

Members of the Board of Trustees
Oregon State University
Corvallis, Oregon

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of Oregon State University (the University), a component unit of the State of Oregon, as of and for the year ended June 30, 2016, and have issued our report thereon dated October 31, 2016. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Oregon State University are described in Note 1 to the financial statements.

As described in Note 1, the University adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The adoption of this standard had no material impact to the University's financial statements.

We noted no transactions entered into by the University during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the allowance for uncollectible receivables is based on historical collection rates.
- Capital assets are depreciated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from five to 50 years.

- Other postemployment benefit expense is calculated based on the annual required contribution of the University and the unfunded actuarial accrued liability as determined by an actuarial estimate.
- Compensated absences and related personnel expenses are recognized based on estimated balances due to employees for vacation and compensated leave. The limitations on such payments are defined by the rules associated with the personnel systems at the University.
- Ownership percentages of the inter-institutional Collaborative Life Sciences building were determined based upon the initial estimates in the Tenancy in Common Agreement. Ownership is divided amongst the University, Portland State University, and the Oregon Health and Science University. The ownership percentage estimates reflect final construction amounts.
- Summer session tuition unearned revenue is the estimate of the number of days of summer courses that were incurred subsequent to fiscal year-end, but for which tuition was charged and collected prior to fiscal year-end.
- Oregon Public Employees Retirement System (PERS) net pension liability/asset is recognized based on estimated actuarial determined asset/liability determined by PERS. The University is allocated a percentage of this asset determined by PERS and the Oregon Department of Administrative Services.

We evaluated the factors and assumptions used to develop the estimates in determining they are reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

As discussed in Note 15.A., on April 30, 2015, the Oregon Supreme Court declared Senate Bills 822 and 861 unconstitutional in so far as they affect retirement benefits earned before May 6, 2013. The Oregon Supreme Court's decision reversed a significant portion of benefit reductions made under Senate Bills 822 and 861. As a result, the decision increased the present value of projected state-wide benefits to be paid by the plan by an estimated \$5.1 billion and is reflected in the June 30, 2015 measurement of the collective pension liability of the State of Oregon Public Employees Retirement System (PERS). The decision also negated a large portion of the cost savings for PERS employers that were factored into contribution rates for the 2015-2017 biennium. PERS has executed a project to restore COLA payments to benefit recipients and enhance its system to implement the new COLA allocation going forward

Under GASB Nos. 67 and 68, the Total Pension Liability must be calculated based on the benefit terms legally in effect as of the relevant fiscal year-end for the plan. As a result, the impact of the Oregon Supreme Court decision was first reflected in the total pension liability measured at June 30, 2015, resulting in the \$5.1 billion increase in the state-wide obligation described above. OSU's proportionate share of this increase is reflected in its net pension liability at June 30, 2016. The net pension asset reported as of June 30, 2015 of \$40.8 million changed to a net pension liability of \$114.7 million as of June 30, 2016.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated October 31, 2016.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Audits of group financial statements

We noted no matters related to the group audit that we consider to be significant to the responsibilities of those charged with governance of the group.

Quality of component auditor's work

There were no instances in which our evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

The Message from the President accompanying the financial statements, which is the responsibility of management, was prepared for purposes of additional analysis and is not a required part of the financial statements. Such information was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we did not express an opinion or provide any assurance on it.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated October 31, 2016.

* * *

This communication is intended solely for the information and use of the Board of Trustees and management of Oregon State University and is not intended to be, and should not be, used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Denver, Colorado
October 31, 2016

**Oregon State University
Passed Adjusting Journal Entries
For the Year Ended June 30, 2016**

Description	Debit	Credit
Passed Adjusting Journal Entries JE # 1		
To increase beginning net position to reflect impact of Pell funds drawn down in fiscal year 2016, and recognized as revenues, for disbursements made in fiscal year 2015.		
Revenue	\$ 1,750,838	\$ -
Net Position	-	1,750,838
Total	<u>\$ 1,750,838</u>	<u>\$ 1,750,838</u>

Passed Adjusting Journal Entries JE # 2		
To reflect the current year impact of the prior year passed adjusting entry related to accrual of the previous Athletic Director's contractual payout, which was made in 2016 but pertained to expenses related to fiscal year 2015.		
Net Position	\$ 611,000	\$ -
Payroll Expense	-	611,000
Total	<u>\$ 611,000</u>	<u>\$ 611,000</u>

CliftonLarsonAllen LLP
8390 E. Crescent Parkway, Suite 600
Greenwood Village, CO 80111

This representation letter is provided in connection with your audits of the financial statements of Oregon State University, which comprise the business-type activities and the aggregate discretely presented component units, as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of October 31, 2016, the following representations made to you during your audit of the financial statements as of and for the year ended June 30, 2016.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 5, 2016, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We acknowledge and have fulfilled our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions used in making those estimates, and we believe the estimates (including those measured at fair value) and the significant assumptions used in making those accounting estimates are reasonable.
5. Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.

6. Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
7. All events occurring subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
9. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, or which would affect federal award programs.
10. Guarantees, whether written or oral, under which the University is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.
11. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
12. The fact that the amount of "uncollateralized" deposits or "uninsured, unregistered securities held by the counterparty, or by its trust department or agent but not in the entity's name" during the period, significantly exceed the amounts in those categories as of the financial statement date was properly disclosed in the financial statements.
13. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.
14. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
15. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
16. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility. Impairment loss and insurance recoveries have been properly recorded.
17. We believe that all material expenditures that have been deferred to future periods will be recoverable.
18. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefits (OPEB) liabilities and costs for financial accounting purposes are appropriate in the circumstances.
19. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.

20. We believe we have appropriately reported and disclosed the effect of the implementation of GASB 72 "*Fair Value Measurement and Application*".
21. Our participation in the Public Universities Risk Management and Insurance Trust has been properly reported and disclosed in the financial statements.

Information Provided

22. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - e. All communications from regulatory agencies, grantors, lenders, and other funding sources concerning noncompliance with, or deficiencies in, financial reporting practices.
 - f. All communications from regulatory agencies, grantors, lenders, and other funding sources concerning noncompliance with the provisions of laws, regulations, contracts, and grant agreements.
 - g. Access to all audit or relevant monitoring reports, if any, received from funding sources.
23. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
24. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
25. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others when the fraud could have a material effect on the financial statements.
26. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.
27. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse whose effects should be considered when preparing financial statements.

28. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
29. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
30. We have disclosed to you the identity of the University's related parties and all the related party relationships and transactions of which we are aware.
31. The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as made known to you and disclosed in the financial statements.
32. We have a process to track the status of audit findings and recommendations.
33. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
34. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
35. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to Oregon State University, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
36. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
37. The University has complied with all aspects of contractual or grant agreements that would have a material effect on the financial statements in the event of noncompliance.
38. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
39. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
40. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures, jointly governed organizations, and other related organizations.
41. The financial statements properly classify all funds and activities.

42. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
43. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
44. Provisions for uncollectible receivables have been properly identified and recorded.
45. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
46. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
47. Special and extraordinary items are appropriately classified and reported.
48. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.
49. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
50. We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
51. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
52. We acknowledge our responsibility for presenting the supplementary schedules in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.
53. The University has not been notified by the U.S. Department of Education of the loss of eligibility for one or all of the Title IV programs due to high default rates.
54. The University has reported to the U.S. Department of Education for investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the University's Title IV programs. There was no known criminal misconduct involving Title IV funds during the current year.

55. The University or its employees have not received any direct or indirect benefits from lenders related to the University's Title IV loan programs.

56. With respect to federal award programs:

- a. We are responsible for understanding and complying with, and have complied with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) including requirements relating to preparation of the schedule of expenditures of federal awards.
- b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) and related notes in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
- c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issued the SEFA and the auditors' report thereon.
- d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and included in the SEFA expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h. We have received no requests from a federal agency to audit one or more specific programs as a major program.

- i. We have complied with the direct and material compliance requirements, including, when applicable, those set forth in the *OMB Compliance Supplement*, relating to federal awards and confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal awards.
- j. We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E).
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. There are no known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- q. We have disclosed to you whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies and/or material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditors' report.
- r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
- s. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t. We have monitored subrecipients, as necessary, to determine that they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.

- u. We have issued management decisions for audit findings that relate to federal awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient.
- v. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- w. We have charged costs to federal awards in accordance with applicable cost principles.
- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- y. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- z. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- aa. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.
- bb. We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

Signature: _____ Title: _____

Signature: _____ Title: _____

Signature: _____ Title: _____