

**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE  
OSU-CASCADES CAMPUS, BEND, OREGON  
SEPTEMBER 9, 2005**

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**MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE  
OSU-CASCADES CAMPUS, BEND, OREGON**

**SEPTEMBER 9, 2005**

**1. CALL TO ORDER/ROLL CALL/WELCOME**

Chair Don Blair called the meeting of the Finance and Administration Committee of the State Board of Higher Education to order at 7:32 a.m.

**The following Committee members were present:** Don Blair, Henry Lorenzen, and John von Schlegell.

**The following Board members were also present:** Tim Nesbitt, Geri Richmond, and Tony Van Vliet (arrived at 8:26 a.m.).

**OUS staff present included:** George Pernsteiner, Michael Green, Ryan Hagemann, Jay Kenton, and Patricia Snopkowski.

**Others present included:** Presidents Dan Bernstine, Martha Anne Dow, Khosrow Fatemi, John Minahan, and Elisabeth Zinser. OSU Vice President Mark McCambridge, UO Vice President Frances Dyke, and OHSU Vice Provost Sam Connell (arrived at 8:15 a.m.) were also present.

Meeting attendees also included OUS staff, faculty, institution representatives, the press, and interested observers.

**2. APPROVAL OF MINUTES**

- FBAPRE Committee Meeting, July 15, 2005

Chair Blair called for a motion to approve the minutes of the July 15, 2005, FBAPRE Committee meeting. Director Lorenzen moved approval of the minutes and Director von Schlegell seconded the motion. All in favor: Lorenzen, von Schlegell, and Blair. Opposed: none. Motion passed.

**3. ACTION ITEMS**

**a. Quarterly Audit Update**

**DOCKET ITEM:**

As outlined in the Oregon State Board of Higher Education Audit Charter, the Oregon State Board of Higher Education (the Board) has oversight responsibility to ensure that



Oregon University System (OUS) management is performing their duties of financial reporting, ensuring effective and efficient internal controls, and complying with laws, regulations, and ethics. This report provides information regarding the following audit charter provisions:

- The Oregon State Board of Higher Education shall review, at least semi-annually, the results of Internal Audit recommendations and follow-up procedures. More frequent meetings will be held as deemed necessary.
- The Board shall have and exercise all other powers, as it shall deem necessary, for the performance of its duties.

Reports Issued from February 2005 through August 12, 2005

All 10 reports issued contain management’s written response indicating that steps are being taken to address internal control recommendations.

| <i>AUDIT TYPE</i>                               | <b>Institution</b> | <b>Title</b>  | <b>Rating</b>     |
|---|--------------------|---|-------------------|
| <b>Scheduled</b>                                | WOU                | Physical Plant  | Needs Improvement |
|   | WOU                | Student Affairs   | Satisfactory      |
| <b>Management Advisory/<br/>Special Request</b> | PSU                | Native American Student & Community Center Construction | Needs Improvement |
|   | WOU                | Central Administration Internal Controls                | Needs Improvement |
|   | SOU                | Financial Aid/FERPA                                     | Needs Improvement |
|   | OUS                | Fiscal Accountability Framework                         | Needs Improvement |
| <b>Financial Irregularity</b>                   | OSU                | Fish and Wildlife Leave Records                         | Unsatisfactory    |
|   | PSU                | Library Payroll Irregularity                            | Unsatisfactory    |
|   | PSU                | Food Industry Leadership Center                         | Unsatisfactory    |
|   | WOU                | Associated Students of Western Oregon University        | Unsatisfactory    |

**Ratings** – The rating is limited to the selected financial, compliance, and operational areas examined at the time of the audit.

**Satisfactory** – Controls are in place and functioning effectively. (Irregularity - allegation was not substantiated and controls are satisfactory.)

**Needs Improvement** – Controls exist, but some controls are not functioning and/or additional controls are needed. (Irregularity - allegation was not substantiated, but controls need improvement.)

**Unsatisfactory** – Some controls exist, but they are generally not functioning as intended and/or additional controls are needed. (Irregularity - allegation was substantiated and controls improvements are needed.)

Follow-up Reports Issued from February 2005 through August 12, 2005

The Internal Audit Division issued 14 follow-up reports during the period being reported. Eight reports indicate 100 percent compliance; the remaining six reports contain management’s written response indicating that steps are being taken to address the open recommendations.

| Institution & Title                         | Original/Open Recommendations | Implemented | In Progress | Not to be Implemented | Percent Implemented |
|---|-------------------------------|-------------|-------------|-----------------------|---------------------|
| OSU University Press                        | 2                             | 0           | 2           | 0                     | 0%                  |
| OSU Transportation Services                 | 1                             | 0           | 1           | 0                     | 0%                  |
| PSU Extended Studies                        | 4                             | 2           | 2           | 0                     | 50%                 |
| EOU Computing & Telecommunications          | 2                             | 1           | 1           | 0                     | 50%                 |
| UO East Asian Language & Literatures        | 3                             | 2           | 1           | 0                     | 66%                 |
| OSU Animal Sciences                         | 3                             | 2           | 1           | 0                     | 66%                 |
| UO Computer & Information Science – Payroll | 1                             | 1           | 0           | 0                     | 100%                |
| OSU College Forests                         | 2                             | 2           | 0           | 0                     | 100%                |
| PSU Budget Monitoring                       | 2                             | 2           | 0           | 0                     | 100%                |
| WOU Academic Directors Division             | 5                             | 5           | 0           | 0                     | 100%                |
| SOU RVTV Follow-up II                       | 2                             | 2           | 0           | 0                     | 100%                |
| EOU Library                                 | 2                             | 2           | 0           | 0                     | 100%                |
| EOU School of Arts & Sciences               | 3                             | 3           | 0           | 0                     | 100%                |
| OIT School of ETM                           | 5                             | 5           | 0           | 0                     | 100%                |



Status of IAD 2005 Calendar Year Audit Plan as of August 2005

|                       | <b>Systemwide and Chancellor's Office</b>   | <b>UO</b>  | <b>OSU</b>  | <b>PSU</b>  | <b>WOU</b>  | <b>SOU</b>  | <b>EOU</b>  | <b>OIT</b>  |
|-----------------------|---|--|---|---|-------------|-------------|-------------|-------------|
| <b>REPORTS ISSUED</b> |   |  |   |   |             |             |             |             |
| <b>IN PROGRESS</b>    | <ul style="list-style-type: none"> <li>• Construction*</li> <li>• Human Resources*</li> <li>• Payroll*</li> </ul>                   | <ul style="list-style-type: none"> <li>• Network for Education and Research in Oregon (NERO)</li> <li>• Intellectual Property Management</li> <li>• Monitoring of Research Grant Expenditures</li> </ul> | <ul style="list-style-type: none"> <li>• Intellectual Property Management</li> <li>• Monitoring of Research Grant Expenditures</li> </ul> | <ul style="list-style-type: none"> <li>• Intellectual Property Management</li> <li>• Monitoring of Research Grant Expenditures</li> </ul> | • Athletics | • Athletics | • Athletics | • Athletics |
| <b>NOT STARTED</b>    | <ul style="list-style-type: none"> <li>• Budget Monitoring</li> <li>• Cashiering/Cash Management and Treasury Operations</li> </ul> | <ul style="list-style-type: none"> <li>• Conflict of Interest Reporting and Monitoring</li> </ul>  | <ul style="list-style-type: none"> <li>• Conflict of Interest Reporting and Monitoring</li> </ul>   | <ul style="list-style-type: none"> <li>• Conflict of Interest Reporting and Monitoring</li> </ul>   |             |             |             |             |

\* Testing to be completed by external auditors (Moss Adams and Secretary of State Audits Division).

Note: The UO, OSU, and PSU Athletics Departments will be reviewed as part of the NCAA agreed upon procedure engagement contracted to Moss Adams, Certified Public Accountants.

|                                 | <b>CO</b>  | <b>UO</b>   | <b>OSU</b>  | <b>PSU</b>   | <b>WOU</b>   | <b>SOU</b>  | <b>EOU</b>  | <b>OIT</b>   |
|---------------------------------|--|---|---|--|--|---|---|--|
| <b>FOLLOW-UP REPORTS ISSUED</b> |  | <ul style="list-style-type: none"> <li>• Computer &amp; Information Science - Payroll</li> <li>• East Asian Languages &amp; Literatures</li> </ul>                    | <ul style="list-style-type: none"> <li>• College Forests</li> <li>• University Press</li> </ul>                               | <ul style="list-style-type: none"> <li>• Extended Studies</li> </ul>   | <ul style="list-style-type: none"> <li>• Academic Directors Division</li> </ul>  | <ul style="list-style-type: none"> <li>• Rogue Valley Community Television</li> </ul> | <ul style="list-style-type: none"> <li>• Library</li> <li>• Computing &amp; Telecommunications</li> </ul> |  |
| <b>FOLLOW-UPS IN PROGRESS</b>   |  | <ul style="list-style-type: none"> <li>• Computer &amp; Information Science Irregularity (2 reports)</li> <li>• College of Arts &amp; Sciences (2 reports)</li> </ul> | <ul style="list-style-type: none"> <li>• Agricultural Experiment Stations</li> <li>• Extension Services Operations</li> </ul> | <ul style="list-style-type: none"> <li>• College of Engineering &amp; Computer Science</li> <li>• Athletics Equipment</li> <li>• University Place</li> </ul> |  | <ul style="list-style-type: none"> <li>• Physical Plant</li> </ul>                    |   | <ul style="list-style-type: none"> <li>• Facilities</li> </ul> |
| <b>FOLLOW-UPS NOT STARTED</b>   | <ul style="list-style-type: none"> <li>• ETIC</li> </ul> |   |   |  | <ul style="list-style-type: none"> <li>• Fund Balance Monitoring</li> <li>• Physical Plant</li> <li>• Student Affairs</li> <li>• Central Operations</li> </ul> |   |   |  |

Staff Recommendation to the Committee:

Staff recommended that the Committee review and approve the Internal Audit Division progress report and plan.

COMMITTEE DISCUSSION AND ACTION:

Chair Blair called on OUS Director of Internal Audit Patricia Snopkowski for the Quarterly Audit Update. Snopkowski stated that the information provided in the audit update would assist the Committee in its oversight role. She mentioned that the Committee would have the opportunity to comment on the Internal Audit Division's activities, as well as the measures management had been taking to improve internal controls. Snopkowski offered that she would go over three items in her presentation: first, the reports with less than a satisfactory rating and the follow-ups with open audit recommendations, second, the audit plan and updates regarding recruitment, and third, the audit planning process for the next calendar year.

Snopkowski started with the audit reports, noting that the Internal Audit Division (IAD) issued ten reports in the period outlined. She observed in the scheduled audits, IAD issued two reports, with one receiving a needs improvement rating. Snopkowski mentioned that IAD reviewed the facilities operations at all of the regional campuses and that at Western Oregon University, the managerial reports received by the vice president for finance and administration were not adequate to ensure monitoring of project and fiscal status of projects. Snopkowski added that a new reporting system had been set up at Western Oregon University.

Snopkowski noted IAD performed four special audits over the past six months. She stated that Portland State University requested an audit of a specific construction project as a new Assistant Director of Facilities was joining the campus. She observed that the construction contractor did over-bill Portland State for various items and that IAD and PSU management were working with the contractor to ensure recovery. She added that the new Assistant Director of Facilities was working to implement internal controls outlined by IAD. Chair Blair asked if the money had been recovered and Snopkowski noted that there was a good chance of recovering the money. Chair Blair asked about the 10 percent on change orders and asked Snopkowski if these were planned and she replied that IAD did not analyze that aspect. Director Lorenzen added that there was a great deal of ambiguity with these types of contracts. Chair Blair noted that with the substantial investment made by the Legislature for OUS capital construction, a careful control of those investments would be important.

Snopkowski turned to the second special request, explaining some issues with the central controls of human resources at WOU. She noted exit procedures, background check procedure, reports of payroll transactions, and inventory procedures needed improvement. She observed that WOU management documented that the IAD recommendations had been implemented in the past six months. Chair Blair noted, from the report, some discrepancies regarding computer equipment and asked if there was evidence of lost assets. Snopkowski answered there was not and turned to the third

special audit at SOU. Snopkowski explained that a parent complained regarding a student refund. She noted that the Chancellor and SOU president asked IAD to review whether the refund was accurate. Snopkowski stated that there were some issues regarding how the cashier's office provided information to the parents and that SOU has changed its procedure regarding written consent forms and sharing passwords. Director Lorenzen asked about passwords and Snopkowski stated that OUS does not encourage students to share their passwords with parents.

Snopkowski turned to the final special request. She explained IAD conducted a global project for the System, emerging from the fiscal accountability project that the System took on a couple of years ago. Snopkowski offered there were several recommendations and they would compliment the accountability project on which Vice Chancellor Jay Kenton was working. The report, she noted, looked at existing policy and necessary clarifications, particularly authority levels at the campus, self-assessments, and training of department heads.

Snopkowski moved on to the financial irregularities audits, observing that IAD issued four reports in the past six months. First, she turned to a substantiated complaint at OSU regarding leave records for seasonal employees of the Department of Fish and Wildlife. Snopkowski observed that the leave sheets were reduced without the knowledge of the employees and that there was a lack of fiscal review by the department head. She stated IAD was confirming leave balances, OSU management would be returning to the college to ensure issues were addressed, and that IAD would conduct a follow-up in 2006. Chair Blair asked if IAD knew why it took place and Snopkowski offered that seasonal employees were accumulating leave balances, there was not enough money in the grant to pay out the balance, and there was an incentive to zero out the balances before the employees returned, which was not appropriate. Vice Chancellor Kenton added that there was some question as to whether seasonal employees were entitled to leave and that human resources directors were asked to look into the issue.

Snopkowski turned to the second report from PSU. She noted that there was a payroll fraud when a library employee altered a family member's payroll records. She stated that there was a lack of segregation and fiscal review during a period of transition that resulted in \$6,100 in fraudulent payroll charges. Snopkowski added, however, system controls have been put into place, the employee had resigned from the university, and the funds had been repaid. Snopkowski continued with a second audit from PSU. She explained in the second report that two food industry leadership center employees had been charging unallowable expenses of \$3,200 and had received \$19,000 in questionable supplemental wage agreements. She observed that the PSU management was still reviewing the matter to determine appropriate personnel actions and what adjustment to internal controls would be necessary.

The final financial irregularities audit, Snopkowski noted, was from WOU. She explained that administrative personnel of the Associated Students of Western Oregon University received personal benefits and purchased unauthorized gifts with no valid business

purpose in the amount of approximately \$3,700. She noted that there was a lack of fiscal review and the student treasurer was not getting the detailed information necessary to execute the position. Snopkowski added that the employee was terminated and the matter was referred to the district attorney. Chair Blair asked Snopkowski if she was comfortable with the actions taken in the reports and she stated she was, although the PSU food industry leadership center matter was still open. She shared that she felt an appropriate tone was set. Chair Blair asked if there was consistency across the campuses with regard to the personnel actions and Snopkowski answered that she believed there was consistency.

Snopkowski moved to the follow-up reports next, observing that IAD conducted 14 over the past six months. She noted that she would not rank any of the open follow-up audits as high risk. Snopkowski added that all issues had been addressed, with the exception of OSU's open items, which are to be completed by the end of the year. She moved to the status of regularly scheduled audits for 2005, observing that IAD would probably not get to audits that have not been started yet. Chair Blair asked Snopkowski how many audit areas were in the audit universe and she answered 226. Chair Blair confirmed that fourteen audits, of the audit universe of 226 units, would be completed this year and Snopkowski replied he was correct. Snopkowski observed that IAD has started the effort to recruit six new staff members and that it was interviewing for two positions that month. Director von Schlegell asked how many auditors were on staff and Snopkowski replied six. He asked how many would be on staff after the recruitment and Snopkowski answered 13. Chair Blair asked how many new auditors Snopkowski expected by the end of the fiscal year and she replied three this calendar year and three more in 2006. Director von Schlegell added that the internal audit function would be even more important as the System becomes more decentralized.

Snopkowski also observed that IAD would be starting its annual campus visits to perform the risk analysis necessary to craft the 2006 audit plan. She noted that she would appreciate input from the Board on the items that it would like reviewed. Chair Blair shared that he was pleased that the university presidents were willing to engage IAD and that there was a good partnership between IAD and the institutions. He noted, however, in reviewing the reports, he was concerned about policy gaps. Chair Blair stated that the Board needed to figure out how to create a stronger control environment. He noted that he would prefer the need for fewer auditors because a tight control environment was working. Director Richmond echoed Chair Blair's comments, noting the turnover of department heads and the necessity of training. Snopkowski replied that OUS staff discussed the fiscal accountability report with campus vice presidents and included the importance of training department heads.

After a brief break, Chair Blair returned to the Quarterly Audit Update. Director von Schlegell asked if there were personnel repercussions to the unsatisfactory audit findings and Snopkowski mentioned that there were pending personnel actions with regard to the financial irregularities audits. Chair Blair asked whether there would be personnel actions in the case of an egregious internal control breakdown and Snopkowski replied yes. Chair Blair noted that one of his standard questions was

whether Snopkowski was comfortable with the ultimate outcome and Director von Schlegell asked whether there was a standard process to deal with personnel actions. Snopkowski observed that each campus was different, but through communication and shared information, the actions have been consistent and the presidents had set a good tone. Acting Chancellor Pernsteiner added that the presidents reinforced that consistency came through working with IAD and Snopkowski on a regular basis. Chair Blair stressed that the Committee was relying on Snopkowski to see the patterns because the Committee was receiving reports. Chair Blair observed that the System should connect audit reports to the performance accountability of individual managers.

Chair Blair called for a motion to accept the Quarterly Audit Update report as included in the docket materials. Director Lorenzen moved acceptance of the report and Director von Schlegell seconded the motion. All in favor: Lorenzen, von Schlegell, and Blair. Opposed: none. Motion passed.

### **b. Managerial Reporting—Quarterly Managerial Report**

#### DOCKET ITEM:

Attached are the quarterly management reports as of June 30, 2005. After reviewing the Budget Projections Summary received from each university and comparing prior year results, we noted the following:

#### *Education and General – Limited*

Systemwide, the adjusted budget anticipated an ending fund balance of \$88 million—a planned \$22 million decrease. However, the actual ending fund balance of \$110 million was unchanged from the prior year.

While the Systemwide fund balance was unchanged, fund balances changed significantly at some OUS universities and the Chancellor's Office. From a year ago, the fund balance decreased at WOU by 49 percent and at the Chancellor's Office by 33 percent, but increased at UO by 54 percent. Changes in fund balances at other universities ranged from –5 percent to +17 percent.

All universities and the Chancellor's Office under-projected their ending fund balance in the March 31, 2005, quarterly reports. Please refer to the explanatory notes on the institution and Chancellor's Office reports for additional information.

Tuition and fee revenue of \$421 million was up 12 percent from one year ago and was 102 percent of the adjusted budget. Comparison of actual tuition and fee revenue to the adjusted budget for each university ranged from 96 percent to 108 percent. Other revenue was up 12 percent from one year ago—increasing from \$91 million to \$101 million. This was \$10 million higher than last year and \$8 million higher than the \$93 million adjusted budget. The increase was mainly due to a one-time legislatively provided benefit subsidy, increased expenditures on federal grants driving an increase

in the indirect cost recovery, and increased federal appropriations draw-downs by the statewide public service units.

Total expenses and transfers out of \$846 million were up by 5 percent over a year ago—generally attributable to a 7 percent increase in payroll costs and slight decreases to supplies and services expenditures. The ending fund balance for all universities fell within the Board directed reserve level of 5-15 percent of operating revenue. The Chancellor's Office ending fund balance exceeds the recommended reserve level due to several reasons. Since the Chancellor's Office operating revenue has been reduced significantly, the percentage of fund balance to operating revenues automatically increases as a function of the formula. In addition, the ongoing transition of activities to universities, and the delay of the \$1.5 million CAPITAL Center roof repair until fiscal year 2006 give rise to the fund balance measure being high relative to the policy guidelines.

In total, the Education and General Limited Program expenditures for the 2003-2005 biennium were within the General Fund and Other Funds limitation authorized by the Legislatively Adopted Budget (LAB).

#### Auxiliary Enterprises

Systemwide, Auxiliary Enterprises had total revenue of \$254 million and expenditures of \$265 million, resulting in \$11 million of expenditures over revenue. However, the auxiliary enterprise fund balances increased from \$166 million to \$186 million due to the year-end additions of new auxiliary enterprise buildings and real property improvements, net of related debt. Please refer to the explanatory notes on the institution and Chancellor's Office reports for additional information.

#### Designated Operations, Service Departments, Clearing Funds

The ending fund balance is higher than the adjusted budget by \$4.5 million. Please refer to the explanatory notes on the institution and Chancellor's Office reports for additional information.

#### Staff Recommendation to the Board:

Staff recommended that the Board accept the Quarterly Management Report for June 30, 2005. The next management reports for the first quarter ended September 30, 2005, are scheduled to be presented to the Board in November 2005.

OUS Budget Projection Summary

As of the Quarter Ending June 30, 2005  
For the Fiscal Year Ended June 30, 2005

| COMBINED OUS<br><small>(in thousands of dollars)</small>          | Year-to-Date Actual |                 |                              | Budget           |                  | Actual to Budget          |                             | Notes |
|---|---------------------|-----------------|------------------------------|------------------|------------------|---------------------------|-----------------------------|-------|
|   | YTD Actual          | % of Budget YTD | % $\Delta$ Current/Prior YTD | LAB Budget       | Adjusted Budget  | Variance from Adj. Budget | $\Delta$ Since Prior Report |       |
| <b>EDUCATION &amp; GENERAL - LIMITED</b>                          |                     |                 |                              |                  |                  |                           |                             |       |
| <b>Beginning Fund Balance</b>                                     | 109,951             |                 |                              | 109,951          | 109,951          | 0                         | 0                           |       |
| State General Fund  | 312,295             | 100%            | -3%                          | 312,295          | 312,294          | 1                         | (153)                       |       |
| Tuition & Resource Fees, net of Remissions                        | 420,965             | 102%            | 12%                          | 417,922          | 412,836          | 8,129                     | (1,121)                     |       |
| Other   | 101,170             | 109%            | 12%                          | 102,596          | 92,682           | 8,488                     | 591                         |       |
| Transfers In  | 7,015               | 219%            | -74%                         |                  | 3,196            | 3,819                     | 2,922                       |       |
| <b>Total Revenues &amp; Transfers In</b>                          | <b>841,445</b>      | <b>102%</b>     | <b>3%</b>                    | <b>832,813</b>   | <b>821,008</b>   | <b>20,437</b>             | <b>2,239</b>                |       |
| Personal Services   | (648,264)           | 102%            | 7%                           | (666,731)        | (638,573)        | (9,691)                   | 1,783                       |       |
| Supplies & Services   | (150,652)           | 91%             | -1%                          | (158,292)        | (165,540)        | 14,888                    | 8,107                       |       |
| Capital Outlay  | (20,476)            | 100%            | 0%                           | (22,791)         | (20,444)         | (32)                      | 1,288                       |       |
| Transfers Out   | (26,587)            | 152%            | -7%                          | (9,689)          | (17,505)         | (9,082)                   | (4,826)                     |       |
| <b>Total Expenses &amp; Transfers Out</b>                         | <b>(845,979)</b>    | <b>100%</b>     | <b>5%</b>                    | <b>(857,503)</b> | <b>(842,062)</b> | <b>(3,917)</b>            | <b>6,352</b>                |       |
| Fund Additions/Deductions   | 4,390               |                 |                              |                  | (575)            | 4,965                     | (317)                       |       |
| <b>Ending Fund Balance</b>  | <b>109,807</b>      |                 |                              | <b>85,261</b>    | <b>88,322</b>    | <b>21,485</b>             | <b>8,274</b>                |       |
| Change in Fund Balance:   | (144)               |                 |                              | (24,690)         | (21,629)         | 21,485                    | 8,274                       |       |
| <b>% Operating Revenues</b>                                       | <b>13.0%</b>        |                 |                              | <b>10.2%</b>     | <b>10.8%</b>     |                           |                             |       |
| <b>AUXILIARY ENTERPRISES</b>                                      |                     |                 |                              |                  |                  |                           |                             |       |
| <b>Beginning Fund Balance</b>                                     | 166,347             |                 |                              | 166,347          | 166,347          | 0                         | 0                           |       |
| Total Revenues  | 254,420             | 102%            | 0%                           | 269,132          | 250,468          | 3,952                     | (2,501)                     |       |
| Expenditures & Net Transfers                                      | (265,454)           | 104%            | 7%                           | (269,132)        | (254,860)        | (10,594)                  | (2,009)                     |       |
| Fund Additions/Deductions   | 31,036              |                 | -58%                         |                  | 2,645            | 28,391                    | 23,192                      |       |
| <b>Ending Fund Balance</b>  | <b>186,349</b>      |                 |                              | <b>166,347</b>   | <b>164,600</b>   | <b>21,749</b>             | <b>18,682</b>               |       |
| Change in Fund Balance:   | 20,002              |                 |                              | 0                | (1,747)          | 21,749                    | 18,682                      |       |
| <b>% Operating Revenues</b>                                       | <b>73.2%</b>        |                 |                              | <b>61.8%</b>     | <b>65.7%</b>     |                           |                             |       |
| <b>DESIGNATED OPERATIONS, SERVICE DEPARTMENTS, CLEARING FUNDS</b> |                     |                 |                              |                  |                  |                           |                             |       |
| <b>Beginning Fund Balance</b>                                     | 20,944              |                 |                              | 20,944           | 20,944           | 0                         | 0                           |       |
| Total Revenues  | 99,062              | 111%            | 17%                          | 88,367           | 89,139           | 9,923                     | 9,731                       |       |
| Expenditures & Net Transfers                                      | (96,700)            | 106%            | 17%                          | (88,367)         | (91,621)         | (5,079)                   | (5,505)                     |       |
| Fund Additions/Deductions   | 1,428               |                 | -453%                        |                  | 1,740            | (312)                     | 47                          |       |
| <b>Ending Fund Balance</b>  | <b>24,734</b>       |                 |                              | <b>20,944</b>    | <b>20,202</b>    | <b>4,532</b>              | <b>4,273</b>                |       |
| Change in Fund Balance:   | 3,790               |                 |                              | 0                | (742)            | 4,532                     | 4,273                       |       |
| <b>% Operating Revenues</b>                                       | <b>25.0%</b>        |                 |                              | <b>23.7%</b>     | <b>22.7%</b>     |                           |                             |       |

NOTES AND ASSUMPTIONS:



OUS Budget Projection Summary

As of the Quarter Ending June 30, 2005  
For the Fiscal Year Ended June 30, 2005

| EASTERN OREGON UNIVERSITY<br><small>(in thousands of dollars)</small> | Year-to-Date Actual |                 |                              | Budget          |                 | Actual to Budget          |                             | Notes |
|---|---------------------|-----------------|------------------------------|-----------------|-----------------|---------------------------|-----------------------------|-------|
|   | YTD Actual          | % of Budget YTD | % $\Delta$ Current/Prior YTD | LAB Budget      | Adjusted Budget | Variance from Adj. Budget | $\Delta$ Since Prior Report |       |
| <b>EDUCATION &amp; GENERAL - LIMITED</b>                              |                     |                 |                              |                 |                 |                           |                             |       |
| <b>Beginning Fund Balance</b>   | 3,552               |                 |                              | 3,552           | 3,552           | 0                         | 0                           |       |
| State General Fund  | 12,427              | 100%            | 0%                           | 12,236          | 12,409          | 18                        | 0                           |       |
| Tuition & Resource Fees, net of Remissions                            | 12,582              | 100%            | 9%                           | 12,984          | 12,619          | (37)                      | (437)                       | 1)    |
| Other   | 808                 | 110%            | 37%                          | 578             | 733             | 75                        | 75                          |       |
| Transfers In  | 323                 |                 | 108%                         | -               | -               | 323                       | 223                         | 3)    |
| <b>Total Revenues &amp; Transfers In</b>                              | <b>26,140</b>       | <b>101%</b>     | <b>6%</b>                    | <b>25,798</b>   | <b>25,761</b>   | <b>379</b>                | <b>(139)</b>                |       |
| Personal Services   | (20,519)            | 98%             | 4%                           | (20,874)        | (20,874)        | 355                       | 478                         | 4)    |
| Supplies & Services   | (4,563)             | 100%            | 7%                           | (4,567)         | (4,567)         | 4                         | (51)                        |       |
| Capital Outlay  | (482)               | 102%            | 9%                           | (474)           | (474)           | (8)                       | (26)                        |       |
| Transfers Out   | (68)                | 1133%           | -88%                         | (6)             | (6)             | (62)                      | (18)                        | 5)    |
| <b>Total Expenses &amp; Transfers Out</b>                             | <b>(25,632)</b>     | <b>99%</b>      | <b>2%</b>                    | <b>(25,921)</b> | <b>(25,921)</b> | <b>289</b>                | <b>383</b>                  |       |
| Fund Additions/Deductions   | (577)               |                 |                              |                 | (575)           | (2)                       | (2)                         |       |
| <b>Ending Fund Balance</b>  | <b>3,483</b>        |                 |                              | <b>3,429</b>    | <b>2,817</b>    | <b>666</b>                | <b>242</b>                  |       |
| Change in Fund Balance:   | (69)                |                 |                              | (123)           | (735)           | 666                       | 242                         |       |
| <b>% Operating Revenues</b>   | <b>13.3%</b>        |                 |                              | <b>13.3%</b>    | <b>10.9%</b>    |                           |                             |       |
| <b>AUXILIARY ENTERPRISES</b>  |                     |                 |                              |                 |                 |                           |                             |       |
| <b>Beginning Fund Balance</b>   | 3,410               |                 |                              | 3,410           | 3,410           | 0                         | 0                           |       |
| Total Revenues  | 6,374               | 90%             | 2%                           | 7,093           | 7,093           | (719)                     | (267)                       | 6)    |
| Expenditures & Net Transfers  | (7,163)             | 101%            | 13%                          | (7,093)         | (7,093)         | (70)                      | (570)                       | 7)    |
| Fund Additions/Deductions   | (2,799)             |                 | N/A                          |                 | (61)            | (2,738)                   | (2,738)                     | 2)    |
| <b>Ending Fund Balance</b>  | <b>(178)</b>        |                 |                              | <b>3,410</b>    | <b>3,349</b>    | <b>(3,527)</b>            | <b>(3,575)</b>              |       |
| Change in Fund Balance:   | (3,588)             |                 |                              | 0               | (61)            | (3,527)                   | (3,575)                     |       |
| <b>% Operating Revenues</b>   | <b>-2.8%</b>        |                 |                              | <b>48.1%</b>    | <b>47.2%</b>    |                           |                             |       |
| <b>DESIGNATED OPERATIONS, SERVICE DEPARTMENTS, CLEARING FUNDS</b>     |                     |                 |                              |                 |                 |                           |                             |       |
| <b>Beginning Fund Balance</b>   | (212)               |                 |                              | (212)           | (212)           | 0                         | 0                           |       |
| Total Revenues  | 870                 | 65%             | -21%                         | 1,330           | 1,330           | (460)                     | (171)                       | 8)    |
| Expenditures & Net Transfers  | (935)               | 70%             | -7%                          | (1,330)         | (1,330)         | 395                       | 116                         | 3) 8) |
| Fund Additions/Deductions   | 675                 |                 | N/A                          |                 | 556             | 119                       | 119                         |       |
| <b>Ending Fund Balance</b>  | <b>398</b>          |                 |                              | <b>(212)</b>    | <b>344</b>      | <b>0</b>                  | <b>64</b>                   |       |
| Change in Fund Balance:   | 610                 |                 |                              | 0               | 556             | 54                        | 64                          |       |
| <b>% Operating Revenues</b>   | <b>45.7%</b>        |                 |                              | <b>-15.9%</b>   | <b>25.9%</b>    |                           |                             |       |

**NOTES AND ASSUMPTIONS:**

- 1) Prior quarter estimate too high, adjusted down as spring enrollments became actual
- 2) Third quarter projection did not include the construction in progress and associated debt of the new residence hall under construction.
- 3) Transferred in \$98K of Excess Designated Operations Funds per policy & received Southwest Oregon University Center Fund Balance
- 4) Approved positions went vacant during FY05, due to lengthy or failed searches or new personnel contract begin dates after July 1, 2005
- 5) Transfers for Support to Service Departments and grant matching funds
- 6) Revenue down in health service fund, credit hour policy changed from 9 to 6 hours for FY06 to increase revenue. Bookstore revenue down due to lower textbook sales, adjusted FY06 revenue projections.
- 7) Debt Service payment of \$382K made on new Residence Hall, not considered in 3-31-05 projection
- 8) Telecommunications, Community School of the Arts (start up FY05) & General Rentals Revenue/Expenditures lower than projected. Reviews in these areas underway for FY06.



OUS Budget Projection Summary

As of the Quarter Ending June 30, 2005  
For the Fiscal Year Ended June 30, 2005

| OREGON INSTITUTE OF TECHNOLOGY<br><br>(in thousands of dollars)   | Year-to-Date Actual |                 |                              | Budget          |                 | Actual to Budget          |                             | Notes |
|---|---------------------|-----------------|------------------------------|-----------------|-----------------|---------------------------|-----------------------------|-------|
|   | YTD Actual          | % of Budget YTD | % $\Delta$ Current/Prior YTD | LAB Budget      | Adjusted Budget | Variance from Adj. Budget | $\Delta$ Since Prior Report |       |
| <b>EDUCATION &amp; GENERAL - LIMITED</b>                          |                     |                 |                              |                 |                 |                           |                             |       |
| Beginning Fund Balance  | 2,714               |                 |                              | 2,714           | 2,714           | 0                         | 0                           |       |
| State General Fund  | 15,019              | 101%            | 1%                           | 14,660          | 14,925          | 94                        | 0                           |       |
| Tuition & Resource Fees, net of Remissions                        | 10,699              | 102%            | 18%                          | 10,632          | 10,526          | 173                       | (332)                       | 1     |
| Other   | 1,261               | 153%            | 32%                          | 804             | 823             | 438                       | 188                         | 2     |
| Transfers In  | 202                 |                 | n/a                          |                 |                 | 202                       | 42                          | 3     |
| <b>Total Revenues &amp; Transfers In</b>                          | <b>27,181</b>       | <b>103%</b>     | <b>9%</b>                    | <b>26,096</b>   | <b>26,274</b>   | <b>907</b>                | <b>(102)</b>                |       |
| Personal Services   | (21,735)            | 103%            | 9%                           | (21,138)        | (21,047)        | (688)                     | (234)                       | 4     |
| Supplies & Services   | (4,135)             | 81%             | 1%                           | (4,328)         | (5,119)         | 984                       | 984                         | 5     |
| Capital Outlay  | (464)               | 57%             | -23%                         | (636)           | (816)           | 352                       | 52                          | 6     |
| Transfers Out   | -                   | 0%              | -100%                        | 6               | (70)            | 70                        | 0                           |       |
| <b>Total Expenses &amp; Transfers Out</b>                         | <b>(26,334)</b>     | <b>97%</b>      | <b>6%</b>                    | <b>(26,096)</b> | <b>(27,052)</b> | <b>718</b>                | <b>802</b>                  |       |
| Fund Additions/Deductions   | (559)               |                 |                              |                 |                 | (559)                     | 0                           |       |
| Ending Fund Balance   | 3,002               |                 |                              | 2,714           | 1,936           | 1,066                     | 700                         |       |
| Change in Fund Balance:   | 288                 |                 |                              | 0               | (778)           | 1,066                     | 700                         |       |
| % Operating Revenues  | 11.0%               |                 |                              | 10.4%           | 7.4%            |                           |                             |       |
| <b>AUXILIARY ENTERPRISES</b>                                      |                     |                 |                              |                 |                 |                           |                             |       |
| Beginning Fund Balance  | 7,252               |                 |                              | 7,252           | 7,252           | 0                         | 0                           |       |
| Total Revenues  | 6,867               | 101%            | -19%                         | 6,279           | 6,783           | 84                        | (216)                       | 7     |
| Expenditures & Net Transfers                                      | (7,387)             | 109%            | 6%                           | (6,279)         | (6,783)         | (604)                     | (52)                        | 8     |
| Fund Additions/Deductions   | 886                 |                 | -81%                         |                 |                 | 886                       | 998                         | 9     |
| Ending Fund Balance   | 7,618               |                 |                              | 7,252           | 7,252           | 366                       | 730                         |       |
| Change in Fund Balance:   | 366                 |                 |                              | 0               | 0               | 366                       | 730                         |       |
| % Operating Revenues  | 110.9%              |                 |                              | 115.5%          | 106.9%          |                           |                             |       |
| <b>DESIGNATED OPERATIONS, SERVICE DEPARTMENTS, CLEARING FUNDS</b> |                     |                 |                              |                 |                 |                           |                             |       |
| Beginning Fund Balance  | (223)               |                 |                              | (223)           | (223)           | 0                         | 0                           |       |
| Total Revenues  | 432                 | 73%             | -16%                         | 458             | 591             | (159)                     | (109)                       | 10    |
| Expenditures & Net Transfers                                      | (381)               | 64%             | -31%                         | (458)           | (591)           | 210                       | 160                         | 11    |
| Fund Additions/Deductions   | 752                 |                 | N/A                          |                 |                 | 752                       | (9)                         | 9     |
| Ending Fund Balance   | 580                 |                 |                              | (223)           | (223)           | 0                         | 803                         | 42    |
| Change in Fund Balance:   | 803                 |                 |                              | 0               | 0               | 803                       | 42                          |       |
| % Operating Revenues  | 134.3%              |                 |                              | -48.7%          | -37.7%          |                           |                             |       |

**NOTES AND ASSUMPTIONS:**

- Inadvertently included account code amounts on this line during the year that should have been on Other line. These amounts total \$487K. Therefore, Net Tuition and Fees would have been a positive \$156K variance. Continuing Education tuition greater than projected.
- (see 1 above) Other should have been <\$300K> variance. Projected collections were overstated.
- Unanticipated transfers in for faculty diversity (\$35K), students with disabilities (\$5K), and dental hygiene (\$2k).
- Continuing Education salary and OPE (\$103K) and Student pay (\$131K) greater than projected.
- Architect study fee incorrectly budgeted (\$574K) and curtailed s&s spending during last quarter of fiscal year.
- Reduced capital outlay spending
- Sales in Bookstore, Food Service and others not as much as projected.
- Architect study fee (see 5 above) not as much as projected.
- Net changes in bonded debt, fixed assets, and reserve requirements
- Revenue less than projected.
- (see 10 above) Expenditures curtailed.



OUS Budget Projection Summary

As of the Quarter Ending June 30, 2005  
For the Fiscal Year Ended June 30, 2005

| OREGON STATE UNIVERSITY<br><small>(in thousands of dollars)</small> | Year-to-Date Actual |                 |                              | Budget           |                  | Actual to Budget          |                             | Notes |
|---|---------------------|-----------------|------------------------------|------------------|------------------|---------------------------|-----------------------------|-------|
|   | YTD Actual          | % of Budget YTD | % $\Delta$ Current/Prior YTD | LAB Budget       | Adjusted Budget  | Variance from Adj. Budget | $\Delta$ Since Prior Report |       |
| <b>EDUCATION &amp; GENERAL - LIMITED</b>                            |                     |                 |                              |                  |                  |                           |                             |       |
| <b>Beginning Fund Balance</b>                                       | 38,523              |                 |                              | 38,523           | 38,523           | 0                         | 0                           |       |
| State General Fund  | 127,114             | 100%            | -2%                          | 124,482          | 127,034          | 80                        | 0                           |       |
| Tuition & Resource Fees, net of Remissions                          | 115,059             | 100%            | 13%                          | 114,364          | 114,716          | 343                       | (66)                        |       |
| Other   | 58,451              | 110%            | 18%                          | 59,136           | 53,309           | 5,142                     | (205)                       |       |
| Transfers In  | -                   |                 | n/a                          |                  |                  | 0                         | 0                           |       |
| <b>Total Revenues &amp; Transfers In</b>                            | <b>300,624</b>      | <b>102%</b>     | <b>7%</b>                    | <b>297,982</b>   | <b>295,059</b>   | <b>5,565</b>              | <b>(271)</b>                |       |
| Personal Services   | (224,952)           | 103%            | 8%                           | (234,673)        | (217,595)        | (7,357)                   | 1,883                       |       |
| Supplies & Services   | (62,117)            | 90%             | 14%                          | (61,555)         | (69,050)         | 6,933                     | (877)                       |       |
| Capital Outlay  | (9,193)             | 134%            | 13%                          | (9,178)          | (6,857)          | (2,336)                   | 561                         |       |
| Transfers Out   | (8,889)             | 571%            | N/A                          | (385)            | (1,557)          | (7,332)                   | (1,258)                     |       |
| <b>Total Expenses &amp; Transfers Out</b>                           | <b>(305,151)</b>    | <b>103%</b>     | <b>13%</b>                   | <b>(305,791)</b> | <b>(295,059)</b> | <b>(10,092)</b>           | <b>309</b>                  |       |
| Fund Additions/Deductions   | 3,719               |                 |                              |                  |                  | 3,719                     | 0                           |       |
| <b>Ending Fund Balance</b>  | <b>37,715</b>       |                 |                              | <b>30,714</b>    | <b>38,523</b>    | <b>(808)</b>              | <b>38</b>                   |       |
| Change in Fund Balance:   | (808)               |                 |                              | (7,809)          | 0                | (808)                     | 38                          |       |
| % Operating Revenues  | 12.5%               |                 |                              | 10.3%            | 13.1%            |                           |                             |       |
| <b>AUXILIARY ENTERPRISES</b>  |                     |                 |                              |                  |                  |                           |                             |       |
| <b>Beginning Fund Balance</b>                                       | 74,658              |                 |                              | 74,658           | 74,658           | 0                         | 0                           |       |
| Total Revenues  | 69,680              | 103%            | -7%                          | 79,807           | 67,642           | 2,038                     | 259                         |       |
| Expenditures & Net Transfers  | (72,320)            | 100%            | 3%                           | (79,807)         | (72,530)         | 210                       | 3,139                       | 1     |
| Fund Additions/Deductions   | 4,730               |                 | -80%                         |                  |                  | 4,730                     | 4,915                       | 4     |
| <b>Ending Fund Balance</b>  | <b>76,748</b>       |                 |                              | <b>74,658</b>    | <b>69,770</b>    | <b>6,978</b>              | <b>8,313</b>                |       |
| Change in Fund Balance:   | 2,090               |                 |                              | 0                | (4,888)          | 6,978                     | 8,313                       |       |
| % Operating Revenues  | 110.1%              |                 |                              | 93.5%            | 103.1%           |                           |                             |       |
| <b>DESIGNATED OPERATIONS, SERVICE DEPARTMENTS, CLEARING FUNDS</b>   |                     |                 |                              |                  |                  |                           |                             |       |
| <b>Beginning Fund Balance</b>                                       | 10,841              |                 |                              | 10,841           | 10,841           | 0                         | 0                           |       |
| Total Revenues  | 36,027              | 124%            | 26%                          | 29,566           | 29,125           | 6,902                     | 6,187                       | 2     |
| Expenditures & Net Transfers  | (35,651)            | 119%            | 36%                          | (29,566)         | (30,011)         | (5,640)                   | (5,829)                     | 3     |
| Fund Additions/Deductions   | (59)                |                 | -13%                         |                  |                  | (59)                      | 140                         |       |
| <b>Ending Fund Balance</b>  | <b>11,158</b>       |                 |                              | <b>10,841</b>    | <b>9,955</b>     | <b>1,203</b>              | <b>498</b>                  |       |
| Change in Fund Balance:   | 317                 |                 |                              | 0                | (886)            | 1,203                     | 498                         |       |
| % Operating Revenues  | 31.0%               |                 |                              | 36.7%            | 34.2%            |                           |                             |       |

**NOTES AND ASSUMPTIONS:**

- Expenses were lower than expected in Housing & Dining (\$1.2 million) and Athletics (\$0.9 million). Services and supplies in Student Health was \$0.9 million lower than projected due to lower than expected insurance premiums.
- \$2.5 million in Gift Fund income was not included in earlier projections. The decision to book funding of \$3.7 million from the Chancellor's Office for OUS Computing Services as Service Center revenue was made in June, 2005. This had not been included in previous projections.
- \$2.5 million in Gift Fund expenses was not included in earlier projections. The decision to book corresponding OUS Computing Services expenses was made in June, 2005. These expenses were not included in previous projections.
- Net changes in bonded debt, fixed assets and reserve requirements were not considered in March projection.



OUS Budget Projection Summary

As of the Quarter Ending June 30, 2005  
For the Fiscal Year Ended June 30, 2005

| PORTLAND STATE UNIVERSITY<br><br>(in thousands of dollars)        | Year-to-Date Actual |                 |                              | Budget     |                 | Actual to Budget          |                             | Notes |
|---|---------------------|-----------------|------------------------------|------------|-----------------|---------------------------|-----------------------------|-------|
|   | YTD Actual          | % of Budget YTD | % $\Delta$ Current/Prior YTD | LAB Budget | Adjusted Budget | Variance from Adj. Budget | $\Delta$ Since Prior Report |       |
| <b>EDUCATION &amp; GENERAL - LIMITED</b>                          |                     |                 |                              |            |                 |                           |                             |       |
| <b>Beginning Fund Balance</b>                                     | 22,509              |                 |                              | 22,509     | 22,509          | 0                         | 0                           |       |
| State General Fund  | 57,432              | 100%            | 1%                           | 56,055     | 57,544          | (112)                     | 0                           |       |
| Tuition & Resource Fees, net of Remissions                        | 96,215              | 97%             | 9%                           | 100,479    | 99,538          | (3,323)                   | (1,575)                     | (1)   |
| Other   | 10,585              | 113%            | 16%                          | 10,362     | 9,368           | 1,217                     | (39)                        |       |
| Transfers In  | 3,227               |                 | 128%                         |            | 2,801           | 426                       | 778                         | (2)   |
| <b>Total Revenues &amp; Transfers In</b>                          | 167,459             | 99%             | 7%                           | 166,896    | 169,251         | (1,792)                   | (836)                       |       |
| Personal Services   | (128,651)           | 96%             | 10%                          | (133,224)  | (134,314)       | 5,663                     | 1,398                       | (4)   |
| Supplies & Services   | (30,911)            | 99%             | 16%                          | (30,494)   | (31,213)        | 302                       | 1,832                       | (5)   |
| Capital Outlay  | (3,897)             | 82%             | -6%                          | (4,722)    | (4,762)         | 865                       | 328                         |       |
| Transfers Out   | (5,964)             | 102%            | 6%                           | (5,152)    | (5,856)         | (108)                     | (1,014)                     | (3)   |
| <b>Total Expenses &amp; Transfers Out</b>                         | (169,423)           | 96%             | 11%                          | (173,592)  | (176,145)       | 6,722                     | 2,544                       |       |
| Fund Additions/Deductions   | 904                 |                 |                              |            |                 | 904                       | (350)                       |       |
| <b>Ending Fund Balance</b>  | 21,449              |                 |                              | 15,813     | 15,615          | 5,834                     | 1,358                       |       |
| Change in Fund Balance:   | (1,060)             |                 |                              | (6,696)    | (6,894)         | 5,834                     | 1,358                       |       |
| % Operating Revenues  | 12.8%               |                 |                              | 9.5%       | 9.2%            |                           |                             |       |
| <b>AUXILIARY ENTERPRISES</b>                                      |                     |                 |                              |            |                 |                           |                             |       |
| <b>Beginning Fund Balance</b>                                     | 8,204               |                 |                              | 8,204      | 8,204           | 0                         | 0                           |       |
| Total Revenues  | 43,234              | 96%             | 20%                          | 27,945     | 45,258          | (2,024)                   | (52)                        |       |
| Expenditures & Net Transfers                                      | (45,584)            | 104%            | 32%                          | (27,945)   | (43,772)        | (1,812)                   | (809)                       | (6)   |
| Fund Additions/Deductions   | 15,553              |                 | -63%                         |            | 1,753           | 13,800                    | 14,143                      | (7)   |
| <b>Ending Fund Balance</b>  | 21,407              |                 |                              | 8,204      | 11,443          | 9,964                     | 13,282                      |       |
| Change in Fund Balance:   | 13,203              |                 |                              | 0          | 3,239           | 9,964                     | 13,282                      |       |
| % Operating Revenues  | 49.5%               |                 |                              | 29.4%      | 25.3%           |                           |                             |       |
| <b>DESIGNATED OPERATIONS, SERVICE DEPARTMENTS, CLEARING FUNDS</b> |                     |                 |                              |            |                 |                           |                             |       |
| <b>Beginning Fund Balance</b>                                     | 2,752               |                 |                              | 2,752      | 2,752           | 0                         | 0                           |       |
| Total Revenues  | 16,885              | 102%            | 24%                          | 14,963     | 16,553          | 332                       | 291                         |       |
| Expenditures & Net Transfers                                      | (16,959)            | 96%             | 27%                          | (14,963)   | (17,753)        | 794                       | 13                          |       |
| Fund Additions/Deductions   | (155)               |                 | -237%                        |            | 135             | (290)                     | 24                          |       |
| <b>Ending Fund Balance</b>  | 2,523               |                 |                              | 2,752      | 1,687           | 836                       | 328                         |       |
| Change in Fund Balance:   | (229)               |                 |                              | 0          | (1,065)         | 836                       | 328                         |       |
| % Operating Revenues  | 14.9%               |                 |                              | 18.4%      | 10.2%           |                           |                             |       |

**NOTES AND ASSUMPTIONS:**

- (1) The Tuition Income generated from the Elimination of the Tuition Plateau was slightly less than anticipated.
- (2) Due to continued budget cuts, Facilities staff have been hired on receipts and billed out through Service Departments. Transfers-In reflects this workforce subsidy as well as a transfer of funds from Designated Operations to cover expenses and a transfer from OUS for Tuition Mitigation.
- (3) Fourth Quarter activity for Transfers Out consisted mainly of funds for campus-wide remodels and COPS debt retirement.
- (4) Decrease in Personnel Services reflect position vacancies due to budget uncertainties, failed searches and the use of Adjuncts.
- (5) The decrease in Supplies and Services reflects continued concern with future budget uncertainties.
- (6) Expenses of Student Funded Activities from Incidental Fees were higher than what we had projected as student groups spent down their reserves.
- (7) 4th Quarter OUS Bond Debt Transfers, Capitalization of Assets, and Construction in Progress. \$1,926,295 OUS prior period adjustment is included in this.



OUS Budget Projection Summary

As of the Quarter Ending June 30, 2005  
For the Fiscal Year Ended June 30, 2005

| SOUTHERN OREGON UNIVERSITY  | Year-to-Date Actual |                 |                              | Budget          |                 | Actual to Budget          |                             | Notes |
|---|---------------------|-----------------|------------------------------|-----------------|-----------------|---------------------------|-----------------------------|-------|
|   | YTD Actual          | % of Budget YTD | % $\Delta$ Current/Prior YTD | LAB Budget      | Adjusted Budget | Variance from Adj. Budget | $\Delta$ Since Prior Report |       |
| <i>(in thousands of dollars)</i>                                  |                     |                 |                              |                 |                 |                           |                             |       |
| <b>EDUCATION &amp; GENERAL - LIMITED</b>                          |                     |                 |                              |                 |                 |                           |                             |       |
| Beginning Fund Balance  | 3,258               |                 |                              | 3,258           | 3,258           | 0                         | 0                           |       |
| State General Fund  | 14,627              | 100%            | 1%                           | 14,247          | 14,620          | 7                         | 7                           |       |
| Tuition & Resource Fees, net of Remissions                        | 20,381              | 103%            | 5%                           | 21,458          | 19,836          | 545                       | (152)                       |       |
| Other   | 2,096               | 137%            | 25%                          | 1,525           | 1,535           | 561                       | 169                         |       |
| Transfers In  | 1,243               |                 | 78%                          |                 |                 | 1,243                     | 702                         | (A)   |
| <b>Total Revenues &amp; Transfers In</b>                          | <b>38,347</b>       | <b>107%</b>     | <b>6%</b>                    | <b>37,230</b>   | <b>35,991</b>   | <b>2,356</b>              | <b>726</b>                  |       |
| Personal Services   | (30,935)            | 102%            | 7%                           | (30,671)        | (30,364)        | (571)                     | 276                         |       |
| Supplies & Services   | (4,444)             | 85%             | -22%                         | (6,011)         | (5,202)         | 758                       | 937                         | (D)   |
| Capital Outlay  | (500)               | 118%            | 1%                           | (521)           | (425)           | (75)                      | (5)                         |       |
| Transfers Out   | (1,099)             |                 | -45%                         | (27)            | 0               | (1,099)                   | (762)                       | (A)   |
| <b>Total Expenses &amp; Transfers Out</b>                         | <b>(36,978)</b>     | <b>103%</b>     | <b>-1%</b>                   | <b>(37,230)</b> | <b>(35,991)</b> | <b>(987)</b>              | <b>446</b>                  |       |
| Fund Additions/Deductions   | (822)               |                 |                              |                 |                 | (822)                     | 0                           |       |
| <b>Ending Fund Balance</b>  | <b>3,805</b>        |                 |                              | <b>3,258</b>    | <b>3,258</b>    | <b>547</b>                | <b>1,172</b>                |       |
| Change in Fund Balance:   | 547                 |                 |                              | 0               | 0               | 547                       | 1,172                       |       |
| % Operating Revenues  | 9.9%                |                 |                              | 8.8%            | 9.1%            |                           |                             |       |
| <b>AUXILIARY ENTERPRISES</b>                                      |                     |                 |                              |                 |                 |                           |                             |       |
| Beginning Fund Balance  | 2,282               |                 |                              | 2,282           | 2,282           | 0                         | 0                           |       |
| Total Revenues  | 17,035              | 100%            | -8%                          | 18,963          | 17,096          | (61)                      | 474                         |       |
| Expenditures & Net Transfers                                      | (18,747)            | 104%            | 3%                           | (18,963)        | (18,021)        | (726)                     | (1,334)                     | (D)   |
| Fund Additions/Deductions   | 6,340               |                 | -302%                        |                 | (185)           | 6,525                     | 4,864                       | (B)   |
| <b>Ending Fund Balance</b>  | <b>6,910</b>        |                 |                              | <b>2,282</b>    | <b>1,172</b>    | <b>5,738</b>              | <b>4,004</b>                |       |
| Change in Fund Balance:   | 4,628               |                 |                              | 0               | (1,110)         | 5,738                     | 4,004                       |       |
| % Operating Revenues  | 40.6%               |                 |                              | 12.0%           | 6.9%            |                           |                             |       |
| <b>DESIGNATED OPERATIONS, SERVICE DEPARTMENTS, CLEARING FUNDS</b> |                     |                 |                              |                 |                 |                           |                             |       |
| Beginning Fund Balance  | 65                  |                 |                              | 65              | 65              | 0                         | 0                           |       |
| Total Revenues  | 4,704               | 105%            | 15%                          | 5,164           | 4,497           | 207                       | 505                         | (C)   |
| Expenditures & Net Transfers                                      | (4,402)             | 95%             | 5%                           | (5,164)         | (4,630)         | 228                       | (58)                        |       |
| Fund Additions/Deductions   | 1,029               |                 | N/A                          |                 | 1,049           | (20)                      | (20)                        |       |
| <b>Ending Fund Balance</b>  | <b>1,396</b>        |                 |                              | <b>65</b>       | <b>981</b>      | <b>415</b>                | <b>427</b>                  |       |
| Change in Fund Balance:   | 1,331               |                 |                              | 0               | 916             | 415                       | 427                         |       |
| % Operating Revenues  | 29.7%               |                 |                              | 1.3%            | 21.8%           |                           |                             |       |

**NOTES AND ASSUMPTIONS:**

- (A) E&G Transfers: Majority of transactions involve transfers that are internal to E&G funds or plant fund transfers, resulting in a nominal impact overall.
- (B) Associated with year-end capitalization of various building projects, where debt is held centrally rather reflected in the auxiliaries.
- (C) Under estimated telecom resources
- (D) Increase one-time General Fund assessment to auxiliaries (\$615k)



OUS Budget Projection Summary

As of the Quarter Ending June 30, 2005  
For the Fiscal Year Ended June 30, 2005

| UNIVERSITY OF OREGON<br><i>(in thousands of dollars)</i>          | Year-to-Date Actual |                 |                              | Budget           |                  | Actual to Budget          |                             | Notes |
|---|---------------------|-----------------|------------------------------|------------------|------------------|---------------------------|-----------------------------|-------|
|   | YTD Actual          | % of Budget YTD | % $\Delta$ Current/Prior YTD | LAB Budget       | Adjusted Budget  | Variance from Adj. Budget | $\Delta$ Since Prior Report |       |
| <b>EDUCATION &amp; GENERAL - LIMITED</b>                          |                     |                 |                              |                  |                  |                           |                             |       |
| Beginning Fund Balance  | 17,807              |                 |                              | 17,807           | 17,807           | 0                         | 0                           |       |
| State General Fund  | 59,746              | 100%            | -1%                          | 59,236           | 59,672           | 74                        | 0                           |       |
| Tuition & Resource Fees, net of Remissions                        | 148,676             | 108%            | 15%                          | 139,950          | 137,546          | 11,130                    | 1,441                       | 1.1   |
| Other   | 23,666              | 102%            | -5%                          | 26,413           | 23,167           | 499                       | 499                         |       |
| Transfers In  | 1,700               |                 | -93%                         |                  | 300              | 1,400                     | 1,049                       | 1.2   |
| <b>Total Revenues &amp; Transfers In</b>                          | <b>233,788</b>      | <b>106%</b>     | <b>-2%</b>                   | <b>225,599</b>   | <b>220,685</b>   | <b>13,103</b>             | <b>2,989</b>                |       |
| Personal Services   | (183,965)           | 105%            | 6%                           | (182,593)        | (175,578)        | (8,387)                   | (2,007)                     | 1.3   |
| Supplies & Services   | (32,955)            | 91%             | -25%                         | (37,198)         | (36,051)         | 3,096                     | 3,928                       | 1.4   |
| Capital Outlay  | (4,042)             | 72%             | -13%                         | (4,882)          | (5,646)          | 1,604                     | 509                         |       |
| Transfers Out   | (4,693)             | 188%            | -74%                         | (1,180)          | (2,502)          | (2,191)                   | (2,191)                     | 1.5   |
| <b>Total Expenses &amp; Transfers Out</b>                         | <b>(225,655)</b>    | <b>103%</b>     | <b>-6%</b>                   | <b>(225,853)</b> | <b>(219,777)</b> | <b>(5,878)</b>            | <b>239</b>                  |       |
| Fund Additions/Deductions   | 1,445               |                 |                              |                  |                  | 1,445                     | 0                           |       |
| Ending Fund Balance   | 27,385              |                 |                              | 17,553           | 18,715           | 8,670                     | 3,228                       |       |
| Change in Fund Balance:   | 9,578               |                 |                              | (254)            | 908              | 8,670                     | 3,228                       |       |
| % Operating Revenues  | 11.7%               |                 |                              | 7.8%             | 8.5%             |                           |                             |       |
| <b>AUXILIARY ENTERPRISES</b>                                      |                     |                 |                              |                  |                  |                           |                             |       |
| Beginning Fund Balance  | 61,996              |                 |                              | 61,996           | 61,996           | 0                         | 0                           |       |
| Total Revenues  | 94,979              | 105%            | 1%                           | 113,480          | 90,440           | 4,539                     | (2,794)                     | 1.6   |
| Expenditures & Net Transfers                                      | (96,919)            | 107%            | 2%                           | (113,480)        | (90,440)         | (6,479)                   | (1,390)                     | 1.7   |
| Fund Additions/Deductions   | 1,366               |                 | -78%                         |                  |                  | 1,366                     | (2,960)                     | 1.8   |
| Ending Fund Balance   | 61,422              |                 |                              | 61,996           | 61,996           | (574)                     | (7,144)                     |       |
| Change in Fund Balance:   | (574)               |                 |                              | 0                | 0                | (574)                     | (7,144)                     |       |
| % Operating Revenues  | 64.7%               |                 |                              | 54.6%            | 68.5%            |                           |                             |       |
| <b>DESIGNATED OPERATIONS, SERVICE DEPARTMENTS, CLEARING FUNDS</b> |                     |                 |                              |                  |                  |                           |                             |       |
| Beginning Fund Balance  | 6,373               |                 |                              | 6,373            | 6,373            | 0                         | 0                           |       |
| Total Revenues  | 34,982              | 106%            | 13%                          | 32,761           | 32,903           | 2,079                     | 2,597                       | 1.9   |
| Expenditures & Net Transfers                                      | (32,750)            | 100%            | 6%                           | (32,761)         | (32,903)         | 153                       | 535                         |       |
| Fund Additions/Deductions   | (1,052)             |                 | 311%                         |                  |                  | (1,052)                   | (453)                       |       |
| Ending Fund Balance   | 7,553               |                 |                              | 6,373            | 6,373            | 0                         | 1,180                       |       |
| Change in Fund Balance:   | 1,180               |                 |                              | 0                | 0                | 1,180                     | 2,679                       |       |
| % Operating Revenues  | 21.6%               |                 |                              | 19.5%            | 19.4%            |                           |                             |       |

**NOTES AND ASSUMPTIONS:**

- (1.1) Actual remissions of \$9.1 were lower than the third quarter projected remissions by \$1.6 million. There were fewer students in the programs during the spring term.
- (1.2) Third quarter projection for transfers in was not updated to reflect the actual third quarter activity of \$700,000.
- (1.3) Actual for personal services are higher than 3rd quarter projections primarily due to higher than expected cost for OPE including a significant and unanticipated adjustment for the Optional Retirement Program.
- (1.4) Third quarter projection reflected fiscal year 2004 one time DAS PERS accrual of \$ 4,850,000. Actual administrative overhead assessments charged were higher than anticipated due to on going review and timing of final decision on amounts for fiscal year 2005.
- (1.5) Transfers out reflect \$1,100,000 for decisions made at closing to fund service centers and to close the accounts on a discontinued operation. Third quarter projections were not updated to reflect \$500,000 payment to fund debt service reserves for US Bakery site and \$525,000 in debt service payments on COP projects.
- (1.6) Timing changes in receipt of Athletic revenues skewed third quarter projections.
- (1.7) Timing change in payments and transfers skewed third quarter projections.
- (1.8) Fourth quarter reflects net change for construction in progress and bond indebtedness for the living learning center.
- (1.9) Received \$500,000 more in gift revenues than projected. Several large service centers had higher than anticipated earnings totaling \$500,000. The remaining increase relates to higher than anticipated earnings in designated operating funds.



OUS Budget Projection Summary

As of the Quarter Ending June 30, 2005  
For the Fiscal Year Ended June 30, 2005

| WESTERN OREGON UNIVERSITY<br>(in thousands of dollars)            | Year-to-Date Actual |                 |                              | Budget          |                 | Actual to Budget          |                             | Notes      |
|---|---------------------|-----------------|------------------------------|-----------------|-----------------|---------------------------|-----------------------------|------------|
|   | YTD Actual          | % of Budget YTD | % $\Delta$ Current/Prior YTD | LAB Budget      | Adjusted Budget | Variance from Adj. Budget | $\Delta$ Since Prior Report |            |
| <b>EDUCATION &amp; GENERAL - LIMITED</b>                          |                     |                 |                              |                 |                 |                           |                             |            |
| Beginning Fund Balance  | 9,392               |                 |                              | 9,392           | 9,392           | 0                         | 0                           |            |
| State General Fund  | 14,439              | 100%            | -2%                          | 14,439          | 14,439          | 0                         | 0                           |            |
| Tuition & Resource Fees, net of Remissions                        | 17,353              | 96%             | -2%                          | 18,055          | 18,055          | (702)                     | 0                           |            |
| Other   | 1,833               | 120%            | 15%                          | 1,527           | 1,525           | 308                       | (344)                       | (1)        |
| Transfers In  | 173                 |                 | -27%                         |                 |                 | 173                       | 76                          |            |
| <b>Total Revenues &amp; Transfers In</b>                          | <b>33,798</b>       | <b>99%</b>      | <b>-1%</b>                   | <b>34,021</b>   | <b>34,019</b>   | <b>(221)</b>              | <b>(268)</b>                |            |
| Personal Services   | (30,741)            | 97%             | 10%                          | (31,671)        | (31,694)        | 953                       | (111)                       |            |
| Supplies & Services   | (5,302)             | 83%             | 9%                           | (5,503)         | (6,398)         | 1,096                     | 553                         | (1)        |
| Capital Outlay  | (1,898)             | 130%            | -9%                          | (2,344)         | (1,464)         | (434)                     | (131)                       |            |
| Transfers Out   | (750)               | 115%            | 743%                         | 80              | (653)           | (97)                      | 0                           |            |
| <b>Total Expenses &amp; Transfers Out</b>                         | <b>(38,691)</b>     | <b>96%</b>      | <b>10%</b>                   | <b>(39,438)</b> | <b>(40,209)</b> | <b>1,518</b>              | <b>311</b>                  |            |
| Fund Additions/Deductions   | 245                 |                 |                              |                 |                 | 245                       | 0                           |            |
| <b>Ending Fund Balance</b>  | <b>4,744</b>        |                 |                              | <b>3,975</b>    | <b>3,202</b>    | <b>1,542</b>              | <b>43</b>                   |            |
| Change in Fund Balance:   | (4,648)             |                 |                              | (5,417)         | (6,190)         | 1,542                     | 43                          |            |
| <b>% Operating Revenues</b>                                       | <b>14.0%</b>        |                 |                              | <b>11.7%</b>    | <b>9.4%</b>     |                           |                             |            |
| <b>AUXILIARY ENTERPRISES</b>                                      |                     |                 |                              |                 |                 |                           |                             |            |
| Beginning Fund Balance  | 9,090               |                 |                              | 9,090           | 9,090           | 0                         | 0                           |            |
| Total Revenues  | 15,237              | 101%            | 3%                           | 14,720          | 15,086          | 151                       | 151                         |            |
| Expenditures & Net Transfers                                      | (16,142)            | 107%            | 7%                           | (14,720)        | (15,086)        | (1,056)                   | (936)                       | (2)        |
| Fund Additions/Deductions   | 3,421               |                 | N/A                          |                 |                 | 3,421                     | 3,569                       | (3)        |
| <b>Ending Fund Balance</b>  | <b>11,606</b>       |                 |                              | <b>9,090</b>    | <b>9,090</b>    | <b>2,516</b>              | <b>2,784</b>                |            |
| Change in Fund Balance:   | 2,516               |                 |                              | 0               | 0               | 2,516                     | 2,784                       |            |
| <b>% Operating Revenues</b>                                       | <b>76.2%</b>        |                 |                              | <b>61.8%</b>    | <b>60.3%</b>    |                           |                             |            |
| <b>DESIGNATED OPERATIONS, SERVICE DEPARTMENTS, CLEARING FUNDS</b> |                     |                 |                              |                 |                 |                           |                             |            |
| Beginning Fund Balance  | 1,037               |                 |                              | 1,037           | 1,037           | 0                         | 0                           |            |
| Total Revenues  | 5,108               | 123%            | 4%                           | 3,105           | 4,139           | 969                       | 378                         | (4)        |
| Expenditures & Net Transfers                                      | (5,305)             | 128%            | 15%                          | (3,105)         | (4,139)         | (1,166)                   | (389)                       | (4,5)      |
| Fund Additions/Deductions   | 238                 |                 | N/A                          |                 |                 | 238                       | 246                         | (5)        |
| <b>Ending Fund Balance</b>  | <b>1,078</b>        |                 |                              | <b>1,037</b>    | <b>1,037</b>    | <b>0</b>                  | <b>41</b>                   | <b>235</b> |
| Change in Fund Balance:   | 41                  |                 |                              | 0               | 0               | 41                        | 235                         |            |
| <b>% Operating Revenues</b>                                       | <b>21.1%</b>        |                 |                              | <b>33.4%</b>    | <b>25.1%</b>    |                           |                             |            |

**NOTES AND ASSUMPTIONS:**

- (1) Other revenues shortage of \$344K and lower expenses incurred due to adjustments during the year where revenues were budgeted but they were coded as contra-expenses.
- (2) \$936K variance due to unbudgeted depreciation and transfer out for debt retirement.
- (3) Fund addition of \$3M due to capitalization of residential housing projects.
- (4) Revenues increased \$378K primarily due to increased designated operations, offset by the increased operational expense.
- (5) Printing and Telecom equipment purchases account for some increased expense and the addition to fund balance.



OUS Budget Projection Summary

As of the Quarter Ending June 30, 2005  
For the Fiscal Year Ended June 30, 2005

| CHANCELLOR'S OFFICE<br><small>(in thousands of dollars)</small>   | Year-to-Date Actual |                 |                              | Budget          |                 | Actual to Budget          |                             | Notes |
|---|---------------------|-----------------|------------------------------|-----------------|-----------------|---------------------------|-----------------------------|-------|
|   | YTD Actual          | % of Budget YTD | % $\Delta$ Current/Prior YTD | LAB Budget      | Adjusted Budget | Variance from Adj. Budget | $\Delta$ Since Prior Report |       |
| <b>EDUCATION &amp; GENERAL - LIMITED</b>                          |                     |                 |                              |                 |                 |                           |                             |       |
| <b>Beginning Fund Balance</b>                                     | 12,196              |                 |                              | 12,196          | 12,196          | 0                         | 0                           |       |
| State General Fund  | 11,491              | 99%             | -35%                         | 16,940          | 11,651          | (160)                     | (160)                       | (1)   |
| Tuition & Resource Fees, net of Remissions                        | -                   |                 | -100%                        | 0               | 0               | 0                         | 0                           |       |
| Other   | 2,470               | 111%            | 6%                           | 2,251           | 2,222           | 248                       | 248                         | (2)   |
| Transfers In  | 147                 |                 | -72%                         |                 | 95              | 52                        | 52                          | (3)   |
| <b>Total Revenues &amp; Transfers In</b>                          | <b>14,108</b>       | <b>101%</b>     | <b>-33%</b>                  | <b>19,191</b>   | <b>13,968</b>   | <b>140</b>                | <b>140</b>                  |       |
| Personal Services   | (6,766)             | 95%             | -42%                         | (11,887)        | (7,107)         | 341                       | 100                         | (4)   |
| Supplies & Services   | (6,225)             | 78%             | -27%                         | (8,636)         | (7,940)         | 1,715                     | 801                         | (5)   |
| Capital Outlay  | -                   |                 | -100%                        | (34)            | 0               | 0                         | 0                           |       |
| Transfers Out   | (5,124)             | 75%             | 196%                         | (3,025)         | (6,861)         | 1,737                     | 417                         | (6)   |
| <b>Total Expenses &amp; Transfers Out</b>                         | <b>(18,115)</b>     | <b>83%</b>      | <b>-18%</b>                  | <b>(23,582)</b> | <b>(21,908)</b> | <b>3,793</b>              | <b>1,318</b>                |       |
| Fund Additions/Deductions   | 35                  |                 |                              |                 |                 | 35                        | 35                          |       |
| <b>Ending Fund Balance</b>  | <b>8,224</b>        |                 |                              | <b>7,805</b>    | <b>4,256</b>    | <b>3,968</b>              | <b>1,493</b>                |       |
| Change in Fund Balance:   | (3,972)             |                 |                              | (4,391)         | (7,940)         | 3,968                     | 1,493                       |       |
| <b>% Operating Revenues</b>                                       | <b>58.3%</b>        |                 |                              | <b>40.7%</b>    | <b>30.5%</b>    |                           |                             |       |
| <b>AUXILIARY ENTERPRISES</b>                                      |                     |                 |                              |                 |                 |                           |                             |       |
| <b>Beginning Fund Balance</b>                                     | (545)               |                 |                              | (545)           | (545)           | 0                         | 0                           |       |
| Total Revenues  | 1,014               | 95%             | -14%                         | 845             | 1,070           | (56)                      | (56)                        |       |
| Expenditures & Net Transfers                                      | (1,192)             | 105%            | 10%                          | (845)           | (1,135)         | (57)                      | (57)                        |       |
| Fund Additions/Deductions   | 1,539               |                 | N/A                          |                 | 1,138           | 401                       | 401                         |       |
| <b>Ending Fund Balance</b>  | <b>816</b>          |                 |                              | <b>(545)</b>    | <b>528</b>      | <b>288</b>                | <b>288</b>                  | (7)   |
| Change in Fund Balance:   | 1,361               |                 |                              | 0               | 1,073           | 288                       | 288                         |       |
| <b>% Operating Revenues</b>                                       | <b>80.5%</b>        |                 |                              | <b>-64.5%</b>   | <b>49.3%</b>    |                           |                             |       |
| <b>DESIGNATED OPERATIONS, SERVICE DEPARTMENTS, CLEARING FUNDS</b> |                     |                 |                              |                 |                 |                           |                             |       |
| <b>Beginning Fund Balance</b>                                     | 311                 |                 |                              | 311             | 311             | 0                         | 0                           |       |
| Total Revenues  | 54                  | 5400%           | -95%                         | 1,020           | 1               | 53                        | 53                          |       |
| Expenditures & Net Transfers                                      | (317)               | 120%            | -85%                         | (1,020)         | (264)           | (53)                      | (53)                        |       |
| Fund Additions/Deductions   | -                   |                 | -100%                        |                 |                 | 0                         | 0                           |       |
| <b>Ending Fund Balance</b>  | <b>48</b>           |                 |                              | <b>311</b>      | <b>48</b>       | <b>0</b>                  | <b>0</b>                    |       |
| Change in Fund Balance:   | (263)               |                 |                              | 0               | (263)           | 0                         | 0                           |       |
| <b>% Operating Revenues</b>                                       | <b>88.9%</b>        |                 |                              | <b>30.5%</b>    | <b>4800.0%</b>  |                           |                             |       |

**NOTES AND ASSUMPTIONS:**

- (1) Adj GF budget reduced by distributing OUS collab nursing program 2 years, \$56,584 and OSU Nat'l Heritage Prog \$103,550 directly to campuses
- (2) Indirect Cost Recovery \$134K over budget, \$49K for PEBB subsidy, \$18K AAWG partner contributions, \$44K PEBB interface reimbursement
- (3) ETIC other funds pass through to campuses, \$28,702, Grant cost share transfer in higher than budgeted
- (4) Comp Abs Adj on OL, Unbudgeted staff reimbursements, positons staying vacant longer than budgeted
- (5) Delay on Cap Ctr roof repair, OWEN budgeted as transfer, DOJ and other fund balance commitments ended under budget or delayed
- (6) OHSU/OGI and OWEN budgeted as transfer, but booked as S&S
- (7) Sports Action Lotto scholarship awards to be released for Fall 05



COMMITTEE DISCUSSION AND ACTION:

Chair Blair called on OUS Controller Michael Green for the Quarterly Managerial Report. Green observed that because it was the final report of the year, he would focus on the column "variance from adjusted budget."

Green started with Eastern Oregon University (EOU), noting it ended the year pretty much in line with adjusted budget. He noted EOU ended the year with a fund balance of 13.3 percent, in line with policy, and that the auxiliary enterprises ended with a \$800,000 loss primarily due to unanticipated debt service on a new residence hall. Green mentioned one item of note in the auxiliaries was the negative fund addition/deduction column. He observed that there are occasions, due to timing differences, when a balance remains in a plant fund that has not been capitalized. He added that this is what happened at EOU, taking \$10.5 million in debt, while taking in approximately \$6 million in construction and progress. Green stated that total auxiliaries at EOU have positive cash, working capital balances, and adequate liquidity in the near-term.

Before moving to other institutions, Green turned to brief comments regarding better measurement of auxiliaries. He noted that he would try to provide a high-level recap on total auxiliaries during the report, but that he would like to come back with broader auxiliaries measures. He added that staff had drafted a debt policy and were in the final drafts of an auxiliary enterprise overhead allocation policy. Green did not note anything of significance in designated operations of the EOU's service departments.

Green moved to Oregon Institute of Technology (OIT). He noted OIT ended the year ahead of adjusted budget before the change in compensated absence liability, mostly due to higher than anticipated distance education revenue, a previously reported budget error, and reductions in services and supplies (S&S) and capital outlay spending. Green stated the ending fund balance was 11 percent, which was within Board policy. He observed \$520,000 loss in auxiliaries, primarily due to revenue shortfalls in food service and the bookstore. Green mentioned total auxiliaries have positive cash, working capital, and fund balances with solid liquidity. He did not note anything of significance in designated operations of the OIT's service departments.

Green turned to the OSU, noting that it ended the year \$4.5 million behind its adjusted budget. Green observed that revenues were ahead of budget due to one-time revenues, unbudgeted student fees, and an increase in interest income, but personal services were over budget and that there were some unbudgeted transfers to some construction projects. He stated that increases were partially offset by a decrease in S&S. He noted that the ending fund balance was 12.5 percent, within policy. Chair Blair asked if the change in the fund balance that was projected in the budget was a \$7.8 million draw from the fund balance and Green answered it was, under the Legislatively Approved Budget (LAB). Chair Blair asked for clarification between the LAB and the adjusted budget. Green explained the LAB is done well in advance and Chair Blair confirmed that

the System manages against the adjusted budget. Chair Blair asked if the \$4.5 million was because of the unexpected \$3.7 million benefit from the compensated absences liability and Green directed Chair Blair to the left column of the chart where total revenues and transfers were \$301 million and total expenses and transfers out were \$305 million. Chair Blair asked if the compensated absences were going to the fund additions and deductions line and Green answered yes. Director Nesbitt clarified that the LAB was a biennial budget and that Green's report was an annual report, so it focused on what the System did with the second half of the LAB. Director von Schlegell asked if the Legislature agreed that OUS was working off of the adjusted budget and Green noted that it expected OUS to manage back to the LAB. Chair Blair clarified that OUS managed back to the LAB in aggregate and Green said yes.

Chair Blair asked about the \$4.5 million difference and Green commented that it was not terribly significant in a \$300 million budget. He noted that there were some variances at other institutions that would require more precision in adjusted budget estimates. Green noted Oregon State ended the year with a \$2.6 million loss in auxiliaries, which was about \$2 million ahead of the adjusted budget. Green observed total auxiliaries have positive cash, working capital balances, and positive liquidity. He added the designated operations in the service departments were ahead of adjusted budget, primarily due to an increase in the Vet Med's isolation lab income.

Green moved to Portland State University (PSU). He observed a \$2 million reduction in fund balance, which was \$5 million ahead of adjusted budget. Green noted tuition revenue was down due to enrollment declines and less-than-anticipated income from the elimination of the tuition plateau. Green added that the offset was due to significant savings in personal services. He stated the fund balance was 12.8 percent, within the policy range. Green explained that auxiliaries ended the year with a \$2.3 million loss, which was approximately \$3.8 million below adjusted budget. He noted total auxiliaries have positive cash, working capital, and positive liquidity and that there was nothing significant to report with the designated operations of the service departments. Director von Schlegell confirmed the range of the Board's fund balance policy. Director Nesbitt asked about the elimination of the tuition plateau and confirmed that it did not garner as much tuition as anticipated. Vice President Cathy Dyck observed that tuition revenue was about \$1 million off. Director Nesbitt asked if it had a negative impact on students and Dyck replied that students tended to take a carrying load of 12-13 credits and that PSU had more part-time students than the previous year.

Green turned to Southern Oregon University (SOU). Green observed SOU ended the year \$1.4 million ahead of adjusted budget. He noted tuition income was higher than anticipated, but personal services were higher than expected. Green added that SOU made a one-time assessment against its auxiliary enterprise funds totaling \$615,000 that was not budgeted. Chair Blair asked what assessment meant and Green replied it was a one-time transfer of funds against its auxiliaries to bolster the E&G budget. Chair Blair asked if there were rules governing transactions of that type and Green replied there were not. Green observed, however, that it raises two issues: legislative interest and the requirement that auxiliaries be self-supporting. President Zinser noted that SOU

was on the low side for auxiliary assessment and with the increase SOU was more comparable to other institutions. Chair Blair confirmed the funds were for administrative support. Green continued, offering that auxiliaries ended the year with a \$1.7 million loss, which was approximately \$800,000 below adjusted budget. Green observed that total auxiliaries had positive cash, working capital, and fund balance and positive liquidity. He noted designated operations of the service departments also had positive cash, working capital, and fund balances.

Chair Blair asked Green to confirm that auxiliaries ran a \$1.7 million loss and a \$1.1 million loss without the assessment and Green replied yes. Chair Blair asked whether it was normal to budget a loss in auxiliaries and Green said it was not, but that SOU's challenges with auxiliaries were enrollment-driven and SOU was cognizant of that. Chair Blair asked how far SOU was below its enrollment target and Provost Earl Potter replied 5 percent. Chair Blair asked if SOU targeted no growth and Provost Potter replied the original budget targeted one percent enrollment growth.

Green moved to the University of Oregon (UO). He noted that UO ended the year \$7 million ahead of adjusted budget due to higher than anticipated tuition revenues. Green observed S&S ended \$3 million under adjusted budget due to higher than anticipated overhead assessments. He added that personal services were higher than expected. Green commented the ending fund balance was 11.7 percent, within the policy framework. He noted auxiliaries ended the year with a \$2 million loss. Expenses in auxiliaries were higher due to increases in housing occupancy, general enrollment increases and increased athletic and student aid expenses. He stated total auxiliaries had positive cash, working capital, and positive fund balances and liquidity. There were no significant issues with the designated operations of the service departments.

Chair Blair asked whether the loss increased without the athletic program and Green replied no. Green clarified that athletics was anticipating a loss, and even though revenues were higher than anticipated, there was still a loss in the auxiliary fund. Chair Blair confirmed that the net on athletics was better than budgeted.

Green turned to WOU and stated that WOU ended the year with a \$4.9 million loss, \$1.3 million ahead of the adjusted budget. Green stated that tuition income was down, but was offset by declines in personal services and S&S due to conservative maintenance of vacancies and plant maintenance. Green added that the ending fund balance was 14 percent, within the policy's range. He stated that auxiliaries ended the year with a \$1 million loss, which was \$1 million below the adjusted budget. Green shared total auxiliaries had positive cash, working capital, and solid liquidity. He observed designated operations of service departments had a loss of \$200,000 due primarily to a one-time purchase of telecommunications and network equipment.

Chair Blair asked Green if the important metric was performance before the fund additions and deductions, staff should figure out a way to remove it from its current location on the report and Green commented that he wanted to push it down and out of the line for calculating loss. Green turned to the Chancellor's Office (CO). He noted the

CO ended the year with a \$4 million loss, approximately \$4 million ahead of adjusted budget, due primarily to vacancy savings and a delay in the repair of the CAPITAL Center roof. He mentioned that the ending fund balance was 58.3 percent, outside of the policy framework. Green added that the CAPITAL Center, after fund additions and deductions, was \$105,000 under adjusted budget. Green stated that the CO adjusted budget was not reflective of planned rent rates reductions that reduced balances. He offered that there was positive cash, working capital, fund balance, and positive liquidity. Green added that the designated operation in the service departments for the CO were pretty much gone.

Green summarized that while he would like to discuss some of the missed estimates, he was pleased with the ability to report updated projections for fund balances during the legislative session. He added that this information was out in front of the Legislative Fiscal Office and the Department of Administrative Services. Director Lorenzen asked for clarification on the difference between total revenues and expenditures and fund additions and deductions and Green explained that fund accounting was behind the scenes. He offered examples of fund additions and deductions and observed that he would like to develop a measure for auxiliaries that got everyone on the same page. Chair Blair commented that while there were some points that could be clearer, the report was an enormous step forward. Director von Schlegell asked how the System was tracking actuals-to-date prospectively and Green answered that staff had the data, but it was resources issue.

### **c. OSU, Funding of Expansion of Large Animal Teaching Hospital**

#### DOCKET ITEM:

Oregon State University is requesting that the Board authorize the use of \$1.9 million in excess bond sinking funds designated for research related to veterinary medicine as matching funds for the expansion of the Large Animal Teaching Hospital at OSU.

#### Background:

In 1971, the Legislature approved the OSU Animal Disease Research Isolation Facility capital construction project. The Higher Education Isolation Facility Bond Sinking Fund (Fund) was established to pay the debt service for the project, and its use was restricted to payment of principal and interest on the bonds issued to construct the Isolation Facility.

In 1987, ORS 351.545 was amended to add section (3) which states that “The sinking fund shall not be used for any purpose other than that for which the fund was created; but should a balance remain after the purpose for which the fund was created has been fulfilled, or the sinking fund and investments thereof, will, in the judgment of the board, be sufficient to meet in full the principal of, and the interest upon all Higher Education Isolation Facility bonds then such excess funds may be transferred by the board to funds to be used for research related to veterinary medicine.”

In its October 21, 1988, meeting, the Board authorized the use of \$55,000 per year in earnings from the Fund for research in the College of Veterinary Medicine. In addition, the Board also endorsed the concept of converting the balance of the Fund at the time the bonds were fully retired into an endowment to provide an indefinite funding source for research in veterinary medicine.

During Fiscal Year 2001-02, the Sinking Fund made its final debt service payment on the Series 1972C article XI-F Bonds. As of August 15, 2005, the balance in the fund is \$1,880,411.44.

#### Large Animal Teaching Hospital Expansion

The 2005-2007 Legislatively Adopted Budget includes authorization for up to \$12 million to expand the Large Animal Teaching Hospital to add a modern equine evaluation arena, a large animal isolation area, an enlarged surgical teaching area, and other clinical research facilities.

In December 2003, the Wayne and Gladys Valley Foundation donated \$5 million to the expansion, requiring a \$5 million match. The university has raised \$3.1 million to support the project and plans to fulfill the match with the \$1.9 million sinking fund so that construction can begin in 2005-06. The university believes that the highest and best use of the balance in the Fund is to fulfill the match on this project.

#### Staff Recommendation to the Board:

Staff recommended that the Board authorize spending the balance of the Higher Education Isolation Facility Bond Sinking Fund to support the expansion of clinical research facilities at the Large Animal Teaching Hospital at Oregon State University.

#### COMMITTEE DISCUSSION AND ACTION:

Chair Blair turned to OUS Vice Chancellor for Finance and Administration Jay Kenton to explain the OSU docket materials and Kenton asked OUS Controller Michael Green for assistance. Green explained OSU was requested the Board to authorize the use of a balance in a sinking fund that is no longer needed for its original purpose, but was intended by the legislature to be used for research in veterinary medicine. OSU would like to use the funds to expand its large animal teaching hospital. Green observed that a previous Board recommended that the funds be set aside in an endowment for use in veterinary medicine research. Green added that the legislatively adopted budget included authorization for up to \$12 million for this project and that OSU has a \$5 million gift from the Wayne and Gladys Valley Foundation.

Director Lorenzen asked for the source of the sinking funds and Green explained the legislature set it up in 1971. Director Lorenzen asked if there were any restrictions on the use of the funds and Green replied there were restrictions originally, but OUS went to the legislature in 1983 and asked for the remainder of the fund to be used for veterinary medicine research. Director Lorenzen inquired whether it was anticipated the funds would be used for operations, as opposed to capital construction and Green

noted DOJ had been consulted and that the use of the money for the teaching hospital was defensible. Chair Blair asked if any entity would challenge the use of the money and Assistant Attorney General Wendy Robinson replied that the bond holders had been paid and that it would be unclear if anyone would even have standing to sue. Green added that Bill McGee of the Oregon Department of Administrative Services was aware of the proposed use.

Chair Blair moved to authorize the use of the funds as proposed in the docket materials and Director Lorenzen seconded the motion. All in favor: Lorenzen, von Schlegell, and Blair. Opposed: none. Motion passed.

#### 4. REPORT ITEMS

##### a. Annual Report on Investments – Year Ended June 30, 2005

###### DOCKET ITEM:

The System's annual report on investments was prepared by the Chancellor's Office pursuant to Internal Management Directive 6.130. The report consists of three pages:

###### Investment Funds – Annual Reconciliation (Page 1)

This page displays the beginning and ending market values of OUS investment funds, transactions for the fiscal year, and the annual return for each fund.

###### Pooled Endowment Funds – Performance Comparisons (Page 2)

This page shows the investment returns compared against their respective benchmarks, ending market value, and asset allocation for the Pooled Endowment Fund.

###### Investment Policy Compliance Review (Page 3)

The Oregon State Board of Higher Education's Investment Objectives and Policy Guidelines (Policy) for the Pooled Endowment Fund establishes specific criteria for monitoring performance of Fund managers. This page shows each criteria and states whether or not the manager/fund is in compliance with the relevant policy standard.

As of June 30, 2005, total OUS investments had a combined market value of \$350 million, summarized as follows:

| <b>Fund</b>   | <b>Market Value<br/>June 30, 2005</b> |
|---|---------------------------------------|
| Endowment funds (both pooled and separately invested)                   | \$ 65,647,069                         |
| Donation Funds  | 50,550,418                            |
| Bond Building Funds   | 139,519,115                           |
| Bond Sinking Funds  | 67,026,078                            |
| Auxiliary Enterprise Building Repair and Equipment Replacement Reserves | 27,641,739                            |
| Total   | \$350,384,419                         |

The total Pooled Endowment Fund (Fund) return for fiscal year 2005 was 10.3 percent, which out-performed the policy benchmark return of 8.1 percent. The Fund's allocation to large-cap equities (BGI Alpha Tilts Fund B) returned 8.8 percent, which out-performed its benchmark (S&P 500 Stock Index) return of 6.3 percent. The Fund's allocation to small/mid-cap equities (Batterymarch) returned 15.9 percent, which out-performed its benchmark (Russell 2500 Index) return of 12.7 percent. The Fund's allocation to foreign equities (T. Rowe Price Foreign Equity) returned 10.6 percent, which lagged its benchmark (EAFE Index) return of 14.1 percent. The Fund's allocation to fixed income (Western Asset Core Plus Bond Fund) returned 9.2 percent, which out-performed its benchmark (Lehman Aggregate Bond Index) of 6.8 percent. The five-year average return for the Fund was 3.3 percent compared to the policy benchmark return of 1.2 percent. During the FY 2005, \$2.3 million was distributed from the Fund to the universities for spending.

The investment policy compliance review on page 3 of the report measures performance over a market cycle, which is defined in the Policy as an investment period lasting three to five years. For this reason, the compliance criteria are applied to both a three and five year period. There were two managers that did not comply with either the three or five year test. Batterymarch Small/Mid Cap Equity Fund, although outperforming its benchmark for the three year period, under-performed the three year Policy compliance test. However, this allocation has not been with this manager for five years. T. Rowe Price Foreign Equity Fund under-performed both the three and five year tests. When administration of the Fund is transferred to the Oregon State Treasury, it is anticipated that the T. Rowe Price Foreign Equity allocation will be replaced with another international manager.

Other funds available for investment were invested in the Oregon State Treasury Short-Term Investment Pool during FY 2005 and earned an average return of 2.2 percent.

There were no security purchases during the year. However, \$3.2 million worth of assets from the Pooled Endowment Fund were sold to provide cash for the spending distribution to the universities and for the transfer of the A. J. Mackenzie Endowment Fund to Oregon Health & Science University - approved by the Board on February 4, 2005.

*Staff Recommendation to the Committee:*

Staff recommended the Committee accept the 2005 Annual Report on Investments as presented.

COMMITTEE DISCUSSION:

Chair Blair asked OUS Controller Michael Green to continue with the Annual Report on Investments for the Year Ended June 30, 2005. Green observed that the investment report would be much briefer than in the past. He noted that the previous reports of fifteen or twenty pages had been pared down to three. Green explained that the first

page was the annual reconciliation of the investable funds, displaying the beginning and ending market values and transactions for the year, and the second page was the pool endowment fund performance comparisons. Green stated that the third page was a new page that laid out policy guidelines that the Board established in its new investment policy.

Green observed that the combined market value of all investable funds was \$350 million. He noted the pooled endowment fund returned 10.3 percent, which outperformed its benchmark. Green added that the five-year average return was 3.3 percent compared to the benchmark of 1.2 percent and that \$2.3 million was distributed from the fund to the universities for spending. He summarized that all outperformed their benchmarks, except T. Rowe Price, and that Treasury was moving to change that manager.

Director von Schlegell asked Green to summarize what action the Committee and Board took regarding investment management and Green replied that he hoped to have policy changes to the Committee in October and that Treasury and the Oregon Investment Council would edit their policies to reflect OUS changes by the end of December.

Green observed that the first page was distilled as much as it could be in order to still provide the information necessary for the Committee to review accountability. Green mentioned that two of the managers did not comply with the three- or five-year tests, but that Battery March was still a pretty solid manager. Green added that the other funds available for investment were invested in the Treasury short-term investment pool and earned an average of 2.2 percent.

Director von Schlegell inquired whether OUS would be out of T. Rowe Price by December and Green confirmed, although he stressed that with the new policy changes, Treasury and OIC would be governing the process. Director von Schlegell confirmed that the Board had reserved the right to review who was selected and Green noted that it was in process. Green added that OUS did not purchase any securities during the year and that it sold \$3.2 million out of the pool endowment fund to provide spending. Director von Schlegell asked how much was distributed out of the endowment and Green replied \$2.3 million. Kenton and Green noted it was based on a spend rate of 4 percent each year. Green observed that OUS was not aggressive with the spend rate and that it was acceptable to him, although Kenton noted that it was something that should be reviewed from time to time as the market changes.

## 5. DISCUSSION ITEM

### a. **Accountability Framework Principles**

#### DOCKET ITEM:

The Oregon University System (OUS) strives to be accountable to the citizens of the state by: 1) overseeing the operations of the System in conformance with best management practices; 2) selection of a Chancellor and institutional presidents with the prerequisite qualifications to lead the System and institutions; 3) delegating the authority to these individuals for System and campus operations in conformity with established laws, rules, and directives; 4) establishing goals and expectations for the System and its leadership in alignment with state priorities; 5) monitoring progress against these expectations and goals; and 6) evaluating and reporting accomplishments and financial performance.

This docket item is intended to be a review of the authority and responsibilities of the Board, Chancellor, and institutional presidents as background for the establishment of an accountability framework for the System.

Current Oregon Revised Statutes define the responsibilities of the Board and Chancellor as follows:

#### **351.060 Board general powers as to control and management of property; power as to litigation; delegation of powers.** The State Board of Higher Education may:

(1) Control and provide for, subject to the conditions of this section, the custody and occupation of the grounds, buildings, books, papers, and documents belonging to each and all the institutions, departments or activities under the control of the State Board of Higher Education.

(2) Manage, control, and apply all property of whatever nature given to or appropriated for the use, support or benefit of any or all of the institutions, departments or activities under the control of the State Board of Higher Education, according to the terms and conditions of such gift or appropriation. Monies received under this section shall be deposited with the State Treasurer in an account or fund separate and distinct from the General Fund. Interest earned by the account or fund shall be credited to the account or fund.

(3) Erect, improve, repair, maintain, equip, and furnish buildings, structures, and lands for higher education.

(4) Acquire, receive, hold, control, convey, sell, manage, operate, lease, lend, invest, improve, and develop any and all property, real or personal:

(a) Given to any of the institutions, departments or activities under the control of the State Board of Higher Education by private donors, whether such gifts are made to the State Board of Higher Education or to the State of Oregon; or

(b) Acquired by any other method or from any source by the State Board of Higher Education for the benefit of any of the institutions, departments or activities under the control of the Board, except for any structure, equipment or asset encumbered by a

certificate of participation.

(5) Manage mineral and geothermal resource rights and proceeds therefrom acquired or held for the state by the Board pursuant to this chapter and ORS chapter 567. This includes leasing mineral and geothermal resource rights consistent with ORS 273.785.

(6) Take and hold mortgages on real and personal property acquired by way of gift or arising out of transactions entered into in accordance with the powers, duties, and authority given to the Board by this section, ORS 351.070 and 351.150.

(7) Institute, maintain, and participate in suits and actions and other judicial proceedings, in the name of the State of Oregon, for the foreclosure of such mortgages or for the purpose of carrying into effect any and all of the powers, duties and authority given to the State Board of Higher Education by this section and ORS 351.070 and 351.150.

(8) Acquire, receive, hold, control, sell, manage, operate, lease or lend any goods, supplies, materials, equipment, services, and information technology, for the use, support or benefit of any of the institutions, departments or activities under the control of the Board.

(9) Delegate any of the powers, duties or functions granted to the Board under this section to any state institution of higher education within the Oregon University System. [Amended by 1959 c.570 §1; 1975 c.771 §31a; 1985 c.443 §6; 1989 c.966 §33; 2001 c.453 §2; 2003 c.674 §6]

**351.070 Board general powers as to higher education and institutions; personnel system; public improvement contracts; fees; student records.** (1) The Oregon University System, in accordance with rules adopted by the State Board of Higher Education, shall implement a personnel system and may engage in collective bargaining with its employees. All collective bargaining with any certified or recognized exclusive employee representative shall be under the direction and supervision of the Chancellor of the Oregon University System. The Oregon University System shall have payroll authority pursuant to ORS 292.043 to 292.180.

(2)(a) The Board shall establish competitive procedures for the purchasing, procurement and contracting of goods, services, and information technology, for the benefit of the Oregon University System and all the institutions, departments and activities therein. The Board may also establish exemptions from the competitive procedures when appropriate.

(b) The Board shall ensure that the hourly rate of wage paid by any contractor upon all public improvements contracts undertaken for the board shall not be less than the same rate of wage as determined by the Bureau of Labor and Industries for an hour's work in the same trade or occupation in the locality where such labor is performed. Claims or disputes arising under this subsection shall be decided by the Commissioner of the Bureau of Labor and Industries.

(c) The Board shall adopt policies and procedures that achieve results equal to or better than the standards existing on July 17, 1995, regarding affirmative action, pay equity for comparable work, recycling, the provision of workers' compensation insurance to workers on contract and the participation of emerging small businesses and businesses owned by minorities and women.

(3) The Board may, for each institution under its control:

(a) Appoint and employ a president and the requisite number of professors, teachers and employees, and prescribe their compensation and tenure of office or employment.

(b) Demand and receive the interest mentioned in ORS 352.510 and all sums due and accruing to the institutions of higher education for admission and tuition therein, and apply the same, or so much thereof as is necessary, to the payment of the compensation referred to in paragraph (a) of this subsection and the other current expenses of the institutions.

(c) Prescribe fees for enrollment into the institutions. Such enrollment fees shall include tuition for education and general services and such other charges found by the Board to be necessary to carry out its educational programs. The board may award student aid from any fund other than the General Fund.

(d) Prescribe incidental fees for programs under the supervision or control of the Board, found by the Board, upon its own motion or upon recommendation of the recognized student government of the institution concerned, to be advantageous to the cultural or physical development of students. Fees realized in excess of amounts allocated and exceeding required reserves shall be considered surplus incidental fees and shall be allocated for programs under the control of the board and found to be advantageous to the cultural or physical development of students by the institution president upon the recommendation of the recognized student government at the institution concerned.

(e) Upon recommendation of the recognized student government, collect optional fees authorized by the institution executive, for student activities not included in paragraph (c) or (d) of this subsection. The payment of such optional fees shall be at the option and selection of the student and shall not be a prerequisite of enrollment.

(f) Confer, on the recommendation of the faculty of any such institution, such degrees as usually are conferred by such institutions, or as they deem appropriate.

(g) Prescribe the qualifications for admission into such institutions.

(4) Subject to such delegation as the board may decide to make to the institutions, divisions and departments under its control, the Board, for each institution, division, and department under its control:

(a) Shall supervise the general course of instruction therein, and the research, extension, educational and other activities thereof.

(b) Shall adopt rules and bylaws for the government thereof, including the faculty, teachers, students and employees therein.

(c) Shall maintain cultural and physical development services and facilities therefore and, in connection therewith, may cooperate and enter into agreements with any person or governmental agency.

(d) May contract to provide health services at student health centers.

(e) Shall provide health services at student health centers to students.

(f) May provide health services at student health centers to any of the following:

(A) Dependents of students.

(B) Staff.

(C) Faculty.

(g) Shall prescribe and collect charges.

(h) Shall adopt rules relating to the creation, use, custody, and disclosure, including

access, of student education records of the institutions that are consistent with the requirements of applicable state and federal law. Whenever a student has attained 18 years of age or is attending an institution of post-secondary education, the permission or consent required of and the rights accorded to a parent of the student regarding education records shall thereafter be required of and accorded to only the student.

(5) For each institution under its jurisdiction, the board shall provide opportunities for part-time students to obtain complete undergraduate degrees at unconventional times, which include but are not limited to early morning and noon hours, evenings, and weekends. In administering these degree programs, the institution may use any educational facility available for the use of the institution. [Amended by 1953 c.545 §2; 1971 c.375 §1; 1971 c.708 §9; 1973 c.331 §1; 1979 c.159 §2; 1989 c.308 §1; 1989 c.311 §1; 1989 c.492 §1; 1993 c.806 §7; 1995 c.612 §8; 1997 c.231 §1; 1999 c.59 §98; 2003 c.14 §156; 2003 c.674 §7; 2003 c.817 §1]

**Note:** Sections 1 to 3, chapter 653, Oregon Laws 1997, provide:

**Sec. 1. Board duties regarding measurements, admission standards, degree models, access to services, educational opportunities and credit transfer.** The State Board of Higher Education shall:

(1) Continue development of accountability and performance measures with indicators in broad goal areas, including but not limited to:

- (a) Enhancing existing quality;
- (b) Expanding access;
- (c) Maintaining reasonable cost-effectiveness; and
- (d) Ensuring employability.

(2) Continue development of a proficiency-based admission standards system that aligns with school reform requirements for kindergarten through grade 12 under ORS chapter 329 in order to improve student performance and better articulate expectations of student learning among the educational sectors.

(3) Continue experimentation with and implementation of various accelerated baccalaureate degree models at state institutions of higher education in applicable programs. The models may include but need not be limited to early entry and post-secondary options and models that are jointly developed with the State Board of Education.

(4) Continue development of strategies to provide the broadest possible access to educational services for both on-campus and off-campus learners by using technology as well as traditional options.

(5) Continue to work with businesses, industries and agencies to offer increased opportunities for students to participate in internships, practica, and service learning experiences. The Board shall continue to explore faculty internship opportunities with businesses, industries and agencies.

(6) Continue to work with the State Board of Education to develop policies and procedures that ensure maximum transfer of academic credits between community colleges and state institutions of higher education. [1997 c.653 §1]

**Sec. 2. Progress report.** The State Board of Higher Education shall report to the

Legislative Assembly each biennium on the progress of the Board in implementing section 1 of this Act, along with a report on the fiscal, physical and technological resources necessary for implementation of these goals. [1997 c.653 §2]

**351.075 Chancellor of Oregon University System; appointment; qualifications; compensation.** (1) The State Board of Higher Education shall appoint a chief executive officer who shall be known as the Chancellor of the Oregon University System and who shall serve at the pleasure of the Board. The Board may appoint one or more assistants as may be necessary.

(2) The chancellor and the assistants of the chancellor shall be persons who by training and experience are well qualified to perform the duties of their offices and to assist in carrying out the functions of the board under ORS 351.010 to 351.070, 351.075 to 351.260, 351.310 to 351.615, 351.770 to 351.840, 352.002 to 352.006, 352.010 to 352.053, 352.065 (1985 Replacement Part), 352.230, 352.360, 352.370, 352.390, 352.400 and 352.510 to 352.760.

(3) The State Board of Higher Education shall fix the compensation of the chancellor and the assistants of the chancellor. [1971 c.708 §10; 2001 c.382 §3]

**351.085 Duties and powers of Chancellor.** The Chancellor of the Oregon University System shall exercise, under the direction of the State Board of Higher Education, the administrative authority necessary to carry out the policies of the board with respect to the institutions, departments or activities under the control of the Board. In carrying out the duties of the Chancellor, the Chancellor shall:

(1) Act as administrative officer of the State Board of Higher Education.

(2) Maintain a centralized service program for all institutions, departments and activities, including but not limited to, accounting, statistical services, capital construction, management analysis, legal services, academic affairs and educational research.

(3) Collect and compile information and statistics relative to the operation of the institutions, departments and activities of the State Board of Higher Education.

(4) Prepare and submit to the State Board of Higher Education an annual operating budget for all institutions, departments, and activities of the Board.

(5) Oversee the preparation and submission to the State Board of Higher Education of the biennial budget requests of the institutions, departments, and activities for consideration by the board as the budget request to the Governor under ORS 351.090. The Chancellor shall provide analyses of the budget requests of the institutions, departments, and activities, including in such analyses alternative considerations as may be necessary or desirable for the board in the adoption of its budget request.

(6) Appoint, subject to the State Personnel Relations Law, and with the approval of the State Board of Higher Education, such personnel as may be necessary for the performance of the duties of the Chancellor.

(7) Designate, if the chancellor wishes, one or more suitable persons to sign or countersign warrants, vouchers, certificates, or other papers and documents requiring the signature of the Chancellor.

(8) Prepare the agendas for State Board of Higher Education meetings and provide an analysis of proposals made to the board, including such alternatives as may be

necessary or desirable for their consideration, and make recommendations thereon.

(9) Prepare and submit to the State Board of Higher Education on or about December 31 of each year an annual report in which the chancellor describes the principal activities of the Department of Higher Education during the fiscal year ending June 30. The report shall include a statement of all funds received, the source or sources from which received, the expenditure and disbursement of all funds and the purposes for which they were expended. The report shall contain a statement of the number of students enrolled in each institution, department or activity, the number of degrees conferred, the improvements made and new courses of instruction added, together with a statement showing in a general way the status of all activities and functions of the State Board of Higher Education.

(10) Keep a record of the transactions of the State Board of Higher Education.

(11) Have the custody of all books, papers, documents and other property belonging to the State Board of Higher Education.

(12) Give such instructions as may be necessary to carry out the directives of the State Board of Higher Education and forward them to the various institution presidents and heads of departments and activities.

(13) Provide for meetings of the presidents and principal executives of the institutions, departments and activities, at such times as the State Board of Higher Education may direct, such meetings to be open to any member of the board. At such meetings, the executives of the Department of Higher Education may propose policies or policy changes or statements for consideration by the board and develop recommendations concerning allocations of funds.

(14) Perform such other administrative assistance and consider other administrative matters as the State Board of Higher Education may require. [1971 c.708 §11; 1987 c.158 §62; 1995 c.79 §192]

Current Oregon Administrative Rules (OARs) define the Board's delegation of authority regarding the financial management of the System.

## **DIVISION 40 BOARD'S FINANCIAL POWERS**

### **580-040-0005 Delegation and Assignment of Responsibility**

The Board delegates general supervision of fiscal and administrative activities to the Chancellor and designated staff. Major changes in organization or procedures in such activities shall be reported to the Board for approval. The Board directs the Vice Chancellor for Finance and Administration to execute Board policy in all areas of fiscal and administrative services. Among these are:

(1) Designing, installing, supervising and auditing of fiscal and accounting policies and procedures in the Department;

(2) Designing budget systems and procedures describing Department goals, program proposals to achieve these goals and the level and type of financial support necessary to implement approved programs during prescribed time periods. The Office of Finance and Administration is also responsible for budget execution review to assure conformance with the adopted budget;

(3) Establishing policies and procedures for administration of gift, grant and contract funds;

- (4) Custody, control, and management of the investment of Department funds;
- (5) Coordinated administration of policies relating to procurement, receipt and management of tangible personal property of the Department;
- (6) Development of an analytic program, founded on recognized institutional research techniques, providing input to the Department's budget preparation and program evaluation efforts;
- (7) Development of a program to analyze Department administrative policies and practices and recommend specific actions to improve services and minimize costs;
- (8) Sign claims on behalf of the Board, sign payrolls and sign checks on bank accounts with the State Treasurer or commercial banks.

Stat. Auth.: ORS 351.070

Stats. Implemented: ORS 351.070

Hist.: HEB 3-1978, f. & ef. 6-5-78; HEB 6-1986, f. & ef. 1-23-86; HEB 10-1990, f. & cert. ef. 7-26-90; HEB 1-1993, f. & cert. ef. 2-5-93; HEB 5-1996, f. & cert. ef. 12-18-96

Current Internal Management Directives (IMDs) define the responsibilities of the Chancellor and institutional presidents as follows:

#### **“A. Duties and Responsibilities of the Chancellor**

##### 1.010 General Duties

The Chancellor is the chief executive officer of the System, responsible for implementation of the Board's decisions and plans. Except where otherwise designated, the Chancellor is delegated full authority to act on behalf of the Board within guidelines, established by the Board and to ensure that institutions, through institution presidents, carry out their responsibilities. The Chancellor shall seek the advice of institutional presidents in making decisions having substantial Systemwide effects. The Chancellor shall be responsible for presentation of all business and other matters to be considered by the Board at any of its regular or special meetings in addition to those items identified and brought by Board members.

##### 1.015 Preparation of Quarterly and Annual Reports

The Chancellor or designee shall report to the Board quarterly on the academic, fiscal, and operational affairs of the System. The Chancellor or designee shall also report to the Board as otherwise required by statute, by the Board, or by the Governor.

##### 1.020 Authority over Staff and Employees

(1) The Chancellor shall make recommendations to the Board, in which rests sole power of decision, concerning the selection, appointments, salaries, transfers, suspensions, terminations and other conditions of employment of institution presidents.

(2) The Chancellor is authorized to approve, after consultation with the president and vice president of the Board, the salaries, transfers, suspensions, terminations, and other terms and conditions of employment of the vice chancellors and the secretary of the Board.

(3) The Chancellor is authorized to approve up to 60 days paid leave at 90 percent of regular pay for institution presidents, vice chancellors, and the secretary of the Board for purposes of undertaking study or research that will be of benefit to the institution or the University System.

(4) The Chancellor delegates to institution presidents the authority for appointments, transfers, resignations, leaves of absence, changes in tenure status, promotions, establishment of emeritus status, fixing of salaries, terminations, and all other terms and conditions of employment of all institution employees to the extent they are consistent with the rules, directives, and policies of the System and applicable collective bargaining agreements. Institution presidents shall confer with the Chancellor prior to approving the selection, salaries, transfers, suspensions, terminations, and other terms and conditions of employment of institution vice presidents.

(5) The Chancellor is authorized to select, appoint, promote, fix the salaries, grant leaves to, transfer, suspend, or terminate all other System staff consistent with the rules, directives, and policies of the System and applicable collective bargaining agreements.

(6) The Chancellor is authorized to delegate responsibilities or to designate staff to carry out any of the duties assigned to the Chancellor.

### **E. Relationship of Presidents to Chancellor and the Board**

#### **1.102 Presidents Responsible to the Chancellor**

(1) The president is the chief executive officer of the institution and a member of the Chancellor's executive staff. The President is responsible to the Chancellor for all matters concerning the institution and is an advisor the Chancellor in matters of inter-institutional policy and administration. The president will participate in meetings called by the Chancellor to seek advice regarding System operations and policy. The president will implement policies, plans, budgets and guidelines approved by the Chancellor.

(2) The President shall develop and implement, in consultation with appropriate committees or members of the institution, the policies, plans, budget, and guidelines affecting the institution as deemed necessary and/or advisable so long as they are in conformance with those policies, plans, budget, and guidelines adopted by the Board or Chancellor. The president shall advise the Chancellor of any institution events that substantially affect the well being of the institution or the System or any major proposed changes of institution policies, plans, budget, or standards.

(3) The president shall recommend to the Chancellor any proposals for significant changes of policy, plans, budget or standards requiring approval of the Board or Chancellor. The Chancellor will decide whether to take action or to recommend the Board take action.

#### **1.103 Duty of Presidents**

(1) The president or designee shall approve all recommendations transmitted to the Chancellor from the institution.

(2) The president or a designee is encouraged to attend all meetings of the Board (except executive sessions) and its committees and is expected to attend those meetings at which matters affecting the institution are to be considered.

(3) The relationship of the president to the Board is through the Chancellor as the chief executive officer of the Board.

### **F. Authority and Responsibility of Institution Presidents**

#### **1.120 General Responsibilities**

The president is delegated full authority and responsibility to administer the affairs of the institution in accordance with Board policies, plans, budgets, and standards, including management and expenditure of all institution funds, within budgetary and other limitations imposed by the Board. The president is delegated full authority for determining the organizational structure of the institution, except where otherwise provide by law, rule, directive, policy, or guideline.

#### 1.123 Internal Governance and Authority over the Faculty

(1) The president shall have the right to convene and preside over the faculty or faculties of the institution and shall have the right of veto over their decisions or those of the representative body, subject to review by the Chancellor. The president shall define the scope of authority of faculties, councils, committees, and officers, subject to review by the Chancellor, when not otherwise specifically defined by Board policy or established in the internal governance statement.

(2) Each institution shall have the right to formulate a statement of internal governance expressed as a constitution or in other appropriate format, which shall be ratified as the official statement of internal governance by those included in the internal governance structure of the institution and by the president. The internal governance statement is subject to review and modification when a new president assumes office and at such other times as shall be provided for in the internal governance statement; any amendatory action shall also be subject to ratification by those included in the internal governance structure and by the President.

#### 1.127 Administrative Authority over Institution Employees

(1) The President is authorized to approve, after consultation with the Chancellor, the salaries, transfers, suspensions, terminations, and other terms and conditions of employment of institution vice presidents or others serving in comparable positions.

(2) The President is authorized to approve, in conformance with rules, policies, or guidelines established by the Board or Chancellor, appointments, transfers, resignations, leaves of absence, changes in tenure status, promotions, establishment of emeritus status, fixing of salaries, or terminations of appointments, except as provided in subsection (1) above for all institution employees. The president may delegate full responsibility for the foregoing personnel actions to institution staff.

#### 1.130 Responsibility for Student Conduct and Discipline

(1) The President is responsible for development and administration of institutional policies and rules governing the role of students and their conduct. In carrying out this responsibility, the President shall take into account the views of students, faculty, and others.

(2) Institutional rules shall establish guidelines for student conduct which set forth prohibited conduct and provide for appropriate disciplinary hearings and sanctions for violations of institutional rules, consistent with standards of procedural fairness.

(3) The Board recognizes and affirms the importance of active student involvement in the deliberative and decision-making processes.

Current Internal Management Directives (IMDs) addressing accounting, financial irregularities and budgeting polices and respective responsibilities of the Board, Chancellor and institutions.

**Accounting Policies****6.001 Assignment of Responsibility**

Subject to review and modification by the Chancellor or the Board, the Vice Chancellor for Finance and Administration shall be responsible for:

- (1) Developing detailed regulations applicable to creation and maintenance of accounting policies, records, and reports.
- (2) Providing central fiscal and accounting services, including payroll accounting, property accounting, and disbursement of state, federal, and all other funds under Board control.
- (3) Auditing and reviewing institutional and other unit accounting procedures and records to assure conformity with statutes, Administrative Rules, Board policies, and accepted accounting principles and procedures.
- (4) Preparing accounting and other financial reports, including a comprehensive, annual report of Department assets, liabilities, reserves, income, expenditures, and balances.

**6.002 Institutional Responsibility**

The institutions and other Department administrative units shall maintain accounting records and related documentation in such form and detail as required by the Office of Administration and may maintain additional records deemed essential to effective institutional administration.

**6.009 Financial Irregularities**

(Adopted by the Oregon State Board of Higher Education, Meeting #699, October 19, 2001, p. 62)

Applicability:

All Oregon University System employees.

Policy Statement:

The Oregon University System (OUS) is committed to the highest standards of morality and ethical behavior. All employees of the Oregon University System shall report known or suspected financial irregularities to their department manager, who is responsible for forwarding the report to the institutional designated administrator. The institutional designated administrator must report known or suspected financial irregularities to the Oregon University System Internal Audit Division in accordance with institutional policy. All parties involved must handle the reports with confidentiality and objectivity. It is important that when an employee makes a good faith report of known or suspected financial irregularities, this employee feels safe and protected from retaliation. The Oregon University System shall take steps to protect the reputation and maintain the confidentiality of the employee that is reporting the suspected financial irregularity. The Whistleblowers Protection Law defined in ORS 659.545 protects employees disclosing fraud in good faith. Persons found to be making frivolous claims under this policy will be subject to disciplinary action.

Definitions:

Financial Irregularities are intentional misstatements or omissions of information related to financial transactions that are detrimental to the interests of the campuses or System. These may include violations of relevant Federal, State, OUS or campus laws, rules, and procedures. These acts include, but are not limited to embezzlement, fraud, and forgery or falsification of reports, documents, or computer files to misappropriate assets.

*Suspected Financial Irregularity* is a reasonable belief or actual knowledge that a financial irregularity is occurring or has occurred.

*Department Manager* is the immediate supervisor or individual with administrative responsibility for the unit where the suspected financial irregularity is occurring or has occurred.

*Institutional Designated Administrator* as defined in the OUS institutional financial irregularity policy and procedure.

## **Budget Policies**

### 6.050 Institutional Responsibility

In accordance with instructions from the Vice Chancellor for Finance and Administration or a designee, the institutions, divisions, and statewide services shall provide detailed descriptions of their biennial plans and programs and the resources required for them.

### 6.051 Special Requirements

(1) All auxiliary enterprise and service activities shall be budgeted separately from Education and General activities and shall receive no subsidy from state funds, except as otherwise permitted by Board Administrative Rule or established by Board's Office fiscal directives. However, joint use of auxiliary facilities for instruction and related activities may be accounted for by means of proportionately funded support from Education and General Services resources.

(2) Alumni associations may be subsidized only to the extent of providing office space and funds to maintain alumni records necessary for Department requirements.

### 6.052 Budget Development Process

The Chancellor shall review the biennial budget requests developed by the institutions, divisions, and statewide services, conferring with other Department personnel as necessary, before submitting recommendations for Board consideration.

### 6.053 Annual Operating Budget—Board Approval

(1) No funds appropriated or limited in their expenditure by the Legislature may be authorized for disbursement by an institution, division, or statewide service, unless approved by the Board as a part of the annual budget plan, except as delegated to the institution or public service executives or the Chancellor.

(2) Transfers between funds or institutions not anticipated in the budget require Board approval unless otherwise delegated to the Chancellor for approval.

### 6.054 Annual Operating Budget Planning

(1) Consistent with legislative appropriations and Executive Department allotments, the Vice Chancellor for Finance and Administration shall develop plans for the annual operating budget pursuant to Board policy and the Chancellor's instructions.

(2) Institutions, divisions, and statewide services shall provide such assistance in developing the annual operating budget as the executive vice chancellor deems necessary.

### 6.056 Annual Budget Adjustments

(1) Each president, division head, or statewide service executive is personally responsible for maintaining expenditures within limits established by the annual operating budget approved by the Board.

(2) Presidents, division heads, and statewide service executives may make transfers within budget accounts.

(3) Presidents, division heads, and statewide service executives may make transfers between budget accounts provided that such transfers do not exceed the total budget authorization of the institutions and divisions and provided that they conform to budget limitations.

(4) The Chancellor is authorized to:

(a) Determine the distribution of unallocated Board funds reserved for designated purposes.

(b) Reallocate budgeted allocations among institutions when required to accommodate changes in accounting processes, implement revised fiscal policies, make corrections, or other such adjustments that contain no policy or program decisions requiring Board consideration.

(c) Allocate adjustments in the appropriations and expenditure limitations approved by legislative authority.

(d) Approve reductions in budget plans when resources are projected to be inadequate to support authorized expenditure levels.

The following proposed principles summarizes these various laws, rules and policies and are proposed for adoption as part of an Accountability Framework for the OUS:

- The OUS Board expects its members, the Chancellor and his/her staff and institutional presidents, faculty and staff to set an appropriate example through accountable, ethical, and responsible behavior, and by demonstrating prudent stewardship of the public resources that have been entrusted to the OUS.
- In discharging these responsibilities the OUS Board empowers its Finance and Administration committee in accordance with its Finance and Administration and Audit charters;
- The OUS Board makes specific delegations of responsibility, authority and accountability to its Chancellor, its institutional presidents, or other designees via its administrative rules, internal management directives, and other policy and procedural guidelines;
- The OUS Board appoints its Chancellor as Chief Executive Officer (CEO) for the System and delegates to this position the authority and responsibility to:
  - Represent the Board and System to the public, the executive branch of government, the legislature, and the business community;
  - Provide leadership to the System, institutional presidents, and the staff of the Chancellor's Office;
  - Develop and maintain System plans, incentives, sanctions and strategies in alignment with Board goals, institutional objectives, and state priorities;
  - Maintain the financial integrity of the System through the preparation and presentation of operating and capital budget requests, including tuition pricing proposals, for Board approval and for consideration by the Governor and Legislature;
  - Maintain Systemwide policies and procedures in accordance with Legislative expectations; and Executive and Board directives;
  - Evaluate and mitigate financial and other risks confronting the System on an on-going basis;

- Conduct annual presidential evaluations and report results and make recommendations regarding salary adjustments and continuation of employment to the Board; and
- Maintain reporting, monitoring, and auditing functions to ensure:
  - That institutions comply with Board, state, and federal policies, rules and laws;
  - That consistent and comparable Systemwide information is compiled and reported;
  - That financial integrity of the System is maintained through fiscal oversight, the prudent use of debt-financing and the maintenance of a balanced budget with appropriate reserves for contingencies; and
  - That OUS discharges its statutory and other fiduciary obligations in an efficient, effective and prudent manner.
- The OUS Board, upon recommendations of the Chancellor, appoints institutional presidents; who shall be responsible to:
  - Represent the institution and System to the public, the executive branch of government, the legislature, and the business community;
  - Establish the institution's missions and strategies in alignment with Board, System, and state priorities;
  - Provide leadership of the academic enterprise through the establishment of annual goals for enrollment, sponsored project (research) funding, fund raising, and other institutionally defined plans and objectives;
  - Ensure that programs remain accessible and affordable for qualified Oregonians;
  - Comply with Board and Chancellor directives and other state and federal laws and rules;
  - Collaborate with other institutions, agencies, and entities to leverage resources and create synergies for the state;
  - To evaluate and mitigate financial and other risks confronting the institution on a regular basis;
  - Demonstrate institutional financial integrity through fiscal oversight, the prudent use of debt-financing and the maintenance of a balanced budget with appropriate reserves for contingencies; and
  - Report academic accomplishments and financial performance in an annual accountability report to be published each year.

This item is a report item for discussion purposes only. It is intended to outline the legal parameters that will guide the development of principles for an accountability framework.

#### COMMITTEE DISCUSSION:

Chair Blair turned to Vice Chancellor Jay Kenton for a discussion of the draft accountability framework. Kenton observed that the docket materials included the statutes, rules, and internal management directives that were relevant, in addition to his distillation of the proposed principles. Director Lorenzen asked what the Committee was

trying to accomplish by formulating an accountability framework and Kenton replied that it was designed to enumerate the Board's authority and what parts of that authority had been delegated to the campuses and to the Chancellor. Kenton observed that he wanted to use overarching principles to develop a more finite framework. Chair Blair added that he wanted to see some more dialogue around the framework and some clarity regarding the accountability between the Board, Chancellor, and campuses. Chair Blair noted that current rules and statutes contemplate the Chancellor in a "CEO" role. Director von Schlegell asked if the effort should be layered with the strategic planning and Chair Blair stressed that the purpose of the meeting was not to make a decision about the framework, but to start the dialogue.

Director Van Vliet asked if the intent was to change statutes and Chair Blair noted that he was not sure anything even needed to be changed. He stressed that effort was focused on how the System operated and used the example of whether the Board or the Chancellor approved campus strategic plans. Chair Blair summarized that the question was how the decentralized System was going to run. Kenton added that he was not sure if statutes needed to be changed, but rules and internal management directives would need to be reviewed in order to determine whether the changes could be made at that level.

Chair Blair commented that the discussion was unfolding as he thought it should. He noted that one of the core issues that should be considered was the relationship between the System office and the campuses. He asked how System strategy and objectives could be translated into institutional goals and metrics. Chair Blair observed, from the tenor of the conversation, whether the accountability framework would be something to be folded into the strategic planning process. Director Lorenzen noted that it appeared various sources of authority contemplated the Chancellor under a CEO model and that he agreed with that, although it could be open for discussion.

Chair Blair asked Director von Schlegell if he was comfortable including an accountability framework discussion in the strategic planning process and Director von Schlegell replied that it would fit in nicely after the big picture was settled. Acting Chancellor Pernsteiner added that it showed what was set out in statute and rule and reflected how the System operated currently. Director Van Vliet asked if the presidents were going to have an opportunity to respond and Pernsteiner noted it was a discussion item. Chair Blair stated that he wanted to make sure that some of things fundamental to managing the administrative and financial structure of the System were clear. He noted that much of it would come from the institutions. Chair Blair also noted that getting the right people was critical. He mentioned that he would like to see more human resource planning. He summarized that he would like to see clear goals and a developmental pipeline of human resource talent emerge from the accountability framework.

Director Richmond commented that she did not think the discussion of the accountability framework should be delayed. She noted that they were parallel discussions and would be important as the Chancellor was appointed to a permanent position. Director von Schlegell responded that the System could not operate in a

vacuum, but if there was potential for changing the way the System operated, it would not make sense to design an accountability framework with a great level of detail. Director Van Vliet added that when a strategic plan was in place, it might be important for campuses to revisit their institutional missions. Chair Blair added that the Committee could ask, in the interim, for the campuses to share their strategic plans to ensure that the Committee and the Board were comfortable with the metrics in those plans and Director von Schlegell observed that it would be a good starting point for the planning retreat. Director Lorenzen cautioned that it was important to have a common understanding of terminology and what the Committee and Board were attempting to do. Chair Blair noted that he was not trying to make major changes, but rather, he wanted to articulate a clear framework of accountability that would represent a touchstone for management. Director Lorenzen stated that he was concerned with the multiple layers of questions and issues.

Pernsteiner commented that recent evolution of events revealed how an accountability framework would operate. He noted that campus goals and revised financial reporting were indicative of how the Board conceived of its oversight and accountability role. Pernsteiner stated that the accountability framework might be tied to the Board's goals or could be tied to the individual missions of the campuses, but the eventual goal would be to put the necessary mechanisms in place in order to permit the Board to determine whether its goals are being met or not. Chair Blair asked at what point did the linkage between the System goals and the institution goals happen so it did not require change and Pernsteiner replied that was the challenge facing the System now. Chair Blair asked if the institution presidents would bring institutional goals to the Board in November and Pernsteiner noted it was part of the performance measurement reporting. Kenton added that, in speaking with the auditors, there had been an evolution of functions and that more specificity regarding who was responsible for what functions would be helpful. Director Van Vliet noted that everything stemmed from a budgetary process and that accountability and clarity would be useful in ensuring against legislative micromanaging.

## 6. ADJOURNMENT

Chair Blair adjourned the meeting at 9:29 a.m.

Donald W. Blair  
Chair

Ryan J. Hagemann  
Secretary of the Board