# Biennial Financial Report

State of Oregon

# Board of Examiners for Engineering and Land Surveying

## A Semi-Independent Agency
## For the Biennium Ended June 30, 2015

Contract Auditor: Boldt Carlisle + Smith

OSBEELS

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Mari Lopez, *Administrator*    Jenn Gilbert, *Executive Assistant*

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**OREGON STATE BOARD OF EXAMINERS**
**FOR ENGINEERING AND LAND SURVEYING**
**OFFICERS AND MEMBERS OF THE GOVERNING BODY**
**For the Biennium Ended June 30, 2015**

## EXECUTIVE BOARD

**Christopher D. Aldridge, RPP**

**William J. Boyd**

**Shelly MC Duquette, PE, SE**

**Ken W. Hoffine, PE, PLS, CWRE**

**Jason J. Kent, PE**

**Ron Singh, PLS**

**Dave M. Van Dyke, PE**

**Amin Wahab**

**Oscar J. Zuniga, Jr., PE**

**Steven Burger, PE**

## ADMINISTRATION

Mari Lopez

## ADDRESS

670 Hawthorne Ave SE, #220
Salem, OR 97301

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**OREGON STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING**

**TABLE OF CONTENTS**
**For the Biennium Ended June 30, 2015**

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# INDEPENDENT AUDITOR'S REPORT

Members of the Executive Board
**OREGON STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING**
Salem, Oregon

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the OREGON STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING, Salem, Oregon (the Board) as of and for the biennium ended June 30, 2015, and the related notes to the 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 opinions on these financial statements based on our audit. 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.

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 opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Board, as of June 30, 2015, and the respective changes in financial position, for the biennium then ended in accordance with accounting principles generally accepted in the United States of America.

**INDEPENDENT AUDITOR'S REPORT (Continued)**

***Other Matters***

*Required Supplementary Information*

The Board has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented as supplementary information to 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the required supplementary information on pages 35 and 36 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2016, on our consideration of the Board'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 Board's internal control over financial reporting and compliance.

Boldt Carlisle + Smith
Certified Public Accountants
Salem, Oregon
March 17, 2016

By:

Bradley G. Bingenheimer, Member

# BASIC FINANCIAL STATEMENTS

**OREGON STATE BOARD OF EXAMINERS**
**FOR ENGINEERING AND LAND SURVEYING**

**STATEMENT OF NET POSITION**
**June 30, 2015**

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Cash and investments | $ 2,112,244 |
| Receivables | 721 |
| Net pension asset | 293,590 |
| Capital assets, net | 12,236 |
| TOTAL ASSETS | 2,418,791 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Pension related items | 88,586 |
| **LIABILITIES** | |
| Accounts payable | 31,005 |
| Payroll liabilities | 66,160 |
| Net other post-employment benefits | 22,588 |
| Compensated absences payable | 18,893 |
| TOTAL LIABILITIES | 138,646 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Unearned revenue | 405,126 |
| Pension related items | 566,510 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 971,636 |
| **NET POSITION** | |
| Net investment in capital assets | 12,236 |
| Unrestricted | 1,384,859 |
| TOTAL NET POSITION | $ 1,397,095 |

***See accompanying notes***

**OREGON STATE BOARD OF EXAMINERS**
**FOR ENGINEERING AND LAND SURVEYING**

**STATEMENT OF ACTIVITIES**
**For the Biennium Ended June 30, 2015**

| | Governmental Activities |
|---|---|
| **PROGRAM EXPENSES** | |
| General government | |
| Personal services | $ 1,520,173 |
| Material and services | 995,121 |
| Depreciation | 2,214 |
| Total program expenses | 2,517,508 |
| **PROGRAM REVENUES** | |
| Charges for services | 2,713,989 |
| Net program revenues (expenses) | 196,481 |
| **GENERAL REVENUES** | |
| Miscellaneous | 40,769 |
| Change in net position | 237,250 |
| Net position - beginning of biennium | 2,160,135 |
| Prior period adjustment | (1,000,290) |
| Net position - end of biennium | $ 1,397,095 |

***See accompanying notes***

**OREGON STATE BOARD OF EXAMINERS**
**FOR ENGINEERING AND LAND SURVEYING**

**BALANCE SHEET**
**GOVERNMENTAL FUND**
**June 30, 2015**

| | | General |
|---|---|---|
| **ASSETS** | | |
| Cash and investments | $ | 2,112,244 |
| Receivables | | 721 |
| TOTAL ASSETS | $ | 2,112,965 |
| **LIABILITIES** | | |
| Accounts payable | $ | 31,005 |
| Payroll liabilities | | 66,160 |
| TOTAL LIABILITIES | | 97,165 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Unearned revenue | | 405,126 |
| **FUND BALANCE** | | |
| Unassigned | | 1,610,674 |
| TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE | $ | 2,112,965 |

**Reconciliation of the Balance Sheet to the Statement of Net Position:**

| | | |
|---|---|---|
| FUND BALANCE - Governmental Fund | $ | 1,610,674 |
| *Amounts reported for governmental activities in the statement of net position are different because:* | | |
| Governmental activities report a net pension asset which is not reported in the fund | | 293,590 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | | 12,236 |
| Government activities report as deferred outflows of resources contributions to the public employees retirement system for the year | | 88,586 |
| The net other post-employment benefits obligation is reported in the statement of net position but is not reported in the funds | | (22,588) |
| Compensated absences payable are not due and payable in the current period and, therefore, are not reported in the funds | | (18,893) |
| Governmental activities report as deferred inflows the effect of differences between projected and actual earnings and changes in proportionate share of contributions to the public empolyees retirement system | | (566,510) |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | $ | 1,397,095 |

***See accompanying notes***

**OREGON STATE BOARD OF EXAMINERS**
**FOR ENGINEERING AND LAND SURVEYING**

**STATEMENT OF REVENUES, EXPENDITURES AND**
**CHANGES IN FUND BALANCE**
**GOVERNMENTAL FUND**
**For the Biennium Ended June 30, 2015**

| | General |
|---|---|
| **REVENUES** | |
| Licenses and fees | $ 2,642,511 |
| Civil penalties | 71,478 |
| Miscellaneous | 40,769 |
| TOTAL REVENUES | 2,754,758 |
| **EXPENDITURES** | |
| Personal services | 1,904,027 |
| Materials and services | 995,121 |
| TOTAL EXPENDITURES | 2,899,148 |
| Net change in fund balance | (144,390) |
| Fund balance at beginning of biennium | 2,160,190 |
| Prior period adjustment | (405,126) |
| Fund balance at end of biennium | $ 1,610,674 |

***See accompanying notes***

**OREGON STATE BOARD OF EXAMINERS**
**FOR ENGINEERING AND LAND SURVEYING**

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

**For the Biennium June 30, 2015**

*Amounts reported for governmental activities in the statement of activities are different because:*

| | |
|---|---|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | $ (144,390) |
| Governmental funds report capital outlay as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. The difference between these two amounts is: | |
| Depreciation | (2,214) |
| The change in other post-employment benefits are reported as additional expenses in the statement of activities | (2,297) |
| Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as an expenditure in governmental funds | (4,388) |
| The changes in net pension liability (asset) and deferred inflows and outflows related to the entity's participation in OPERS are reported as pension expense on the statement of activities | 390,539 |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | $ 237,250 |

***See accompanying notes***

## 1. Summary of significant accounting policies

### *A. Organization*

The Oregon State Board of Examiners for Engineering and Land Surveying's (the Board) mission is to protect the people of Oregon from the dangers of unqualified and improper practice of professional engineering, land surveying, photogrammetry, and water right examiners. The Board prescribes qualifications for the practice of professional engineering, land surveying, photogrammetry, and certified water rights examinations, setting standards for the examination of applicants for registration, continuing education, and enforcement of the laws and regulations governing the practice of professional engineering, surveying, photogrammetry, and certified water right examinations. The Board issues registrations to those who qualify. The Board has the authority to address problems by investigating alleged or suspected violations, which may result in revoking, suspending or modifying registrations or certificates, and assessing civil penalties against unregistered individuals practicing professional engineering, land surveying, photogrammetry, and certified water right examinations without authority, and against those registered professional engineers, land surveyors, photogrammetrists and certified water right examiners practicing improperly.

The Board is a semi-independent agency of the State of Oregon (Oregon Senate Bill 1127 adopted in 1999), and operates under Oregon Revised Statutes (ORS) 672 and 182. The Board consists of eleven members appointed by the Governor for four-year terms as follows:

- Two members shall be licensed professional land surveyors
- Five members shall be registered professional engineers
- One member shall be registered as both a registered professional engineer and as a professional land surveyor. If a qualified individual is not available, the Governor may appoint either a registered professional engineer or a registered professional land surveyor.
- One member is a registered photogrammetrist. If a qualified individual is not available, the Governor may appoint either a registered professional engineer or a registered professional land surveyor.
- Two members shall be members of the general public.

**1. Summary of significant accounting policies (continued)**

*B. Reporting entity*

The accompanying basic financial statements present all activities and funds for which the Board is considered to be financially accountable. The criteria used in making this determination includes appointment of a voting majority, imposition of will, financial benefit or burden on the primary government, and fiscal dependency on the primary government. Based upon the evaluation of this criteria, the Board is a primary government with no includable component units.

*C. Government-wide and fund financial statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Board. All activities are governmental activities, which are mostly supported by membership fees.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Investment earnings and other items not properly included among program revenues are reported instead as *general revenues*.

*D. Equity classification*

*i.* Equity on the government-wide financial statements is classified as net position and displayed in three components:

a. ***Net investment in capital assets*** – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

b. ***Restricted net position*** – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. ***Unrestricted net position*** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

In the government-wide financial statements, when the Board has restricted and unrestricted resources available, it is the Board's policy to expend restricted resources first and then unrestricted resources as needed in determining the amounts to report as restricted – net position and unrestricted – net position.

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

**1. Summary of significant accounting policies (continued)**

D. *Equity classification (continued)*

*ii. Governmental fund type fund balance reporting*

The Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54 requires governmental type fund balance amounts to be reported within one of the fund balance categories list below:

***Nonspendable*** — Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

***Restricted*** — Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

***Committed*** — Amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board of Directors is the highest level of decision-making authority for the Board. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Directors.

***Assigned*** — Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Board of Directors has authority to assign fund balance amounts.

***Unassigned*** — the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. Additionally, other funds may report negative unassigned fund balance in certain circumstances.

In the governmental fund financial statements, when the Board has restricted and unrestricted (Committed, Assigned or Unassigned) resources available, it is the Board's policy to expend restricted resources first. Unrestricted resources are then expended in the order of committed, assigned, and unassigned as needed, unless otherwise provided for in actions to commit or assign resources, in determining the amounts to be reported in each of the fund balance categories.

**1. Summary of significant accounting policies (continued)**

*E. Measurement focus, basis of accounting and financial statement presentation*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Amounts reported as *program revenues* as charges for services represents fees from licensees. Fees paid by licensees are recognized as revenue over the period for which the license is granted.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues for fees from licensees are recognized over the period for which the license has been granted. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

*F. Budgets*

The Board is required to adopt budgets on a biennial basis. The Board may adopt or modify a budget only after holding a public hearing and must give notice of budget hearings to all licensees. Unlike most budgets in state government, where the agency budgets are enacted into law by the legislature, the Board's budget is not subject to review and approval by the Legislature or to future modification by the Legislature or the Emergency Board. For this reason, the budgets adopted by the Board are considered to be non-appropriated budgets.

*G. Fund structure*

The Board reports the following major governmental fund:

General – accounts for all revenues and operating expenditures. The major revenue sources are licenses and fees.

*H. Compensated absences*

The Board follows the State Department of Administrative Services (DAS) statewide policy with respect to accrual rates. Full-time, permanent employees are granted paid time off benefits of varying amounts to specified maximums depending on tenure with the Board. Employees earn vacation leave in accordance with the DAS statewide policy 60.000.05(1)(e).

## 1. Summary of significant accounting policies (continued)

### *I. Capital assets*

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|---|---|
| Equipment | 4 - 10 |
| Leasehold improvements | 30 |

### *J. Deferred outflows / inflows of resources*

In addition to assets, the statements of net position and balance sheet – governmental fund will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of net position and balance sheet – governmental fund will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

### *K. Civil penalties*

The Board is authorized under state laws to impose civil penalties to enforce certain provisions and professional standards.

### *L. Other post-employment benefits*

The Board provides other post-employment benefits through the Oregon Public Employees Retirement System and the Public Employees Benefit Board.

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 1. Summary of significant accounting policies (continued)

*M. New accounting standards implemented*

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement provides guidance for accounting for net pension liabilities, including definition of balances to be included in deferred inflows and deferred outflows of resources. The specific accounts impacting the Board are detailed below.

**Net pension liability** – Previous standards defined pension liabilities in terms of the Annually Required Contribution. Statement No. 68 defines the net pension liability as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service, net of the pension plan's fiduciary net position.

**Deferred inflows of resources and deferred outflows of resources** – Statement No. 68 includes recognition of deferred inflows and outflows of resources associated with the difference between projected and actual earnings on pension plan investments. These differences are to be recognized in pension expense using a systematic and rational method over a closed five-year period.

Statement No. 68 is effective for fiscal years beginning after June 15, 2014, with early application encouraged. The effects of accounting change are to be applied retroactively resulting in a restatement of beginning net position. The Board adopted this new pronouncement in the current biennium and, accordingly, has restated amounts of effected balances within the financial statements as discussed in note 11 below.

### 2. Deposits

The Board maintains a single bank account, the balance of which is displayed on the financial statements as cash.

*Credit risk:* Oregon statutes authorize the Board to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, and the state treasurer's investment pool.

*Concentration of Credit Risk:* The Board does not have a formal policy that places a limit on the amount that may be invested in any one issuer.

*Custodial credit risk – deposits*. This is the risk that in the event of a bank failure, the Board's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the Board's deposits with financial institutions up to $250,000 each for the aggregate of all non-interest bearing accounts and the aggregate of all interest bearing accounts at each institution. Deposits in excess of FDIC coverage with institutions participating in the Oregon Public Funds Collateralization Program are considered fully collateralized. As of June 30, 2015, $1,862,244 of the Board's bank balances were exposed to custodial credit risk.

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**

## 3. Capital assets

A. Capital asset activity for the biennium ended June 30, 2015 was as follows:

| | Balances July 1, 2013 | Additions | Decreases | Balances June 30, 2015 |
|---|---|---|---|---|
| Capital assets being depreciated | | | | |
| Property improvements and equipment | $ 41,442 | $ - | $ (17,140) | $ 24,302 |
| Less accumulated depreciation | (26,992) | (2,214) | 17,140 | (12,066) |
| Total capital assets being depreciated, net | $ 14,450 | $ (2,214) | $ - | $ 12,236 |

B. Depreciation charged to expense for the biennium June 30, 2015 amounted to $ 2,214.

## 4. Compensated absences payable

Transactions for the biennium ended June 30, 2015 are as follows:

| | |
|---|---|
| Balance July 1, 2013 | $ 14,505 |
| Additions | 18,893 |
| Reductions | (14,505) |
| Balance June 30, 2015 | $ 18,893 |
| Balance due within one biennium | $ 18,893 |

## 5. Defined benefit pension plan

A. Plan description

Employees of the Board are provided with pensions through OPERS. All the benefits of OPERS are established by the Oregon legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A.

The OPERS consists of a single cost-sharing multiple employer defined benefit pension plan.

OPERS produces an independently audited Comprehensive Annual Financial Report which can be found at:

www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

B. Description of benefit terms

**Plan Benefits**

All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A.

1. Tier One/Tier Two Retirement Benefit (Chapter 238). Tier One/Tier Two Retirement Benefit plan is closed to new members hired on or after August 29, 2003.

**Pension Benefits**

The OPERS 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 (2.0 percent for police and fire employees, 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.

**5. Defined benefit pension plan (continued)**

B. Description of benefit terms (continued)

1. Tier One/Tier Two Retirement Benefit (continued)

**Pension Benefits (continued)**

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 (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60.

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

**Disability Benefits**

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including OPERS judge members) for disability benefits regardless of the length of OPERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

**5. Defined benefit pension plan (continued)**

B. Description of benefit terms (continued)

1. Tier One/Tier Two Retirement Benefit (continued)

**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 changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first $60,000 of annual benefit and 0.15 percent on annual benefits above $60,000.

2. Oregon Public Service Retirement Plan (Chapter 238A) (OPSRP DB)

**Pension Benefits**.

The OPSRP pension program provides benefits to members hired on or after August 29, 2003.

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:

Police and fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

General service: 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 OPSRP 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.

## 5. Defined benefit pension plan (continued)

B. Description of benefit terms (continued)

2. Oregon Public Service Retirement Plan (continued)

**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 cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first $60,000 of annual benefit and 0.15 percent on annual benefits above $60,000.

C. Contributions

OPERS 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.

Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013.

Tier 1/tier 2 employer contribution rates are 10.55 percent and the OPSRP employer contribution rates are 8.83 percent for general service employees. Employer contributions for the biennium ended June 30, 2015 were $40,122, excluding amounts to fund employer specific liabilities.

**5. Defined benefit pension plan (continued)**

D. Pension Asset or Liability, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Board reported an asset of $293,590 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

Employers' long-term contribution efforts are based on projected rates that have two major components:

1. Normal Cost Rate: The economic value, stated as a percent of payroll, for the portion of each active member's total projected retirement benefit that is allocated to the upcoming year of service. The rate is in effect for as long as each member continues in OPERS-covered employment. The current value of all projected future Normal Cost Rate contributions is the Present Value of Future Normal Costs (PVFNC). The PVFNC represents the portion of the projected long-term contribution effort related to future service.

   An employer's PVFNC depends on both the normal cost rates charged on the employer's payrolls, and on the underlying demographics of the respective payrolls. For OPERS funding, employers have up to three different payrolls, each with a different normal cost rate: (1) Tier 1/Tier 2 payroll, (2) OPSRP general service payroll, and (3) OPSRP police and fire payroll.

   The employer's Normal Cost Rates for each payroll are combined with system-wide present value factors for each payroll to develop an estimated PVFNC. The present value factors are actuarially determined at a system level for simplicity and to allow for the PVFNC calculations to be audited in a timely, cost-effective manner.

2. UAL Rate: If system assets are less than the actuarial liability, an Unfunded Actuarial Liability (UAL) exists. UAL can arise when an event such as experience differing from the assumptions used in the actuarial valuation occurs. An amortization schedule is established to eliminate the UAL that arises over a fixed period of time if future experience follows assumption. The UAL Rate is the upcoming year's component of the cumulative amortization schedules, stated as a percent of payroll. The present value of all projected UAL Rate contributions is equal to the Unfunded Actuarial Liability (UAL). The UAL represents the portion of the projected long-term contribution effort related to past service.

**5. Defined benefit pension plan (continued)**

D. Pension Asset or Liability, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The UAL has Tier 1/Tier 2 and OPSRP pieces. The Tier 1/Tier 2 piece is based on the employer's Tier 1/Tier 2 pooling arrangement. If an employer participates in one of the two large Tier 1/Tier 2 rate pools [State & Local Government Rate Pool (SLGRP) or School Districts Rate Pool], then the employer's Tier 1/Tier 2 UAL is their pro-rata share of their pool's UAL. The pro-rata calculation is based on the employer's payroll in proportion to the pool's total payroll. The OPSRP piece of the UAL follows a parallel pro-rata approach, as OPSRP experience is mandatorily pooled at a state-wide level. Employers that do not participate in a Tier 1/Tier 2 pooling arrangement, who are referred to as "Independent Employers", have their Tier 1/Tier 2 UAL tracked separately in the actuarial valuation.

The projected long-term contribution effort is the sum of the PVFNC and the UAL. The PVFNC part of the contribution effort pays for the value of future service while the UAL part of the contribution effort pays for the value of past service not already funded by accumulated contributions and investment earnings. Each of the two contribution effort components are calculated at the employer-specific level. The sum of these components across all employers is the total projected long-term contribution effort.

At June 30, 2014, the Board's proportion was .01295223 percent, which was the same as its proportion measured as of June 30, 2013.

For the biennium ended June 30, 2015, the Board recognized pension expense of ($390,539). At June 30, 2015, the Board 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 |
|---|---|---|
| Net difference between projected and actual earnings on pension plan investments | $ -- | $ 566,510 |
| Changes in proportion and difference between The Board's contributions and proportionate share of contributions | 6,151 | -- |
| The Board's contributions subsequent to the measurement date | 82,435 | -- |
| | $ 88,586 | $ 566,510 |

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**

**5. Defined benefit pension plan (continued)**

D. Pension Asset or Liability, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

$82,435 reported as deferred outflows of resources related to pensions resulting from the Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the biennium ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense/(income) as follows:

| Year ends June 30, | |
|---|---|
| 2016 | $ (140,290) |
| 2017 | (140,290) |
| 2018 | (140,290) |
| 2019 | (140,290) |
| 2020 | 802 |
| | $ (560,360) |

E. Actuarial Valuations

The employer contribution rates effective July 1, 2013, through June 30, 2015, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the OPERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the OPERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**

**5. Defined benefit pension plan (continued)**

F. Actuarial Methods and Assumptions Used in Developing Total Pension Liability

| | |
|---|---|
| Valuation Date | December 31, 2012 rolled forward to June 30, 2014. |
| Experience Study Report | 2012, published September 18, 2013 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years. |
| Asset Valuation Method | Market value of assets |
| Actuarial Assumptions: | |
| Inflation Rate | 2.75 percent |
| Investment rate of return | 7.75 percent |
| Projected Salary Increases | 3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service |
| Mortality | Healthy retirees and beneficiaries:<br>RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.<br>Active members:<br>Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.<br>Disabled retirees:<br>Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table. |

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2012 Experience Study which reviewed experience for the four-year period ending on December 31, 2012.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. 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 for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

**5. Defined benefit pension plan (continued)**

F. Actuarial Methods and Assumptions Used in Developing Total Pension Liability (continued)

**Depletion Date Projection**

GASB 67 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 67 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB 67 (paragraph 43) 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 OPERS:

- OPERS 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 67 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 OPERS independent actuary's opinion that the detailed depletion date projections outlined in GASB 67 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 | 0.0% | 3.0% | 0.0% |
| Debt Securities | 15.0% | 25.0% | 20.0% |
| Public Equity | 32.5% | 42.5% | 37.5% |
| Private Equity | 16.0% | 24.0% | 20.0% |
| Real Estate | 9.5% | 15.5% | 12.5% |
| Alternative Equity | 0.0% | 10.0% | 10.0% |
| Opportunity Portfolio | 0.0% | 3.0% | 0.0% |
| Total | | | 100.0% |

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

## 5. Defined benefit pension plan (continued)

F. Actuarial Methods and Assumptions Used in Developing Total Pension Liability (continued)

### 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 OPERS Board reviewed long-term assumptions developed by both the actuary's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows the actuary's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class 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.

| 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% | 6.10% |
| Real Estate (Property) | 13.75% | 6.51% |
| Real Estate (REITS) | 2.50% | 6.76% |
| Commodities | 7.71% | 6.07% |

| | |
|---|---|
| Assumed Inflation - Mean | 2.75% |

**5. Defined benefit pension plan (continued)**

F. Actuarial Methods and Assumptions Used in Developing Total Pension Liability (continued)

**Sensitivity of the Agency's proportionate share of the net pension asset (liability) to changes in the discount rate.**

The following presents the Board's proportionate share of the net pension asset (liability) calculated using the discount rate of 7.75 percent, as well as what the Board's proportionate share of the net pension asset (liability) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

| | 1 Percentage Point Lower | Current Discount Rate | 1 Percentage Point Higher |
|---|---|---|---|
| The Board's proportionate share of net pension asset or liability | $ (621,718) | $ 293,590 | $ 1,067,726 |

**Changes in Actuarial Methods and Assumptions**

The prior measurement date of June 30, 2013 was based on the December 31, 2011 valuation. Changes in the actuarial methods and assumptions since that valuation are as follows:

*Actuarial Cost Method* – Changed from the projected unit credit cost method to the entry age normal cost method.

*Tier 1/ Tier 2 UAL Amortization* – The balance will be amortized over a closed period of 20 years as a level percentage of projected payroll. Gains and losses between subsequent rate-setting valuations will be amortized over a closed 20-year period from the period in which they are first recognized.

*Contribution Rate Stabilization Method* – The "grade-in range" over which the rate collar gradually doubles was modified so that the collar doubles as funded status (excluding side accounts) decreases from 70% to 60% or increases from 130% to 140%. Previously the ranges had been 80% to 70% and 120% to 130%.

*Allocation of Liability for Service Segments* – For purposes of allocating a Tier 1/Tier 2 member's actuarial accrued liability among multiple employers, the valuation uses a weighted average of the Money Match methodology and the Full Formula methodology used by OPERS when the member retires. The weights are determined based on the prevalence of each formula among the current Tier 1/Tier 2 population.

**5. Defined benefit pension plan (continued)**

F. Actuarial Methods and Assumptions Used in Developing Total Pension Liability (continued)

**Changes in Actuarial Methods and Assumptions (continued)**

Previously the Money Match was weighted 40 percent for General Service members and 10 percent for Police & Fire members. For subsequent valuations, this weighting has been adjusted to 30 percent for General Service members and 5 percent for Police & Fire members, based on a projection of the proportion of liability attributable to Money Match benefits at those valuation dates.

*Investment Return and Interest Crediting* - The assumed investment return and interest crediting to both regular and variable account balances was reduced to 7.75%. Previously, the assumed investment return and interest crediting to regular account balances was 8.00% and the assumed interest crediting to variable account balances was 8.25%.

*OPSRP Administrative Expenses* - Assumed administrative expenses for the OPSRP System were reduced from $6.6 million per year to $5.5 million per year.

*Healthcare Cost Inflation* - The healthcare cost inflation for the maximum Retirement Health Insurance Premium Account (RHIPA) subsidy was updated based on an analysis by actuaries that included the consideration of the excise tax that will be introduced in 2018 by the Patient Protection and Affordable Care Act.

*Healthy Mortality* - The healthy mortality assumption is based on the RP2000 generational mortality tables with group-specific class and setback adjustments. The group-specific adjustments have been updated to more closely match recently observed system experience.

*Disabled Mortality* – The disabled mortality assumption base was changed from the RP2000 healthy tables to the RP2000 disabled tables. Gender-specific adjustments were applied to align the assumption with recently observed system experience.

*Disability, Retirement from Active Status, and Termination* - Rates for disability, retirement from active status, and termination were adjusted. Termination rates were changed from being indexed upon age to being indexed upon duration from hire date.

*Merit Increases, Unused Sick Leave, and Vacation Pay* - Assumed merit increases were lowered for School District members. Unused Sick Leave and Vacation Pay rates were adjusted.

*Retiree Healthcare Participation* - The Retirement Health Insurance Account (RHIA) participation rate for healthy retirees was reduced from 48% to 45%. The RHIPA participation rate was changed from a uniform rate of 13% to a service-based table of rates.

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

### 5. Defined benefit pension plan (continued)

G. Changes in Plan Provisions Subsequent to Measurement Date

On April 30, 2015 the Oregon Supreme Court ruled that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law was unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually.

PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

This is a change in benefit terms subsequent to the current measurement date of June 30, 2014, and is not reflected in the proportionate share of the net pension asset (liability).

It is estimated that this change will increase net pension liability by $636,824.

### 6. Defined contribution plan

**Individual Account Program (IAP)**

Participants in OPERS defined benefit pension plan also participate in the defined contribution plan.

**Pension Benefits**

An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member 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, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the 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. Each distribution option has a $200 minimum distribution limit.

## 6. Defined contribution plan (continued)

### Death Benefits

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 account 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.

### Contributions

The Board makes the employee contributions of 6 percent of covered payroll to the plan. Contributions for the biennium ended June 30, 2015 were $ 53,421.

### Recordkeeping

PERS contracts with VOYA Financial to maintain IAP participant records.

## 7. Other Post-employment Benefit Plans

The information in this footnote represents amount for the state government of Oregon as a whole with the portion allocable to OSBEELS where applicable.

### *A. Public Employees Retirement System*

Plan Descriptions

The Public Employees Retirement System (PERS) Board contracts for health insurance coverage on behalf of the members of PERS. Eligible retirees pay their own age-adjusted premiums. To help retirees defray the cost of these premiums, PERS also administers two separately defined benefit other postemployment benefit (OPEB) plans: the Retirement Health Insurance Account (RHIA) and the Retiree Health Insurance Premium Account (RHIPA).

The RHIA is a cost-sharing multiple-employer OPEB plan in which 910 employers participate. Established under Oregon Revised Statute (ORS) 238.420, the plan provides a payment of up to $60 toward the monthly cost of health insurance for eligible PERS members. To be eligible to receive the RHIA subsidy, the member must (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991. The Legislature has sole authority to amend the benefit provisions and employer obligations for the RHIA plan. The number of RHIA plan members receiving benefits was 44,537 as of June 30, 2015.

## 7. Other Post-employment Benefit Plans (continued)

### *A. Public Employees Retirement System (continued)*

Established under ORS 238.415, the RHIPA is considered a single-employer OPEB plan for financial reporting purposes, although certain discretely presented component units and related organizations, which are described in Note 1, do participate in the plan. The plan provides payment of the average difference between the health insurance premiums paid by retired state employees under contracts entered into by the PERS Board and health insurance premiums paid by state employees who are not retired. PERS members are qualified to receive the RHIPA subsidy if they have eight or more years of qualifying service in PERS at the time of retirement or receive a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage. A surviving spouse or dependent of a deceased retired state employee is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired on or after September 29, 1991. The Legislature has sole authority to amend the benefit provisions and employer obligations of the RHIPA plan. The number of RHIPA plan members receiving benefits was 1,276 as of June 30, 2015.

Both RHIA and RHIPA are closed to employees hired on or after August 29, 2003, who had not established membership prior to that date.

The RHIA and RHIPA defined benefit OPEB plans are reported separately under Other Employee Benefit Trust Funds in the fiduciary funds combining statements and as part of the Pension and Other Employee Benefit Trust in the fiduciary funds basic financial statements. PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. The report may be obtained by writing to the Public Employees Retirement System, Fiscal Services Division, PO Box 23700, Tigard, OR 97281-3700. The report may also be accessed online at:

http://oregon.gov/PERS/section/financial_reports/financials.shtml

## 7. Other Post-employment Benefit Plans (continued)

### *A. Public Employees Retirement System (continued)*

Funding

Both of the OPEB plans administered by PERS are funded through actuarially determined employer contributions. For the biennium ending June 30, 2015, state agencies contributed 0.10 percent of PERS- covered payroll for Tier One and Tier Two plan members to fund the normal cost portion of RHIA benefits. In addition, state agencies contribute 0.49 percent of all PERS-covered payroll to amortize the unfunded actuarial accrued liability over a fixed period with new unfunded actuarial accrued liabilities amortized over 20 years. The required employer contributions were approximately $11.7 million, $13.7 million, and $13 million for years ended June 30, 2015, 2014, and 2013, respectively. The actual contribution equaled the annual required contribution in each fiscal year.

The funded status of the RHIA postemployment healthcare plan as of the most recent actuarial valuation date (in millions):

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 12/31/2013 | $ 395.9 | $ 468.4 | $ 72.5 | 84.5% | $ 9,115.8 | 0.8% |

For the biennium ending June 30, 2015, state agencies contribute 0.07 percent of PERS-covered payroll for Tier One and Tier Two plan members to fund the normal cost portion of RHIPA benefits. In addition, state agencies contribute 0.20 percent of all PERS-covered payroll to amortize the unfunded actuarial accrued liability over a fixed period with new unfunded actuarial accrued liabilities amortized over 20 years. The required employer contributions of the State, as the primary government, were approximately $5.1 million, $6.2 million, and $3.4 million for the years ended June 30, 2015, 2014, and 2013, respectively. The actual contribution equaled the annual required contribution in each fiscal year. As noted previously, because certain discretely presented component units and related organizations contribute to the RHIPA plan, the contributions identified in the combining statement of changes in fiduciary net position exceed the State's required employer contributions.

The funded status of the RHIPA postemployment healthcare plan as of the most recent actuarial valuation date (in millions):

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 12/31/2014 | $ 7.2 | $ 70.5 | $ 63.3 | 10.2% | $ 2,718.9 | 2.3% |

# NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

## 7. Other Post-employment Benefit Plans (continued)

### *A. Public Employees Retirement System (continued)*

Actuarial Methods and Assumptions

The PERS postemployment healthcare benefit obligation, including both RHIA and RHIPA, was determined as part of the actuarial valuation prepared by the PERS consulting actuary at December 31, 2014, using the entry age normal cost method. Significant assumptions used in the actuarial valuation include a 7.5 percent per annum rate of return on the investment of present and future assets and projected payroll growth of 3.5 percent, for both the RHIA and RHIPA plans. As a subcomponent of the payroll growth rate, both plans assume an increase in the consumer price index of 2.5 percent. The RHIPA plan uses a healthcare cost inflation adjustment graded from 7 percent in 2015 to 4.4 percent in 2094. There is no inflation assumption for RHIA postemployment benefits because the payment amount is set by statute and is not adjusted for increases in healthcare costs. The unfunded actuarial accrued liability is being amortized as a level percentage of combined valuation payroll over a closed period of 10 years. The actuarial value of plan assets for both the RHIA and the RHIPA is equal to the assets' fair market value on the valuation date. Restricted net position held in trust for other postemployment benefits for RHIA and RHIPA at June 30, 2015, was $422.9 million and $8.8 million, respectively.

### *B. Public Employees Benefit Board*

Plan Description

The State participates in a defined benefit postemployment healthcare plan administered by the Public Employees Benefit Board (PEBB). This plan offers healthcare assistance to eligible retired employees and their beneficiaries. Chapter 243 of the Oregon Revised Statutes gives the Board the authority to establish and amend the benefit provisions of the PEBB Plan. The PEBB Plan is considered a single-employer plan for financial reporting purposes, although certain discretely presented component units and related organizations, which are described in Note 1, do participate in the PEBB plan. As a result, the State reports only a portion of the overall net OPEB obligation under the primary government section of the Statement of Net Position. As of June 30, 2015, PEBB Plan members consisted of 49,679 active employees and 953 retired employees and beneficiaries receiving benefits. PEBB does not issue a separate, publicly available financial report.

The PEBB Plan allows qualifying retired employees to continue their "active" health insurance coverage on a self-pay basis until they are eligible for Medicare. 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."

## 7. Other Post-employment Benefit Plans (Continued)

### *B. Public Employees Benefit Board (continued)*

Summary of Significant Accounting Policies

The PEBB plan's implicit rate subsidy, if not fully funded, represents an obligation of the State, the net OPEB obligation. The overall net OPEB obligation for the biennium ended June 30, 2015, is \$83.6 million. The primary government's share is \$65.3 million and the collective discretely presented components' unit share is \$18.3 million. The net OPEB obligation is allocated to the participating funds and entities based on their proportionate share of annual health insurance premium costs. The portion of the net OPEB obligation related to governmental activities is reported in the internal service funds balance sheet and the government-wide statement of net position; the portion related to business-type activities is reported in the proprietary funds balance sheet and the government-wide statement of net position. The portion related to fiduciary activities is reported in the statement of fiduciary net position.

Funding

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. Administrative costs of the PEBB Plan are financed by up to 2 percent of employer and plan member contributions. For the biennium ended June 30, 2015, retired plan members contributed \$13.2 million through their required contributions. The average monthly contribution was \$1,153. Active employees do not contribute to the plan.

The funded status of the PEBB postemployment healthcare plan as of the most recent actuarial valuation date (in millions):

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 7/1/2013 | $ - | $ 105.1 | $ 105.1 | - | $ 2,485.8 | 4.2% |

The schedule of funding progress, which is included in the required supplementary information that immediately follows the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

**7. Other Post-employment Benefit Plans (continued)**

***B. Public Employees Benefit Board (continued)***

Actuarial Methods and Assumptions

The PEBB postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by the PEBB consulting actuary at July 1, 2013, using the entry age normal cost method. The State's annual OPEB expense is based on the annual required contribution (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. Significant assumptions used in the actuarial valuation include a 3.5 percent per annum rate of return on the investment of present and future assets and projected payroll growth of 3.5 percent. The plan uses a medical healthcare cost inflation adjustment of 3.58 percent in fiscal year 2014, 5.9 percent in fiscal year 2015, 5.6 percent in fiscal year 2016, 6.9 percent in 2017, an average of 6.1 percent between fiscal years 2018 and 2042, and the rate grades down from 5.9 percent to 5.4 percent between fiscal years 2043 and 2063. The dental healthcare cost inflation adjustment was graded from 2.21 percent in fiscal year 2014 to 5 percent for all subsequent fiscal years. The plan's inflation assumption is 2.75 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll using an open 15-year period.

For biennium ended June 30, 2015 the components of the PEBB Plan's annual OPEB cost, the amounts actually contributed, and changes to the net OPEB obligation:

| | State of Oregon (in millions) | Allocated to OSBEELS |
|---|---|---|
| Biennium required contribution | $ 26.1 | $ 7,052 |
| Interest on net OPEB obligation | 5.4 | 1,459 |
| ARC adjustment | (10.3) | (2,783) |
| Biennial OPEB cost (expense) | 21.2 | 5,728 |
| Contributions made | (12.7) | (3,431) |
| Increase in net OPEB obligation | 8.5 | 2,297 |
| Net OPEB obligation - beginning of biennium | 75.1 | 20,291 |
| Net OPEB obligation - end of biennium | $ 83.6 | $ 22,588 |

## 7. Other Post-employment Benefit Plans (continued)

### *C. Using Actuarial Valuations*

Actuarial valuations involve estimates of the value of reported amounts 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. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

## 8. Contingency – sick leave

Portions of amounts accumulated at any point in time can be expected to be redeemed before termination of employment; however, such redemptions cannot be reasonably estimated. As of June 30, 2015, employees of the Board had accumulated 33 days of sick leave.

## 9. Insurance

Insurance programs are administered for the Board by the Risk Management Division of the Oregon Department of Administrative, which provides insurance coverage to all State agencies with a blanket honesty and faithful performance bond, general liability and vehicle liability self-insurance, and self-insurance property damage program. The cost of servicing insurance claims and payments is covered by charging an assessment to each State entity based upon its share of services provided in a prior period. The Board's total liability insurance expense for the biennium ended June 30, 2015 was $1,495.

## NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

### 10. Lease commitment

The Board leases office space from Sage Properties, LLC. The original lease term was extended on June 1, 2013 for an additional 7 years, through May 31, 2020. The specified annual base rents are listed below. In addition to the base rent, there are certain other contractual fees that apply. These fees include common area maintenance, taxes, utilities, and common area janitorial fees. The monthly fees may be increased by the landlord.

Total lease payments for the biennium ended June 30, 2015 were $ 237,750.

Future minimum payments under the lease are as follows:

| For the Biennium Ending June 30, | |
|---|---|
| 2017 | $ 250,260 |
| 2019 | 261,840 |
| 2021 | 135,480 |
| Total | $ 647,580 |

### 11. Prior period adjustments

The beginning net position of governmental activities has been adjusted for the following:

| | |
|---|---|
| Correction of revenue recognition for licensing fees received | $ (405,126) |
| Adjustment required for implementation of GASB No. 68 | (574,873) |
| The Board previously did not report a liability for other net post-employment benefit obligations | (20,291) |
| | $ (1,000,290) |

The beginning fund balance of the General Fund has been adjusted to correct the revenue recognition for licensing fees received in the amount of $(405,126).

# REQUIRED SUPPLEMENTARY INFORMATION

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**OREGON STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING**
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**
**OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM**
**Last 5 Bienniums Ended June 30, ***

| | | 2015 |
|---|---|---|
| Proportion of the collective net pension liability (asset) | | 0.00128199% |
| Proportionate share of the collective net pension liability (asset) | $ | (290,590) |
| Covered payroll | $ | 1,021,723 |
| Proportionate share of the collective net pension liability (asset) as a percentage of the covered payroll | | -28% |
| Pension plan's fiduciary net position as a percentage of the total pension liability | | 104% |

* Information will be accumulated annually until 5 bienniums are presented

**OREGON STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING**
**SCHEDULE OF CONTRIBUTIONS**
**OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM**
**Last 5 Bienniums Ended June 30, ***

| | 2015 |
|---|---|
| Contractually required contributions | $ 40,122 |
| Contractually required contributions recognized by the pension plan | 40,122 |
| Difference | $ - |
| Covered payroll | $ 1,021,723 |
| Contractually required contributions as a percentage of covered payroll | 3.93% |

* Information will be accumulated annually until 5 bienniums are presented

# SUPPLEMENTARY INFORMATION

**OREGON STATE BOARD OF EXAMINERS**
**FOR ENGINEERING AND LAND SURVEYING**

**GENERAL FUND**
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**
**BUDGET AND ACTUAL**
**For the Biennium Ended June 30, 2015**

| | Original and Final Budget | Actual | Variance |
|---|---|---|---|
| **REVENUES** | | | |
| Licenses and fees | 2,591,925 | 2,642,511 | 50,586 |
| Civil penalties | 30,000 | 71,478 | 41,478 |
| Miscellaneous | 27,500 | 40,769 | 13,269 |
| TOTAL REVENUES | 2,649,425 | 2,754,758 | 105,333 |
| **EXPENDITURES** | | | |
| Personal services | 2,070,632 | 1,904,027 | 166,605 |
| Materials and services | 929,368 | 995,121 | (65,753) |
| TOTAL EXPENDITURES | 3,000,000 | 2,899,148 | 100,852 |
| Net change in fund balance | (350,575) | (144,390) | 206,185 |
| Fund balance at beginning of biennium | 350,575 | 2,160,190 | 1,809,615 |
| Prior period adjustment | - | (405,126) | - |
| Fund balance at end of biennium | $ - | $ 1,610,674 | $ 2,015,800 |

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
OREGON STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING
Salem, Oregon

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the OREGON STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING, as of and for the biennium ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated March 17, 2016.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the OREGON STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OREGON STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING's internal control. Accordingly, we do not express an opinion on the effectiveness of the OREGON STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS (Continued)***

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the OREGON STATE BOARD OF EXAMINERS FOR ENGINEERING AND LAND SURVEYING's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Boldt Carlisle + Smith
Certified Public Accountants
Salem, Oregon
March 17, 2016
By:

Bradley G. Bingenheimer, Member