# WESTERN OREGON UNIVERSITY

# 2016 ANNUAL FINANCIAL REPORT

Western Oregon UNIVERSITY

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## WOU EXECUTIVE OFFICERS

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| **Rex Fuller** | President |
| **Eric Yahnke** | Vice President for Finance and Administration |
| **Ryan Hagemann** | Vice President and General Counsel |
| **Stephen Scheck** | Provost and Vice President for Academic Affairs |
| **Gary Dukes** | Vice President for Student Affairs |
| **Tommy Love** | Executive Director, Western Oregon University Foundation |
| **Barbara Dearing** | Executive Director, Athletics |

# WESTERN OREGON UNIVERSITY BOARD OF TRUSTEES

As we close-out 2015-16, I am pleased to report that Western Oregon University is fiscally sound and in excellent financial condition.

The Western Oregon University community – faculty and staff alike – believes in the power of education to improve individuals' lives, families and communities.

We are as deeply committed to serving Oregon residents now as our founders were in 1856 when they established the first public university in the state.

Our undergraduate and graduate programs provide educational opportunities in programs that are important to Oregon. Western makes Oregon a better place by enrolling Oregon residents who represent about 80 percent of our student body.

Western is known for its commitment to continuous improvement and student success. WOU's TRiO program and Student Enrichment Program improves retention and graduation rates for our first-generation and underrepresented students. Additionally, the National Academic Advising Association (NACADA) recognized the work of WOU advisors in 2016. Western has been the recipient of many awards over the past decade.

President Rex Fuller, Western Oregon University

As we look ahead, Western will need to continue its excellent record of garnering outside funds through contracts and grants. Historically, Western brings a larger share of its total revenue from grants and contracts than its peers. Western's grants activities will be aligned with our commitment to student success.

As we enter the 2017-19 biennium, Western and its sister institutions have prepared budgets that will, if funded, limit tuition increases to less than five percent per year. In 2016-17, Western will add an additional staff member in financial aid. This position will be critical as the university works with changes in federal deadlines related to FAFSA and student support. WOU has also invested in its assessment efforts by supporting a pilot in the College of Education.

For 2016-17, Western limited its resident undergraduate tuition increase to under three percent and it froze tuition at 2015-16 levels for those students with estimated family contribution of zero. In effect, this freeze applied to students' and families from lower income levels and was designed to ensure a level of access and affordability. Going forward, Western must be seen as an affordable option for Oregonians.

On the capital budget side, I am pleased that the legislature funded the transfer of the Oregon Military Academy to the University. The OMA building will be transferred to Western in 2017 and promises to be a resource that enhances student success. In 2016-17, renovation of the natural science building will begin. The renovation project will provide improved student learning space and faculty offices and research space to engage our students in undergraduate research projects.

The new Richard Woodcock Education Center opened in fall 2016. This facility brings nearly 60,000 square feet of office, classroom, and support space to campus. The new space will help the College of Education continue to graduate teachers for Oregon schools.

Western has other notable accomplishments this last year. Faculty and staff accomplishments go beyond the high-mentoring engagement with students. They also provide service to the local and state communities through their involvement on various boards and directing students in service learning projects. Moreover, our faculty are professionally engaged through the publication of scholarly articles, books and creative works and involvement in professional organizations.

Western's greatest challenge relates to its overall enrollment in 2015-16 which was down compared to 2014-15. Growth in new freshmen and graduate students has not been large enough to offset the decline in returning undergraduates. Going forward, Western must recommit itself to improved retention to ensure that our students complete their undergraduate degree. Additionally, Western must be seen as place that welcomes transfer students from our community college partners.

With rising debt levels of college students nationally, Western Oregon University must be seen as the university where students graduate with minimum debt and have opportunities for continued education in graduate school or employment in their chosen field.

Our responsive approach to academic programming, commitment to intellectual engagement and student success coupled with prudent fiscal management will ensure that Western successfully navigates the unknown future.

With great pride in—and thanks to—the many individuals who have contributed to Western's success, and the success of our students,

Rex Fuller, President

## WOU's 11th annual Academic Excellence Showcase

More than 400 students presented at this year's Academic Excellence Showcase (AES) in May. This day celebrates academic achievement from all disciplines on campus – education, the arts, the sciences, and more. AES is a fundamental aspect of WOU's commitment to engaged learning. Undergraduate and graduate students share their research and class projects through presentations, posters, performances and artwork. This event garners support from across campus with many faculty canceling their classes for the day to encourage their students to participate in the day's events.



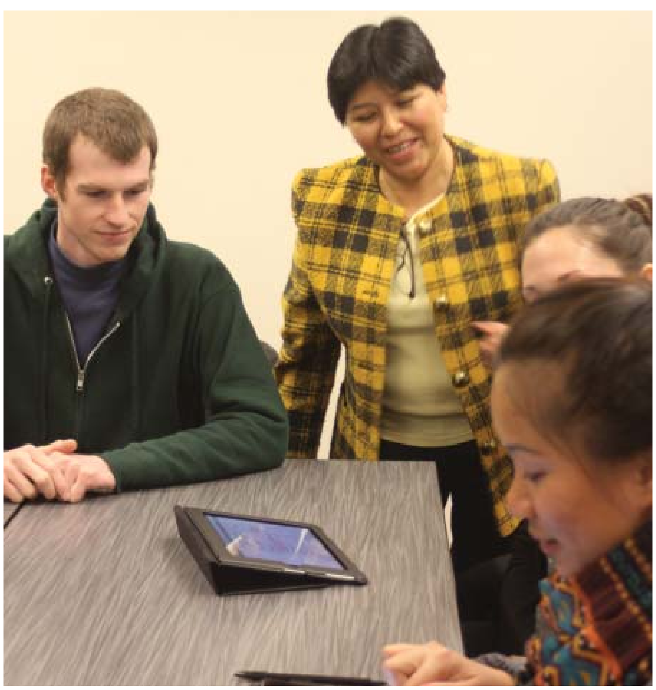
Poster presentations span the day's activities, featuring nearly all academic programs of the university.

## Affordability Grant launched

WOU took a bold step in keeping its high quality education affordable for Oregon students by limiting its 2016-17 tuition increase for undergraduate residents to less than three percent. For resident undergrads with a FAFSA expected family contribution of zero, WOU will offset the tuition increase entirely. This is one of the latest actions by the University to keep the cost of its undergraduate education as low as possible. The Western Tuition Promise and textbook rental program are two other initiatives that demonstrate this commitment.

## First cohort of Bilingual Teachers Scholars Program

WOU added another important component to its strong student-centered partnership activities with Oregon school districts. Forty-five students started classes last fall with the dream of becoming bilingual teachers. Oregon, like many other states, has a significant shortage of bilingual teachers who are licensed to teach English to Speakers of Other Languages (ESOL). In 2014-15, only 81 new bilingual and ESOL teachers were licensed in the state. WOU's new Bilingual Teachers Scholars program aims to address that shortage by producing highly qualified and skilled educators for Oregon's K-12 classrooms.



Congratulations to the class of 2016 at the 159th Commencement Exercises at Western Oregon University. This year, the graduating class totaled 1,323 new alumna.

## Access to scholarships improved

It's easier than ever for WOU students to apply for scholarships. The university employed software called Academic Works software to allow students to fill out one application for more than 150 scholarships. Financial aid can be a complicated process, particularly for first-generation students who are new to all these systems.

## WOU embarks on strategic planning

In April, WOU launched a Strategic Planning Committee, co-chaired by President Rex Fuller and Laurie Burton, math professor and outgoing Faculty Senate president. The committee members represent areas across campus. This body will develop a plan that prioritizes the activities and resources to support the university's mission. The committee has met on a regular basis since its formation to make significant progress on this enormous task and spent the spring collecting input and feedback from campus and external groups. In January 2017, the committee will present its plan to the WOU Board of Trustees for approval and then begin implementation.

**Bilingual Teachers Scholars Program**

WOU Professor Carmen Caceda prepares ESOL/bilingual teachers. She teaches courses which focus on culture and the effect it has on ELLs' language learning processes.


## New Student Health & Counseling Center approved

WOU students voted to tax themselves in order to build a new Student Health and Counseling Center, scheduled to open spring 2017. The Associated Students of Western Oregon University conducted two student surveys to better understand the student body's interest in a new facility. More than 80 percent of WOU students responded they wanted a new facility in the first survey and more than 70 percent in the second. The new building will allow for an expansion of medical and mental health services.

**Groundbreaking ceremony for the new student health and counseling center**

Campus leaders and community members participated in the ceremonial blessing and first dig into the site for the new building.

**Ribbon cutting ceremony for opening of the new Richard Woodcock Education Center**

Governor Kate Brown and Dr. Richard Woodcock (center) officially open the new education center that now houses the College of Education.

**Independent Auditor's Report**

To the Board of Trustees
Western Oregon University
Monmouth, Oregon

**Report on the Financial Statements**
We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Western Oregon University(the University), a component unit of the State of Oregon, as of and for the year ended June 30, 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.

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, Western Oregon University Development Foundation (the Foundation). Those 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 Foundation, 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 for the Foundation 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 auditor's 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 entity'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 entity'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 opinion.

**Opinion**
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 University and its discretely presented component unit as of June 30, 2016, and the respective changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of a Matter**
As discussed in Note 1, the financial statements of the University are intended to present the financial position, changes in financial position, and cash flows attributable to the University. They do not purport to, and do not present fairly the financial position of the State of Oregon as of June 30, 2016, and the changes in its financial position for the year then ended in conformity with accounting principles general accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matter – 2015 Financial Statements**
The financial statements of the University as of and for the year ended June 30, 2015, were audited by another auditor whose report dated December 11, 2015, included emphasis of matter paragraphs that described the reporting entity as discussed in Note 1 (A) to the financial statements and that described the implementation of a new accounting standard as discussed in Note 1 (B) to the financial statement, and expressed an unmodified opinion on those statements.

**Other Matter – Supplementary Information**

**Required Supplementary Information**
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of proportionate share of the net pension liability (asset) and of employer contributions, and the funding status of other postemployment benefits as listed 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 required supplementary 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 an opinion on the financial statements that collectively comprise the University's basic financial statements. The WOU Board of Trustees, the Message from the President, the Top University Accomplishments, and the Financial Ratios are presented for purposes of additional analysis and are not a required part of the basic financial statements. This other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

For Eide Bailly LLP
Boise, Idaho
November 14, 2016

## Introduction

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

## Annual Full Time Equivalent (FTE) Student Enrollment Summary:

| **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| **4,700** | 4,812 | 5,017 | 5,183 | 5,303 |

## Understanding the Financial Statements

The MD&A focuses on WOU as a whole and is intended to foster a greater understanding of WOU'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 Auditor's Report** presents an unmodified opinion rendered by an independent certified public accounting firm, Eide Bailly LLP, on the fairness in presentation (in all material respects) of the financial statements.

**Statement of Net Position (SNP)** presents a snapshot of WOU assets, deferred outflows, liabilities and deferred inflows under the accrual basis of accounting as of June 30, for each fiscal year presented. The SNP helps the reader understand the types and amounts of assets available to support operations, how much WOU owes to vendors and bond holders; and net position delineated based upon their availability for future expenditures.

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

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

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

## Financial Summary

The University's financial position has improved over the past two years with an increase to Net Position as of June 30, 2016 of $44,853 thousand and an increase of $3,560 thousand in 2015. The 2016 Net Position increased by $37,257 thousand due to the change in entity for WOU, which includes the removal of state paid debt along with the removal of cash held by trustee related to the state paid debt. This increase was offset by decreases due to the net pension asset reported in 2015 moving to a net pension liability in 2016. In 2015, the net position increased by $1,723 thousand due to improved unrestricted operations, which includes education, auxiliaries and general business type activities of the University, and by $4,803 due to the close of the OUS Chancellor's Office. These increases were offset by a change in accounting principle of $9,041 thousand due to the implementation of GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No.* 68 and a further decrease of $2,669 thousand for the fiscal year 2015 impact of GASB Nos. 68 and 71. See Note 10 Unrestricted Net Position for additional information.

## 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 WOU's current financial condition. Changes in net position that occur over time indicate improvement or deterioration in WOU's financial condition.

The following summarizes WOU assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position:

## Condensed Statement of Net Position (in 000's)

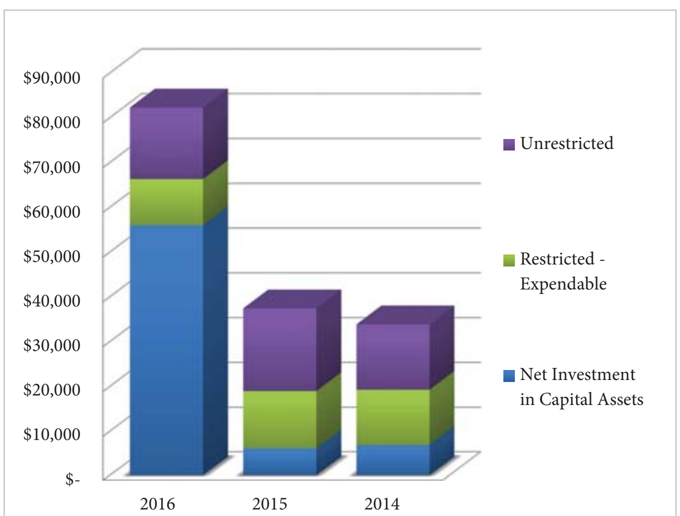
| As of June 30, | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current Assets | $ **26,587** | $ 24,713 | $ 33,568 |
| Noncurrent Assets | **38,354** | 62,544 | 18,460 |
| Capital Assets, Net | **111,936** | 101,245 | 102,782 |
| Total Assets | $ **176,877** | $ 188,502 | $ 154,810 |
| Deferred Outflows of Resources | $ **3,394** | $ 4,800 | $ 1,788 |
| Current Liabilities | $ **21,278** | $ 24,008 | $ 18,307 |
| Noncurrent Liabilities | **73,504** | 122,337 | 104,450 |
| Total Liabilities | $ **94,782** | $ 146,345 | $ 122,757 |
| Deferred Inflows of Resources | $ **3,235** | $ 9,556 | $ - |
| Net Investment in Capital Assets | $ **55,989** | $ 6,116 | $ 6,914 |
| Restricted - Nonexpendable | - | - | 2 |
| Restricted - Expendable | **10,289** | 12,823 | 12,342 |
| Unrestricted | **15,976** | 18,462 | 14,583 |
| Total Net Position | $ **82,254** | $ 37,401 | $ 33,841 |

## Total Net Position

Total net position increased by $44,853 thousand, or 120 percent, during 2016 due mainly to the addition of $37,257 to WOU's bottom line as the result of the change in entity. See Note 18 Change in Entity for additional information.

During 2015, total net position increased by $3,560 thousand, or 11 percent, as the result of total assets and deferring outflows increasing more than the increase in total liabilities and deferred inflows. Expendable and non-expendable restrictions on net position do not significantly affect the availability of resources for future use.

As illustrated by the following graph, the make-up of net position changed between 2016, 2015 and 2014 (in 000's).




## Comparison of fiscal year 2016 to fiscal year 2015

**Net Investment in Capital Assets** increased by $49,873 thousand, or 815 percent.

- Capital asset increases of $15,015 thousand were offset by a $4,324 thousand increase to accumulated depreciation for a net increase in capital assets of $10,691.
- Long-term debt outstanding attributable to the capital assets decreased by $39,182 thousand due to the removal of state paid debt, the removal of bond cash held by trustee, and debt service payments made on outstanding debt. See Note 9 Long-Term Liabilities and Note 18 for additional information.

See also Changes in Capital Assets on page 18 and Note 6 Capital Assets for additional details.

**Restricted Expendable Net Position** decreased by $2,534 thousand, or 20 percent.

- Net position relating to funds reserved for debt service decreased by $2,706 thousand primarily due to the removal of the state paid debt and the University no longer needing to reserve as much for debt service payments.
- Net position relating to the funding of capital projects decreased by $517 thousand primarily as a result of the removal of restrictions on the spending of some repair and maintenance funds as the result of WOU's change in legal status.
- Net position related to gifts, grants and contracts increased by $744 thousand due primarily to an increase in federal restricted funds at year end.
- Net position related to student loans decreased by $55 thousand primarily due to decreased payments on student loans and an increase in the allowance for doubtful accounts.

**Unrestricted Net Position** decreased by $2,486 thousand, or 13 percent.

- Unrestricted operations, which includes education, auxiliaries, and general business type activities, increased unrestricted net position by $7,871 thousand.
- Changes associated with year-end liability accruals for PERS state and local government rate pool (SLGRP), other post employment benefits (OPEB), and compensated absences increased unrestricted net position by $100 thousand.
- Changes associated with year-end accruals for the PERS net pension liability decreased unrestricted net position by $10,457 thousand.

See Note 10 Unrestricted Net Position for additional information.

## Comparison of fiscal year 2015 to fiscal year 2014

**Net Investment in Capital Assets** decreased by $798 thousand, or 12 percent.

- Capital asset increases of $3,184 thousand were offset by a $4,721 thousand increase to accumulated depreciation for a net decrease in capital assets of $1,537.
- Long-term debt outstanding attributable to the capital assets decreased by $741 thousand due to debt service payments made on outstanding debt offset by the additions of new debt. See Note 9 Long-Term Liabilities.

See also Changes in Capital Assets on page 18 and Note 6 Capital Assets for additional details.

**Restricted Expendable Net Position** increased by $481 thousand, or 4 percent.

- Net position relating to funds reserved for debt service increased by $1,639 thousand primarily as the result of increased current debt due in the next year.
- Net position relating to the funding of capital projects decreased by $1,631 thousand primarily as a result of a spend down of gift funds restricted for capital construction and an increase in institutionally funded construction projects, which are not restricted.
- Net position related to gifts, grants and contracts increased by $164 thousand due to increases in grants and gifts offset by a decrease in endowments, which were transferred to the WOU foundation.
- Net position related to student loans increased by $309 thousand due to increased payments received on Perkins loan funds.

**Unrestricted Net Position** increased by $3,879 thousand, or 27 percent.

- Improved unrestricted operating performance increased unrestricted net position by $1,723 thousand.
- Unrestricted assets transferred to WOU as a result of the change in entity added $4,803 thousand. See Note 18 Change in Entity.
- Changes associated the implementation of GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* decreased Unrestricted Net Position by $2,669 thousand.
- Changes associated with year-end liability accruals for PERS state and local rate pool (SLGRP), other post employment benefits (OPEB) and compensated absences, increased unrestricted net position by $22 thousand. See Note 9 Long-Term Liabilities for additional information.

See Note 10 Unrestricted Net Position for additional information.

## Total Assets and Deferred Outflows of Resources

Total Assets decreased by $11,625 thousand, or 6 percent, during the year ended June 30, 2016. Increases to accounts receivable, investments, and net capital assets were offset by decreases in cash and cash equivalents, notes receivable, inventories and net pension asset. Total Assets increased by $33,692 thousand, or 22 percent during the year ended June 30, 2015 due to increases in cash and cash equivalents, investments, notes receivable, inventories, prepaid expenses, and the recording of a new net pension asset resulting from the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, P*ension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. These increases were slightly offset by a decrease in net capital assets and accounts receivable.

## Comparison of fiscal year 2016 to fiscal year 2015

**Current Assets** increased by $1,874 thousand, or 8 percent, primarily due to:

- Current cash and cash equivalents decreased by $2,842 thousand. Lower cash balances combined with a higher proportion of cash being converted to investments to decrease current cash and cash equivalents at year end.
- Accounts receivable increased by $5,468 thousand. Increases in student tuition and fees, federal grants and capital construction grants from the state were offset by an increase in the allowance for doubtful accounts related to student tuition and fees. See Note 3 Accounts Receivable for additional information.

**Noncurrent Assets** decreased by $24,190 thousand, or 39 percent, primarily due to:

- Noncurrent cash and cash equivalents decreased by $22,738 due primarily to the change in legal status of WOU and the University no longer holding cash at trustee related to bonds for capital construction projects. Bond cash for capital construction projects is now held by the State and received by the University on a cost reimbursement basis.
- Investments increased by $3,551 thousand due to a much higher proportion of cash being converted to investments and held as investments at year end.

- Net pension asset decreased by $4,952 to zero. WOU recorded a net pension liability as of June 30, 2016. See Non-Current Liabilities later in this MD&A for further discussion.

**Capital Assets, Net** increased by $10,691 thousand, or 11 percent. Capitalized acquisitions net of disposals and adjustments added $15,015, which was offset by an increase of $4,324 in accumulated depreciation. See Capital Assets in this MD&A and Note 6 Capital Assets for additional information.

**Deferred Outflows of Resources** decreased by $1,406 thousand, or 29 percent.

- Deferred outflows related to deferred gain/loss on long-term debt bond refunding decreased by $2,865 thousand to zero, due to the removal of unamortized gain/loss on refunding associated with state paid and legacy debt per debt agreements with the State. See Note 18 Change in Entity.
- Deferred outflows related to changes in net pension asset/liability increased by $1,459. See Note 5 Deferred Outflows and Deferred Inflows of Resources for detailed information on this change

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

**Current Assets** decreased by $8,855 thousand, or 26 percent.

- Current cash and cash equivalents decreased by $9,047 thousand. During 2014, more investments were converted to cash and held as cash at year end due to governance changes within the Oregon University System (OUS). During 2015, cash was converted back to investments and held as investments at year end.
- Accounts receivable decreased by $544 thousand. An increase in student tuition and fees receivable was offset by and an increase in the allowance for doubtful accounts. See Note 3 Accounts Receivable for additional information.

**Noncurrent Assets** increased by $44,084 thousand, or 239 percent.

- Year-end cash balances in capital construction funds increased by $20,875 thousand mainly due to the receipt of bond proceeds during 2015 primarily for the Woodcock Education Center.
- Investments increased by $18,151 thousand as the result of the University having higher cash balances and converting a greater portion of cash to investments during fiscal year 2015.
- WOU recorded a $4,952 thousand net pension asset as a result of the implementation of GASB Statement Nos. 68 and 71, as of June 30, 2015. See Note 14 Employee Retirement Plans for additional information on this change.

**Capital Assets, Net** decreased by $1,537 thousand, or 1 percent.

- Capitalized acquisitions net of disposals and adjustments added $3,184, which was offset by an increase of $4,721 in accumulated depreciation. See Capital Assets in this MD&A and Note 6 Capital Assets for additional information.

**Deferred Outflows of Resources** increased by $3,012 thousand, or 168 percent.

- Deferred outflows related to deferred gain/loss on long-term debt bond refunding increased by $1,077 thousand.
- WOU recorded $1,935 thousand in deferred outflows as a result of the implementation of GASB Statement Nos. 68 and 71 as of June 30, 2015. See Note 5 Deferred Outflows and Deferred Inflows of Resources for additional information.

## Total Liabilities and Deferred Inflows of Resources

Total liabilities decreased by $51,563 thousand, or 35 percent, during the year ended June 30, 2016 due mainly to the removal of $62,344 thousand of state paid debt, which was slightly offset by the recording of $13,285 thousand net pension liability. Total liabilities increased by $23,588 thousand, or 19 percent, during the year ended June 30, 2015 due primarily to the issuance of new debt for capital construction.

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

**Current Liabilities** decreased by $2,730 thousand, or 11 percent, due primarily to:

- The current portion of long-term liabilities decreased by $4,022 thousand primarily due to the removal of state paid debt. See Debt Administration later in this MD&A as well as Note 9 Long-Term Liabilities and Note 18 Change in Entity.
- Accounts payable and accrued liabilities increased by $1,950 thousand. Increases in accounts payable for services and supplies, salaries and wages, contract retainage and other payroll related items were offset by decreases in financial aid and accrued interest payable. See Note 7 Accounts Payable and Accrued Liabilities for additional information.
- Unearned revenue decreased by $109 thousand due primarily to a decrease in prepaid tuition and fees.

**Noncurrent Liabilities** decreased by $48,833 thousand, or 40 percent, primarily due to the removal of $62,344 in state paid debt, offset by the addition of $13,285 thousand in net pension liability. See Debt Administration later in this MD&A as well as Note 18 Change in Entity and Note 14 Employee Retirement Plans.

**Deferred Inflows of Resources** decreased by $6,321 thousand, or 66 percent, related to changes in accruals for the net pension liability. See Note 5 Deferred Outflows and Deferred Inflows of Resources for detailed information on this change.

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

**Current Liabilities** increased by $5,701 thousand, or 31 percent, due primarily to:

- The current portion of long-term liabilities increased by $2,183 thousand due to an increase in bonds payable from prior year bond sales for capital construction projects. See Debt Administration later in this MD&A and Note 9 Long-Term Liabilities for additional information.
- Accounts payable and accrued liabilities increased by $3,398 thousand due to increases in services and supplies, payroll related, interest, salaries and wages, and financial aid payables, offset by a decrease in contract retainage payable.
- Deposits decreased by $192 thousand due to a decrease in the amounts held in internal agency funds at year end for group insurance for international students.

**Noncurrent Liabilities** increased by $17,887 thousand, or 17 percent, primarily due to new debt issued for the construction of capital assets. Refer to Debt Administration later in this MD&A and Note 9 for additional information.

**Deferred Inflows of Resources** increased by $9,556 thousand as a result of the implementation of GASB Statement Nos. 68 and 71 as of June 30, 2015. See Note 5 for detailed information on this change.

## Statement of Revenues, Expenses and Changes in Net Position (SRE)

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

## Condensed Statement of Revenues, Expenses and Changes in Net Position (in 000's)

| For the Year Ended June 30, | 2016 | 2015 | 2014 |
|---|---|---|---|
| Operating Revenues | $ 66,171 | $ 66,182 | $ 64,185 |
| Operating Expenses | 110,853 | 92,296 | 95,179 |
| Operating Loss | (44,682) | (26,114) | (30,994) |
| Nonoperating Revenues, Net of Expenses | 36,512 | 29,341 | 27,212 |
| Other Revenues | 15,766 | 3,564 | 4,061 |
| Increase in Net Position Prior to Special/Extraordinary Items | 7,596 | 6,791 | 279 |
| Special and Extraordinary Item | 37,257 | 5,810 | - |
| Increase in Net Position After Special/Extraordinary Items | 44,853 | 12,601 | 279 |
| Net Position, Beginning of Year | 37,401 | 24,800 | 33,562 |
| Net Position, End of Year | $ 82,254 | $ 37,401 | $ 33,841 |

Net position increased by $44,853 thousand, or 120 percent, in 2016 compared to an increase of $3,560 thousand, or 11 percent, in 2015. The increases in both 2016 and 2015 resulted primarily from the change in entity which decreased the liabilities, increased the assets and increased the ending net position of the University.

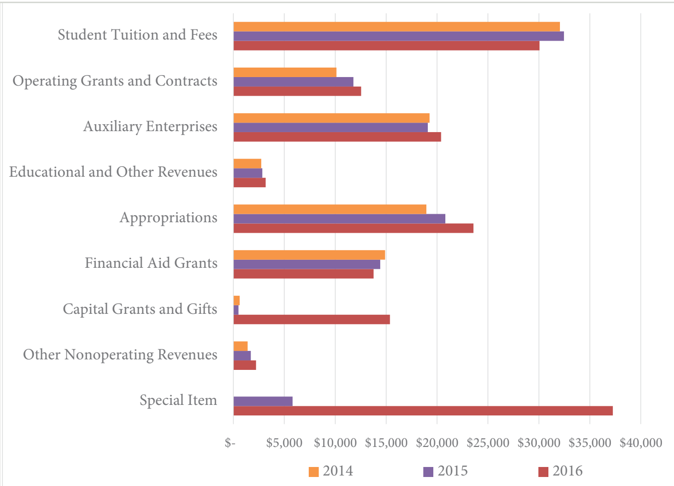
## Revenues and Special Items

Total revenues increased by $48,925 thousand, or 45 percent, in 2016 over 2015. The increase is primarily due to the change in entity special/extraordinary item which added $37,257 thousand to the University in 2016 as well as a substantial increase in capital grants and gifts.

## Total Operating, Nonoperating, Other Revenues and Special Items (in 000's)

| For the Year Ended June 30, | 2016 | 2015 | 2014 |
|---|---|---|---|
| Student Tuition and Fees | $ 30,065 | $ 32,457 | $ 32,062 |
| Grants and Contracts | 12,541 | 11,789 | 10,121 |
| Auxiliary Enterprises | 20,396 | 19,093 | 19,262 |
| Educational and Other | 3,169 | 2,843 | 2,740 |
| Total Operating Revenues | 66,171 | 66,182 | 64,185 |
| Appropriations | 23,570 | 20,818 | 18,954 |
| Financial Aid Grants | 13,773 | 14,421 | 14,898 |
| Gifts | 898 | 1,024 | 894 |
| Investment Activity | 1,059 | 558 | 521 |
| Capital Grants and Gifts | 15,374 | 500 | 622 |
| Gain (Loss) on Sale of Assets, Net | 264 | 128 | (12) |
| Total Nonoperating Revenues | 54,938 | 37,449 | 35,877 |
| Special/Extraordinary Items | 37,257 | 5,810 | - |
| Total Revenues | $ 158,366 | $ 109,441 | $ 100,062 |

## Total Operating, Nonoperating, Other Revenues and Special Items (in 000's)




## Operating Revenues

Total operating revenues decreased by $11 thousand in 2016, or less than 1 percent over 2015, to $66,171 thousand. This decrease is due to a decrease in net student tuition and fees, offset by increases in grants and contracts, auxiliary enterprises and education and other revenues. Operating revenues increased by $1,997 thousand in 2015, or 3 percent over 2014, to $66,182 thousand. This increase is due to increased grants and contracts, net student tuition and fee revenues and educational and other revenues, offset by decreased auxiliary revenue.

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

**Net Student Tuition and Fees** decreased by $2,392 thousand, or 7 percent.

- Tuition and fees increased by $137 thousand. Tuition increased by $1,112 due to rate increases offset by a decrease of $966 due to a decline in enrollment. Fees were down by $9 thousand due to only slight rate increases offset by the enrollment decrease.
- Fee remissions and scholarship allowances reduced tuition and fees by $2,815 thousand more than in the prior period.
- Bad debt expense, primarily related to the maintenance of the allowance for bad debt, decreased by $285 thousand.

**Federal, State and Nongovernmental Grants and Contracts** increased by $752 thousand, or 6 percent.

- Federal grant and contract revenues increased by $1,208 thousand primarily due to an increase in grants from the U.S. Department of Education.
- State grant activity decreased by $494 thousand primarily due to a decrease in grants from the State Department of Education.
- Nongovernmental grant activity increased by $38 thousand primarily due to an increase in grants from non-affiliated foundations.

**Auxiliary Enterprises** revenues increased by $1,303 thousand, or 7 percent.

- Student health services revenues decreased by $16 thousand due primarily to decreased revenue from non-student fee funded medical services.
- Housing and dining revenues increased by $1,181 thousand primarily as the result of increased room and board revenue, combined with decreased financial aid allowances and bad debt expense.
- Athletics revenues increased by $69 thousand. Increased ticket sales and post season income were offset by decreased guarantee revenue.
- Parking revenues increased by $23 thousand primarily due to increased parking fines and parking permit revenues.
- Bookstore revenues decreased by $9 thousand due primarily to decreased textbook sales and rentals, offset by increased revenue from other sales.
- Student centers and activities revenues increased by $10 thousand primarily due to increased rental income.
- Other auxiliary revenues increased by $45 thousand. Decreased recreational center and incidental fee revenue was offset by increased general services revenue.

**Educational Department Sales and Services and Other Operating** revenues increased by $326 thousand, or 11 percent, due mainly to increased interest income on student accounts and increased miscellaneous revenue.

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

**Net Student Tuition and Fees** increased by $395 thousand, or 1 percent.

- Higher tuition and fee rates were offset by decreased enrollment to account for $30 thousand of the decrease.
- Fee remissions and scholarship allowances reduced tuition and fees by $1,071 thousand less than in the prior period.
- Bad debt expense, related to the allowance for doubtful accounts, increased by $646 thousand.

**Federal, State and Nongovernmental Grants and Contracts** increased by $1,668 thousand, or 16 percent.

- Federal grant and contract revenues increased by $1,041 thousand due mainly to increases in grants from the U.S. Department of Education.
- State and local grant activity increased by $652 thousand primarily due to increases in state grants from the Oregon Department of Education and increased local contracts.
- Nongovernmental grant activity decreased by $25 thousand due to decreased commercial business contracts.

**Auxiliary Enterprises** revenues decreased by $169 thousand, or 1 percent.

- Student health services revenues increased by $163 thousand due to increases in student health fees.
- Housing and dining revenues decreased by $304 thousand due primarily to increased scholarship and bad debt allowances.
- Athletics revenues increased by $65 thousand primarily due to increases in athletics guarantees, post season revenue and other event revenue.
- Parking revenues decreased by $26 thousand primarily due a decrease in parking fines.
- Bookstore revenues decreased by $95 thousand with decreases in new book sales offset by increases in used book sales, commissions and reimbursements.
- Student centers and activities revenues decreased by $3 thousand.
- Other auxiliary revenues increased by $30 thousand due to increased student fee and sales revenues.

**Educational Department Sales and Services and Other Operating** revenues increased by $103 thousand, or 4 percent, due mainly to increased interest income on student accounts.

## Nonoperating and Other Revenues

Nonoperating revenues increased by $17,489 thousand, or 47 percent, during 2016 resulted mainly from increased capital grants and gifts, appropriations, investment activity, and gain on sale of assets, offset by decreased financial aid grants and gifts. Nonoperating revenues increased by $1,572 thousand, or 4 percent, during 2015 resulted mainly from increases in appropriations, gifts, investment activity and gain on sale of assets, offset by decreases in financial aid grants and capital grants and gifts.

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

**Government Appropriations** increased by $2,752 thousand, or 13 percent.

- State appropriations increased by $5,388 thousand due to increased funding received from the State of Oregon. State appropriations support WOU operations.
- Debt service appropriations decreased by $2,636 thousand due to the removal of state paid debt. WOU 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 9 Long-Term Liabilities for additional details on this change.

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

**Financial Aid Grants** decreased by $648, or 4 percent, due primarily to decreased federal PELL grants and state grants, offset by increases in other federal and private financial aid support.

**Gifts** decreased by $126 thousand, or 12 percent, due primarily to decreased affiliated foundation gifts and private gift in-kind revenue, offset by increased commercial business gift in-kind revenue.

**Investment Activity** revenues increased by $501 thousand, or 90 percent, due primarily to increased investment earnings and net appreciation of investments. See Note 11 Investment Activity for additional information.

**Capital Grants and Gifts** increased by $14,874 thousand, or 2975 percent. The large increase is due to the way in which WOU now receives state paid bond proceeds for capital construction. The bond proceeds and repayment are now the responsibility of the state. WOU receives reimbursement for capital expenses covered by the bonds in the form of capital grants. Fiscal year 2016 was the first time WOU recorded capital grants from the state for capital construction.

**Gain on Sale of Assets, Net** increased by $136 thousand, or 106 percent, due primarily to the sale of the presidents house during 2016. In lieu of a University-provided residence, the president now receives a monthly stipend as part of his salary and benefits package.

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

**Government Appropriations** increased by $1,864 thousand, or 10 percent.

- State appropriations for WOU operations increased by $2,349 thousand due to additional funding received from the State of Oregon for support of the University with the close out of the OUS Chancellor's Office.

- Debt service appropriations decreased by $485 thousand due to a decrease in the Lottery debt service received from the State of Oregon.

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

**Financial Aid Grants** decreased by $477, or 3 percent, due primarily to decreased federal financial aid and private grants, offset by increased state grants.

**Gifts** increased by $130 thousand, or 15 percent, due mainly to increased gifts from the WOU Development Foundation. See Note 21 Foundation for additional information.

**Investment Activity** revenues increased by $37 thousand, or 7 percent, due primarily to increased investment earnings. See Note 11 Investment Activity for additional information.

**Capital Grants and Gifts** decreased by $122 thousand or 20 percent, due to one time donations of capital equipment received during fiscal year 2014.

**Gain on Sale of Assets, Net** increased by $140 thousand due to gain on trade in of assets by the printing and telecommunication service departments during fiscal year 2015.

## Special/Extraordinary Items

**Special/Extraordinary Items** increased by $31,447 thousand. During fiscal year 2016, WOU recorded a special/extraordinary item of $37,257 thousand due primarily to the removal of state paid long term debt, associated gain/loss on refunding, and premiums and discounts associated with legacy debt from WOU and recorded by the State as the true owner of the debt. WOU also recorded the removal of $22,450 thousand in cash held by trustee related to state paid debt.

During fiscal year 2015, WOU recorded a special/extraordinary item of $5,810 thousand in cash and assets transferred to WOU as a result of the closing of the OUS Chancellor's Office and the change in entity.

See Note 18 Change in Entity for additional information.

## Expenses

## Operating Expenses

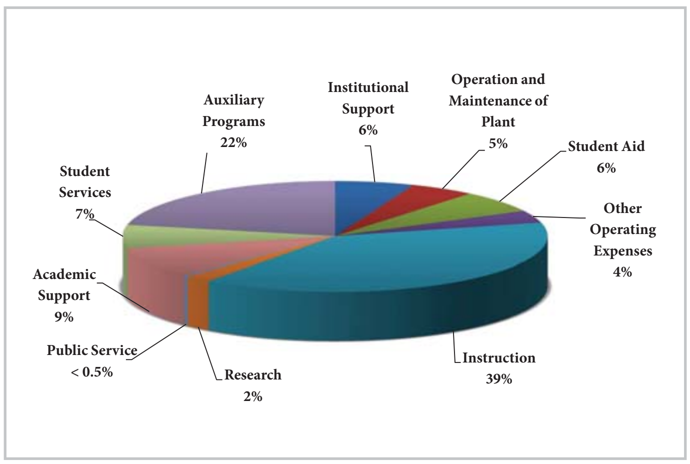
Operating expenses increased by $18,557 thousand in 2016, or 20 percent, compared to 2015, to $110,853 thousand. The 2016 increase resulted from a $16,830 thousand swing in compensation and benefit costs associated with reporting requirements under GASB Statement Nos. 68 and 71. See the discussion on the next page of the effect of GASB Statement Nos. 68 and 71 on operating expenses by function. Operating expenses decreased by $2,883 thousand in 2015, or 3 percent, compared to 2014, to $92,296 thousand. The 2015 decrease resulted from decreased expenses in all categories except academic support and student aid. The first year implementation of GASB Statement Nos. 68 and 71 for fiscal year 2015, resulted in a decrease of $6,373 thousand in total operating expenses. The greatest impact of this change was to functional classifications with higher levels of compensation and benefit expenses.

The following summarizes operating expenses by functional classification:

## Operating Expense by Function (in 000's)

| For the Year Ended June 30, | **2016** | 2015 | 2014 |
|---|---|---|---|
| Instruction | **$ 43,320** | $ 33,941 | $ 35,462 |
| Research | **2,280** | 1,599 | 1,621 |
| Public Service | **411** | 314 | 381 |
| Academic Support | **9,823** | 8,350 | 7,545 |
| Student Services | **7,614** | 5,797 | 6,233 |
| Auxiliary Programs | **24,074** | 21,111 | 22,333 |
| Institutional Support | **6,683** | 4,567 | 4,995 |
| Operation and Maintenance of Plant | **5,463** | 4,011 | 4,209 |
| Student Aid | **7,156** | 8,596 | 7,655 |
| Other Operating Expenses | **4,029** | 4,010 | 4,745 |
| Total Operating Expenses | **$ 110,853** | $ 92,296 | $ 95,179 |

## 2016 Operating Expense by Function




The implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* beginning with fiscal year 2015 had a profound impact on the operating expenses reported by WOU.

The following shows the effect of GASB Statement Nos. 68 and 71 on operating expenses across the functional classifications:

## Effect of GASB Statement Nos. 68 and 71 on Expense by Function (in 000's)

| For the Year Ended June 30, 2016 | As Reported | Without GASB 68/71 | Difference |
|---|---|---|---|
| Instruction | $ 43,320 | $ 38,753 | $ 4,567 |
| Research | 2,280 | 2,067 | 213 |
| Public Service | 411 | 393 | 18 |
| Academic Support | 9,823 | 8,725 | 1,098 |
| Student Services | 7,614 | 6,675 | 939 |
| Auxiliary Programs | 24,074 | 22,536 | 1,538 |
| Institutional Support | 6,683 | 5,720 | 963 |
| Operations & Maint. of Plant | 5,463 | 4,463 | 1,000 |
| Student Aid | 7,156 | 7,156 | - |
| Other Operating Expenses | 4,029 | 3,908 | 121 |
| Total Operating Expenses | $ 110,853 | $ 100,396 | $ 10,457 |

| For the Year Ended June 30, 2015 | As Reported | Without GASB 68/71 | Difference |
|---|---|---|---|
| Instruction | $ 33,941 | $ 37,470 | $ (3,529) |
| Research | 1,599 | 1,714 | (115) |
| Public Service | 314 | 324 | (10) |
| Academic Support | 8,350 | 8,910 | (560) |
| Student Services | 5,797 | 6,260 | (463) |
| Auxiliary Programs | 21,111 | 21,843 | (732) |
| Institutional Support | 4,567 | 5,011 | (444) |
| Operations & Maint. of Plant | 4,011 | 4,469 | (458) |
| Student Aid | 8,596 | 8,596 | - |
| Other Operating Expenses | 4,010 | 4,072 | (62) |
| Total Operating Expenses | $ 92,296 | $ 98,669 | $ (6,373) |

Without the adjustments to compensation and benefits required under GASB Statement Nos. 68 and 71, total operating expenses for WOU would have increased by $1,727 thousand, or 2 percent, during 2016 and by $3,490 thousand, or 4 percent, in 2015.

## Operating Expenses by Nature

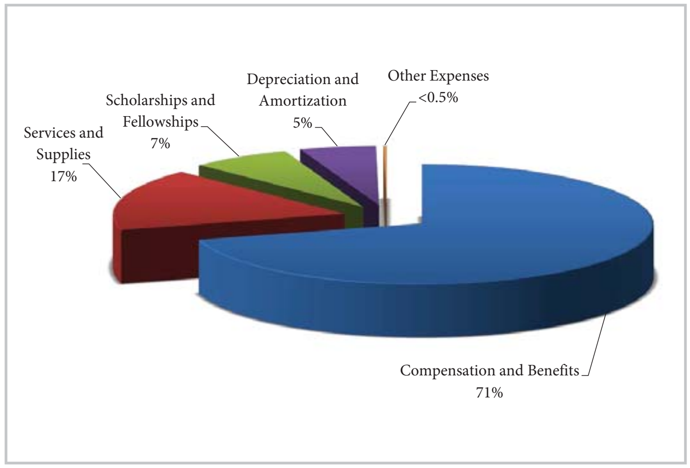
Due to the way in which expenses are incurred by WOU, variances are presented and explained by analyzing changes in the natural classification of expenses. Each natural classification analysis can be applied to many of the functional expense caption items.

The following summarizes operating expenses by natural classification:

## Operating Expenses by Natural Classification (in 000's)

| For the Year Ended June 30, | **2016** | 2015 | 2014 |
|---|---|---|---|
| Compensation and Benefits | **$ 78,326** | $ 57,814 | $ 61,862 |
| Services and Supplies | **18,593** | 19,437 | 18,085 |
| Scholarships and Fellowships | **7,785** | 9,371 | 8,707 |
| Depreciation and Amortization | **5,913** | 5,778 | 5,755 |
| Other Expenses | **236** | (104) | 770 |
| Total Operating Expenses | **$ 110,853** | $ 92,296 | $ 95,179 |

## 2016 Operating Expenses by Natural Classification




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

**Compensation and Benefits** costs increased by $20,512 thousand, or 35 percent.

- Salary and wage costs increased by $2,609 thousand due to increased hires and wage increases.
- Retirement and health insurance costs increased by $876 thousand.
- Other payroll expenses increased by $354 thousand
- Other costs associated with compensation and benefits decreased by $18 thousand.
- Adjustments and accruals associated with the net pension liability reporting requirement of GASB Statement Nos. 68 and 71 resulted in a net increase of $16,830 thousand in reported compensation and benefits expense. See table to the left and Note 14 Employee Retirement Plans for additional information on this variance.
- Other year end accruals associated with payroll, including hourly wages payable, compensated absences and other post-employment benefits (OPEB), decreased by $139 thousand

**Services and Supplies** expense decreased by $844 thousand, or 5 percent, during 2016. This decrease was seen across many categories including utilities, rentals and leases, travel and other services and supplies. The decreases were partially offset by increases in communications and commodities for resale.

**Scholarships and Fellowships** expenses decreased by $1,586 thousand, or 17 percent. This net decrease corresponds to decreases in Federal Pell and affiliated foundation aid compounded by an increase in the amount of scholarship allowance reclassified to offset tuition and fee and housing revenues, offset by increases to institutional and private aid. This expense category does not include fee remissions, which are reported as reductions to student tuition and fee revenues.

**Depreciation and Amortization** expense increased by $135 thousand, or 2 percent, primarily due to recently constructed or refurbished buildings being placed in service during 2016.

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

**Compensation and Benefits** costs decreased by $4,048 thousand, or 7 percent.

- Salary and wage costs increased by $1,812 thousand due to wage increases.
- Retirement and health insurance costs increased by $602 thousand due to increased rates.
- Other payroll expenses increased an additional $173 thousand.
- Other costs associated with compensation and benefits, including year-end accruals, decreased by a net $262 thousand.
- The first year implementation of GASB Statement Nos. 68 and 71 resulted in a net decrease to compensation and benefits of $6,373 thousand. See Note 14 Employee Retirement Plans for additional information on this variance.

**Services and Supplies** expense increased by $1,352 thousand, or 7 percent. This increase was seen across many categories including sub grants and contracts, fees and services, maintenance and repairs, and travel. The increases were partially offset by lower other services and supplies and general commodities for resale.

**Scholarships and Fellowships** expenses increased by $664 thousand, or 7 percent. This net increase resulted from revenue increases from the Oregon Student Access and Completion (OSAC) state grant program, federal and foundation student financial aid compounded by a decrease in the amount of scholarship allowance reclassified to offset tuition and fee and housing revenues, offset by decreases in state aid, Federal Pell grants, and institutional and private student aid. This expense category does not include fee remissions, which are reported as reductions to student tuition and fee revenues.

**Depreciation and Amortization** expense increased by $23 thousand, or less than 1 percent, primarily due to recently constructed or refurbished buildings being placed in service during 2015.

## Nonoperating Expenses

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

**Interest Expense** decreased by $2,026 thousand, or 44 percent, due primarily to WOU no longer recording interest expense related to state paid debt.

**Other Nonoperating Items** increased by $106 thousand, or 3533 percent, due primarily to prior year adjustments to fixed assets.

**Transfers Within OUS** decreased by $36 thousand to zero as the result of the close-out of the OUS Chancellor's Office and WOU becoming a separate, public university.

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

**Interest Expense** increased by $70 thousand, or 2 percent, due to increased bond interest expense.

**Other Nonoperating Items** decreased by $20 thousand, or 87 percent, due primarily to a prior year adjustments to the State and Local Government Rate Pool (SLGRP) liability. See Note 9.H Long-Term Liabilities for additional information.

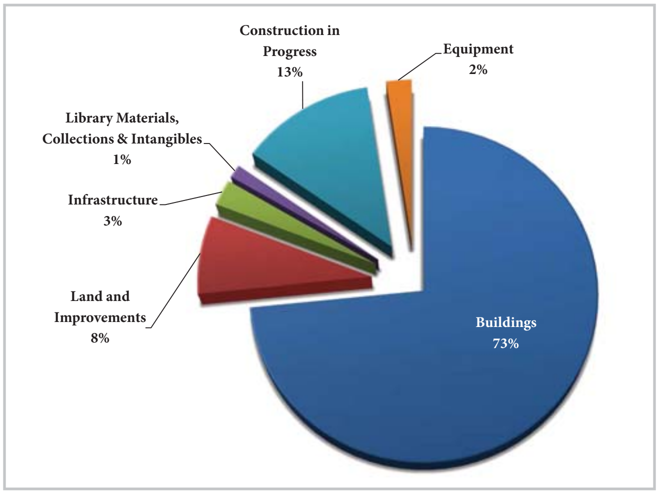
**Transfers Within OUS** increased by $110 thousand, or 149 percent. Funds were transferred from the OUS Chancellor's Office to WOU prior to the close-out of the OUS.

## Capital Assets and Related Financing Activities

## Capital Assets

At June 30, 2016, WOU had $195,072 thousand in capital assets, less accumulated depreciation of $83,136 thousand, for net capital assets of $111,936 thousand. At June 30, 2015, WOU had $180,057 thousand in capital assets, less accumulated depreciation of $78,812 thousand, for net capital assets of $101,245 thousand. During fiscal year 2016, $1,172 thousand in construction projects were completed and placed into service. WOU is committed to a comprehensive program of capital investment and facility maintenance that includes addressing current maintenance needs and minimizing WOU's deferred maintenance backlog. State, federal, private, debt, and internal WOU funding are all used to accomplish WOU's capital objectives.

## 2016 Capital Assets, Net - $111,936 Thousand




## Changes to Capital Assets (in 000's)

| For the Year Ended June 30, | 2016 | 2015 | 2014 |
|---|---|---|---|
| Capital Assets, Beginning of Year | **$ 180,057** | $ 176,873 | $ 176,339 |
| Add: Purchases/Construction | **16,713** | 4,368 | 2,893 |
| Less: Retirements/Disposals/Adjustments | **(1,698)** | (1,184) | (2,359) |
| Total Capital Assets, End of Year | **195,072** | 180,057 | 176,873 |
| Accum. Depreciation, Beginning of Year | **(78,812)** | (74,091) | (69,698) |
| Add: Depreciation Expense | **(5,913)** | (5,778) | (5,755) |
| Less: Retirements/Disposals/Adjustments | **1,589** | 1,057 | 1,362 |
| Total Accum. Depreciation, End of Year | **(83,136)** | (78,812) | (74,091) |
| Total Capital Assets, Net, End of Year | **$ 111,936** | $ 101,245 | $ 102,782 |

Capital additions totaled $16,713 thousand for 2016, $4,368 thousand for 2015, and $2,893 thousand for 2014. Capital asset additions for 2016 included construction in progress for buildings of $12,946 thousand, primarily for the Woodcock Education Center, which was completed and opened in early fiscal year 2017.

Accumulated depreciation at June 30, 2016 increased by $4,324 thousand, which represented $5,913 thousand in depreciation and amortization expense offset by $1,589 thousand in asset retirements and adjustments. Accumulated depreciation at June 30, 2015 increased by $4,721 thousand, which represented $5,778 thousand in depreciation and amortization expense offset by $1,057 thousand in asset retirements and adjustments.

## Debt Administration

During 2016, long-term debt held by WOU decreased by $66,040 thousand, or 53 percent, from $123,627 thousand to $57,587 thousand.

- State paid debt totaling $62,344 thousand of state paid General Obligation Bonds, Certificates of Participation and Lottery Bonds were removed, including all premiums and discounts associated with the state paid debt as well as the institution paid legacy debt that remains on WOU's books.
- WOU made debt service principal payments totaling $3,259 thousand on outstanding long-term debt.
- WOU's obligation for accreted interest on outstanding debt decreased by a net $437 thousand.

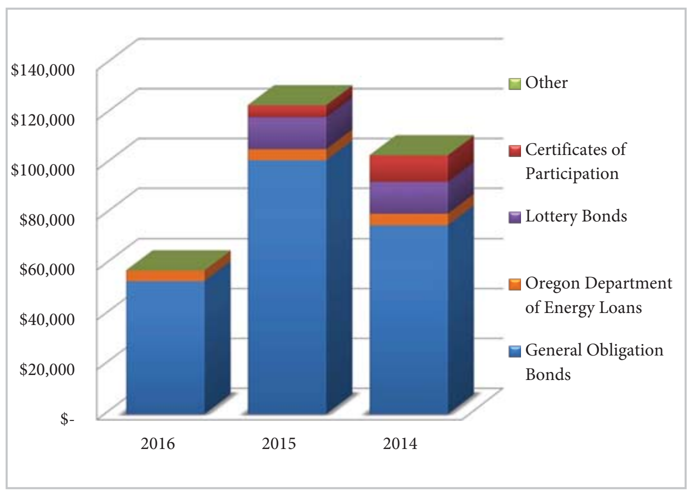
See Note 9 Long-Term Liabilities and Note 18 Change in Entity for additional details.

During 2015, long-term debt held by WOU increased by $20,092 thousand, or 19 percent.

- The State issued on behalf of WOU an additional $37,722 thousand (par value) of new General Obligation Bonds earmarked for construction and refunding of outstanding debt obligations.
- The State refunded on behalf of WOU $19,370 thousand (par value) of previously issued General Obligation Bonds.
- WOU made debt service principal payments totaling $3,509 thousand on outstanding long-term debt.
- WOU's obligation for premiums, discounts and accreted interest on outstanding debt increased by a net $5,249 thousand.

See Note 9 and Note 18 for additional information.

## Long-term Debt (in 000's)



## Economic Outlook

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

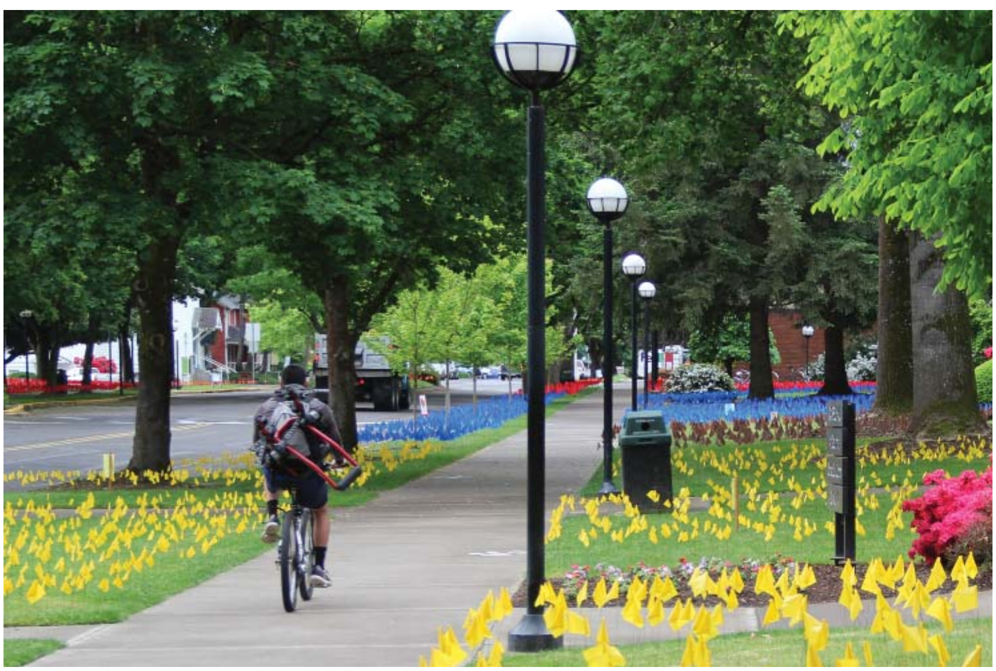
Volatility in State funding levels continue to challenge WOU's ability to meet its public mission of teaching, research and service while maintaining affordable access to higher education. Despite a welcome boost in State funding for the 2015-17 biennium, WOU acknowledges the difficult funding decisions required of our State Legislature in addressing a projected budget shortfall of approximately $1.4 billion for the 2017-2019 Biennium.

Compensation costs represent WOU's largest cost increase for the coming biennium. In addition to expected salary increases for faculty and staff, benefit costs will also increase. Since portions of the State's 2013 pension reforms were subsequently overturned by the Oregon Supreme Court, significantly higher pension costs for the 2017-19 biennium are expected. Additional cost increases for minimum wage, health care benefits, and federally mandated changes to overtime eligibility are also anticipated.

Each of these issues, in addition to other cost increases, present real threats to WOU's financial stability. Without additional state support, WOU has very limited options outside of tuition increases to generate additional revenue, which hampers Western's efforts to keep higher education affordable.

Despite these challenges, the WOU Board of Trustees and university leadership remain committed to meeting the challenges of ensuring an affordable education, providing a complement of student support services that meet our students' unique needs, and improving the graduation rates of our students.

Western Oregon University plans for continued success in carrying out its core mission as a premier comprehensive public university by preparing for these challenges. We move forward with cautious determination and thoughtful preparation, recognizing Western Oregon University's academic distinction and success is the result of the hard work and dedication of outstanding faculty, staff, and academic leaders who place the needs of our students first.



Holocaust Remembrance Day honors the victims of this tragedy each spring, this year's recognition was held on May 5, 2016. The flags are meant to be a large, powerful display representing the lives of millions lost. 27,660 miniature flags covered the heart of campus as part of Western's role in Holocaust Remembrance Day. Each flag represented about 500 people killed during the Holocaust.

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| **Viability Ratio** (expendable net position to long-term debt) | **0.48** | 0.50 | 0.41 |
| **Primary Reserve Ratio** (expendable net position to operating expenses) | **0.25** | 0.35 | 0.29 |
| **Net Revenues Ratio** (total net income to total revenues) | **-7.52%** | 3.22% | -3.88% |
| **Return on Net Assets Ratio** (change in net position to beginning net position) | **86.54%** | 31.83% | 5.81% |
| **Debt Burden Ratio** (debt service to total expenditures) | **4.70%** | 4.87% | 3.85% |

## VIABILITY RATIO

The Viability Ratio is a measure of clear financial health; the availability of expendable net position to cover debt should the University need to settle its obligations as of the fiscal year end. Expendable net position is the balance in total net position excluding investment in capital assets and non-expendable endowments of the university plus the unrestricted and temporarily restricted net assets of the component unit. Long-term debt includes bonds, loans and capital leases payable by the university as well as the long-term liabilities of the component unit. A ratio of 1.00 or greater indicates an institution has sufficient expendable net position to satisfy debt requirements. WOU's Viability Ratio was 0.48 for fiscal year 2016.

## PRIMARY RESERVE RATIO

The Primary Reserve Ratio, calculated by dividing expendable net position by operating expenses, measures the ability of the University to continue operating at current levels, within current restrictions, without future revenues. Expendable net position is the balance in total net position excluding investment in capital assets and non-expendable endowments of the university plus the unrestricted and temporarily restricted net assets of the component unit. Total operating expenses include the operating expenses and interest expenses of both the university and the component unit. Proof of an adequate reserve ratio is often required to secure long-term financing. A ratio of 1.0 denotes that an institution would have the ability to cover its expenses for one year without a revenue stream. WOU's Primary Reserve Ratio was 0.25 for fiscal year 2016.

## NET REVENUES RATIO

The Net Revenues Ratio indicates whether the university has an operating surplus or deficit for the year. Total net income includes operating income (loss) plus net nonoperating revenues of the university, excluding capital gifts and debt service appropriations, plus total change in unrestricted net assets of the component unit. Total revenues include operating and net nonoperating revenues of the university plus unrestricted revenues, gains and other support of the component unit. A positive ratio indicates that the university experienced an operating surplus for the year. WOU's Net Revenues Ratio was -7.52 percent for fiscal year 2016.

## RETURN ON NET ASSETS RATIO

The Return on Net Assets Ratio determines whether the university is financially better off than in previous years by measuring total economic return. Total change in net position includes the change in net position for the university plus the change in total net assets for the component unit. Total beginning net position includes the beginning net position of the university plus the total beginning net assets of the component unit. A positive ratio indicates a net increase in total net position at the end of the year. WOU's Return on Net Assets Ratio for fiscal year 2016 was 86.54 percent.

## DEBT BURDEN RATIO

The Debt Burden Ratio measures the cost of servicing the debt of the university. This ratio examines the institution's dependence on borrowed funds as a source of financing its mission and the relative cost of borrowing to overall expenditures. It compares the level of current debt service with the institution's total expenditures. Total debt service includes the interest and principal payments on capital debt of both the university and the component unit. Total expenditures includes total expenses, including any loss on sale of assets and transfers, less depreciation plus debt service principal payments of both the university and the component unit. WOU's Debt Burden Ratio for fiscal year 2016 was 4.70 percent.

| As of June 30, | | 2016 | | 2015 |
|---|---|---|---|---|
| | | (In thousands) | | |
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and Cash Equivalents (Note 2) | $ | **10,586** | $ | 13,428 |
| Collateral from Securities Lending (Note 2) | | **1,829** | | 2,446 |
| Accounts Receivable, Net (Note 3) | | **11,300** | | 5,832 |
| Notes Receivable, Net (Note 4) | | **1,577** | | 1,541 |
| Inventories | | **1,137** | | 1,186 |
| Prepaid Expenses | | **158** | | 280 |
| **Total Current Assets** | | **26,587** | | 24,713 |
| **Noncurrent Assets** | | | | |
| Cash and Cash Equivalents (Note 2) | | **2,479** | | 25,217 |
| Investments (Note 2) | | **32,964** | | 29,413 |
| Notes Receivable, Net (Note 4) | | **2,911** | | 2,962 |
| Net Pension Asset (Note 14) | | **-** | | 4,952 |
| Capital Assets, Net of Accumulated Depreciation (Note 6) | | **111,936** | | 101,245 |
| **Total Noncurrent Assets** | | **150,290** | | 163,789 |
| **Total Assets** | **$** | **176,877** | $ | 188,502 |
| **DEFERRED OUTFLOWS OF RESOURCES** (Note 5) | **$** | **3,394** | $ | 4,800 |
| **LIABILITIES** | | | | |
| **Current Liabilities** | | | | |
| Accounts Payable and Accrued Liabilities (Note 7) | **$** | **12,192** | $ | 10,242 |
| Deposits | | **256** | | 188 |
| Obligations Under Securities Lending (Note 2) | | **1,829** | | 2,446 |
| Current Portion of Long-Term Liabilities (Note 9) | | **4,410** | | 8,432 |
| Unearned Revenues | | **2,591** | | 2,700 |
| **Total Current Liabilites** | | **21,278** | | 24,008 |
| **Noncurrent Liabilities** | | | | |
| Long-Term Liabilities (Note 9) | | **60,219** | | 122,337 |
| Net Pension Liability (Note 14) | | **13,285** | | - |
| **Total Noncurrent Liabilities** | | **73,504** | | 122,337 |
| **Total Liabilities** | **$** | **94,782** | $ | 146,345 |
| **DEFERRED INFLOWS OF RESOURCES** (Note 5) | **$** | **3,235** | $ | 9,556 |
| **NET POSITION** | | | | |
| Net Investment in Capital Assets | **$** | **55,989** | $ | 6,116 |
| Restricted For: | | | | |
| Nonexpendable Endowments | | **-** | | - |
| Expendable: | | | | |
| Gifts, Grants and Contracts | | **1,158** | | 414 |
| Student Loans | | **6,782** | | 6,837 |
| Capital Projects | | **1,871** | | 2,388 |
| Debt Service | | **478** | | 3,184 |
| Unrestricted (Note 10) | | **15,976** | | 18,462 |
| **Total Net Position** | **$** | **82,254** | $ | 37,401 |

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

## STATEMENTS OF FINANCIAL POSITION
## WESTERN OREGON UNIVERSITY DEVELOPMENT FOUNDATION - COMPONENT UNIT

| As of June 30, | | 2016 | | 2015 |
|---|---|---|---|---|
| | | (In thousands) | | |
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ | 468 | $ | 486 |
| Contributions, Pledges and Grants Receivable, Net | | 142 | | 420 |
| Investments (Note 2) | | 13,123 | | 13,567 |
| Due from WOU | | 191 | | 152 |
| Property and Equipment, Net | | 164 | | 175 |
| **Total Assets** | **$** | **14,088** | $ | 14,800 |
| **LIABILITIES** | | | | |
| Accounts Payable and Accrued Liabilities | $ | 30 | $ | 27 |
| Obligations to Beneficiaries of Split-Interest Agreements | | 1,035 | | 1,097 |
| **Total Liabilities** | **$** | **1,065** | $ | 1,124 |
| **NET ASSETS** | | | | |
| Unrestricted | $ | 1,161 | $ | 1,109 |
| Temporarily Restricted | | 3,719 | | 4,618 |
| Permanently Restricted | | 8,143 | | 7,949 |
| **Total Net Assets** | **$** | **13,023** | $ | 13,676 |
| **Total Net Assets & Liabilities** | **$** | **14,088** | $ | 14,800 |

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

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
# WESTERN OREGON UNIVERSITY

| For the Year Ended June 30, | | 2016 | | 2015 |
|---|---|---|---|---|
| | | (In thousands) | | |
| **OPERATING REVENUES** | | | | |
| Student Tuition and Fees (Net of Allowances of $13,659 and $11,130, respectively) | **$** | **30,065** | $ | 32,457 |
| Federal Grants and Contracts | | **10,744** | | 9,536 |
| State and Local Grants and Contracts | | **1,709** | | 2,203 |
| Nongovernmental Grants and Contracts | | **88** | | 50 |
| Educational Department Sales and Services | | **911** | | 686 |
| Auxiliary Enterprises Revenues (Net of Allowances of $1,401 and $1,750, respectively) | | **20,396** | | 19,093 |
| Other Operating Revenues | | **2,258** | | 2,157 |
| **Total Operating Revenues** | | **66,171** | | 66,182 |
| **OPERATING EXPENSES** | | | | |
| Instruction | | **43,320** | | 33,941 |
| Research | | **2,280** | | 1,599 |
| Public Service | | **411** | | 314 |
| Academic Support | | **9,823** | | 8,350 |
| Student Services | | **7,614** | | 5,797 |
| Auxiliary Programs | | **24,074** | | 21,111 |
| Institutional Support | | **6,683** | | 4,567 |
| Operation and Maintenance of Plant | | **5,463** | | 4,011 |
| Student Aid | | **7,156** | | 8,596 |
| Other Operating Expenses | | **4,029** | | 4,010 |
| **Total Operating Expenses** (Note 12) | | **110,853** | | 92,296 |
| **Operating Loss** | | **(44,682)** | | (26,114) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| Government Appropriations (Note 13) | | **23,178** | | 17,790 |
| Financial Aid Grants | | **13,773** | | 14,421 |
| Gifts | | **898** | | 1,024 |
| Investment Activity (Note 11) | | **1,059** | | 558 |
| Gain (Loss) on Sale of Assets, Net | | **264** | | 128 |
| Interest Expense | | **(2,551)** | | (4,577) |
| Other Nonoperating Items | | **(109)** | | (3) |
| **Net Nonoperating Revenues** | | **36,512** | | 29,341 |
| **Income (Loss) Before Other Nonoperating Revenues** | | **(8,170)** | | 3,227 |
| Debt Service Appropriations (Note 13) | | **392** | | 3,028 |
| Capital Grants and Gifts | | **15,374** | | 500 |
| Transfers within OUS | | **-** | | 36 |
| **Total Other Nonoperating Revenues** | | **15,766** | | 3,564 |
| **Increase In Net Position Prior to Special/Extraordinary Items** | | **7,596** | | 6,791 |
| **SPECIAL AND EXTRAORDINARY ITEMS** | | | | |
| Special Item - Change in Entity (Note 18) | | **37,257** | | 5,810 |
| **Increase In Net Position After Special/Extraordinary Items** | | **44,853** | | **12,601** |
| **NET POSITION** | | | | |
| Beginning Balance | | **37,401** | | 24,800 |
| **Ending Balance** | **$** | **82,254** | $ | 37,401 |

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

| For The Year Ended June 30, | | 2016 | | 2015 |
|---|---|---|---|---|
| | | (In thousands) | | |
| **CHANGE IN UNRESTRICTED NET ASSETS** | | | | |
| **REVENUES** | | | | |
| Contributions | $ | **407** | $ | 335 |
| Dividends and Interest | | **26** | | 8 |
| Realized and Unrealized Gains (Losses) | | **(7)** | | (10) |
| Net Assets Released From Restrictions | | **2,241** | | 2,046 |
| Other Revenues | | **31** | | 19 |
| **Total Revenues** | | **2,698** | | 2,398 |
| **EXPENSES** | | | | |
| Program Services | | **2,205** | | 1,896 |
| Managerial and General | | **339** | | 356 |
| Fundraising | | **102** | | 86 |
| **Total Expenses** | | **2,646** | | 2,338 |
| **Increase In Unrestricted Net Assets** | | **52** | | 60 |
| Beginning Net Assets, Unrestricted | | **1,109** | | 1,049 |
| **Ending Net Assets, Unrestricted** | $ | **1,161** | $ | 1,109 |
| **CHANGE IN TEMPORARILY RESTRICTED NET ASSETS** | | | | |
| **REVENUES** | | | | |
| Contributions | $ | **1,146** | $ | 893 |
| Dividends and Interest | | **463** | | 416 |
| Realized and Unrealized Gains (Losses) | | **(544)** | | (183) |
| Other Revenues | | **277** | | 239 |
| Net Assets Released From Restrictions | | **(2,241)** | | (2,046) |
| **Increase (Decrease) In Temporarily Restricted Net Assets** | | **(899)** | | (681) |
| Beginning Net Assets, Temporarily Restricted | | **4,618** | | 5,299 |
| **Ending Net Assets, Temporarily Restricted** | $ | **3,719** | $ | 4,618 |
| **CHANGE IN PERMANENTLY RESTRICTED NET ASSETS** | | | | |
| **REVENUES** | | | | |
| Contributions | $ | **292** | $ | 454 |
| Dividends and Interest | | **46** | | - |
| Realized and Unrealized Gains (Losses) | | **(144)** | | (102) |
| **Increase In Permanently Restricted Net Assets** | | **194** | | 352 |
| Beginning Net Assets, Permanently Restricted | | **7,949** | | 7,597 |
| **Ending Net Assets, Permanently Restricted** | $ | **8,143** | $ | 7,949 |
| Beginning Balance | | **13,676** | | 13,945 |
| **Increase (Decrease) In Total Net Assets** | | **(653)** | | (269) |
| **Ending Balance** | $ | **13,023** | $ | 13,676 |

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

# STATEMENTS OF CASH FLOWS
# WESTERN OREGON UNIVERSITY

| For the Year Ended June 30, | 2016 | 2015 |
|---|---|---|
| | (In thousands) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Tuition and Fees | $ **29,742** | $ 31,457 |
| Grants and Contracts | **6,884** | 11,419 |
| Educational Department Sales and Services | **911** | 686 |
| Auxiliary Enterprises Operations | **20,280** | 19,122 |
| Payments to Employees for Compensation and Benefits | **(67,713)** | (62,266) |
| Payments to Suppliers | **(17,194)** | (18,271) |
| Student Financial Aid | **(7,209)** | (8,375) |
| Other Operating Receipts | **2,447** | 3,161 |
| **Net Cash Used by Operating Activities** | **(31,852)** | (23,067) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Government Appropriations | **23,178** | 17,790 |
| Financial Aid Grants | **13,773** | 14,421 |
| Other Gifts and Private Contracts | **789** | 1,021 |
| Net Internal Agency Fund Receipts (Payments) | **68** | (192) |
| Net Transfers Within OUS | - | 37 |
| Changes in Cash Due to Change in Entity | **(22,450)** | 4,803 |
| **Net Cash Provided by Noncapital Financing Activities** | **15,358** | 37,880 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Debt Service Appropriations | **392** | 2,683 |
| Capital Grants and Gifts | **14,921** | 500 |
| Bond Proceeds from Capital Debt | **99** | 44,453 |
| Sales of Capital Assets | **373** | 255 |
| Purchases of Capital Assets | **(16,273)** | (4,400) |
| Interest Payments on Capital Debt | **(2,311)** | (4,451) |
| Principal Payments on Capital Debt | **(3,795)** | (24,351) |
| **Net Cash Provided (Used) by Capital and Related Financing Activities** | **(6,594)** | 14,689 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Net Sales (Purchases) of Investments | **(3,395)** | (17,708) |
| Income on Investments and Cash Balances | **903** | 34 |
| **Net Cash Provided (Used) by Investing Activities** | **(2,492)** | (17,674) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(25,580)** | 11,828 |
| **CASH AND CASH EQUIVALENTS** | | |
| Beginning Balance | **38,645** | 26,817 |
| **Ending Balance** | $ **13,065** | $ 38,645 |

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

| For the Year Ended June 30, | 2016 | 2015 |
|---|---|---|
| | (In thousands) | |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES** | | |
| Operating Loss | **$ (44,682)** | $ (26,114) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation Expense | **5,913** | 5,778 |
| Pension Expense Related to Net Pension Liability | **10,457** | (6,372) |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | **(5,813)** | 889 |
| Notes Receivable | **15** | (235) |
| Inventories | **49** | (106) |
| Prepaid Expenses | **122** | (161) |
| Accounts Payable and Accrued Liabilities | **2,296** | 3,304 |
| Long-Term Liabilities | **(100)** | (22) |
| Unearned Revenue | **(109)** | (28) |
| **NET CASH USED BY OPERATING ACTIVITIES** | **$ (31,852)** | $ (23,067) |
| **NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS** | | |
| Capital Assets Acquired by Gifts-in-Kind | **$ 453** | $ - |
| Increase in Fair Value of Investments Recognized as a Component of Investment Activity | **156** | 16 |
| Non-Cash Changes Related to Change in Entity | **59,707** | 1,007 |

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

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

Western Oregon University (WOU) is governed by the Western Oregon University Board of Trustees (Board), a citizen board appointed by the Governor with confirmation by the State Senate. Prior to July 1, 2015, WOU 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, WOU became an independent public university on July 1, 2015.

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

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

### B. Financial Statement Presentation

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

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

Financial statements of the University Foundation for fiscal years ended June 30, 2016 and 2015 are discreetly presented because of the difference in its reporting model. 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.

**NEWLY IMPLEMENTED ACCOUNTING STANDARDS**

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

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

WOU implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective June 30, 2016. GASB Statement No. 76 identifies, in the context of the current governmental financial reporting environment, the hierarchy of GAAP. The Statement raises the category of GASB Implementation Guides in the GAAP hierarchy from level 4 to level 2. The adoption of GASB Statement No. 76 did not have a material impact on the WOU financial statements.

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

### UPCOMING ACCOUNTING STANDARDS

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement 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. WOU does not currently have enough information from the PEBB actuary to determine the potential fiscal impact of GASB Statement No. 75. However, the adoption is expected to cause an expansion in the required note disclosures and could potentially impact the amount of the OPEB liability.

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

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

## C. Basis of Accounting

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

## D. Cash and Cash Equivalents

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

## E. Investments

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

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

## F. Inventories

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

## G. Capital Assets

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

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

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

## H. Unearned Revenues

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

## I. Compensated Absences

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

## J. Net pension Asset/Liability

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

## K. Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources represent the consumption of net position in one period that is applicable to future periods. Deferred inflows of resources represent the acquisition of net position that is applicable to future periods. Deferred outflows and inflows are related to defined benefit pension plans.

## L. Net Position

WOU'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, less outstanding debt obligations related to those capital assets, plus unspent bond proceeds.

### RESTRICTED – NONEXPENDABLE

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

### RESTRICTED – EXPENDABLE

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

### UNRESTRICTED

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

## M. Endowments

Through fiscal year ended June 30, 2015, Oregon Revised Statutes (ORS) Section 351.130 gave WOU the authority to use the interest, income, dividends, or profits of endowments. OUS Board policy was 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 April, 2015, as part of the reorganization of the public universities, WOU transferred the ownership of all of their endowments to the WOU Foundation. The University transferred a total of $15 in corpus for true and quasi endowments along with market appreciation of $65. The WOU Foundation policy is to annually distribute, for spending purposes to the University, 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.

There are no amounts reported as Nonexpendable Endowments on the Statement of Net Position as of June 30, 2016 or 2015 as those are now owned and reported by the WOU Foundation.

## N. Income Taxes

WOU is treated as a governmental entity for tax purposes. As such, WOU is generally not subject to federal and state income taxes. However, WOU remains subject to income taxes on any income that is derived from a trade or business regularly carried on and not in furtherance of the purpose for which it was granted exemption from income taxes. No income tax is recorded for the years ended June 30, 2016 or 2015, because there is no significant amount of taxes on such unrelated business income for WOU.

## O. Revenues and Expenses

WOU 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 expenses of capital assets.

**Nonoperating revenues** generally have the characteristics of nonexchange transactions. In a nonexchange transaction, WOU receives value without directly giving equal value in exchange. Examples of nonoperating revenues include state appropriations, nonexchange grants, gifts, and contributions. Nonoperating expenses are defined in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Govern-*

*mental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments*. Examples of nonoperating expenses include interest on capital asset related debt and bond expenses.

### P. Allowances

Student tuition and fees and campus housing revenues included in auxiliary enterprises revenues are reported net of scholarship allowances. A scholarship allowance is the difference between the revenues charged to students and the amounts actually paid. WOU has two types of scholarship allowances that net into tuition and fees. Tuition and housing waivers, provided directly by WOU, amounted to $4,601 and $3,413 for the fiscal years ended 2016 and 2015, respectively. Revenues from financial aid programs (e.g., Pell Grants, Supplemental Educational Opportunity Grants, and Oregon Opportunity Grants) used for paying student tuition and fees and campus housing was estimated to be $8,622 and $7,157 for the fiscal years ended 2016 and 2015, respectively. Bad debt expense is included as an allowance to operating revenues and is estimated to be $1,837 and $2,310 for the fiscal years ended 2016 and 2015, respectively.

### Q. Federal Student Loan Programs

WOU receives proceeds from the Federal Direct Student Loan Program. Since WOU transmits these grantor supplied moneys without having administrative or direct financial involvement in the program, these loans are reported in an internal agency fund. Federal student loans received by WOU students but not reported in operations was $29,695 and $31,319 for the fiscal years ended 2016 and 2015, respectively.

### R. Use of Estimates

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

### S. Reclassifications

Certain amounts within the June 30, 2015 financial statements have been reclassified to conform to the June 30, 2016 presentation. The reclassifications had no effect on previously reported total net position and do not constitute a restatement of prior periods.

## 2. CASH AND INVESTMENTS

At June 30, 2016 the majority of WOU's cash and investments were held in custody with the Oregon State Treasury (State Treasury). At June 30, 2015, a portion of WOU's cash and investments were held in custody with the Oregon State Treasury (State Treasury) and a portion was held by Trustee. These invested assets are managed through several commingled investment pools by the State Treasury. The operating funds of WOU are commingled with cash from other public universities in Oregon and referred to collectively as the Public University Fund (PUF). The investments held in the PUF are managed by the State Treasury and administered by the statutorily defined Designated University, currently Oregon State University. WOU is a participant in the PUF investment pools along with other public universities from the state of Oregon. Each underlying investment pool has an investment policy and set of objectives identifying risk and return parameters for each 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 exposure, see note 2.B below.

For full disclosure regarding cash and investments held at 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 97301-3896 or by linking via the internet at **http://www.oregon.gov/treasury/AboutTreasury/Pages/Annual-Reports.aspx**

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (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, 2016 and 2015 as follows:

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| **Current** | | |
| Unrestricted | **$ 8,862** | $ 10,941 |
| Restricted For: | | |
| Student Aid | **672** | 842 |
| Debt Service | **167** | 706 |
| Payroll Vendor Payments | **864** | 919 |
| Petty Cash | **21** | 20 |
| **Total Current** | **10,586** | 13,428 |
| **Noncurrent** | | |
| Restricted For: | | |
| Capital | **1,583** | 1,722 |
| Debt Service | **813** | 1,122 |
| Student Groups and Campus Organizations | **83** | 59 |
| Cash Held by Trustee | - | 22,314 |
| **Total Noncurrent** | **2,479** | 25,217 |
| **Total** | **$ 13,065** | $ 38,645 |

### DEPOSITS WITH STATE TREASURY

WOU maintains the majority of its current cash balances on deposit with the State Treasury. These deposits at the State Treasury are held, on a pooled basis as described above, in the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool available for use by all state and related agencies. The State Treasury invests these deposits in high-grade short-term investment securities. WOU does not have a statutory requirement to collateralize deposits with the State Treasury, but does have a contractual obligation through their banking agreement with the State to collateralize deposits within 24 hours of receipt. At the fiscal year ended June 30, 2016 and 2015, WOU cash and cash equivalents on deposit at State Treasury were $13,044 and $16,311, respectively.

### CUSTODIAL CREDIT RISK—DEPOSITS

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

### FOREIGN CURRENCY RISK—DEPOSITS

Deposits in foreign currency run the risk of changing value due to fluctuations in foreign exchange rates. Per PUF policy, all deposits are in U.S. currency and therefore not exposed to foreign currency risk.

### OTHER DEPOSITS

For the years ended June 30, 2016 and 2015, WOU had vault and petty cash balances of $21 and $20, respectively. Additionally, WOU has cash held by trustee related to capital construction bonds and debt service payments in the amount of $22,314 for fiscal year ended June 30, 2015. There is no cash held by trustee as of June 30, 2016. Cash held by trustee is included in noncurrent cash in the Statement of Net Position.

## B. Investments

As of June 30, 2016 and 2015, WOU's operating funds were invested in the PUF. The PUF investment policy is governed by the OIC. All 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 Council.

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

Significant events in domestic and international investment markets or aggressive action by the Federal Open Market Committee to influence both short and long-term interest rates contribute to price volatility. Consequently, the fair value of WOU's portion of the pooled investments is exposed to price volatility which could result in a substantial change in the fair value of certain investments from the amounts reported as of June 30, 2016 and 2015.

Investments are all classified as noncurrent and include both restricted and unrestricted funds. At June 30, 2016, WOU had a total of $32,964 in investments. Of the total, $20,842 was invested in an intermediate-term pool managed by State Treasury; and $12,122 was invested in a long-term fixed income pool managed by State Treasury.

As of June 30, 2015, WOU had a total of $29,413 in investments. Of the total, $18,303 was invested in an intermediate-term pool managed by State Treasury; and $11,110 was invested in a long-term fixed income pool managed by State Treasury.

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

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

| Fair Value at June 30, | 2016 | 2015 |
|---|---|---|
| Investment Type: | | |
| Marketable Securities | $ 12,588 | $ 12,705 |
| Money Market Funds and Cash | 434 | 717 |
| Cash Value of Life Insurance Policies | 101 | 145 |
| Total Investments | $ 13,123 | $ 13,567 |

## CREDIT RISK

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. OUS has an investment policy for each segment of its investment portfolio. As of June 30, 2016, approximately 98.5 percent of investments in the PUF Pools were subject to credit risk reporting. Fixed income securities rated by the credit agencies as BBB to AAA, indicating the issuer has a strong capacity to pay principal and interest when due, totaled $305,760, or 95.1 percent of the PUF investment pools. Fixed income securities which have not been evaluated by the rating agencies totaled $10,935, or 3.4 percent of the PUF investment pools. The PUF investment pools totaled $321,409, of which WOU owned $32,964 or 10.3 percent.

As of June 30, 2015, approximately 96.8 percent of investments in the PUF Pools are subject to credit risk reporting. Fixed income securities rated by the credit agencies as BBB to AAA, indicating the issuer has a strong capacity to pay principal and interest when due, totaled $280,630, or 91.3 percent of the PUF investment pools. Fixed income securities which have not been evaluated by the rating agencies totaled $16,843, or 5.5 percent of the PUF investment pools. The PUF investment pools totaled $307,454, of which WOU owned $29,413 or 9.6 percent.

## CUSTODIAL CREDIT RISK

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

## CONCENTRATION OF CREDIT RISK

Concentration of credit risk refers to potential losses if total investments are concentrated with one or few issuers. The policy for reducing this risk for fixed income securities is that, with the exception of U.S. Government and Agency issues, no more than five percent of the bond portfolio, at par value, will be invested in securities of a single issuer or no more than three percent of the individual issue. The PUF had no securities of a single issuer that exceeded five percent of the bond portfolio.

## FOREIGN CURRENCY RISK

Foreign currency risk is the risk that investments may lose value due to fluctuations in foreign exchange rates. Per PUF investment policy, all investments are to be in U.S. dollar denominated securities, therefore no amounts of the PUF investments had reportable foreign currency risk at June 30, 2016 or 2015.

## INTEREST RATE RISK

Investments in fixed income securities are subject to the risk that changes in interest rates will adversely affect the fair value of the investments. As of June 30, 2016, securities in the PUF Investment Pool held subject to interest rate risk totaling $316,695 had an average duration of 3.0 years. As of June 30, 2015, securities in the PUF Investment Pool held subject to interest rate risk totaling $297,473 had an average duration of 2.74 years. Duration measures the change in the value of a fixed income security that will result from a 1% change in interest rates.

## FAIR VALUE MEASUREMENT

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

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted market prices that are observable for the asset, either directly or indirectly, including inputs in markets that are not considered to be active; and

Level 3 – Inputs that are unobservable. These are only used if relevant Level 1 and Level 2 inputs are not available.

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

The fair value of WOU's investments in the PUF are based on the investments' net asset value (NAV) per share provided by the Treasury. Fair value measurements are as follows:

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| Intermediate-Term Pool | $ 20,842 | $ 18,303 |
| Long-Term Pool | 12,122 | 11,110 |
| Total Investments at NAV | $ 32,964 | $ 29,413 |

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

The *Intermediate Term Pool (ITP)* provides qualified participants with a vehicle to invest funds over an intermediate-term investment horizon. The investment objective of the ITP is to maximize total return (i.e., principal and income) within stipulated risk parameters. The ITP is actively managed to maintain a short duration, of an average three to five years, through a diversified portfolio of investment grade quality fixed income investments as prescribed in the portfolio guidelines.

The *Long-Term Pool (LTP)* is managed in accordance with the rules and policies of the ITP, but is managed for an intermediate-term duration, of an average five to seven years, through the inclusion of investment grade quality fixed income investments as prescribed in the portfolio guidelines.

### C. Securities Lending

In accordance with the State investment policies, the State participates in securities lending transactions. The Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company (State Street) to lend the State's securities pursuant to a form of loan agreement. Both the State and borrowers maintain the right to terminate all securities lending transactions on demand. WOU's cash on deposit with the State Treasury is subject to securities lending. There were no significant violations of the provisions of securities lending agreements during the years ended June 30, 2016 and 2015.

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

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

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

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

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

| | **June 30, 2016** | June 30, 2015 |
|---|---|---|
| **Investment Type** | | |
| U.S. Treasury and Agency Securities | **$ 1,577** | $ 2,555 |
| Domestic Fixed Income Securities | **531** | 773 |
| **Total** | **$ 2,108** | $ 3,328 |

The fair value of the University's share of total cash and securities collateral received as of June 30, 2016 and 2015 was $2,150 and $3,397, respectively. The fair value of the University's share of investments purchased with cash collateral as of June 30, 2016 and 2015 was $1,829 and $2,446 respectively.

## 3. ACCOUNTS RECEIVABLE

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

| | **June 30, 2016** | June 30, 2015 |
|---|---|---|
| Student Tuition and Fees | **$ 15,947** | $ 14,477 |
| Federal Grants and Contracts | **4,569** | 2,433 |
| Capital Construction | **3,599** | - |
| Auxiliary Enterprises and Other Operating Activities | **1,932** | 1,817 |
| State, Other Government, and Private Gifts, Grants and Contracts | **137** | 35 |
| Other | **161** | 386 |
| | **26,345** | 19,148 |
| Less: Allowance for Doubtful Accounts | **(15,045)** | (13,316) |
| Accounts Receivable, Net | **$ 11,300** | $ 5,832 |

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

## 4. NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program are funded through interest earnings and repayment of loans. Federal Perkins loans deemed uncollectable are assigned to the U.S. Department of Education for collection. EOU has provided an allowance for uncollectable loans, which in management's opinion will absorb loans that will ultimately be written off.

Institutional and Other Student Loans include loans offered through the University itself and other various non-federal loan programs. Notes Receivable comprised the following:

| | June 30, 2016 | | |
|---|---|---|---|
| | **Current** | **Noncurrent** | **Total** |
| Institutional and Other Student Loans | **$ 931** | **$ 7** | **$ 938** |
| Federal Student Loans | **775** | **3,487** | **4,262** |
| | **1,706** | **3,494** | **5,200** |
| Less: Allowance for Doubtful Accounts | **(129)** | **(583)** | **(712)** |
| Notes Receivable, Net | **$ 1,577** | **$ 2,911** | **$ 4,488** |

| | June 30, 2015 | | |
|---|---|---|---|
| | Current | Noncurrent | Total |
| Institutional and Other Student Loans | $ 893 | $ 8 | $ 901 |
| Federal Student Loans | 745 | 3,394 | 4,139 |
| | 1,638 | 3,402 | 5,040 |
| Less: Allowance for Doubtful Accounts | (97) | (440) | (537) |
| Notes Receivable, Net | $ 1,541 | $ 2,962 | $ 4,503 |

## 5. DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

Deferred Outflows and Deferred Inflows of Resources comprised the following:

| | **June 30, 2016** | June 30, 2015 |
|---|---|---|
| **Deferred Outflows of Resources** | | |
| Deferred Gain/Loss on Refunding of Debt | **$ -** | $ 2,865 |
| Pension Contributions Subsequent to the Measurement Date | **2,337** | 1,846 |
| Differences Between Pension Contributions and Proportionate Share of Contributions | **272** | 89 |
| Change in Proportionate Share of Contributions | **68** | - |
| Difference Between Expected and Actual Experience | **717** | - |
| **Total Deferred Outflows** | **$ 3,394** | $ 4,800 |
| **Deferred Inflows of Resources** | | |
| Differences Between Pension Contributions and Proportionate Share of Contributions | **$ 450** | $ - |
| Net difference Between Projected and Actual Earnings on Pension Plan Investments | **2,785** | 9,556 |
| **Total Deferred Inflows** | **$ 3,235** | $ 9,556 |

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

## 6. CAPITAL ASSETS

The following schedule reflects the changes in capital assets:

| | Balance June 30, 2014 | Additions | Transfer Completed Assets | Retire. And Adjust. | Balance July 1, 2015 | **Additions** | **Transfer Completed Assets** | **Retire. And Adjust.** | **Balance June 30, 2016** |
|---|---|---|---|---|---|---|---|---|---|
| **Capital Assets,** | | | | | | | | | |
| **Non-depreciable/Non-amortizable:** | | | | | | | | | |
| Land | $ 4,833 | $ - | $ - | $ - | $ 4,833 | **$ -** | **$ -** | **$ -** | **$ 4,833** |
| Capitalized Collections | 367 | - | - | (2) | 365 | **304** | **-** | **-** | **669** |
| Construction in Progress | 159 | 2,873 | (650) | - | 2,382 | **13,207** | **(1,172)** | **-** | **14,417** |
| **Total Capital Assets, Non-depreciable/Non-amortizable** | 5,359 | 2,873 | (650) | (2) | 7,580 | **13,511** | **(1,172)** | **-** | **19,919** |
| **Capital Assets, Depreciable/ Amortizable:** | | | | | | | | | |
| Equipment | 9,403 | 1,394 | - | (966) | 9,831 | **762** | **-** | **(717)** | **9,876** |
| Library Materials | 7,203 | 85 | - | (144) | 7,144 | **84** | **-** | **(767)** | **6,461** |
| Buildings | 141,292 | 16 | 527 | (72) | 141,763 | **1,637** | **445** | **(214)** | **143,631** |
| Land Improvements | 4,263 | - | 123 | - | 4,386 | **138** | **198** | **-** | **4,722** |
| Improvements Other Than Buildings | 1,705 | - | - | - | 1,705 | **393** | **516** | **-** | **2,614** |
| Infrastructure | 5,778 | - | - | - | 5,778 | **188** | **13** | **-** | **5,979** |
| Intangible Assets | 1,870 | - | - | - | 1,870 | **-** | **-** | **-** | **1,870** |
| **Total Capital Assets, Depreciable/Amortizable** | 171,514 | 1,495 | 650 | (1,182) | 172,477 | **3,202** | **1,172** | **(1,698)** | **175,153** |
| **Less Accumulated Depreciation/ Amortization for:** | | | | | | | | | |
| Equipment | (7,152) | (772) | - | 913 | (7,011) | **(887)** | **-** | **715** | **(7,183)** |
| Library Materials | (6,197) | (263) | - | 144 | (6,316) | **(227)** | **-** | **767** | **(5,776)** |
| Buildings | (53,395) | (4,089) | - | - | (57,484) | **(4,094)** | **-** | **107** | **(61,471)** |
| Land Improvements | (2,240) | (202) | - | - | (2,442) | **(224)** | **-** | **-** | **(2,666)** |
| Improvements Other Than Buildings | (720) | (154) | - | - | (874) | **(205)** | **-** | **-** | **(1,079)** |
| Infrastructure | (2,673) | (239) | - | - | (2,912) | **(243)** | **-** | **-** | **(3,155)** |
| Intangible Assets | (1,714) | (59) | - | - | (1,773) | **(33)** | **-** | **-** | **(1,806)** |
| **Total Accumulated Depreciation/ Amortization** | (74,091) | (5,778) | - | 1,057 | (78,812) | **(5,913)** | **-** | **1,589** | **(83,136)** |
| **Total Capital Assets, Net** | $ 102,782 | $ (1,410) | $ - | $ (127) | $101,245 | **$ 10,800** | **$ -** | **$ (109)** | **$ 111,936** |
| **Capital Assets Summary** | | | | | | | | | |
| Capital Assets, Non-depreciable/ Non-amortizable | $ 5,359 | $ 2,873 | $ (650) | $ (2) | $ 7,580 | **$ 13,511** | **$ (1,172)** | **$ -** | **$ 19,919** |
| Capital Assets, Depreciable/ Amortizable | 171,514 | 1,495 | 650 | (1,182) | 172,477 | **3,202** | **1,172** | **(1,698)** | **175,153** |
| Total Cost of Capital Assets | 176,873 | 4,368 | - | (1,184) | 180,057 | **16,713** | **-** | **(1,698)** | **195,072** |
| Less Accumulated Depreciation/ Amortization | (74,091) | (5,778) | - | 1,057 | (78,812) | **(5,913)** | **-** | **1,589** | **(83,136)** |
| **Total Capital Assets, Net** | $ 102,782 | $ (1,410) | $ - | $ (127) | $101,245 | **$ 10,800** | **$ -** | **$ (109)** | **$ 111,936** |

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities comprised the following:

| | **June 30, 2016** | June 30, 2015 |
|---|---|---|
| Services and Supplies | **$ 4,405** | $ 2,941 |
| Salaries and Wages | **3,039** | 3,030 |
| Payroll Related | **2,991** | 2,744 |
| Accrued Interest | **1,141** | 1,474 |
| Contract Retainage | **609** | 20 |
| Financial Aid | **7** | 33 |
| | **$ 12,192** | $ 10,242 |

## 8. OPERATING LEASES

### A. Receivables/Revenues

WOU has no operating lease revenue or future receivables as of June 30, 2016 or 2015.

### B. Payables/Expenses

WOU leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases and rents were $27 and $34 for the years ended June 30, 2016 and 2015, respectively. Minimum future lease payments on operating leases at June 30, 2016 were:

| | |
|---|---|
| For the year ending June 30, | |
| 2017 | $ 5 |
| Total Minimum Operating Lease Payments | $ 5 |

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

## 9. LONG-TERM LIABILITIES

Long-term liability activity was as follows:

| | Balance June 30, 2015 | Additions | Removed Due to Change in Entity | Reductions | Balance June 30, 2016 | Amount Due Within One Year | Long-Term Portion |
|---|---|---|---|---|---|---|---|
| Long-Term Debt | | | | | | | |
| Due to the State of Oregon: | | | | | | | |
| General Obligation Bonds XI-F(1) | $ 60,011 | $ 99 | $ (3,225) | $ (3,587) | $ 53,298 | $ 2,401 | $ 50,897 |
| General Obligation Bonds XI-G | 12,304 | - | (12,304) | - | - | - | - |
| General Obligation Bonds XI-Q | 29,229 | - | (29,229) | - | - | - | - |
| Certificates of Participation (COPs) | 4,789 | - | (4,789) | - | - | - | - |
| Lottery Bonds | 12,797 | - | (12,797) | - | - | - | - |
| Oregon Department of Energy Loans (SELP) | 4,497 | - | - | (208) | 4,289 | 212 | 4,077 |
| Total Long-Term Debt | 123,627 | 99 | (62,344) | (3,795) | 57,587 | 2,613 | 54,974 |
| Other Noncurrent Liabilities | | | | | | | |
| PERS pre-SLGRP pooled Liability | 4,181 | - | - | (144) | 4,037 | 145 | 3,892 |
| Compensated Absences | 1,789 | 1,758 | - | (1,598) | 1,949 | 1,652 | 297 |
| Other Postemployment Benefits | 1,172 | - | - | (116) | 1,056 | - | 1,056 |
| Total Other Noncurrent Liabilities | 7,142 | 1,758 | - | (1,858) | 7,042 | 1,797 | 5,245 |
| **Total Long-Term Liabilities** | $ 130,769 | $ 1,857 | $ (62,344) | $ (5,653) | $ 64,629 | $ 4,410 | $ 60,219 |

| | Balance June 30, 2014 | Additions | Reductions | Balance June 30, 2015 | Amount Due Within One Year | Long-Term Portion |
|---|---|---|---|---|---|---|
| Long-Term Debt | | | | | | |
| Due to the State of Oregon: | | | | | | |
| General Obligation Bonds XI-F(1) | $ 61,843 | $ 7,454 | $ (9,286) | $ 60,011 | $ 3,808 | $ 56,203 |
| General Obligation Bonds XI-G | 12,585 | 4,713 | (4,994) | 12,304 | 849 | 11,455 |
| General Obligation Bonds XI-Q | 1,021 | 28,293 | (85) | 29,229 | 816 | 28,413 |
| Certificates of Participation (COPs) | 10,614 | - | (5,825) | 4,789 | 527 | 4,262 |
| Lottery Bonds | 12,773 | 3,994 | (3,970) | 12,797 | 353 | 12,444 |
| Oregon Department of Energy Loans (SELP) | 4,699 | - | (202) | 4,497 | 202 | 4,295 |
| Total Long-Term Debt | 103,535 | 44,454 | (24,362) | 123,627 | 6,555 | 117,072 |
| Other Noncurrent Liabilities | | | | | | |
| PERS pre-SLGRP pooled Liability | 4,372 | - | (191) | 4,181 | 168 | 4,013 |
| Compensated Absences | 1,687 | 1,798 | (1,696) | 1,789 | 1,709 | 80 |
| Other Postemployment Benefits | 1,105 | 67 | - | 1,172 | - | 1,172 |
| Total Other Noncurrent Liabilities | 7,164 | 1,865 | (1,887) | 7,142 | 1,877 | 5,265 |
| **Total Long-Term Liabilities** | $ 110,699 | $ 46,319 | $ (26,249) | $ 130,769 | $ 8,432 | $ 122,337 |

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

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

| For the Year Ending June 30, | General Obligation Bonds XI-F(1) | SELP | Total Payments | Principal | Interest |
|---|---|---|---|---|---|
| 2017 | $ 4,594 | $ 411 | $ 5,005 | $ 2,252 | $ 2,753 |
| 2018 | 4,596 | 411 | 5,007 | 2,401 | 2,606 |
| 2019 | 4,626 | 411 | 5,037 | 2,545 | 2,492 |
| 2020 | 4,278 | 411 | 4,689 | 2,343 | 2,346 |
| 2021 | 4,197 | 411 | 4,608 | 2,515 | 2,093 |
| 2022-2026 | 20,861 | 2,054 | 22,915 | 13,811 | 9,104 |
| 2027-2031 | 18,753 | 1,906 | 20,659 | 14,875 | 5,784 |
| 2032-2036 | 11,724 | - | 11,724 | 8,849 | 2,875 |
| 2037-2041 | 7,412 | - | 7,412 | 6,650 | 762 |
| 2042-2046 | 286 | - | 286 | 279 | 7 |
| Accreted Interest | | | | 1,067 | (1,067) |
| | | | | $ 57,587 | $ 29,755 |
| **Total Future Debt Service** | **81,327** | **6,015** | **87,342** | | |
| Less: Interest Component of Future Payments | (28,029) | (1,726) | (29,755) | | |
| **Principal Portion of Future Payments** | **$ 53,298** | **$ 4,289** | **$ 57,587** | | |

The State of Oregon issues various debt instruments to fund capital projects at WOU. 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, WOU also borrows funds from the Oregon Department of Energy. As a result of WOU becoming a component unit of the State rather than an enterprise fund of the State for financial reporting, as of July 1, 2015, all state paid bonded debt recorded by WOU as a long-term liability was removed and is now recorded by the State as the owner of the debt. Principal and interest amounts due relating to WOU's share of XI-F(1) and SELP are payable to the State.

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

WOU has entered into loan agreements with the State of Oregon for repayment of XI-F(1) bonds issued by the State on behalf of WOU for capital construction and refunding of previously issued debt. WOU makes loan payments (principal and interest) to the State in accordance with the loan agreements. Loans, with effective yields ranging from 0.63 percent to 7.0 percent, are due serially through 2042.

During the fiscal year ended June 30, 2016, the State did not issue any XI-F (1) bonded indebtedness on behalf of WOU. As of July 1, 2015, $3,225 in XI-F(1) bonded debt was removed from the long-term liabilities of WOU, as discussed previously in this note. See Note 1.A Reporting Entity and Note 18 Change in Entity for additional information on the change in legal status.

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

- $6,110 of Series 2015B XI-F(1) Tax Exempt bonds with an effective rate of 4.68 percent due serially through 2039, for refunding.

## B. General Obligation Bonds XI-G

As of July 1, 2015, $12,304 in XI-G bonded debt was removed from the long-term liabilities of WOU and WOU retained no amount of XI-G bonded debt, as discussed previously in this note. See Note 1.A Reporting Entity 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 of the University. XI-G bonds received by the University from the State are recorded as capital grants.

## C. General Obligation Bonds XI-Q

As of July 1, 2015, $29,229 in XI-Q bonded debt was removed from the long-term liabilities of WOU and WOU retained no amount of XI-Q bonded debt, as discussed previously in this note. See Note 1.A and Note 18 for additional information on the change in legal status. The State may, in the future, issue XI-Q bonds which result in a liability of the University. XI-Q bonds to be repaid by the State but received by the University from the State are recorded as capital grants.

## D. Certificates of Participation

As of July 1, 2015, $4,789 in COPs debt was removed from the long-term liabilities of WOU and WOU retained no amount of COPs debt, as discussed previously in this note. See Note 1.A and Note 18 for additional information on the change in legal status. The State no longer issues COPs.

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

### E. Lottery Bonds

As of July 1, 2015, $12,797 in Lottery bonded debt was removed from the long-term liabilities of WOU and WOU retained no amount of Lottery bonded debt, as discussed previously in this note. See Note 1.A and Note 18 for additional information on the change in legal status. The State no longer issues Lottery bonds which result in a liability of the University. Lottery bonds received by the University from the State are recorded as capital grants.

### F. Oregon Department of Energy Loans

WOU 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 WOU. WOU makes monthly loan payments (principal and interest) to the DOE in accordance with the loan agreements. SELP loans, with interest rates ranging from 4.56 percent to 4.91 percent, are due through 2031.

### G. Defeased Debt

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

During the year ended June 30, 2016, the State did not issue any debt on behalf of WOU to defease previously held debt.

During the year ended June 30, 2015, the State issued on behalf of WOU $6,110 in XI-F(1) Bonds with an average interest rate of 4.68 percent to refund $6,460 in XI-F(1) Bonds with an average interest rate of 4.76 percent. The net proceeds of the bonds were $7,268 (after payment of $42 in underwriting costs and bond premium of $1,200).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of $626. The refunding was undertaken to reduce total debt service payments (principal and interest) over the next 23 years by $1,276 and resulted in an economic gain of $1,007.

The total amount of defeased debt outstanding but removed from the financial statements as of June 30, 2016 and 2015 totaled $10,464 and $25,887, respectively.

### H. State and Local Government Rate Pool

Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), and local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP effective January 1, 2002, at which time a transitional, pre-SLGRP liability was created. The pre-SLGRP liability is essentially a debt owed to the SLGRP by the SCCP employers. The balance of the pre-SLGRP pooled liability attributable to the State is being amortized over the period ending December 31, 2027. The liability is allocated by the State of Oregon, based on salaries and wages, to all proprietary funds and the government-wide reporting fund in the State Comprehensive Annual Financial Report. Interest expense was paid by WOU in the amount of $284 and $292 for June 30, 2016 and 2015, respectively. Principal payments of $144 and $168 were applied to the liability for June 30, 2016 and 2015, respectively. A prior period adjustment of $(23) was applied to the WOU SLGRP liability by the State for fiscal year ended June 30, 2015.

## 10. UNRESTRICTED NET POSITION

Unrestricted Net Position is comprised of the following:

| | **June 30, 2016** | June 30, 2015 |
|---|---|---|
| University Operations | **$ 36,144** | $ 28,273 |
| Net Pension Asset/(Liability) (See Note 14) | **(13,285)** | 4,952 |
| Pension Related Deferred Outflows (See Note 6) | **3,394** | 1,935 |
| Pension Related Deferred Inflows (See Note 6) | **(3,235)** | (9,556) |
| State and Local Government Rate Pool Liability (see Note 9) | **(4,037)** | (4,181) |
| Compensated Absences Liability (see Note 9) | **(1,949)** | (1,789) |
| Other Post-Employment Benefits Liability (see Notes 9 and 15) | **(1,056)** | (1,172) |
| **Total Unrestricted Net Position** | **$ 15,976** | $ 18,462 |

## 11. INVESTMENT ACTIVITY

Investment Activity detail is as follows:

| | **June 30, 2016** | June 30, 2015 |
|---|---|---|
| Investment Earnings | **$ 890** | $ 527 |
| Net Appreciation of Investments | **156** | 16 |
| Royalties and Technology Transfer Income | **12** | 7 |
| Interest Income | **1** | 5 |
| Endowment Income | - | 3 |
| **Total Investment Activity** | **$ 1,059** | $ 558 |

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

## 12. OPERATING EXPENSES BY NATURAL CLASSIFICATION

The Statement of Revenues, Expenses and Changes in Net Position reports operating expenses by their functional classification. The following displays operating expenses by both the functional and natural classifications. Beginning with the fiscal year ended June 30, 2015, the reporting of the net pension asset and then the net pension liability for fiscal year ended June 30, 2016, as required by GASB Statement Nos. 68 and 71, affected the reported compensation and benefit expenses of WOU. For the fiscal year ended June 30, 2016, changes in the net pension expense and associated reporting requirements increased the reported compensation and benefit expenses of WOU by $10,457. For the fiscal year ended June 30, 2015, change in the net pension expense and associated reporting requirement decreased reported compensation and benefit expenses by $6,373. The following displays operating expenses by both the functional and natural classifications:

| **June 30, 2016** | **Compensation and Benefits** | **Services and Supplies** | **Scholarships and Fellowships** | **Depreciation and Amortization** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| Instruction | $ 38,362 | $ 4,365 | $ 578 | $ - | $ 15 | **$ 43,320** |
| Research | 1,850 | 398 | 30 | - | 2 | **2,280** |
| Public Services | 214 | 197 | - | - | - | **411** |
| Academic Support | 7,147 | 2,676 | - | - | - | **9,823** |
| Student Services | 6,520 | 1,001 | 86 | 6 | 1 | **7,614** |
| Auxiliary Services | 11,274 | 10,075 | 153 | 2,572 | - | **24,074** |
| Institutional Support | 6,553 | 130 | - | - | - | **6,683** |
| Operation & Maint. of Plant | 5,704 | (241) | - | - | - | **5,463** |
| Student Aid | - | - | 6,938 | - | 218 | **7,156** |
| Other | 702 | (8) | - | 3,335 | - | **4,029** |
| **Total** | **$ 78,326** | **$ 18,593** | **$ 7,785** | **$ 5,913** | **$ 236** | **$ 110,853** |

| June 30, 2015 | Compensation and Benefits | Services and Supplies | Scholarships and Fellowships | Depreciation and Amortization | Other | Total |
|---|---|---|---|---|---|---|
| Instruction | $ 28,819 | $ 4,677 | $ 445 | $ - | $ - | $ 33,941 |
| Research | 1,134 | 443 | 22 | - | - | 1,599 |
| Public Services | 183 | 131 | - | - | - | 314 |
| Academic Support | 5,109 | 3,241 | - | - | - | 8,350 |
| Student Services | 4,834 | 876 | 87 | - | - | 5,797 |
| Auxiliary Services | 8,548 | 9,877 | 117 | 2,569 | - | 21,111 |
| Institutional Support | 4,670 | (103) | - | - | - | 4,567 |
| Operation & Maint. Of Plant | 4,090 | (79) | - | - | - | 4,011 |
| Student Aid | - | - | 8,700 | - | (104) | 8,596 |
| Other | 427 | 374 | - | 3,209 | - | 4,010 |
| Total | $ 57,814 | $ 19,437 | $ 9,371 | $ 5,778 | $ (104) | $ 92,296 |

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

## 13. GOVERNMENT APPROPRIATIONS

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

| | June 30, 2016 | | |
|---|---|---|---|
| | **General Operations** | **Debt Service** | **Total** |
| State General Fund | **$ 22,597** | **$ 392** | **$ 22,989** |
| State Lottery Funding | **581** | **-** | **581** |
| **Total Appropriations** | **$ 23,178** | **$ 392** | **$ 23,570** |

| | June 30, 2015 | | |
|---|---|---|---|
| | General Operations | Debt Service | Total |
| State General Fund | $ 17,225 | $ 2,695 | $ 19,920 |
| State Lottery Funding | 565 | 333 | 898 |
| Total Appropriations | $ 17,790 | $ 3,028 | $ 20,818 |

## 14. EMPLOYEE RETIREMENT PLANS

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

### A. PUBLIC EMPLOYEES RETIREMENT PLAN (PERS)

**Organization**

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

**Plan Membership**

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

The 2003 Legislature enacted HB 2020, codified as ORS 238A, which created the Oregon Public Service Retirement Plan (OPSRP). OPSRP consists of the Pension Program defined benefit (DB) program 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 PERS 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 audited report that may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, PO Box 23700, Tigard, OR 97281-3700. The report may also be accessed online at: **www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx**

**Summary of Significant Accounting Policies**

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

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

**Basis of Accounting**

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

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

**Change in Plan Provisions**
Since the December 31, 2013 actuarial valuation, the system-wide actuarial accrued liability has increased primarily due to the *Moro* decision and assumption changes, along with interest on the liability as current active members get closer to retirement. The Oregon Supreme Court decision in *Moro v. State of Oregon*, issued on April 30, 2015, reversed a significant portion of the reductions the 2013 Oregon Legislature made to future system Cost of Living Adjustments (COLA) through Senate Bills 822 and 861. This reversal increased the benefits projected to be paid by Employers compared to those developed in the prior actuarial valuation, and consequently increased plan liabilities. The employers' projected long-term contribution effort has been adjusted for the estimated impact of the *Moro* Decision. In accordance with statute, a biennial review of actuarial methods and assumptions was completed in 2015 to be used for the December 31, 2014 actuarial valuation. After completion of this review and subsequent to the measurement date, the PERS Board adopted several assumption changes, including lowering the investment return assumption to 7.50%, which will be effective January 1, 2016.

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

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

## OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) PENSION (CHAPTER 238) PROGRAM

**Pension Benefits**
The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results. Monthly payments must be a minimum of $200 per month or the member will receive a lump-sum payment of the actuarial equivalence of benefits to which he or she is entitled.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer. General Service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

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

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

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

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

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living adjustments (COLAs). The COLA for fiscal year 2015 was capped at 1.5 percent for all benefit recipients. As a result of the *Moro* decision, the cap on the COLA was restored to 2.0 percent for fiscal years 2016 and beyond. See Changes in Plan Provisions for more information on the decision.

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

### Pension Benefits

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

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

### Death Benefits

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

### Disability Benefits

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

### Benefit Changes After Retirement

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

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

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

## PENSION PLAN CONTRIBUTIONS

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

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

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

Employer required contributions for the year ended June 30, 2016 and June 30, 2015 were $2,765 and $2,306, respectively, including amounts to fund employer specific liabilities.

## NET PENSION (ASSET) LIABILITY

At June 30, 2016, the University reported a liability of $13,285 for its proportionate share of the PERS net pension liability. At June 30, 2015, the University reported an asset of $4,952 for its proportionate share of the PERS net pension asset. 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 net pension asset as of June 20, 2015, was measured as of June 30, 2014, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2012. The PERS system does not provide WOU 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 WOU's proportional share of all state agencies internally based on fiscal year 2015 actual contributions by WOU as compared to the total for employer state agencies. The State of Oregon Audits Division performed a review of this internal calculation. At June 30, 2016 WOU's proportion was 0.23 percent of the statewide pension plan, and 0.91 percent of employer state agencies. At June 30, 2015 WOU's proportion was 0.22 percent of the statewide pension plan, and 0.92 percent of employer state agencies.

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

For the year ended June 30, 2016, WOU recorded pension expense of $10,457 due to the increase in net pension liability and changes to deferred inflows and deferred outflows. For the year ended June 30, 2015, WOU recorded a negative pension expense of $6,373 due to the implementation of GASB Statement Nos. 68 and 71.

At June 30, 2016, WOU 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 | $ 717 | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 2,785 |
| Differences between System's contributions and proportionate share of contributions | 272 | 450 |
| Change in Proportionate Share of Contributions | 68 | - |
| Total | $ 1,057 | $ 3,235 |
| Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD) | | $ (2,178) |
| Contributions Subsequent to the MD | 2,337 | |
| Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD | | $ 159 |

Of the amount reported as deferred outflows of resources, $2,337 are related to pensions resulting from WOU contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

At June 30, 2015, WOU 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 | $ - | $ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | 9,556 |
| Differences between System's contributions and proportionate share of contributions | 89 | - |
| Total | $ 89 | $ 9,556 |
| Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD) | | $ (9,467) |
| Contributions Subsequent to the MD | 1,846 | |
| Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD | | $ (7,621) |

Of the amount reported as deferred outflows of resources, $1,846 are related to pensions resulting from WOU contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | Deferred Outflow/ (Inflow) of Resources |
|---|---|
| Year Ended June 30: | |
| 2017 | (1,187) |
| 2018 | (1,187) |
| 2019 | (1,188) |
| 2020 | 1,335 |
| 2021 | 49 |
| | **$ (2,178)** |

### DEFERRED ITEMS

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

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

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

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

## ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial 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.


Western Oregon University (and its outstanding grounds crew) earned 2015 Tree Campus USA© recognition. This national program honors colleges and universities for promoting healthy trees and engaging students and staff in the spirit of conservation.

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

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

## DISCOUNT RATE

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

## SENSITIVITY ANALYSIS

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

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

| | University's proportionate share of the net pension liability |
|---|---|
| 1% Decrease 6.75% | $32,063 |
| Current Discount Rate 7.75% | 13,285 |
| 1% Increase 8.75% | (2,540) |

## DEPLETION DATE PROJECTION

GASB Statement No. 68 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB Statement No. 68 will often require that the actuary perform complex projections of future benefit payments and pension plan investments. GASB Statement No. 68 (paragraph 67) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

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

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

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

## ASSUMED ASSET ALLOCATION

| **Asset Class/ Strategy** | **Low Range** | **High Range** | **OIC Target** |
|---|---|---|---|
| Cash | 0.00 % | 3.00 % | 0.00 % |
| Debt Securities | 15.00 | 25.00 | 20.00 |
| Public Equity | 32.50 | 42.50 | 37.50 |
| Private Equity | 16.00 | 24.00 | 20.00 |
| Real Estate | 9.50 | 15.50 | 12.50 |
| Alternative Equity | 0.00 | 10.00 | 10.00 |
| Opportunity Portfolio | 0.00 | 3.00 | 0.00 |
| Total | | | 100 % |

## LONG-TERM EXPECTED RATE OF RETURN

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. Each asset assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model For more information on the Plan's portfolio, assumed asset allocation, and the long-term expected rate of return for each major asset class, calculated using both arithmetic and geometric means, see PERS' audited financial statements at: **www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx**

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

The following table shows long-term expected rate of return by asset class:

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

### BOND DEBT

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

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

The payroll assessment for the pension obligation bond began May 2004. The assessment rate for fiscal year 2016 was 6.7 percent through October 31,2015. The 2016 rate was reduced to 6.0 percent effective November 1, 2015. The assessment rate for fiscal year 2015 was 6.7 percent. Payroll assessments for the fiscal years ended June 30, 2016 and 2015 were $1,678 and $1,700, respectively.

## B. OTHER RETIREMENT PLANS

### OPTIONAL RETIREMENT PLAN

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

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

The employer contribution rates for the ORP are as follows:

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

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

Eligible ranked faculty participate in the 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-CREF 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.

### SUPPLEMENTAL RETIREMENT PLAN (SRP)

WOU participated in an IRC Section 414(b) cash balance defined benefit plan to provide a specific benefit value to the University president upon separation. The 414(b) plan was qualified under IRS Section 401(a) as a governmental plan. The president for whom the plan was established retired on June 30, 2015. WOU has not established an SRP for the current president.

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

### SUMMARY OF OTHER PENSION PAYMENTS

WOU's total payroll for the year ended June 30, 2016 was $45,166, of which $11,500 was subject to defined contribution retirement plan contributions. The following schedule lists payments made by WOU for the fiscal year:

**June 30, 2016**

| | Employer Contribution | As a % of Covered Payroll | Employee Contribution | As a % of Covered Payroll |
|---|---|---|---|---|
| **ORP** | **$ 1,577** | **13.71%** | **$ 722** | **6.27%** |
| **TIAA** | **7** | **0.06%** | **7** | **0.06%** |
| **Total** | **$ 1,584** | **13.78%** | **$ 729** | **6.34%** |

Of the employee share, WOU paid $695 of the ORP and $7 of the TIAA employee contribution amounts on behalf of their employees during the fiscal year ended June 30, 2016.

WOU's total payroll for the year ended June 30, 2015 was $42,621, of which $10,904 was subject to defined contribution retirement plan contributions. The following schedule lists payments made by WOU for the fiscal year:

June 30, 2015

| | Employer Contribution | As a % of Covered Payroll | Employee Contribution | As a % of Covered Payroll |
|---|---|---|---|---|
| ORP | $ 1,248 | 11.45% | $ 652 | 5.98% |
| TIAA | 7 | 0.06% | 7 | 0.06% |
| SRP | 35 | 0.32% | - | 0.00% |
| Total | $ 1,290 | 11.83% | $ 659 | 6.04% |

Of the employee share, WOU paid $649 of ORP and $7 of TIAA employee contribution amounts on behalf of their employees during the fiscal year ended June 30, 2015.

## 15. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

*Plan Description.* WOU 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 WOU employees retiring under PERS or OPSRP to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. Participating retirees pay their own monthly premiums. However, the premium amount is based on a blended rate that is determined by pooling the qualifying retirees with active employees, thus, creating an "implicit rate subsidy" under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Health care premiums priced only for retirees, who on average incur higher health care claims costs than younger active employees, would be more expensive than health care premiums that are priced to cover the average costs of both active and retirees combined. GASB Statement 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 WOU's share, estimated at 1.4 percent of the total PEBB plan costs attributable to the State of Oregon. This allocation was based on health insurance premiums paid by state agencies during fiscal year 2016.

*Funding Policy.* The PEBB's funding policy provides for employer contributions in amounts sufficient to fund the cost of active employee health benefits, including the retiree rate subsidy, on a pay-as-you-go basis. For fiscal years 2016 and 2015, WOU paid healthcare insurance premiums of $11,171 and $11,088, respectively. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be $66 and $87 for the fiscal years ended 2016 and 2015, respectively.

*Annual OPEB Cost and Net OPEB Obligation.* The Annual Required Contribution (ARC) is the amount PEBB would be required to report as an expense for the fiscal year under GASB Statement No. 45. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL). As of June 30, 2015, the UAAL amortization was a level percentage of payroll over a period of 15 years. Starting with the July 1, 2015 UAAL, the amortization method is level dollar over a period of one year. The amortization period is "open" which means that on each valuation date, the amortization amount is recalculated assuming 1 years' worth of future payments. 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 WOU'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.

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (DOLLARS IN THOUSANDS)

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

| | **June 30, 2016** | June 30, 2015 |
|---|---|---|
| Annual Required Contribution | **$ 1,095** | $ 190 |
| Interest on Net OPEB Obligation | **40** | 39 |
| Adjustment to Annual Required Contribution | **(1,185)** | (75) |
| Annual OPEB Cost | **(50)** | 154 |
| Contributions Made | **(66)** | (87) |
| Change in Net OPEB Obligation | **(116)** | 67 |
| Net OPEB Obligation - Beginning of Year | **1,172** | 1,105 |
| Net OPEB Obligation - End of Year | **$ 1,056** | $ 1,172 |

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

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| **2016** | **$ (50)** | **-5%** | **$ 1,056** |
| 2015 | 154 | 13% | 1,172 |
| 2014 | 280 | 25% | 1,105 |

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

| | **June 30, 2016** | June 30, 2015 |
|---|---|---|
| Actuarial Accrued Liabilities | **$ 1,005** | $ 1,493 |
| Actuarial Value of Plan Assets | **-** | - |
| Unfunded Actuarial Accrued Liability | **$ 1,005** | $ 1,493 |
| Funded Ratio | **0.00%** | 0.00% |
| Covered Payroll (active plan members) | **$ 38,100** | $ 36,636 |
| Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll | **2.64%** | 4.08% |

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 WOU and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The PEBB postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by the PEBB consulting actuary at July 1, 2015. Significant methods and assumptions were as follows:

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

## 16. RISK FINANCING

WOU 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, WOU transfers the following risk to the Trust:

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

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

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

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

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In addition, WOU purchases various commercial insurance policies to cover the deductible amounts of intercollegiate athletics insurance provided through the National Collegiate Athletics Association (NCAA) 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 $12,965 at June 30, 2016. These commitments will be primarily funded from gifts, grants, and WOU funds.

### CONSTRUCTION COMMITMENTS AS OF JUNE 30, 2016

| | Total Commitment | Completed to Date | Outstanding Commitment |
|---|---|---|---|
| Oregon Military Purchase | $ 4,975 | $ 26 | $ 4,949 |
| Woodcock Education Center | 18,613 | 14,413 | 4,200 |
| Health & Counseling Center | 2,013 | 329 | 1,684 |
| Capital Repair | 861 | 118 | 743 |
| Electrical Power Upgrade | 291 | 31 | 260 |
| Landers Renovation | 1,400 | 1,337 | 63 |
| Project Budgets <$1m | 1,652 | 586 | 1,066 |
| | $ 29,805 | $ 16,840 | $ 12,965 |

WOU 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.

WOU 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. WOU 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 WOU cannot be reasonably determined at June 30, 2016.

## 18. CHANGE IN ENTITY

Senate Bill 270 was passed by the Oregon Legislature during fiscal year 2013 which established a pathway for WOU to become an independent public body legally separate from OUS. The State Board of Higher Education unconditionally endorsed WOU to become separate legal entities with an independent governing board effective July 1, 2015. Prior to July 1, 2015 WOU was a part of the OUS, a state agency of the State of Oregon. As a state agency some assets were held centrally by OUS, these assets were distributed to the seven universities, including WOU, 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 the OUS and the seven universities as state agencies was the responsibility of the State to repay. WOU still has responsibility to repay XI-F(1) and SELP debt. See Note 9 Long-Term Liabilities for additional information.


WOU Men's Basketball made it to the Final Four in 2016. Senior Andy Avgi and Coach Jim Shaw '86 also earned top honors in NCAA Division II.

In March 2016, Avgi was named to the National Association of Basketball Coaches Division II All-American team and earned his second All-American honor of the season. Coach Jim Shaw '86 was named NABC West Region Coach of the Year.

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

| | June 30, 2016 |
|---|---|
| **State Paid Debt Transferred to the State Resulting in an Increase (Decrease) in Net Position** | |
| General Obligation Bonds XI-F | **$ 3,225** |
| General Obligation Bonds XI-G | **12,304** |
| General Obligation Bonds XI-Q | **29,229** |
| Certificates of Participation | **4,789** |
| Lottery Bonds | **12,797** |
| Deferred Outflows - Unamortized Gain/Loss on Refunding of Bonds | **(2,865)** |
| Accrued Interest Payable Removed | **573** |
| | **60,052** |
| **Other Changes** | |
| Lottery Accrual for State Paid Debt Reversed | **(345)** |
| Cash Held by Trustee for State Paid Debt Removed | **(22,450)** |
| **Total Change due to Change in Entity** | **$ 37,257** |

| | June 30, 2015 |
|---|---|
| **Assets Transferred From OUS Resulting in Increase to Net Position** | |
| Cash Distribution To/For: | |
| Closing of OUS Internal Bank | $ 370 |
| Student Building Fee Fund | 4,114 |
| Lottery Debt Service Funds | 2 |
| Fraud Prevention Funds | 20 |
| Support from Chancellor's Office | 250 |
| Remaining Cash at Close of Chancellor's Office | 47 |
| **Total Assets Transferred from OUS** | 4,803 |
| **Endowments** | |
| Endowments Transferred to WOU Foundation | (80) |
| **Other Changes** | |
| Principal & Interest Payments on Institution Debt Paid by Chancellor's Office | 1,087 |
| **Total Change in Entity** | $ 5,810 |

## 19. TRANSFER OF OPERATIONS

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

| | July 1, 2015 |
|---|---|
| Current Assets | $ 24,713 |
| Noncurrent Assets | 62,544 |
| Capital Assets, Net | 101,245 |
| Total Assets | **$ 188,502** |
| Deferred Outflows of Resources | **$ 4,800** |
| Current Liabilities | $ 24,008 |
| Noncurrent Liabilities | 122,337 |
| Total Liabilities | **$ 146,345** |
| Deferred Inflows of Resources | **$ 9,556** |
| Net Investment in Capital Assets | $ 6,116 |
| Restricted - Nonexpendable | - |
| Restricted - Expendable | 12,823 |
| Unrestricted | 18,462 |
| Total Net Position | **$ 37,401** |

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

## 20. SUBSEQUENT EVENTS

WOU management has reviewed events and transactions that occurred subsequent to the Statement of Net Position date of June 30, 2016, and found none that required adjustment or disclosure in the financial statements.

## 21. WESTERN OREGON UNIVERSITY DEVELOPMENT 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 WOU. The WOU Development Foundation is a legally separate, tax-exempt entity with an independent governing board. Although WOU 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 WOU and is discretely presented in the financial statements. The financial activity is reported for the year ended June 30, 2016.

During the years ended June 30, 2016 and 2015 gifts of \$1,651 and \$1,417, respectively, were transferred from the university foundation to WOU. The WOU affiliated foundation is audited annually and received an unmodified audit opinion.

Please see the financial statements for the WOU component unit on pages 23 and 25 of this report.

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

- *Western Oregon University Foundation, 345 N. Monmouth Ave., Monmouth, OR 97361*

Veterans Success Center

In 2016, WOU was able to hire a full time coordinator for the Veterans Success Center, which provides academic support and a study and/or social space for student veterans and their dependents.

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REQUIRED SUPPLEMENTARY INFORMATION (DOLLARS IN THOUSANDS)

## SCHEDULE OF WESTERN OREGON UNIVERSITY'S CONTRIBUTIONS*

### Public Employees Retirement System

| For Fiscal Years Ended June 30, | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Contractually Required Contribution | $ 2,337 | $ 1,846 | $ 1,807 | $ 1,687 | $ 1,609 |
| Contributions in Relation to the Contractually Required Contribution | 2,337 | 1,846 | 1,807 | 1,687 | 1,609 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - | $ - |
| Covered Payroll | $ 27,349 | $ 25,732 | $ 24,475 | $ 23,570 | $ 22,792 |
| Contributions as a Percentage of Covered Payroll | 8.5% | 7.2% | 7.4% | 7.2% | 7.1% |

## SCHEDULE OF WESTERN OREGON UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET/(LIABILITY)*

### Public Employees Retirement System

| As of the Measurement Date June 30, | 2015 | 2014 |
|---|---|---|
| University's Proportion of the Net Pension Asset/(Liability) | 0.23% | 0.22% |
| University's Proportionate Share of the Net Pension Asset/(Liability) | $ (13,285) | $ 4,952 |
| University's Covered Payroll | $ 25,732 | $ 24,475 |
| University's Proportionate Share of the Net Pension Asset/(Liability) as a Percentage of Covered Payroll | -51.63% | 20.23% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Asset/(Liability) | 91.89% | 103.59% |

*These tables will eventually contain 10 years of data. Only the data shown above is available at this time.

REQUIRED SUPPLEMENTARY INFORMATION (DOLLARS IN THOUSANDS)

## Funding Status of Other Postemployment Benefits

| Fiscal Year Ended | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL)- Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|---|
| 6/30/2012 | 7/1/2011 | $ - | $ 2,273 | $ 2,273 | 0.0% | $ 31,452 | 7.2% |
| 6/30/2013 | 7/1/2011 | - | 2,306 | 2,306 | 0.0% | 33,673 | 6.8% |
| 6/30/2014 | 7/1/2013 | - | 1,530 | 1,530 | 0.0% | 34,815 | 4.4% |
| 6/30/2015 | 7/1/2013 | - | 1,493 | 1,493 | 0.0% | 36,636 | 4.1% |
| 6/30/2016 | 7/1/2015 | - | 1,005 | 1,005 | 0.0% | 38,100 | 2.6% |

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

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The first annual University Day at the Oregon Capitol took place on Thursday, Feb. 11, 2016. This was an opportunity for Western Oregon University and other the six public Oregon universities (with their furry, feathery and/or bearded representatives) to bring students, faculty, staff, alumni, trustees and other supporters of Oregon's public universities to Salem for a day of legislative engagement and advocacy.

This critical effort advocated for support of funding for higher education in the state of Oregon. Student and administrative teams gathered outside on the capitol steps, and met with state representatives on the floors of the House and Senate to make the case for Oregon's public universities.