Oregon University System
Annual Financial Report
for the Year Ended June 30, 2004
Discussion Outline

- Changes in Financial Statements for FY’04
- Financial Analysis
  - Comparative Analysis
  - Key Ratios
- Comments and Questions
Changes in Financial Statements

- Implementation of GASB Statement 39
  - Required inclusion of university foundation financial information as separate component unit financial statements
  - Foundation information included because assets are for benefit of related universities
  - Foundations are legally separate and under separate governance
Financial Analysis – Comparative Analysis
Financial Analysis

- Significant financial changes have been explained in the Management’s Discussion and Analysis section of the report
- Provided handout that briefly explains significant variances for future reference
- Will briefly discuss major financial changes within the statements
- Focus discussion on analysis of financial health as of June 30, 2004
Cash balances increased primarily due to:

- Positive operating results
- Maturity of Short-Term Investments
- Increase in Accounts Payable - accrual of legislated PERS savings
- Increase in Deposits - delays in PERS payments
- Increase in Deferred Revenue - deferral of Nongovermental Grants and Contracts revenues
Financial Analysis – Statements of Net Assets (continued)

- Significant increase in Securities Lending activity by the state – not under the direction or control of OUS

- Capital Assets, Net of Accumulated Depreciation increased due to construction of new buildings

- Long-Term Liabilities increased due to issuance of bonds to fund capital construction
Financial Analysis – Statements of Revenues, Expenses, and Changes in Net Assets

- Significant Changes from Year to Year:
  - Increase in Tuition and Fee Income due to enrollment and tuition rate increases
  - Expenses remained flat due to funding uncertainty
  - Operating Loss declined
  - Decrease in Government Appropriations due to State budget reductions
Financial Analysis – Statements of Cash Flows

- Significant Changes from Year to Year:
  - Changes in cash flows track with changes in net assets and revenues and expenses except for:
    - Cash flows from Other Gifts and Private Contracts increased while revenues decreased – due to deferral of revenue – monies received not yet spent
    - Cash flows from Net Sales of Investments increased as Treasury advised holding cash while interest rate climate improved
  - Negative cash flow from operations – Expected due to classification of appropriations
FINANCIAL ANALYSIS - KEY RATIOS
Ratio Analysis

- Employ key financial ratios to help assess the overall financial health of OUS
- Use approach set forth by KPMG, LLP and Prager, McCarthy & Sealy, LLC in:
- Approach identifies four financial ratios that have been used and refined within public higher education over the course of many years.
## Summary of Four Ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Question</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - Primary Reserve Ratio</td>
<td>Are resources sufficient...to support the mission?</td>
<td>Expendable Net Assets / Total Expenses</td>
</tr>
<tr>
<td>2 - Return on Net Assets Ratio</td>
<td>Does financial asset performance support the strategic direction?</td>
<td>Change in Net Assets / Total Net Assets</td>
</tr>
<tr>
<td>3 - Net Operating Revenues Ratio</td>
<td>Do operating results indicate the institution is living within available resources?</td>
<td>Net Operating Revenues/Total Revenues</td>
</tr>
<tr>
<td>4 - Viability Ratio</td>
<td>Is debt managed strategically to advance the mission?</td>
<td>Expendable Net Assets / Long-Term Debt</td>
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Ratios Calculated at 6/30/04

- The following presents calculation and discussion of the four ratios applied to OUS in total.
- Each ratio is presented both excluding and including Foundation data. This is done to acknowledge the resources of the Foundation while recognizing their separation, both legally and in terms of governance.
## #1 - Primary Reserve Ratio

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### Description

- Assesses the status of financial resources:
  - Financially healthy as of balance sheet date?
  - Financially better off at the end of the year?
- Trend of ratio is important – decreasing trend indicates a weakening financial condition
#1 - Primary Reserve Ratio (continued)

OUS Total
(excluding foundation data)

OUS Total
(including foundation data)
#1 - Primary Reserve Ratio (continued)

- FY ’04 Observations:
  - Data, both excluding and including Foundations, shows adequate reserves
  - Three-year average indicates adequate reserves
  - Trend is positive and indicative of health
#2 - Return on Net Assets Ratio

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**Description**

- Determines whether institution is financially better off than in previous years by measuring total economic return - can be evaluated against CPI to ensure stability
- Long-term future depends on replacing and enhancing capital base - managing resource inflow streams is essential to achieving mission
- Temporary decline may be appropriate and warranted if it reflects a strategy to better fulfill the mission
- Improving trend indicates increasing net assets and ability to set aside financial resources for future
#2 - Return on Net Assets Ratio (continued)

OUS Total
(excluding foundation data)

OUS Total
(including foundation data)
FY ’04 Observations:

- Data including Foundations shows improvement in 2004 due to significant improvement in investment markets in fiscal 2004.
- Three-year average return on net assets indicates return better than inflation – growth of asset base in real dollars.
- Trend of last two years indicates positive growth.
#3 - Net Operating Revenues Ratio

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**Description**

- Positive ratio indicates an operating surplus for the year
#3-Net Operating Revenues Ratio (cont’d)

OUS Total
(excluding foundation data)

OUS Total
(including foundation data)
FY ’04 Observations:

- Data, both with and without Foundations shows improvement over three-year period. Primarily due to expense reductions resulting from budget uncertainties

- Three-year average and trend indicate OUS, as a whole, is living within its means
#4 - Viability Ratio

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**Description**

- Are sufficient expendable net assets available to cover debt at the balance sheet date?
#4 - Viability Ratio (continued)

OUS Total
(excluding foundation data)

OUS Total
(including foundation data)
#4 - Viability Ratio (continued)

- **FY ’04 Observations:**
  - Data excluding Foundations shows decline over three-year period. Primarily due to the issuance of long-term debt over the period.
  - Data including Foundations shows similar decline over three-year period.
  - Three-year average indicates relatively low level of leverage.
  - Downward trend due to increases in long-term debt outpacing growth in Expendable Net Assets.
Next Steps

To improve accountability, provide greater relevance, and more fully answer the questions posed, begin work with campus administrations to:

- perform this ratio analysis at an institutional level and incorporate peer data
- examine feasibility of applying this ratio analysis to other campus entities (e.g., Auxiliary Enterprises including Housing and Intercollegiate Athletics)
- connect to campus master plan/strategic plan (including operating and capital needs) and establish ratio targets
Conclusion

- OUS Ended the Year in Sound Fiscal Condition
- Received Clean Audit
- Received Gold Star for Excellence in Financial Reporting
- Acknowledge Key Staff