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June 29, 2020

Chair Jessica Gomez
Oregon Tech Board of Trustees
3201 Campus Drive
Klamath Falls, OR 97601

Dear Chair Gomez:

Like many campuses across the country, Oregon Tech is moving to address the issues due to the pandemic, while continuing to focus on its mission. We are here to assist if you have any questions or challenges that you believe CLA could be of assistance.

In reflection of your Fiscal Year 2019 financial statements and some of the questions that have been recently raised, I would like to note a few items of emphasis as related to the net position and recorded accounting liabilities.

- As noted in our Independent Auditors' Report dated November 8, 2019, in our opinion, the financial statements are fairly stated, in all material respects, in accordance with General Accepted Accounting Principles (GAAP). Our audit was performed in accordance with Generally Accepted Auditing Standards and Generally Accepted Government Auditing standards and was performed by a group of professionals within our Higher Education Assurance Practice.
- Unrestricted Net Assets represent the portion of your equity that is not 1) invested in capital assets nor is it 2) restricted by external parties. It may contain amounts that the University has future plans for/has not already committed, but those amounts did not meet the strict definition of restricted under GAAP. Under GAAP, typically board-designated plans for future spending or contracts entered into with vendors are not considered restricted. An example could be our contract with the University. In May each year, we enter into a contract with the University. Our contract is not complete until October or November when final payment is made. There is NOT a restricted amount for this, but obviously, the University is committed to completing the audit and ultimate payment.
- As it relates to Net Position, audited financial statements do not show the balances by operational funds/source type. As you are well aware, institutions maintain "funds" for operational purposes to track expenditures, monitor budgets, analyze breakeven points, and other administrative matters. As such, your Education and General Fund (which are typically reported to you through quarterly management reports) versus your Auxiliary Fund versus your Plant could all look very different.
- The Net Pension Liability and Net OPEB Liability are true liabilities of the institution. Long-term liabilities – yes, but liabilities, nonetheless. As such, that expense should be recorded by the University (and institutions across the country) as the expense is incurred, with the respective liabilities recorded.

- Similarly, compensated absence liability is a true liability of the University. As employees leave the University, you have a commitment to pay the accrued balance. Again, maybe not an immediate cash flow impact, but as faculty age and retire these payments may start to increase.
- For the State Government Rate Pool liability – this is a true liability as well. The University has set payments it is required to pay to PERS. In 2019, this payment was \$119,000 plus interest and in 2020, this payment is expected to be \$135,000 plus interest.
- Also, please keep in mind the audited financial statements are reported as a point in time. Cash and investment balances fluctuate based upon the cash flow cycle of the institution. For most higher education institutions, cash flow comes in at the beginning of the various terms (beginning of the summer term), then is spent down during the term (during summer months), then increases again at the start of the next term (fall). **These cash flow swings can often be quite large and may require significant working capital balances.**

I hope the above addresses the questions adequately.

Sincerely,

CliftonLarsonAllen LLP

A handwritten signature in blue ink that reads "Jean Bushong". The signature is written in a cursive, flowing style.

Jean Bushong
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