,713
Changes in Assets and Liabilities:		
Accounts Receivable	(1,389)	270
Notes Receivable	(210)	120
Inventories	(60)	11
Prepaid Expenses	277	(196)
Accounts Payable and Accrued Liabilities	575	393
Long-Term Liabilities	55	(140)
Unearned Revenue	(217)	82
Pension Expense Related to Net Pension Liability	2,108	4,904
NET CASH USED BY OPERATING ACTIVITIES	\$ (30,941)	\$ (25,801)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS		
Capital Assets Acquired by Gifts-in-Kind	\$ 431	\$ 325
Increase in Fair Value of Investments Recognized as a Component of Investment Activity	-	145
Removal of State Paid Debt	-	50,947
Net Reduction of Contracts Payable to the State	(166)	

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)/(University) is governed by the Board of Trustees of Oregon Institute of Technology (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. Oregon Tech has two campuses, located in Klamath Falls and Wilsonville.

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

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

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 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*, modified by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, 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, interfund transfers between University funds, and internal revenues and expenses associated with self-supporting auxiliary and service center operations have been eliminated. Unless otherwise stated, dollars are presented in thousands.

Financial statements of the Oregon Tech Foundation for fiscal years ended June 30, 2017 and 2016 are discretely presented, as discussed above. The Foundation's financial statements are prepared in accordance with the pronouncements of the Financial Accounting Standards Board (FASB). As such, certain revenue recognition criteria and presentation features are different from GASB revenue criteria and presentation. Accordingly, those financial statements have been reported on separate pages

following the respective counterpart financial statements of the University. No modifications have been made to the Foundation's financial information included in the University's financial report.

C. Basis of Accounting

For financial reporting purposes, 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.

NEWLY IMPLEMENTED ACCOUNTING STANDARDS

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

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

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



Notes to the Financial Statements

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

of information about leasing activities. This Statement will substantially impact the University's lease accounting and reporting.

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

D. Cash and Cash Equivalents

Cash and cash equivalents includes highly liquid investments with original maturities of three months or less. Cash and cash equivalents consists of: cash on hand, cash and investments held by the State of Oregon in the Oregon Short-Term Fund (OSTF) and cash held at U.S. Bank.

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. Receivables

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

Grants and contracts receivable include amounts due from Federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Capital Construction receivables include amounts due from the State of Oregon in connection with reimbursement of allowable expenditures made pursuant to the grant agreements between the University and the State for facilities projects funded by the State.

Student Loans receivable consists of amounts due from the Federal Perkins Loan Program, and from other loans administered by the University. Construction Reimbursement loans receivable are amounts receivable from the State of Oregon in connection with reimbursement of allowable expenditures made pursuant to the contracts between the University and the state for facilities projects funded by the University. Construction Reimbursements can be current or long term depending on the estimated timing of completion of construction projects. Oregon Tech does not currently have Construction Reimbursement loans receivable.

G. Inventories

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

H. Capital Assets

Capital assets are recorded at cost on the date acquired or at fair market value on the date donated. 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 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 year ended June 30, 2017, Oregon Tech capitalized \$66 of interest on projects which had \$71 of total interest. For the fiscal year ended June 30, 2016, Oregon Tech capitalized \$42 of interest on projects which had \$84 of total 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 land, easements, museum collections, works of art or historical treasures, or library special collections.

I. Unearned Revenues

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

J. Compensated Absences

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. An estimate is made to allocate this liability between its current and noncurrent components. Sick leave is recorded as an expense when paid. There is no payout provision for unused sick leave and no liability exists for terminated employees.

K. Net Pension Liability

The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense are actuarially determined at the system-wide Plan level and are allocated to employers based on their proportionate share. Oregon Tech is included in the proportionate share for



Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

all state agencies. The Oregon Tech proportionate share of all state agencies is allocated to Oregon Tech 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".

L. Deferred Outflows and Deferred Inflows of Resources

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

M. 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.

UNRESTRICTED

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

N. Restricted/Unrestricted Resources

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

O. Endowments

The University has the authority 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 2018 is estimated to be \$162.

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.

P. 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 years ended June 30, 2017 and June 30, 2016 because there is no significant amount of taxes on such unrelated business income for Oregon Tech.

Q. 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 and expenses 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, *Basic Financial Statement - and Management Discussion and Analysis*. Examples of nonoperating expenses include interest on capital asset related debt expenses.

R. State Support

Oregon Tech receives support from the State of Oregon in the form of General Fund and Lottery appropriations and debt service appropriations for some Oregon Department of Energy loans, see Note 13 for details on appropriations.

In addition to appropriations, the State of Oregon provides funding for plant facilities on the University's campuses. Capital projects for new facilities and Capital Improvements and Repair are funded by philanthropy, campus paid debt and resources, and state-paid debt. The State of Oregon Legislature considers projects from all seven public universities for allocation of Oregon's bonding capacity. Funds for capital projects funded by state-paid debt are provided through grant agreements between



Notes to the Financial Statements

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

Oregon Tech and the State of Oregon. Revenue is recorded as Capital Grants in the Statement of Revenues, Expenses and Changes in Net Position when appropriate expenditures are reimbursable per the grant agreements. Funds for capital projects funded by campus paid debt can also be funded through the State of Oregon's bonding capacity. At the time that the bonds are sold, the State of Oregon instructs Oregon Tech to record a liability for the debt and a receivable for construction reimbursements. The receivable is reduced as expenditures on the capital project are completed and reimbursed by the State. Oregon Tech does not currently have any capital projects funded with new bonded debt which are campus paid.

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

S. Allowances

Student tuition and fees and campus housing fees 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. Under this approach, scholarships awarded by the University are considered as reductions in tuition and fee revenues rather than as expenses. Additionally, certain governmental grants, such as Pell grants, and payments from other federal, state or nongovernmental programs, are required to be recorded as either operating or nonoperating revenues in the University's financial statement. To the extent that revenues from such programs are applied to tuition, fees, and other student charges, the University has reported a corresponding scholarship allowance,

Oregon Tech has three types of allowances that net into auxiliary enterprises revenues and tuition and fees. Tuition and housing waivers provided directly by Oregon Tech amounted to \$3,578 and \$3,245 for the fiscal years ended 2017 and 2016, respectively. Revenues from financial aid programs (e.g., Pell Grants, Supplemental Educational Opportunity Grants, and Oregon Opportunity Grants) used for paying student tuition and fees and campus housing was estimated to be \$4,401 and \$4,715 for the fiscal year ended 2017 and 2016, respectively. Bad debt expense is included as an allowance to operating revenues and is estimated to be \$298 and (\$24) for the fiscal years ended 2017 and 2016, respectively.

T. 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 \$20,082 and \$19,203 for the fiscal years ended 2017 and 2016, respectively.

U. Deposit Liabilities

Deposit Liabilities primarily consist of fund balances held by Oregon Tech on behalf of student groups and organizations that account for activities in the Oregon Tech accounting system and whose cash is part of the cash held on deposit with the State Treasury.

V. Use of Estimates

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

W. Reclassifications

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

2. Cash and Investments

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

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

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



Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

A. Cash and Cash Equivalents

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

	June 30, 2017	June 30, 2016
Current		
Unrestricted	\$ 4,262	\$ 6,020
Restricted For:		
Gifts, Grants and Contracts	-	121
Debt Service	573	361
Student Aid	474	273
Endowments	104	91
Payroll Vendor Payments	1,504	1,243
Student Groups and Campus Organizations	37	24
US Bank - Perkins	723	-
Petty Cash	79	57
Total Current	7,756	8,190
Noncurrent		
Unrestricted	538	523
Restricted For:		
Capital	323	679
Total Noncurrent	861	1,202
Total	\$ 8,617	\$ 9,392

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

DEPOSITS WITH STATE TREASURY

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 short-term cash and investment pool for use by all state agencies or, by agreement, for related public bodies, such as Oregon Tech. 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, 2017 and 2016, respectively, Oregon Tech cash and cash equivalents on deposit at State Treasury was \$7,815 and \$9,333.

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. Additionally, cash balances on deposit with US Bank are collateralized, therefore invested continuously, resulting in low credit risk.

FOREIGN CURRENCY RISK—DEPOSITS

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

OTHER DEPOSITS

For the years ended June 30, 2017 and 2016, respectively, Oregon Tech had vault and petty cash balances of \$79 and \$57. Oregon Tech also had cash held at US Bank for Title IV Perkins funds of \$723 at June 30, 2017 and \$0 at June 30, 2016.

B. Investments

Oregon Tech's operating funds and some of the University's quasi-endowments are invested in the PUF. As of June 30, 2016, investments in the PUF were allocated into two separate pools, the intermediate-term pool and the long-term pool. As of April 3, 2017, the investment strategy and underlying securities of the two investment pools were combined into one pool, known as the Core Bond Fund. In addition, during the year ended June 30, 2017, the University established has a board-designated quasi-endowment invested in the Oregon Intermediate-term Pool (OITP), managed by State Treasury. The investment policies are approved by the Board, with counsel and oversight from the OIC. Investments are managed as a prudent investor would do, exercising reasonable care, skill and caution. While the State Treasury is authorized to utilize demand deposit accounts and fixed-income investments, equity investments must be directed by external investment managers who are under contract to the OIC.

Investments are all classified as noncurrent and include both restricted and unrestricted funds. At June 30, 2017, Oregon Tech had \$21,762 in investments; of this, \$14,273 was invested in a core bond fund managed by State Treasury, and \$7,489 was invested in the OITP.

At June 30, 2016, Oregon Tech had \$22,367 in investments; of this, \$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 invested through the PUF.

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.



Notes to the Financial Statements

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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, 2017.

Investments of the Oregon Tech discretely presented component unit are summarized at June 30, 2017 and 2016, respectively as follows:

COMPONENT UNIT

Fair Value at June 30, Investment Type:	2017	2016
Corporate Equity Securities (Level I)	\$ 19,794	\$ 17,743
Investment in Partnership (Level III)	1,616	1,616
Alternative Investments (Level II)	1,508	1,340
Money Market Funds (Level I)	1,013	362
Total Investments	<u>\$ 23,931</u>	<u>\$ 21,061</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 its operating and endowment assets. The PUF Investment Pool totaled \$312,900 and \$321,409 at June 30, 2017 and 2016, respectively, of which Oregon Tech owned \$14,273 or 4.6 percent and \$22,367 or 7.0 percent. As of June 30, 2017 and 2016, approximately 99.0 percent and 98.5 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 \$272,151 and \$305,760 in fiscal year 2017 and 2016, respectively. Fixed income securities which have not been evaluated by the rating agencies totaled \$37,721 and \$10,935 in fiscal year 2017 and 2016, respectively.

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, 2017 and 2016, 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, 2017 or 2016.

INTEREST RATE RISK

Investments in fixed income securities are subject to the risk that changes in interest rates will adversely affect the fair value of the investments. As of June 30, 2017 and 2016, respectively, securities in the PUF Investment Pool held subject to interest rate risk totaling \$309,872 and \$316,695 had an average duration of 3.91 and 3.00 years. Duration measures the change in the value of a fixed income security that will result from a one percent change in interest rates. At June 30, 2017, the total \$7,489 of the Oregon Tech board designated quasi-endowment invested in the OITP were subject to interest rate risk and had an average duration of 3.02 years.

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, 2017 the PUF Investment Pool totaled \$312,900. 100 percent of the total was valued using level 2 inputs. At June 30, 2016 the PUF Investment Pool totaled \$321,409. 100 percent of the total was valued using level 2 inputs.

At June 30, 2017, Oregon Tech's investments in the OITP totaled \$7,489. 100 percent of the total was valued using level 3 inputs.

C. Securities Lending

In accordance with the State investment policies, the State participates in securities lending transactions. The Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the State's securities pursuant to a form of loan agreement. Both the State and borrowers maintain the right to terminate all securities



Notes to the Financial Statements

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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, 2017 and 2016.

During the year, State Street had the authority to lend short-term, fixed income, and equity securities and receive as collateral U.S. dollar and foreign currency cash, U.S. government and agency securities, and foreign sovereign debt of Organization of Economic Cooperation and Development countries. Borrowers were required to deliver collateral for each loan equal to not less than 102 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 and related 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, 2017 and 2016, is effectively one day. As of June 30, 2017 and 2016, the state had no credit risk exposure to borrowers because the amounts owed to borrowers exceeded the amounts borrowers owed to the State.

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

Investment Type	June 30, 2017	June 30, 2016
U.S. Treasury and Agency Securities	\$ 165	\$ 1,070
Domestic Fixed Income Securities	630	360
Total	\$ 795	\$ 1,430

The fair value of the University's share of total cash and securities collateral received as of June 30, 2017 and 2016 was \$813 and \$1,459, respectively. The fair value of the University's share of investments purchased with cash collateral as of June 30, 2017 and 2016 was \$637 and \$1,241, respectively.

3. Accounts Receivable

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

	June 30, 2017	June 30, 2016
Student Tuition and Fees	\$ 1,956	\$ 1,563
Capital Construction Gifts, Grants, and Contrac	1,341	595
State, Other Government, and Private		
Gifts, Grants and Contracts	924	573
Federal Grants and Contracts	482	241
Auxiliary Enterprises and Other		
Operating Activities	289	274
Component Units	143	206
Other	1,248	696
	<u>6,383</u>	<u>4,148</u>
Less: Allowance for Doubtful Accounts	(307)	(207)
Accounts Receivable, Net	<u>\$ 6,076</u>	<u>\$ 3,941</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, 2017		
	Current	Noncurrent	Total
Institutional and Other Student Loans	\$ 90	\$ 846	\$ 936
Federal Student Loans	354	1,568	1,922
	<u>444</u>	<u>2,414</u>	<u>2,858</u>
Less: Allowance for Doubtful Accounts	(40)	(179)	(219)
Notes Receivable, Net	<u>\$ 404</u>	<u>\$ 2,235</u>	<u>\$ 2,639</u>
	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>



Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

5. Capital Assets

The following schedule reflects the changes in capital assets:

	Balance July 1, 2015	Additions	Transfer Completed Assets	Retire. And Adjust.	Balance June 30, 2016	Additions	Transfer Completed Assets	Retire. And Adjust.	Balance June 30, 2017
Capital Assets, Non-depreciable/Non-amortizable									
Land	\$ 5,474	\$ -	\$ -	\$ (157)	\$ 5,317	\$ 363	\$ -	\$ (31)	\$ 5,649
Capitalized Collections	1,040	-	-	(28)	1,012	-	-	-	1,012
Construction in Progress	382	1,873	(249)	(5)	2,001	6,438	(6,951)	-	1,488
Perpetual Intangible Assets	-	-	-	-	-	420	-	-	420
Total Capital Assets, Non-depreciable/Non-amortizable	6,896	1,873	(249)	(190)	8,330	7,221	(6,951)	(31)	8,569
Capital Assets, Depreciable/Amortizable:									
Equipment	11,764	1,394	99	-	13,257	1,391	402	(38)	15,012
Library Materials	9,668	120	-	(191)	9,597	17	-	(19)	9,595
Buildings	110,259	1	-	(2,041)	108,219	-	4,124	(209)	112,134
Land Improvements	3,278	-	-	-	3,278	-	2,018	-	5,296
Improvements Other Than Buildings	456	1	-	-	457	95	-	-	552
Infrastructure	19,640	718	150	-	20,508	-	407	-	20,915
Intangible Assets	1,970	-	-	-	1,970	-	-	-	1,970
Total Capital Assets, Depreciable/Amortizable	157,035	2,234	249	(2,232)	157,286	1,503	6,951	(266)	165,474
Less Accumulated Depreciation/Amortization for:									
Equipment	(9,538)	(705)	-	-	(10,243)	(830)	-	4	(11,069)
Library Materials	(8,887)	(181)	-	190	(8,878)	(170)	-	19	(9,029)
Buildings	(39,831)	(2,742)	-	1,196	(41,377)	(2,691)	-	108	(43,960)
Land Improvements	(2,041)	(103)	-	-	(2,144)	(280)	-	-	(2,424)
Improvements Other Than Buildings	(228)	(39)	-	-	(267)	(47)	-	-	(314)
Infrastructure	(6,310)	(890)	-	-	(7,200)	(947)	-	(3)	(8,150)
Intangible Assets	(1,839)	(53)	-	-	(1,892)	(46)	-	-	(1,938)
Total Accumulated Depreciation/Amortization	(68,674)	(4,713)	-	1,386	(72,001)	(5,011)	-	128	(76,884)
Total Capital Assets, Net	\$ 95,257	\$ (606)	\$ -	\$ (1,036)	\$ 93,615	\$ 3,713	\$ -	\$ (169)	\$ 97,159
Capital Assets Summary									
Capital Assets, Non-depreciable/Non-amortizable	\$ 6,896	\$ 1,873	\$ (249)	\$ (190)	\$ 8,330	\$ 7,221	\$ (6,951)	\$ (31)	\$ 8,569
Capital Assets, Depreciable/Amortizable	157,035	2,234	249	(2,232)	157,286	1,503	6,951	(266)	165,474
Total Cost of Capital Assets	163,931	4,107	-	(2,422)	165,616	8,724	-	(297)	174,043
Less Accumulated Depreciation/Amortization	(68,674)	(4,713)	-	1,386	(72,001)	(5,011)	-	128	(76,884)
Total Capital Assets, Net	\$ 95,257	\$ (606)	\$ -	\$ (1,036)	\$ 93,615	\$ 3,713	\$ -	\$ (169)	\$ 97,159

One of Oregon Tech's geothermal power plants and related systems with a book value of \$7,635 was idle as of June 30, 2017 due to repairs in progress.



Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

6. Deferred Inflows and Outflows of Resources

Deferred Inflows and Outflows of Resources comprised the following:

	June 30, 2015	Additions	Reductions	June 30, 2016	Additions	Reductions	June 30, 2017
Deferred Outflows of Resources							
Deferred Gain/Loss on Refunding of Debt	\$ 2,599	\$ -	\$ (2,599)	\$ -	\$ -	\$ -	\$ -
Pension Contributions Subsequent to the Measurement Date	838	1,004	(838)	1,004	1,044	(1,004)	1,044
Differences Between Pension Contributions and Proportionate Share of Contributions	38	153	(37)	154	390	(110)	434
Difference Between Expected and Actual Experience	-	399	(74)	325	384	(147)	562
Changes in Assumptions	-	-	-	-	4,461	(842)	3,619
Differences Between Projected and Actual Earnings on Pension Investments	-	-	-	-	4,983	(1,631)	3,352
Total	\$ 3,475	\$ 1,556	\$ (3,548)	\$ 1,483	\$ 11,262	\$ (3,734)	\$ 9,011
Deferred Inflows of Resources							
Differences Between Pension Contributions and Proportionate Share of Contributions	\$ -	\$ 250	\$ (46)	\$ 204	\$ 5	\$ (48)	\$ 161
Difference Between Projected and Actual Earnings on Pension Plan Investments	4,116	1,020	(3,873)	1,263	-	(1,263)	-
Total	\$ 4,116	\$ 1,270	\$ (3,919)	\$ 1,467	\$ 5	\$ (1,311)	\$ 161

7. Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities comprised the following:

	June 30, 2017	June 30, 2016
Salaries and Wages	\$ 1,972	\$ 1,872
Payroll Benefits Related	1,504	1,239
Services and Supplies	1,453	1,245
Accrued Interest	825	863
Other	4	2
Total	\$ 5,758	\$ 5,221

8. Operating Leases

A. Receivables/Revenues

Oregon Tech receives income for land, property and equipment that is leased to third parties. Rental income received from leases was \$690 and \$516 for the year ended June 30, 2017 and 2016, respectively. The original cost of assets leased, net of depreciation, was \$5,288 and \$5,104 for the year ended June 30, 2017 and 2016, respectively.

Minimum future lease revenue for noncancelable operating leases at June 30, 2017 were:

For the year ending June 30,

2018	\$ 740
2019	759
2020	128
2021	2
2022	2
2023-2027	7
2028-2032	7
2033-2037	7
2038-2042	7
2043-2047	7
2048-2052	1
Total Minimum Operating Lease Revenues	\$ 1,667

B. Payables/Expenses

Oregon Tech leases building and office facilities and other equipment under noncancelable operating leases. Total expense for such leases and rents were \$682 and \$697 for the year ended June 30, 2017 and 2016, respectively. Minimum future lease payments on operating leases at June 30, 2017 were:

For the year ending June 30,

2018	\$ 680
2019	564
2020	531
2021	493
2022	284
Total Minimum Operating Lease Payments	\$ 2,552



Notes to the Financial Statements
For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

9. Long-Term Liabilities

Long-term liability activity was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amount Due Within One Year	Long-Term Portion
Long-Term Debt						
Due to State of Oregon:						
Contracts Payable	\$ 39,537	\$ 25	\$ (1,692)	\$ 37,870	\$ 1,563	\$ 36,307
Oregon Department of Energy Loans (SELP)	1,599	-	(175)	1,424	96	1,328
Capital Leases	-	53	(4)	49	16	33
Total Long-Term Debt	<u>41,136</u>	<u>78</u>	<u>(1,871)</u>	<u>39,343</u>	<u>1,675</u>	<u>37,668</u>
Other Noncurrent Liabilities						
PERS pre-SLGRP pooled Liability	1,722	-	(80)	1,642	80	1,562
Compensated Absences	1,403	1,253	(1,032)	1,624	1,093	531
Other Postemployment Benefits	594	21	-	615	-	615
Employee Termination Liabilities	124	68	(124)	68	68	-
Early Retirement Liability	157	-	(51)	106	47	59
Total Other Noncurrent Liabilities	<u>4,000</u>	<u>1,342</u>	<u>(1,287)</u>	<u>4,055</u>	<u>1,288</u>	<u>2,767</u>
Total Long-Term Liabilities	\$ 45,136	\$ 1,420	\$ (3,158)	\$ 43,398	\$ 2,963	\$ 40,435

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amount Due Within One Year	Long-Term Portion
Long-Term Debt						
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	<u>93,594</u>	<u>177</u>	<u>(52,635)</u>	<u>41,136</u>	<u>1,684</u>	<u>39,452</u>
Other Noncurrent Liabilities						
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	<u>4,140</u>	<u>1,056</u>	<u>(1,196)</u>	<u>4,000</u>	<u>1,240</u>	<u>2,760</u>
Total Long-Term Liabilities	\$ 97,734	\$ 1,233	\$ (53,831)	\$ 45,136	\$ 2,924	\$ 42,212



Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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

For the Year Ending June 30,	Contracts Payable	SELP	Capital Leases	Total Payments	Principal	Interest
2018	\$ 3,167	\$ 163	\$ 17	\$ 3,347	\$ 1,556	\$ 1,791
2019	3,131	151	18	3,300	1,551	1,749
2020	3,115	151	15	3,281	1,588	1,693
2021	3,036	151	-	3,187	1,650	1,537
2022	3,021	151	-	3,172	1,691	1,481
2023-2027	14,950	754	-	15,704	9,321	6,383
2028-2032	12,894	413	-	13,307	9,144	4,163
2033-2037	9,626	-	-	9,626	7,533	2,093
2038-2042	4,526	-	-	4,526	3,855	671
2043-2047	1,198	-	-	1,198	1,140	58
Accreted Interest					314	(314)
					\$ 39,343	\$ 21,305
Total Future Debt Service	58,664	1,934	50	60,648		
Less: Interest Component of Future Payments	(20,794)	(510)	(1)	(21,305)		
Principal Portion of Future Payments	\$ 37,870	\$ 1,424	\$ 49	\$ 39,343		

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. Oregon Tech has entered into contract loan agreements for the principal and interest amounts due to the State. The State may periodically issue new debt to refund previously held debt. Per the loan agreements, when this happens the State is required to pass the savings on to the University.

A. Contracts Payable

Oregon Tech has entered into loan agreements with the State for repayment of XI-F(1) bonds issued by the State on behalf of the University for capital construction and refunding of previously issued debt. The University makes loan payments (principal and interest) to the State in accordance with the loan agreements. Loans, with interest rates ranging from 1.14 percent to 7.0 percent, are due serially through 2044.

During the fiscal year ended June 30, 2017, the State issued XI-F(1) bonds for refunding of previously held debt, which resulted in a net reduction to Oregon Tech's contract payable of \$166. Other changes include debt service payment for principal and accreted interest of \$1,526 and the addition of \$25 for the amortization of accreted interest applicable to zero coupon bonds sold prior to 2002.

B. General Obligation Bonds XI-F(1)

As of July 1, 2015, \$5,036 in premiums and discounts associated with XI-F(1) debt were removed from the long-term liabilities of Oregon Tech. See Note 18. "Change in Entity" for additional information.

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

C. 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. See Note 1.A. "Reporting Entity", Note 1.R. "State Support", 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.

D. 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. See Note 1.A. "Reporting Entity", Note 1.R. "State Support", 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 would result in a liability of the University.



Notes to the Financial Statements

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

E. 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 4.9 percent to 5.08 percent, are due through 2030.

F. 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. See Note 1.A. "Reporting Entity", Note 1.R. "State Support", and Note 18. "Change in Entity" for additional information on the change in legal status. The State no longer issues COPs.

G. 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. Note 1.A. "Reporting Entity", Note 1.R. "State Support", 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.

H. Capital Leases

During the fiscal year ended June 30, 2017, Oregon Tech acquired assets under capital lease agreements. The cost of Oregon Tech assets held under capital leases totaled \$53 as of June 30, 2017. Accumulated depreciation of leased equipment totaled \$1 at June 30, 2017.

The lease purchase (capital lease) contracts run through fiscal year 2020. The capital leases are recorded at the present value of the minimum future lease payments at the inception date. The effective interest rate on the capitalized lease is 2.15 percent.

I. State and Local Government Rate Pool

Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), and local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP effective January 1, 2002, at which time a transitional, pre-SLGRP liability was created. The pre-SLGRP liability is essentially a debt owed to the SLGRP by the SCCP employers. The balance of the pre-SLGRP pooled liability attributable to the State is being amortized over the period ending December 31, 2027. The liability is allocated by the State of Oregon, based on salaries and wages, to all public universities, State 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 \$122 and \$121 for June 30, 2017 and 2016, respectively. Principal payments of \$80 and \$61 were applied to the liability for June 30, 2017 and 2016, respectively.

J. Employee Termination Liabilities

Oregon Tech has a severance agreement with one former employee relating to early termination of their employment contract. Future payout of this liability extends through fiscal year 2018. The value of future benefit payments were not discounted due to the short term of the liability.

K. 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 \$106 liability will be paid out through fiscal year 2021.

10. Unrestricted Net Position

Unrestricted net position is comprised of the following:

	June 30, 2017	June 30, 2016
University Operations	\$ 24,480	\$ 23,487
Compensated Absences Liability (Note 9)	(1,624)	(1,403)
Other Post-Employment Benefits Liability (Notes 9 and 15)	(615)	(594)
State and Local Government Rate Pool (Note 9)	(1,642)	(1,722)
Net Pension Liability	(16,969)	(6,027)
Pension Related Deferred Outflows (Note 6)	9,011	1,483
Pension Related Deferred Inflows (Note 6)	(161)	(1,467)
Total Unrestricted Net Position	\$ 12,480	\$ 13,757

11. Investment Activity

Investment Activity detail is as follows:

	June 30, 2017	June 30, 2016
Investment Earnings	\$ 631	\$ 616
Temporarily Restricted Endowment Income	11	10
Interest Income	5	1
Gain (Loss) on Sale of Investments	-	(10)
Net Appreciation (Depreciation) of Investments	(308)	145
Total Investment Activity	\$ 339	\$ 762



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. The Net Pension Liability for fiscal years ended June 30, 2017 and June 30, 2016, affected the reported Compensation and Benefit Expenses of Oregon Tech. For the fiscal year ended June 30, 2017, changes in the Net Pension Liability and associated reporting requirements increased the reported Compensation and Benefit expenses of Oregon Tech by \$2,108. 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. See page 16 of the Management's Discussion & Analysis section of this report for additional details and discussion of the impact of this change.

June 30, 2017	Compensation and Benefits	Services and Supplies	Scholarships and Fellowships	Depreciation and Amortization	Other	Total
Instruction	\$ 26,009	\$ 2,712	\$ -	\$ -	\$ -	\$ 28,721
Research	1,133	869	16	-	-	2,018
Public Services	18	20	-	-	-	38
Academic Support	5,240	1,600	-	-	-	6,840
Student Services	3,818	892	19	-	-	4,729
Auxiliary Services	3,789	5,140	65	1,688	-	10,682
Institutional Support	6,278	2,407	-	-	-	8,685
Operation & Maintenance	2,585	1,766	-	-	-	4,351
Student Aid	49	2	5,391	-	29	5,471
Other	(6)	165	-	3,323	-	3,482
Total	\$ 48,913	\$ 15,573	\$ 5,491	\$ 5,011	\$ 29	\$ 75,017

June 30, 2016	Compensation and Benefits	Services and Supplies	Scholarships and Fellowships	Depreciation and Amortization	Other	Total
Instruction	\$ 25,403	\$ 2,515	\$ -	\$ -	1	\$ 27,919
Research	651	192	5	-	1	849
Public Services	51	43	1	-	-	95
Academic Support	5,431	1,361	-	-	-	6,792
Student Services	3,629	769	14	-	-	4,412
Auxiliary Services	3,823	4,904	61	1,503	-	10,291
Institutional Support	6,315	2,131	-	-	-	8,446
Operation & Maintenance	2,658	1,591	-	-	-	4,249
Student Aid	-	-	4,563	-	(7)	4,556
Other	1	(272)	-	3,210	-	2,939
Total	\$ 47,962	\$ 13,234	\$ 4,644	\$ 4,713	\$ (5)	\$ 70,548

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. Appropriations for SELP debt service are dependent upon the loan agreements between the University and the Oregon Department of Energy. Government appropriations comprised the following:

	June 30, 2017	June 30, 2016
General Fund - Operations	\$ 26,198	\$ 24,719
General Fund - SELP Debt Service	190	189
Lottery Funding	457	457
Total Appropriations	\$ 26,845	\$ 25,365

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.

Notes to the Financial Statements

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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

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

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

<http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>

Summary of Significant Accounting Policies: Employers participating in the Plan are required to report pension information in their financial statements for fiscal periods beginning on or after June 15, 2014, in accordance with 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 Subsequent to the Measurement Date: Management is not aware of any changes to benefit terms subsequent to the June 30, 2016 measurement date.

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

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

As reflected in the December 31, 2014 actuarial valuation, the system-wide actuarial accrued liability has increased primarily due to the *Moro* decision and assumption changes, along with interest on the liability as current active members get closer to retirement. The Oregon Supreme Court decision in *Moro v. State of Oregon*, issued on April 30, 2015, reversed a significant portion of the reductions passed by the 2013 Oregon Legislature, which increased the benefits projected to be paid by Employers compared to those previously developed and consequently increased Plan liabilities. The employers' projected long-term contribution effort reflects the estimated impact of the *Moro* Decision. Following the completion of the December 31, 2014 actuarial valuation, the PERS Board adopted several assumption changes, including lowering the investment return assumption from 7.75% to 7.50%.

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.



Notes to the Financial Statements

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

Death Benefits

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

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

Disability Benefits

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

Benefit Changes after Retirement

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

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

OREGON PUBLIC SERVICE RETIREMENT PLAN (OPSRP DB) PENSION PROGRAM

Pension Benefits

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

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

Death Benefits

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

Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes

disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes After Retirement

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

OREGON PUBLIC SERVICE RETIREMENT PLAN (OPSRP IAP) PENSION PROGRAM

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

Pension Plan Contributions

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

Employer contribution rates for the fiscal years ended June 30, 2017 and June 30, 2016 were based on the December 31, 2013 actuarial valuation as subsequently modified by the *Moro* decision. The rates are effective July 1, 2015 through June 30, 2017. The employer contribution rates for the PERS and OPSRP are as follows:

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

Employer required contributions for the years ended June 30, 2017 and June 30, 2016 were \$1,246 and \$1,186, respectively, including amounts to fund employer specific liabilities associated with the SLGRP liability. (See Note 9I for additional information).

Net Pension Liability

At June 30, 2017, the University reported a liability of \$16,969 for its proportionate share of the PERS net pension liability. The net pension liability as of June 30, 2017 was measured as of June 30, 2016, and the total pension liability used to calculate the



Notes to the Financial Statements

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

net pension liability was determined by an actuarial valuation as of December 31, 2014. At June 30, 2016, the University reported a liability of \$6,027 for its proportionate share of the PERS net pension liability. The net pension liability as of June 30, 2016 was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. The PERS system does not provide 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 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, 2017, Oregon Tech's proportion was 0.11 percent of the statewide pension plan and .42 percent of employer state agencies. 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.

For the years ended June 30, 2017 and 2016, Oregon Tech recorded total net pension expense of \$3,152 and \$5,908 due to the increase in net pension liability and changes to deferred inflows and outflows.

Deferred Items

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

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

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

- Measurement period ended June 30, 2016 – 5.3 years
- Measurement period ended June 30, 2015 – 5.4 years
- Measurement period ended June 30, 2014 – 5.6 years

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

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

At June 30, 2017, 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	\$ 562	\$ -
Changes of assumptions	3,619	-
Net difference between projected and actual earnings on pension plan investments	3,352	-
Changes in proportion and differences between System's contributions and proportionate share of contributions	434	161
Total	\$ 7,967	\$ 161
Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD)	\$ 7,806	
Contributions Subsequent to the MD	1,044	
Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD	\$ 8,850	

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
Total	\$ 479	\$ 1,467
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	\$ 16	



Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

Of the amount reported as deferred outflows of resources, \$1,044 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Outflow/(Inflow) of Resources	
Year Ended June 30:	
2018	\$ 1,419
2019	1,419
2020	2,651
2021	2,022
2022	295
	<u>\$ 7,806</u>

Actuarial Methods and Assumptions

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

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

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

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2017 and 2016 was 7.5 and 7.75 percent, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The sensitivity analysis shows the sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.50 as of June 30, 2017 and 7.75 percent as of June 30, 2016, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Oregon Tech's proportionate share of the net pension liability June 30, 2017	
1 % Decrease 6.50%	\$ 27,399
Current Discount Rate 7.50%	16,969
1 % Increase 8.50%	8,251

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

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.



Notes to the Financial Statements

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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	13.50	21.50	17.50
Real Estate	9.50	15.50	12.50
Alternative Equity	0.00	12.50	12.50
Opportunity Portfolio	0.00	3.00	0.00
Total			100.00 %

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. Each asset assumption is based on a consistent set of underlying assumptions and includes adjustment for the inflation assumption. These assumptions are

not based on historical returns, but instead are based on a forward-looking capital market economic model. The 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/2016_caf.pdf

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

Bond Debt

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

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

The payroll assessment for the pension obligation bond began May 2004. The assessment rate for fiscal year 2017 was 6.0 percent. The assessment rate for fiscal year 2016 was 6.7 percent through October 31, 2015 and was reduced to 6.0 percent effective November 1, 2015. Payroll assessments paid by Oregon



Notes to the Financial Statements

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

Tech for the fiscal years ended June 30, 2017 and 2016 were \$815 and \$787, 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:

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

OREGON PUBLIC UNIVERSITIES 401(A) DEFINED CONTRIBUTION PLAN

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

SUMMARY OF OTHER PENSION PAYMENTS

Oregon Tech total payroll for the year ended June 30, 2017 was \$32,134, of which \$11,727 was subject to retirement plan contributions. The following schedule lists payments made by Oregon Tech for the fiscal year:

	June 30, 2017			
	Employer Contribution	As a % of Covered Payroll	Employee Contribution	As a % of Covered Payroll
ORP	\$ 1,458	12.43%	\$ 743	6.34%
TIAA	7	0.06%	7	0.06%
Total	\$ 1,465	12.49%	\$ 750	6.40%

Of the employee share, Oregon Tech paid \$743 of the ORP and \$7 of the TIAA employee contribution amounts on behalf of their employees during the fiscal year ended June 30, 2017.

Oregon Tech total payroll for the year ended June 30, 2016 was \$29,724, of which \$11,427 was subject to retirement 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.

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. 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,



Notes to the Financial Statements

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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 0.85 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 2017.

Funding Policy

The PEBB's funding policy provides for employer contributions in amounts sufficient to fund the cost of active employee health benefits, including the retiree rate subsidy, on a pay-as-you-go basis. For fiscal years 2017 and 2016, Oregon Tech paid healthcare insurance premiums of \$7,212 and \$6,569, respectively. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be \$36 and \$39 for the fiscal years ended 2017 and 2016, 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). 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, 2017	June 30, 2016
Annual Required Contribution	\$ 696	\$ 644
Interest on Net OPEB Obligation	22	24
Adjustment to Annual Required Contribution	(661)	(697)
Annual OPEB Cost	57	(29)
Contributions Made	(36)	(39)
Increase (Decrease) in Net OPEB Obligation	21	(68)
Net OPEB Obligation - Beginning of Year	594	662
Net OPEB Obligation - End of Year	<u>\$ 615</u>	<u>\$ 594</u>

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, 2017, 2016 and 2015 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 57	9%	\$ 615
2016	(29)	-5%	594
2015	87	13%	662

Funding Status and Funding Progress

The funded status of the Oregon Tech OPEB plan for June 30, 2017 and 2016 were as follows:

	June 30, 2017	June 30, 2016
Actuarial Accrued Liabilities	\$ 624	\$ 591
Actuarial Value of Plan Assets	-	-
Unfunded Actuarial Accrued Liability	<u>\$ 624</u>	<u>\$ 591</u>
Funded Ratio	0.00%	0.00%
Covered Payroll (active plan members)	\$ 25,560	\$ 24,339
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	2.44%	2.43%

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

Accrual Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between 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, 2017	June 30, 2016
Actuarial Valuation Date	7/1/2015	7/1/2015
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar	Level Dollar
Amortization Period	1 year (open)	1 year (open)
Investment Rate of Return	3.5%	3.5%
Initial Healthcare Inflation Rates	5.1% (medical), 2.3% (dental)	5.1% (medical), 2.3% (dental)
Ultimate Healthcare Inflation Rates	5% (medical), 5% (dental)	5% (medical), 5% (dental)



Notes to the Financial Statements

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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

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 over the past three years.

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 \$19,780 and \$3,577 at June 30, 2017 and 2016, 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, 2017.

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, 2017.

CONSTRUCTION COMMITMENTS AS OF JUNE 30, 2017

	Total Commitment	Completed to Date	Outstanding Commitment
Center for Excellence in Engineering and Technology - Cornett Hall Renovation	\$ 11,670	\$ 562	\$ 11,108
Utility Corridor and Storm Drainage	5,000	166	4,834
Capital Repair & Renewal	3,842	491	3,351
Utility Tunnel Repair	1,098	793	305
Information Technology Capital Renewal	1,999	1,817	182
	<u>\$ 23,609</u>	<u>\$ 3,829</u>	<u>\$ 19,780</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 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.



Notes to the Financial Statements

For the Years Ended June 30, 2017 and 2016 (dollars in thousands)

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

	<u>June 30, 2016</u>
State Paid Debt Transferred to the State Resulting in an Increase (Decrease) in Net Position	
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
Total Debt Transferred to the State	<u>\$ 48,812</u>
Other Changes	
Lottery Accrual for State Paid Debt Reversed	(846)
Cash Held by Trustee for State Paid Debt Removed	(4,340)
Total Change due to Change in Entity	<u>\$ 43,626</u>

19. Subsequent Events

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

20. University Foundation

Under policies approved by the Board, individual university foundations may be established to provide assistance in fund raising, public outreach and other support for the mission of 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 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, 2017.

During the years ended June 30, 2017 and June 30, 2016 gifts of \$563 and \$531, respectively, were transferred from the Foundation to Oregon Tech. The 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

	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 1,044	\$ 1,004	\$ 838	\$ 780	\$ 710	\$ 688
Contributions in relation to the contractually required contribution	1,044	1,004	838	780	710	688
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Oregon Tech's covered payroll	\$ 13,833	\$ 12,912	\$ 11,891	\$ 10,803	\$ 10,215	\$ 9,967
Contributions as a percentage of covered payroll	7.5%	7.8%	7.0%	7.2%	7.0%	6.9%

SCHEDULE OF OREGON TECH'S PROPORTIONATE SHARE OF THE NET PENSION ASSET (LIABILITY)* Public Employees Retirement System

As of June 30,	2017	2016	2015
Oregon Tech's proportion of the net pension asset /liability	0.11%	0.10%	0.09%
Oregon Tech's proportionate share of the net pension asset/(liability)	\$ (16,969)	\$ (6,027)	\$ 2,133
Oregon Tech's covered payroll	\$ 13,833	\$ 12,912	\$ 11,891
Oregon Tech's proportionate share of the net pension asset/liability as a percentage of its covered payroll	-122.67%	-46.68%	17.94%
Plan fiduciary net position as a percentage of the total pension asset /liability	80.53%	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)
6/30/2013	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%
6/30/2017	7/1/2015	-	624	624	0.0%	25,560	2.4%

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



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

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