AGENDA

Call to Order

Roll Call

Approval of Minutes
  » Approval of December 21, 2001 Joint Committees Minutes 1

Action Items
  » OSU Shortfall
    A) Shortfall analysis by Talbot, Korvola and Warwick
    B) OUS Six-month Financial Report 6
  » Budget Re-balance

Discussion Items
  » Review of OUS Tuition Policies 14
  » OSU Redesign

Adjournment
OSU SIX-MONTH FINANCIAL REPORT

Oregon State University
Budgeted Operations—Education and General Funds
Summary Report Through December 31, 2001

Introduction

The purpose of this report is to communicate the fiscal status of the budgeted operating funds (Education and General Funds—E&G) of Oregon State University for the first six months of FY 2002 in accordance with the Fiscal Accountability Process (OSU) that was presented to the Joint Committees on Budget and Finance and System Strategic Planning in December, 2001. As a part of that process, OSU’s financial management was to provide the following information:

- A balance sheet and a report of actual revenues and expenditures compared to targeted revenues and expenditures at December 31, 2001
- Explanations for material variances from targets
- Management plans to address variances
- Future quarterly targets
- Explanations for adjustments to future targets

The attached financial statements, which were prepared by OSU, and accompanying notes, which were prepared by the Chancellor’s Office, present the Balance Sheet and the Statement of Revenues, Expenditures, and Other Changes in fund balance for the six-month periods ending December 31, 2001 and 2000. Future quarterly targets (projections) for the nine months ending March 31, 2002, and the year ending June 30, 2002, which were prepared by OSU, are also presented with the attached financial statements. In addition, a brief statement regarding these financial statements and projections was provided by OSU and is included below.

OSU Management did not provide revenue and expenditure targets for December, 2001 as requested. Therefore, no variance explanations or plans to address those variances were included or analyzed by the Chancellor’s Office. Since no prior targets were provided, no adjustments to future targets were reported or analyzed by the Chancellor’s Office. It should be noted that OSU Management has previously reported a projected budget shortfall of some $19 million for FY 2002. We were not provided with a reconciliation of this reported shortfall to the projected surplus reported in the attached financial statements. The firm of Talbot, Korvola, and Warwick, has
been engaged by the Board to do an independent analysis of the reported $19 million budget shortfall; their report is to be presented to the Board separately.

University’s Analysis of Operations

OSU budgeted operations show revenues of $95.9 million for the six months ended December 31, 2001 (compared to $91.8 million for the six months ended December 31, 2000); expenditures incurred for the same periods total $87.8 million and $85.1 million. The gain from budgeted operations for the six months ended December FY 2001 has improved by $1.4 million over the prior year ($8.1 million versus $6.7 million). These financial statements are net of Winter Term enrollment fees assessed in December, but not earned until January. [See note 2 to the financial statements.]

Institutional management has a plan in place for fiscal year 2002 involving reductions in both recurring and non-recurring expenditures, and includes deferring some initially planned 2002 expenditures to future years. Institutional management is in the process of balancing the FY 2003 budget. Concerns for Intercollegiate Athletics operations are discussed in a separate report.

Chancellor’s Office Review

Process

As stated in the Fiscal Accountability Process (OSU) noted above, the Chancellor's Office was to review the reports prepared by OSU to test the reasonableness of the amounts reported, the projections, and management's assumptions. This review was to include the following:

- Reconciliation of amounts reported to the accounting records
- Selected review of material journal entries made by OSU that affect the amounts reported
- Selected review of material interfund transfers
- Selected review of unusual amounts, trends, etc.
- Review of management's explanations of material variances for reasonableness
- Review of fiscal targets and material changes in such for reasonableness

We reconciled the December 31, 2001 amounts to the accounting records and performed selected reviews of material accounting entries and unusual amounts. Since no December 31 targets were
provided, no variances were noted. With the exception of the reported $19 million shortfall, no previous targets have been reported; therefore, no changes were reviewed.

**Analysis**

In general, the fiscal condition of the budgeted operating funds of OSU at December 31, 2001, remains stable. As in the previous year, revenues outpaced expenditures and cash and fund balances have grown. Fund balance was also increased through a redistribution of $5.4 million of the liability for compensated absences to the Statewide service functions and the self-supporting operations (see note 4 to the financial statements).

The University’s projections indicate that the fund balance will show an increase in the range of $1.9 million to $7.6 million at June 30, 2002, depending upon legislative action in the special session. The Chancellor’s Office prepared projections based on the trend analysis from prior years. These projections also show an increase in fund balance for FY 2002.

As disclosed in note 3 to the financial statements, the amount of E&G Funds expended on Athletics shows an increase of $0.5 million for the first six months of the year compared to the prior year as Athletic expenditures continue to rise. The Athletics cash account remained overdrawn some $3.2 million at December 31, 2001. That overdraft takes into account E&G Funds of $8 million advanced to Athletics as of December 31, 2001, to cover short term cash requirements. At December 31, 2000, the cash overdraft stood at $10.0 million. No advances of E&G Funds were outstanding at that time. The University will depend on its distribution from the PAC-10 Conference in June 2002 to repay the advances due at year-end. (Monies received from the PAC-10 in June of 2001 totaled approximately $5.6 million.) Unless the results from operations improve, additional subsidies from education and general funds may be necessary if Athletics is to meet its deficit reduction target at June 30, 2002. Additionally as of June 30, 2001, the University was some $0.6 million short of meeting its deficit reduction commitment. (See separate report on Athletics.)

With the exception of potential increases in the amount of E&G Funds expended on Athletics operations, and the possibility that legislative action in the special session may result in further reductions of revenues beyond those currently projected, the University’s E&G operations are expected to produce positive results and an increase
in fund balance at June 30, 2002. Cash balances in the E&G Funds are another concern. The Athletics cash drain on the General Fund could result in cash flow problems for the E&G Funds by year-end.

Summary

The fiscal condition of OSU’s Budgeted Operating Funds at December 31, 2001 is positive. Revenues have outpaced expenditures by $8.1 million for the first six months of the fiscal year, which is a $1.4 million improvement over the prior fiscal year. The University’s projections indicate that the fund balance will show an increase in the range of $1.9 million to $7.6 million at June 30, 2002, depending upon legislative action in the special session. The Chancellor’s Office projections, based on prior years trend analysis, also indicate an increase in fund balance for FY 2002.

COMMITTEE ACTION:

BOARD ACTION:

(Note: For a hard copy of pages 10-13 of the Joint Committees docket, “Oregon State University Balance Sheet: Budgeted Operating Funds Excluding State-Wide Activities As of December 31, 2001 and 2000,” please contact the Board’s office.)
Notes to Financial Statements
As of December 31, 2001 and 2000*

1. Basis of Presentation

The statements include only the operations of the Education and General Funds (Fund Group 001000 –019999). These funds primarily include general operations, cost sharing on research grants, summer session, and continuing education for credit. The operations of the Statewide service functions—Agricultural Experiment Stations, Extension Service, and Forest Research Laboratory—are excluded. These statements are for internal use; they are not purported to be presented in accordance with generally accepted accounting principles.

2. Winter Term Tuition, Fees, and Remissions

The results of operations through December 31 of each fiscal year are presented net of Winter Term enrollment tuition and fees assessed in December but not considered earned until January when the term begins. Accordingly, such tuition and fee activity has been excluded from accounts receivable, enrollment revenues, and fee remissions in the accompanying statements. Winter Term enrollment tuition and fees assessed in December totaled $25.2 million in the current fiscal year, and $19.7 million in the prior fiscal year.

3. Athletics Advances and Education and General Fund Expenditures

The University has advanced $8,000,000, as of December 31, 2001, from its E&G funds to Athletics to cover Athletics’ cash shortages and operating expenditures. The advances are treated as interest bearing loans and are to be paid back on or before September 30, 2002.

Expenditures of E&G Funds, shown in the accompanying Statement of Revenues, Expenditures, and Other Changes, include $2,640,936 spent on athletics in the six months ended
December 31, 2001 (compared to $2,114,844 spent on athletics in the six months ended December 31, 2000). These amounts represent E&G support of athletics and are not expected to be paid back. The budgeted amount of E&G funds to be provided to Athletics for Fiscal 2002 is $4,269,416 (the actual amount for Fiscal 2001 was $4,333,484).

4. Redistributed of Liability for Compensated Absences and Increase in Fund Balance

During Fiscal Year 2001-2002, the University has distributed a portion of its liability for compensated absences from the Education and General Funds (E&G Funds) to the Statewide service functions and self-support operations, including Athletics. The effect of this redistribution was to decrease the liability and increase the fund balance of the E&G Funds by $5,430,529 (including $308,715 transferred to Athletics). The adjustment has been reflected in the accompanying statements as a restatement of beginning fund balance.

5. Projections

Projected revenues from Government Appropriations for Fiscal 2002 are estimated at $88,910,993. This estimate represents $94,586,172 per the December 2001 allotment plan, less $5,675,179, the University’s anticipation of a 6% cut by the legislature during the expected special session.

(*Unaudited - Prepared for Management Purposes Only)
Fund, the adoption of this model incorporated a major change in how enrollment was funded and how tuition was managed among the institutions. However, the tuition policies, which had been developed over decades to fit with the previous budget allocation system, have not been updated to support the new financial relationships.

The presentation at this meeting is part of a several-step process designed to assist the Board in understanding the critical issues related to setting tuition policies. This presentation will be followed up at the meeting in April, in which the staff will report to the Board on Financial Aid and Fee Remissions. The desired outcome of these presentations will be to facilitate discussion and decisions, at the April meeting, of the Board's desired tuition policy revisions.

The results of this process will allow the staff to develop specific policy recommendations that will follow one or more processes: Incorporating revisions to in the 2002-03 Academic Year Fee Book in July, as appropriate; incorporating budgetary impacts into the 2003-2005 biennial budget in July; and/or, leading to further study for later consideration.

The detail of the staff report is contained in the attached slide presentation to be reviewed and discussed at the meeting.

(No Board Action Required)

Note: For a hard copy of the PowerPoint presentation attachment, “Tuition Strategy Discussion Issues” from the Joint Committees docket, please contact the Board’s office.