



**Board of Trustees
Executive and Audit Committee Meeting**

**Friday, January 22, 2016
10:30 a.m. – 11:30 a.m. (or until business concludes)
DeBoer Room, Hannon Library**

Minutes

Call to Order and Preliminary Business

Chair Thorndike called the meeting to order at 10:33 a.m.

The following committee members were present: Chair, Bill Thorndike, Lyn Hennion, Paul Nicholson and Teresa Sayre. The following members were absent: April Sevcik and Judy Shih. Trustees Les AuCoin and President, Roy Saigo (ex officio) also were in attendance.

Others in attendance included: Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Craig Morris, Vice President for Finance and Administration; Sabrina Prud'homme, Board Secretary; Shane Hunter, Senior Financial Management Analyst; Steve Larvick, Director of Business Services; Ryan Brown, Head of Community and Media Relations; Fred Creek, Director of Campus Public Safety; John Stevenson, IT User Support Manager; Don Hill, Classroom and Media Services Manager; Julie Raefield, Chief of Staff; Kathy Park, Executive Assistant; and David Coburn, OSA.

Trustee Hennion moved to approve the December 18, 2015 meeting minutes. Trustee Nicholson seconded the motion and it passed unanimously. Responding to Trustee Nicholson's inquiry, Ms. Prud'homme said ORS 192.660 (4) addresses when members of the media are and are not allowed to attend meetings held in executive session.

Public Comment

There was no public comment.

Audited Financial Statements (Action)

Craig Morris introduced Jean Bushong from CliftonLarsonAllen (CLA) and Diana Barkelew, Director of Financial Statement Preparation at USSE. CLA was the external auditor for OUS for four years and is now SOU's external auditor. Ms. Barkelew and her team prepare the financial statements for CLA to audit.

Ms. Bushong covered the audited financial statements and discussed responsibilities under generally accepted auditing standards (GAAS), engagement results, required communications and emerging developments. CLA's responsibilities under GAASs include determining if SOU's financial statements are materially correct; expressing an opinion only on information identified in its report; performing the audit in accordance

with required standards; communicating significant matters throughout the audit; and considering internal controls.

CLA's goal is to issue an opinion stating SOU's financial statements are materially correct, free from material error, fraud and noncompliance. CLA looks at and tests the internal control system and will note any material issues but the audit does not relieve management of implementing internal financial controls.

This is SOU's first year to have a stand-alone audit. Previously, SOU was included in the OUS audit. This year, CLA issued SOU a clean, unmodified opinion; it was a single year presentation, with no comparative management's discussion and analysis (that will be included going forward).

Ms. Bushong discussed the implementation of Governmental Accounting Standards Board Statement Number 68 (GASB 68), explaining that the government wants organizations participating in defined benefit plans (e.g., PERS) to put the net pension asset or liability on their financial records. At the beginning of the year, SOU recorded its proportionate share of net pension liability of about \$9 million. During the year, that net liability turned into a net pension asset of \$4.7 million at the end of 2015. That swing does not go into the income statement but rather into deferred inflows and outflows. CLA believes that will swing back to a liability.

As part of SOU's separation from the system, SOU received an increase in net position of \$11.2 million (see page 12 of the 2015 Annual Financial Report), which is comprised primarily of undistributed student building fees.

Ms. Bushong discussed the Annual Financial Report. CLA's Independent Auditors' Report opines that SOU's financial statements are materially correct. SOU's Statement of Net Position (balance sheet) is a snapshot as of June 30, 2015.

Answering Trustee Nicholson's question about the \$9 million in deferred inflows of resources, Ms. Bushong said GASB determined some items do not qualify as assets or liabilities. A deferred outflow is something that has gone out but not necessarily during that reporting period; it will be amortized over future years. An example of deferred inflow is if nothing changes related to net pension liability and the market rockets up and doubles the money, liability goes down. GASB standards do not allow that to be recognized on the income statement because it will be going up and down. Those gains or losses are reported as deferred inflow or outflow and amortized over five years.

Returning to the Statement of Net Position, Ms. Bushong discussed the net investment in capital assets, both restricted and unrestricted. As stewards of the university, the board needs to continuously monitor the unrestricted assets in particular.

For the Statements of Financial Position and Activities for the SOU Foundation, CLA relies on other auditors, reviewing their reports to make sure the reports are reliable.

The Statement of Revenues, Expenses and Changes in Net Position shows operating

revenues less operating expenses, which results in the operating loss of \$29.5 million. Ms. Bushong said she has never worked with a public institution that does not have an operating loss. Much of SOU's money used for operations is required to be called nonoperating revenues. Explaining that this presentation differs from what the Finance Committee members are used to, Mr. Morris said SOU's four major fund type groups are budgeted operations, auxiliaries, designated operations and restricted funds. The committee sees those as separate categories but this presentation combines them. Ms. Bushong covered other revenues, expenses and the ending balance of \$26.7 million.

The Statement of Cash Flows details cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. SOU's ending balance is \$49.5 million.

Trustee Slattery questioned whether there should be more of an accounting and explanation of how the deferred inflows relate to the financial statements, what the \$9 million is and its impact. Ms. Bushong said it is just the change in the market in the assets held by PERS. GASB 68 allows a measurement date of the asset or liability to be up to one year old. At the end of 2014, the markets were doing very well, so there was a large uptick in PERS assets. GASB 68 prohibits an organization from recognizing that change every year because its income statement will fluctuate every year.

Trustee Nicholson pointed out that, on the non-government side, SOU is expected to reflect those figures on its books. Ms. Bushong said SOU's investments are at current value but, since PERS manages that asset, GASB does not want it included on SOU's books. The \$3.4 million in deferred outflow is comprised of two elements. First, since the measurement date is one year old, SOU has made payments for one year, which normally would reduce liability or increase assets, but instead they sit in deferred outflow. The second element is related to deferred logs on refunding. Refunds should be considered refinancing and something has to be taken off the books to refinance. Rather than take a hit, the amount is amortized over the life of the debt.

Responding to Trustee Slattery's question on the impact this will have, Ms. Bushong and Ms. Barkelew said it would be a non-cash impact. Trustee Nicholson followed up with a question on the impact of the State Supreme Court's Moro decision. Ms. Bushong said the decision addressed the treatment of COLA. It was not in effect on the measurement date but, if it had been, SOU would have had a \$10.2 million swing from an asset to a liability. Ms. Barkelew added that the pension liability figure is an estimate of an estimate because there are no factual numbers to predict what it will be next year.

Ms. Bushong highlighted footnotes 1, 2, 5, 8, 11 and 13. Regarding GASB 68 disclosures in note 13, Trustee Nicholson thought a note should be added in subsequent reports on the balance sheet covering deferred inflow and outflow. Ms. Bushong and Ms. Barkelew said it could be added, but with clarification on which entries GASB 68 applied to.

Ms. Bushong addressed note 18, Subsequent Events, and the removal of SOU's \$90 million state-paid debt. It is debt that has been on SOU's books and paid by SOU and by debt appropriations from the State. The State is essentially paying for it because SOU receives a debt appropriation for the amount due. It was on the books in the past

because SOU was part of the State government. However, SOU will now be considered a component unit. The State can no longer assign that debt to SOU and it is now a State debt. The assets the debt paid for stay on SOU's books. As an example, Mr. Morris mentioned the motions the Finance Committee passed yesterday, saying the Q bonds for the McNeal project stay on the State's balance sheet and the F bonds for the Theater-JPR project will stay on SOU's balance sheet because SOU is paying the debt service.

Regarding the Statement of Net Position, Trustee Nicholson asked if next year SOU's capital assets will remain at \$96 million and the \$90 million for the debt will drop off, raising the net position by some \$90 million. Ms. Bushong replied that he was correct and it would be reflected as an increase in the net investment capital asset.

Ms. Bushong highlighted communications CLA is required to have with the board. CLA must communicate that financial statements have qualitative aspects and that changes in policies may directly impact numbers. When there is a change in the bottom line, the board needs to ask why and, other than GASB 68, there were none this year. CLA must advise the board of difficulties encountered in performing the audit (there were none), corrected and uncorrected misstatements (there were two corrections, neither of which rose to the level of a significant deficiency), disagreements with management (there were none), management representations, management consultations with other independent accountants, and significant issues discussed with management prior to engagement.

CLA's report concluded there were no significant deficiencies and no material weaknesses. CLA issued a management letter, which reported the very minor issues of the timing of cash reconciliations and credit balances in the accounts receivable system that need to be applied and cleaned up.

As a note for next year, Ms. Bushong said SOU will receive its first single audit. The sample size for the audit had been divided among all seven institutions but will now occur entirely at SOU. This type of very focused testing has never happened at SOU.

Trustee Nicholson proposed a resolution recommending acceptance of the audited financial statements of SOU for the year ended June 30, 2015. Whereas the independent certified public accounting firm of CliftonLarsonAllen LLP has completed its review of the financial statements of Southern Oregon University for the fiscal year ended June 30, 2015; and whereas the Executive and Audit Committee of the board has (1) reviewed the audited financial statements and report and (2) met with the external auditors and performed a satisfactory review of these documents; now, therefore, be it resolved the Executive and Audit Committee recommends that the SOU Board of Trustees accept the audited financial statements of the 2015 Annual Financial Report for the university for the fiscal year ended June 30, 2015. Trustee Hennion seconded the motion and it passed unanimously.

Internal Auditor Position - Update

Mr. Morris and Steve Larvick provided the update on the internal auditor position, saying the search committee will conduct telephonic interviews with all six candidates. The search committee will then select a smaller group to come to campus for interviews.

Presidential Compensation and Recognition

Introducing this item, Chair Thorndike advised the committee on the compensation and recognition items that will be proposed to the board. First, SOU's administrative staff received a 3 percent COLA increase in October 2015 and Chair Thorndike believed it was reasonable to adjust President Saigo's pay to this same level, retroactively to October 2015. Second, President Saigo's unique role for two years required him to move to Ashland and make lifestyle changes beyond what would normally be expected for an interim president. Chair Thorndike proposed increasing the move-out expenses from \$5,000 to \$15,000, to better reflect the Saigos' actual costs. Third, President Saigo's contract ends on June 30 and Chair Thorndike recommended offering President Saigo a one month extension of his pay, which would allow him to be utilized as the new president needs during the transition. Chair Thorndike concluded his comments by saying SOU was also working through existing university systems on recognizing and honoring a retiring president. Part of that is working with the SOU Foundation on how it can participate, considering a presidential portrait and honoring President Saigo through one of SOU's programs. He later added that these proposals meet President Saigo's expectations.

Answering Trustee Hennion's question about the one-month pay extension, Chair Thorndike said SOU would be making a commitment of the extra month regardless when the new president arrives. Depending on the search committee's results, SOU can negotiate with President Saigo later in the year regarding a contract extension but that is an issue separate from this one-month extension. Trustee AuCoin asked whether a one-month buffer would come whenever the new president arrived. Chair Thorndike responded that this proposal would create a 13th month for President Saigo right now. If a one-month buffer is needed later, it would be the board's decision at that time.

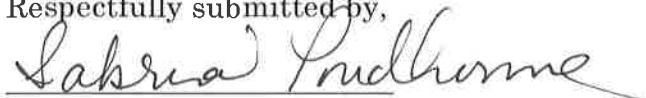
Trustee Sayre proposed a resolution, recommending the board adjust President Saigo's contract and compensation model to reflect a retroactive to October 1, 2015, 3 percent adjustment on COLA; an adjustment on moving expenses to reflect \$15,000 rather than \$5,000; and a one month extension of his contract to go through July 2016. Trustee Nicholson seconded the motion. The board secretary clarified that this item on the agenda was not a designated action item, so no vote was taken. As discussed earlier in the meeting, the full board will take action on the item.

Adjournment

Chair Thorndike adjourned the meeting at 11:42 a.m.

Date: APRIL 15, 2016

Respectfully submitted by,



Sabrina Prud'homme
University Board Secretary