



Report of Independent Auditors and Financial
Statements with Federal Awards Supplementary
Information for
Oregon Research Institute
December 31, 2015 and 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Oregon Research Institute

Report on the Financial Statements

We have audited the accompanying financial statements of Oregon Research Institute, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 opinion.

MOSS ADAMS LLP***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oregon Research Institute as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 14, 2016 on our consideration of the Oregon Research Institute'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 Oregon Research Institute's internal control over financial reporting and compliance.



Eugene, Oregon
March 14, 2016

OREGON RESEARCH INSTITUTE
STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>DECEMBER 31,</u>	
	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 533,771	\$ 916,241
Grants and contracts receivable	1,094,626	725,016
Prepaid expenses and deposits	138,000	130,749
Total current assets	1,766,397	1,772,006
PROPERTY AND EQUIPMENT, less		
accumulated depreciation and amortization	401,631	391,777
OTHER ASSETS		
Other receivables	26,975	26,000
Beneficial interest in assets held by others	188,125	280,468
Total other assets	215,100	306,468
TOTAL ASSETS	\$ 2,383,128	\$ 2,470,251
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 543,317	\$ 687,867
Accrued payroll and related expenses	473,592	413,054
Accrued leave payable, current portion	117,808	99,985
Long-term debt, current portion	63,000	36,000
Total current liabilities	1,197,717	1,236,906
LONG-TERM LIABILITIES		
Accrued leave payable	248,083	300,738
Long-term debt	95,978	79,433
Total long-term liabilities	344,061	380,171
TOTAL LIABILITIES	1,541,778	1,617,077
NET ASSETS		
Unrestricted	841,350	853,174
Total net assets	841,350	853,174
TOTAL LIABILITIES AND NET ASSETS	\$ 2,383,128	\$ 2,470,251

**OREGON RESEARCH INSTITUTE
STATEMENT OF ACTIVITIES**

	YEAR ENDED DECEMBER 31,	
	2015	2014
	Unrestricted Total	Unrestricted Total
REVENUES, GAINS AND OTHER SUPPORT		
Grants and contracts	\$ 16,591,978	\$ 18,660,309
Interest income	4,763	2,894
Contributions and donations	5,566	7,903
Other income	10,279	42,069
 Total revenues, gains, other support	 <u>16,612,586</u>	 <u>18,713,175</u>
EXPENSES		
Program services:		
Healthy Child Development	1,950,024	2,779,205
Physical Health	1,917,936	2,061,184
Psychological Health	2,184,775	2,411,683
Prevention and Treatment	5,159,256	5,561,273
 Total program services	 <u>11,211,991</u>	 <u>12,813,345</u>
Support services	5,311,040	5,709,399
Depreciation and amortization	101,379	168,872
Total support services	<u>5,412,419</u>	<u>5,878,271</u>
 Total expenses	 <u>16,624,410</u>	 <u>18,691,616</u>
 CHANGE IN NET ASSETS	 (11,824)	 21,559
 NET ASSETS, beginning of year	 <u>853,174</u>	 <u>831,615</u>
 NET ASSETS, end of year	 <u>\$ 841,350</u>	 <u>\$ 853,174</u>

**OREGON RESEARCH INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015 Program Services				Total	2015 Support Services	2015 Total Expenses
	Healthy Child Development	Physical Health	Psychological Health	Prevention and Treatment			
Personnel	\$ 1,201,842	\$ 1,185,785	\$ 1,508,359	\$ 4,309,201	\$ 8,205,187	\$ 2,781,087	\$ 10,986,274
Subcontracts/Consultants	572,347	564,180	492,848	388,824	2,018,199	67,190	2,085,389
Participant fees and similar incentives	38,365	43,149	83,118	320,391	485,023	9,222	494,245
Meetings, travel, and training	42,438	59,179	39,130	60,904	201,651	97,062	298,713
Occupancy	93,586	55,188	37,478	79,936	266,188	1,713,561	1,979,749
Financing and investment costs	-	-	-	-	-	1,320	1,320
Equipment, below \$5,000	1,446	10,455	23,842	-	35,743	641,598	677,341
Depreciation and amortization	-	-	-	-	-	101,379	101,379
Total expenses	\$ 1,950,024	\$ 1,917,936	\$ 2,184,775	\$ 5,159,256	\$ 11,211,991	\$ 5,412,419	\$ 16,624,410

	2014 Program Services				Total	2014 Support Services	2014 Total Expenses
	Healthy Child Development	Physical Health	Psychological Health	Prevention and Treatment			
Personnel	\$ 1,612,221	\$ 1,337,918	\$ 1,593,218	\$ 4,408,800	\$ 8,952,157	\$ 2,892,126	\$ 11,844,283
Subcontracts/Consultants	1,036,808	470,206	582,874	793,821	2,883,709	79,069	2,962,778
Participant fees and similar incentives	51,204	66,406	151,252	157,019	425,881	7,418	433,299
Meetings, travel, and training	32,455	86,986	34,536	68,350	222,327	114,175	336,502
Occupancy	46,517	82,381	45,896	54,437	229,231	1,861,952	2,091,183
Financing and investment costs	-	-	-	-	-	9,194	9,194
Equipment, below \$5,000	-	17,287	3,907	78,846	100,040	745,465	845,505
Depreciation and amortization	-	-	-	-	-	168,872	168,872
Total expenses	\$ 2,779,205	\$ 2,061,184	\$ 2,411,683	\$ 5,561,273	\$ 12,813,345	\$ 5,878,271	\$ 18,691,616

OREGON RESEARCH INSTITUTE
STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (11,824)	\$ 21,559
Adjustments to reconcile excess of revenues over expenses to net cash from operating activities:		
Depreciation and amortization	101,379	168,872
Unrealized (gain) loss - beneficial interest	10,411	(11,778)
Changes in assets and liabilities:		
Grants and contracts receivable	(369,610)	(124,838)
Prepaid expenses and deposits	(7,251)	-
Other receivable, related party	(975)	(26,000)
Accounts payable	(144,550)	66,898
Accrued payroll and related expenses	60,538	333,470
Accrued leave payable	(34,832)	(69,504)
Net cash from (used by) operating activities	<u>(396,714)</u>	<u>358,679</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investments held by		
Oregon Community Foundation	(18,068)	(10,016)
Disbursements from investments held by		
Oregon Community Foundation	100,000	30,000
Additions to property and equipment	(111,233)	(59,108)
Net cash used by investing activities	<u>(29,301)</u>	<u>(39,124)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt issuance	80,000	-
Principal payments on long-term debt	(36,455)	(71,862)
Net cash from (used by) financing activities	<u>43,545</u>	<u>(71,862)</u>
NET (DECREASE) INCREASE IN CASH	(382,470)	247,693
CASH AND CASH EQUIVALENTS, beginning of year	<u>916,241</u>	<u>668,548</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 533,771</u>	<u>\$ 916,241</u>
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	<u>\$ 1,320</u>	<u>\$ 9,194</u>

OREGON RESEARCH INSTITUTE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of organization - Oregon Research Institute (ORI or the Institute) was incorporated under the laws of the State of Oregon, with the purpose of providing charitable, scientific and educational research. The Institute is supported primarily by research grants from the U.S. Department of Health and Human Services and the U.S. Department of Education. The Institute's primary facilities are located in Eugene, Oregon, with branch offices in Portland, Oregon; Albuquerque, New Mexico; Seattle, Washington; and Laredo, Texas.

Functional expenses - Expenses for the Institute are summarized according to the functional classification of program services and support services. The activities are segregated as follows:

Program Services:

Promoting Healthy Child Development: Researchers in this area examine the role that families, schools, friends, neighborhoods, and communities play in promoting the positive development of children, teens, and young adults. The research teams study what leads to social and academic success as well as what leads to problem behaviors, such as substance use and school failure. ORI scientists work with schools and parents to refine and adapt evidence-based programs such as literacy strengthening, social skills programs, and parent training programs.

Promoting Physical Health: ORI researchers are studying ways to keep people of all ages physically healthy. ORI's work in chronic illness prevention began in the 1980's with research to find ways to help people with diabetes manage their illness. The study and promotion of physical activity began in the 1990s with important longitudinal research on the factors which influence children and youth to become and remain physically active and with important clinical trials of the benefits of Tai Chi exercise for the elderly.

Promoting Psychological Health: ORI scientists study emotional and behavioral disorders as well as normative development and personality, in order to better understand factors that make people vulnerable to serious mental health disorders as well as factors that increase resilience, that is, that help people cope with daily challenges. An important component of research in this area is developing and evaluating interventions for the prevention and treatment of disorders.

Treating Tobacco, Alcohol and Illegal Drug Use: ORI's work in this area dates from research funding obtained in the late 1970's to study tobacco use in young people. Since then, research interests have broadened to include research on the prevention of alcohol and other drug use among youth. Two important ORI longitudinal studies - one on peer and family influences on youth drug use, and the other on young children's knowledge of and intent to use alcohol and drugs - have provided valuable guidance in the development of substance abuse prevention programs.

OREGON RESEARCH INSTITUTE NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Support services: These expenses relate to the administration, fiscal, personnel, and organization-wide functions necessary for the Institute to operate.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Institute and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Institute and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When revenue is received in the same fiscal period as the expenditures are incurred, the revenue is recorded as unrestricted net assets. In 2015 and 2014, the Institute had no temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations specify that the Institute maintain them permanently. Generally, the donors of these assets permit the Institute to use all or part of the income earned on any related investments for general or specific purposes. As of December 31, 2015 and 2014, the Institute had no permanently restricted net assets.

Properties and equipment (property) - Purchased properties are recorded at cost. Donated properties are recorded at their estimated fair market value on the date of gift. Expenditures for maintenance and repairs are expensed, while renewals and betterments are capitalized. Assets purchased with a cost of less than \$5,000 are not accounted for as property; however, the Institute maintains records for federal grant and insurance purposes. The cost and accumulated depreciation of property sold or otherwise disposed of are eliminated from the accounts and the resulting gains or losses are reflected in revenue and expenses. Depreciation and amortization are computed using straight-line methods over the estimated lives of the related assets ranging from 2 to 15 years. Depreciation and amortization expense was \$101,379 and \$168,872 for the years ended December 31, 2015 and 2014, respectively.

OREGON RESEARCH INSTITUTE NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition - The Institute recognizes revenue as qualified expenses are incurred, subject to the amount authorized in the grant agreement. Unreimbursed grant expenses due from grantor agencies are reflected in the financial statements as receivables and revenues.

Grants and contracts receivable - Grants and contracts receivable include amounts billed and unbilled on grants and other agreements through December 31. As of December 31, 2015 and 2014, no allowance for uncollectible receivables was deemed necessary by management, as all amounts are considered collectible.

Income taxes - The Institute is a tax-exempt organization and is not subject to federal or state income taxes, except for unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code. In addition, the Institute qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying financial statements.

The Institute follows the provisions of FASB Accounting Standards Codification (ASC) 740-10, *Income Taxes*, relating to accounting for uncertain tax positions and there is no financial statement impact to the Institute. The Institute recognizes the tax benefit from uncertain tax position only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Institute recognizes interest and penalties related to income tax matters in support expenses. The Institute had no uncertain tax positions at December 31, 2015.

Cash and cash equivalents - For purposes of the statement of cash flows, the Institute considers all highly liquid investments and debt instruments purchased with a maturity of three months or less to be cash equivalents. The balances at December 31, 2015 and 2014 are composed of two regional banks' demand deposit and money sweep accounts.

Grants and contracts - Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed costs could become a liability of the Institute. Management believes that unallowable costs, if any, would not be significant and would not have a material adverse effect on the Institute's financial position.

Concentration of credit risk - Financial instruments that potentially subject the Institute to credit risk consist of cash and receivables. The Institute's cash balances are with federally insured banks and periodically the Institute's deposits exceed insured limits. At December 31, 2015 and 2014, balances exceeded insured limits by \$485,063 and \$915,144, respectively. The Institute's receivables are primarily from governmental entities.

OREGON RESEARCH INSTITUTE NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value of financial instruments - The Institute has adopted Financial Accounting Standards Board ("FASB") authoritative guidance that defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Finance staff determine fair value measurement policies and procedures under the supervision of the Administrative Director and Finance Committee. These policies and procedures are reassessed annually to determine if current valuation techniques are still appropriate. A variety of qualitative factors are used to subjectively determine the most appropriate valuation methodologies. Methodologies are consistent with the market, income and cost approaches. Unobservable inputs used in fair value measurements are evaluated and adjusted on an annual basis, or as necessary based on current market conditions and other third party information.

The fair values of the Institute's financial instruments have generally been determined to fall within Level 1 of the valuation hierarchy, with the exception of funds held by The Oregon Community Foundation which are considered Level 3 investments. See Note 4 - Other Assets.

Support concentration - The U.S. Department of Health and Human Services funded \$12,675,734 and \$15,612,190 in the years ended December 31, 2015 and 2014, respectively. The U.S. Department of Education funded \$1,027,103 and \$1,277,387 in the years ending December 31, 2015 and 2014 respectively. This is 76.3% and 6.2% (83.4% and 6.8% for 2014), respectively, of the total revenue received. These grants cover project periods expiring at various dates through June 2020.

Subsequent Events - Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Institute recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Institute's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

OREGON RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Subsequent Events (Continued) - The Institute has evaluated subsequent events through March 14, 2016, which is the date the financial statements were issued.

Reclassifications- Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. Such reclassifications do not affect previously recorded net assets.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of the following:

	DECEMBER 31,	
	2015	2014
U.S. Department of Education	\$ 59,234	\$ 56,616
U.S. Department of Health and Human Services	442,731	389,181
Pass through grants	584,919	275,417
Other	7,743	3,802
	\$ 1,094,626	\$ 725,016

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	DECEMBER 31,	
	2015	2014
Facilities equipment	\$ 355,881	\$ 355,881
Technology equipment and software	412,453	311,445
Research equipment	131,442	121,218
	899,776	788,544
Less accumulated depreciation and amortization	(498,145)	(396,767)
	\$ 401,631	\$ 391,777

**OREGON RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - OTHER ASSETS

The Institute provides funds for the Oregon Research Institute Fund (the Fund) with the Oregon Community Foundation (OCF). OCF is the legal owner of the Fund. In accordance with a December 1999 agreement, OCF is required to make annual distributions of a portion of the value of the Fund to ORI. However, at the request of ORI, those distributions have been deferred until the fund reaches a specified level. Additionally, the agreement also grants to OCF the power to modify the restrictions and conditions of the Fund agreement to include the nature and timing of distributions as the OCF Board of Directors sees fit. This provision is considered variance power.

As of December 31, 2015, \$188,125 has been recognized in the Statement of Financial Position of the Institute, and is considered a beneficial interest in assets held by others (\$280,468 as of December 31, 2014). The beneficial interest is invested in the Boston Common Asset Management Fund, in a mix of United States equities, international equities, and fixed income instruments; all of which are traded in public markets. The fair value of the beneficial interest is recorded at current market value.

The following schedule summarizes the activity in the Fund, stated at fair value, for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 280,468	\$ 288,674
Increases:		
Transfers to OCF	5,566	7,903
Interest and dividend income on investments	4,193	2,190
Realized gain on investment	11,328	2,666
Unrealized gain (loss) on investment	(10,411)	11,778
Decreases:		
Transfers from OCF	(100,000)	(30,000)
OCF fees	<u>(3,019)</u>	<u>(2,743)</u>
Ending balance	<u>\$ 188,125</u>	<u>\$ 280,468</u>

OREGON RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – SHORT-TERM DEBT

The Institute maintains a line of credit for \$200,000 with a variable interest rate of 1.0 percentage point over the prime lending rate. However, under no circumstances will the interest rate on the line of credit be less than 5.0% per annum. The interest rate was 5.0% as of December 31, 2015 and 2014. The balance on the line of credit as of December 31, 2015 and 2014 was zero, and the line of credit was set to expire in July of 2016. The line of credit is collateralized with property and equipment. Subsequent to year end, the Institute renewed the line of credit increasing the available line to \$500,000 and extending the maturity date to July 2017.

NOTE 6 – LONG-TERM DEBT

	DECEMBER 31,	
	2015	2014
On December 31, 2012 the Institute initiated a note with a line of credit totaling \$181,240. The note is secured by equipment and accounts receivable, and it is payable to Pacific Continental Bank in monthly installments of \$3,384 at an annual fixed interest rate of 4.5% at December 31, 2015. The note matures in January 2018.	78,978	115,443
On November 30, 2015 the Institute initiated an \$80,000 note payable. The note is secured by equipment and accounts receivable, and it is payable to Pacific Continental Bank in monthly installments of \$2,365 at an annual fixed interest rate of 3.98%. The note matures in December 2018.	80,000	-
	158,978	115,443
Less current portion	(63,000)	(36,000)
	\$ 95,978	\$ 79,443

Principal maturity by year is as follows:

YEAR ENDING DECEMBER 31,	
2016	\$ 63,000
2017	66,000
2018	29,978
Thereafter	-
	\$ 158,978

OREGON RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Operating leases - The Institute is obligated under non-cancelable operating leases for office space and equipment. The leases generally provide for renewals on substantially the same terms and conditions as those in effect during the initial term. The total annual rent expense under all agreements was \$1,702,001 and \$1,685,154 for 2015 and 2014, respectively. Approximate minimum annual rental commitments are as follows:

<u>YEAR ENDING DECEMBER 31,</u>	
2016	1,714,000
2017	1,732,000
2018	1,650,000
2019	1,658,000
2020	1,948,000
Thereafter	<u>15,172,000</u>
	<u><u>\$ 23,874,000</u></u>

Total minimum annual rental payments have not been reduced by minimum sublease rentals in the future under non-cancelable subleases, as of December 31, 2015.

The Institute subleases office space under a non-cancelable operating lease. Total annual rent and common area maintenance income under the agreement was \$419,123 and \$396,242 for 2015 and 2014, respectively. Sublease income has offset occupancy expense in the Statement of Functional Expenses. Approximate minimum sublease income commitments are as follows:

<u>YEAR ENDING DECEMBER 31,</u>	
2016	352,000
2017	331,000
Thereafter	<u>-</u>
	<u><u>\$ 683,000</u></u>

NOTE 8 - RELATED PARTY TRANSACTIONS

Service Agreements - The Institute provides office space and certain administrative services for three Companies, two of which are affiliated with ORI. All three Companies are separately controlled Companies, however, some employees of the Companies are also employees of the Institute. For the years ended December 31, 2015 and 2014, service reimbursements under these agreements totaled \$88,050 and \$35,050, respectively. At December 31, 2015 and 2014, service reimbursements receivable totaled \$7,743 and \$3,802, respectively.

OREGON RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - RETIREMENT PLAN

The Institute makes contributions to tax sheltered annuities for all salaried employees who are one-half the full time equivalent or more. The annuities are established under Internal Revenue Code Section 403(b) which is available to certain tax exempt organizations. The Institute's contribution rate was 8.5% and 7.5% of the employee's salary in 2015 and 2014, respectively. For eligible employees who elect salary deferred contributions of at least 1% of their compensation, the Institute increases by 2% its contributions made on their behalf. Contributions to the plan were \$797,438 and \$787,790 in 2015 and 2014, respectively.

NOTE 10 - CONTINGENCIES

Grants - The Institute has grants with various organizations and government agencies which are subject to audit. Management believes that any liability which may result from these audits would not be material.

Legal - The Institute is a party to certain legal actions arising in the ordinary course of business. In the opinion of management, additional liabilities, if any, under these actions will not result in material charges against net assets.

NOTE 11 - INDIRECT ADMINISTRATIVE EXPENSES

Indirect administrative expenses have been allocated to the various programs. For the year ended December 31, 2015 and 2014, the indirect rate to on-site programs was 55.7%. The provisional rate granted by the Federal Government is 55.6% in 2015 and in 2014.

SUPPLEMENTARY INFORMATION

**OREGON RESEARCH INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
RESEARCH AND DEVELOPMENT CLUSTER				
DEPARTMENT OF EDUCATION				
<u>Direct Programs</u>				
Education Research	84.305		\$ 670,630	\$ -
Special Education - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324		356,473	154,540
TOTAL DEPARTMENT OF EDUCATION DIRECT PROGRAMS			1,027,103	154,540
<u>Pass-Through Program From:</u>				
University of Texas Health Science Center at Houston-Education, Research, Development, Dissemination	84.305	R305A140386	198,232	-
IRIS Media - Education Research, Development and Dissemination	84.305	R305A150046	62,871	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324	R324A120304	97,760	-
Board of Regents, University of Wisconsin System - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324	R324A120408	21,022	-
University of Louisville - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324	R324A150179	118,384	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Research and Innovation to Improve Services and Results For Children With Disabilities	84.324	R324A150138	26,726	-
TOTAL DEPARTMENT OF EDUCATION SUBRECIPIENT PROGRAMS			524,995	-
TOTAL DEPARTMENT OF EDUCATION ALL PROGRAMS			\$ 1,552,098	\$ 154,540
DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS)				
<u>Direct Programs</u>				
Innovations in Applied Public Health Research	93.061		\$ 232,286	\$ -
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077		11,467	-
Research and Training in Complementary and Alternative Medicine	93.213		238,177	4,511
Mental Health Research Grants	93.242		1,301,137	166,364
Alcohol Research Programs	93.273		868,384	135,739
Drug Abuse Research Programs	93.279		5,169,975	490,107
Cancer Cause and Prevention Research	93.393		782,228	3,434
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		1,197,144	17,478
Center for Research for Mothers and Children	93.865		796,387	164,427
Aging Research	93.866		2,078,549	463,541
TOTAL DHHS DIRECT PROGRAMS			12,675,734	1,445,601

OREGON RESEARCH INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2015

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS) (continued)				
<u>Pass-Through Program From:</u>				
University of Kansas Center for Research - Maternal and Child Health Federal Consolidated Programs	93.110	1R40MC26822	\$ 141,543	\$ -
University of South Carolina - Mental Health Research	93.242	5R01MH097699	305,503	-
DePaul University - Alcohol Research Programs	93.273	1R01AA022763	25,327	-
Arizona State University - Alcohol Research Programs	93.273	7R01AA022071	180,622	-
Brown University - Alcohol Research Programs	93.273	1R01AA023522	3,743	-
Family Works - Drug Abuse Research Programs	93.279	2R44 DA026658	58,125	-
Virginia Commonwealth University - Drug Abuse Research Programs	93.279	R01 DA031724	61,863	-
Regents of the University of Minnesota - Drug Abuse Research Programs	93.279	3U54DA031659	787,897	-
Oregon Health and Science University - Drug Abuse Research Programs	93.279	3R33DA035640	76,490	-
University of Connecticut - Drug Abuse Research Programs	93.279	5R01DA021898	14,135	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Drug Abuse Research Programs	93.279	1R01DA037628	135,720	-
Arizona State University - Drug Abuse Research Programs	93.279	5R01DA035832	216,137	-
Arizona State University - Drug Abuse Research Programs	93.279	5 R01DA007031	92,240	-
Board of Regents, University of Nevada, Reno - Mental Health National Research Service Awards for Research Training	93.282	R01 MH083740	2,489	-
Regents of the University of Minnesota - Cancer Research Programs	93.393	R01 CA141531	69,684	-
Klein Blundel, Inc. - Cancer Research Programs	93.393	R42 HD051244	1,017	-
Oregon Health and Science University - Cancer Treatment Research	93.395	5R01 CA1634740	78,449	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Arthritis, Musculoskeletal and Skin Diseases Research	93.846	R01 AR063713	12,489	-
Regents of the University of Colorado, University of Colorado Denver Urology and Hematology Research	93.847	5R18DK096387	19,546	-
University of Michigan - Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	1R01DK102532	14,261	-
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Aging Research	93.866	5R01AG046401	41,198	-
TOTAL DHHS SUBRECIPIENT PROGRAMS			<u>2,338,478</u>	<u>-</u>
TOTAL DHHS ALL PROGRAMS			<u>\$ 15,014,212</u>	<u>\$ 1,600,141</u>
ENVIRONMENTAL PROTECTION AGENCY				
<u>Pass-Through Program From:</u>				
Oregon State Board of Higher Education for and on behalf of the University of Oregon - Science To Achieve Results (STAR) Research Program	66.509	83575701	\$ 19,181	\$ -
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			<u>16,585,491</u>	<u>1,754,681</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 16,585,491</u>	<u>\$ 1,754,681</u>

OREGON RESEARCH INSTITUTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Oregon Research Institute under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Oregon Research Institute, it is not intended to and does not present the financial position, changes in net assets or cash flows of Oregon Research Institute.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Oregon Research Institute has elected not to use the 10 percent de minimus indirect rate allowed under the Uniform Guidance.

**REPORT OF INDEPENDENT AUDITORS 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***

The *Board of Directors*
Oregon Research Institute

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 Oregon Research Institute, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Oregon Research Institute'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oregon Research Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Oregon Research Institute'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. 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.

MOSS ADAMS LLP**REPORT OF INDEPENDENT AUDITORS 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 Oregon Research Institute'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.



Eugene, Oregon
March 14, 2016

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

The Board of Directors
Oregon Research Institute

Report on Compliance for Each Major Federal Program

We have audited Oregon Research Institute's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Oregon Research Institute's major federal program for the year ended December 31, 2015. Oregon Research Institute's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Oregon Research Institute's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Oregon Research Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Oregon Research Institute's compliance.

Opinion on Each Major Federal Program

In our opinion, Oregon Research Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.



**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE (Continued)**

Report on Internal Control Over Compliance

Management of Oregon Research Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Oregon Research Institute's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Oregon Research Institute's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Eugene, Oregon
March 14, 2016

**OREGON RESEARCH INSTITUTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of Major Federal Programs and Type of Auditor's Report Issued on Compliance for Major Federal Programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued on Compliance for Major Programs</i>
Various	Research and Development Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported