

TREASURER'S REPORT

1. **Division and Department:** Finance and Administration, Budget and Financial Planning, Treasury Management, and Facilities Management
2. **General Fund Budget Performance:** Year-to-date appropriation payments are consistent with the approved amount in the higher education appropriation bill. The University has received the award notification for the American Recovery and Reinvestment Act (ARRA) stimulus funding of \$1.5 million which offsets, on a one-time basis, the base appropriation decrease. Oakland University's (University) FY2010 year-to-date enrollment is unexpectedly strong, estimated to exceed budget by 4%, with undergraduate enrollment contributing most of the favorable variance. The strong enrollment will result in tuition revenues exceeding budget. Plans are being developed to manage these excess tuition revenues to cover instructional, programmatic, and operating expenditures which are necessary to support the higher than budgeted enrollment. A campus-wide FY2010 budget planning process is underway to manage this effort.

Overall General Fund expenditures are within budget with no deficits or major spending variances in any division or unit.

It is unlikely the University will experience a FY2010 mid-year appropriation cut, however the State's FY2011 budget year is projected to be \$1.8 billion in deficit, suggesting potential funding cuts to higher education. The Governor has proposed a flat FY2011 higher education budget while the Senate has approved a 3.1% cut. In response, a campus-wide FY2011 planning process has been initiated to develop budgeting strategies.

A monthly budget monitoring process managed by the Budget and Financial Planning Office helps ensure budget management accountability.

A recent audit of the Budget and Financial Planning Office was completed by the University's Internal Auditor. The scope of the audit was comprehensive in nature covering the Office's operations and internal controls, budget development, budget monitoring, general fund budget transfers, position control, and the State's HEIDI data reporting process. The audit report noted "In our opinion, the Office of Budget and Financial Planning's overall internal controls, operating procedures, and policy compliance are excellent. No exceptions were observed during our review."

3. **Investment Performance:** A summary of the results of the University's pooled cash and endowment investment activities is presented in the *Cash and Investments Report, February 28, 2010 and 2009* (Attachment A).

The University's quarterly returns at December 31, 2009 for both Pooled Cash and Endowments were reflective of the investment markets' recovery from the economic recession and compare favorably with benchmarks except in the endowment equities group where underperformance in the international equities investments was below expectations.

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March 31, 2010
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One of these managers has been replaced to improve performance in this area of investment.

The liquidity of both pooled cash and endowment investments remains strong. The University's investments are being managed according to the Board of Trustees' (Board) policies and approvals.

4. Debt Management: The *Capital Debt Report, February 28, 2010* (Attachment B) shows the University's outstanding principal, rate of interest, weighted cost of capital, type of debt, annual debt service, maturity, and purpose of each debt issuance, and a section with information about the University's two swap arrangements. The Constant Maturity Swap has a positive accounting termination present value and continues to provide a positive monthly cash flow. The Interest Rate Swap has a negative accounting termination present value, but fixes the University's interest rate at 3.373% through expiration in 2031, at which time the termination value will be zero. The University's debt is being managed according to the Board's policies and approvals.

5. Construction Projects Progress Report: The *Construction Projects Progress Report, February 28, 2010* (Attachment C) includes budget information, source of funding, forecasted final costs and comments for all ongoing capital projects above \$500,000, as required by Board policy. All projects have been properly approved and are within budget.

6. University Reviews/Approvals: The reports were prepared by the Budget and Financial Planning, Treasury Management, and Facilities Management Departments, and reviewed by the Vice President for Finance and Administration and Treasurer to the Board of Trustees, and President.

7. Attachments:


- A. Cash and Investments Report, February 28, 2010 and 2009
- B. Capital Debt Report, February 28, 2010
- C. Construction Projects Progress Report, February 28, 2010

**Submitted to Vice President for Finance and Administration
and Treasurer John W. Beaghan:**



(Please Initial)

Reviewed by Secretary Victor A. Zambardi:



(Please Initial)

Reviewed by President Gary D. Russi:



(Please Initial)

**Oakland University
Cash and Investments Report
February 28, 2010 and 2009**

	<u>Fair Market Value February 28, 2009</u>	<u>Fair Market Value February 28, 2010</u>	<u>Total Return Month Ending February 28, 2010</u>	<u>Benchmark Month Ending February 28, 2010</u>	<u>Total Return Qtr. Ending December 31, 2009</u>	<u>Benchmark Qtr. Ending December 31, 2009</u>
<u>Pooled Cash</u>						
JP Morgan Equity Funds	\$ 10,149,971	\$ 15,836,904	3.18%	2.61%	5.36%	4.46%
Commonfund High Quality Bonds	58,421,350	70,141,530	0.25%	0.37%	1.21%	0.20%
Overnight Sweep - Money Market	56,802,845	58,910,989	0.00%	0.00%	0.01%	0.01%
Pooled Cash Summary	\$ 125,374,165	\$ 144,889,423	0.47%	0.46%	1.15%	0.58%

<u>Endowment</u>						
UBS:						
Equity Funds	\$ 19,227,660	29,087,873			4.59%	6.04%
Fixed Income Funds	14,385,063	16,675,327			0.78%	0.20%
REIT	1,175,787	2,254,891			9.31%	9.39%
Cash	121	532,249			0.00%	0.03%
Endowment Pool Summary	\$ 34,788,631	\$ 48,550,340			3.47%	3.75%

Comments:

The pooled cash is greater than the previous year primarily due to investment returns.
The endowment pool balances are higher than the prior year due to increases in market values.

Benchmarks for Investments are:

- For Equities: Russell 1000 Value Index, Russell 1000 Growth, MSCI - EAFE International (Relative Weighted)
- For Commonfund High Quality Bonds: Barclays Capital U.S. Aggregate Bond Index
- For Overnight Sweep - Money Market Fund: Lipper Institutional Money Market Fund Index
- For Endowment Equities: S & P 500
- For Endowment Fixed Income: Barclays Capital U.S. Aggregate Bond Index
- For Endowment REIT & Cash : NAREIT, City Group T-Bill (90 Day)

Benchmark Performance Comments:

Pooled cash and endowment investment funds are all managed funds (not index funds) and are expected to exceed their benchmarks over time.
They will not necessarily meet or exceed the benchmarks each month or each quarter.

**Oakland University
Capital Debt Report
February 28, 2010**

	<u>Principal Remaining</u>	<u>Rate of Interest</u>	<u>Interest Type</u>	<u>FY 10 Debt Service</u>	<u>Expires</u>	<u>Purpose</u>
Bonded Indebtedness:						
General Revenue Bonds, Series 1997	\$ 2,355,000	4.850%	Fixed	\$ 1,298,925	2011	Elliott Hall, Admin Comp System, Parking
Variable Rate Demand Bonds, Series 1998	4,600,000	0.351%	Variable	39,100	2023	Sharf Golf Course
General Revenue Refunding Bonds, Series 2004	28,010,000	5.100%	Fixed	2,492,738	2026	Sports, Recreation and Athletics Center
General Revenue Refunding Bonds, Series 2008	53,280,000	3.373%	Variable/Hedged	1,797,134	2031	USA, Pawley Hall, OC Expan, Elec Upgrade
General Revenue Bonds, Series 2009 - BABs	33,650,000	4.427%	Fixed	-	2039	HHB, Infrastructure Projects
Other Capital Debt:						
2005 ESA II Loan	16,874,644	3.785%	Fixed	1,302,687	2027	Energy Services Agreement II
2006 Capital Lease	24,476	3.890%	Fixed	29,027	2010	Golf Mowers
	<u>\$ 138,794,120</u>	<u>3.952%</u>	Weighted Avg	<u>\$ 6,959,611</u>		

Debt covenant compliance:

The University has a general revenue covenant in many of its borrowing agreements including bonded debt and other capital debt. This covenant is consistent in all University debt agreements and commits the University to maintain "General Revenues" to exceed the sum of twice debt service on bonded debt and one times debt service on other debt each fiscal year. At June 30, 2009, the University recorded \$162,937,000 in qualified General Revenues while the calculated debt service covenant requirement amounted to \$13,851,000. The University exceeds its debt covenant requirement by a multiple of 11.8.

	<u>Counterparty</u>	<u>Notional Amount</u>	<u>Termination Present Value</u>	<u>Purpose/Comment</u>
Debt-Based Derivatives:				
Constant Maturity Swap (CMS)	JPMorgan Chase Bank	\$ 34,370,000	\$ 2,864,410	Yield curve swap paying about \$70,000 per month.
Interest Rate Swap - Synthetically Fix 2008 Bonds	Dexia Credit Local	53,280,000	(4,274,780)	Current low variable rates = High termination costs.

The CMS is performing as expected because the yield curve is relatively normal at this time.

The Interest Rate Swap is stabilizing total interest cost on the 2008 Bonds at less than 4%. Current extremely low variable interest rates (0.50% annualized) drive up present values to terminate.

The Termination Present Value is dynamic, changing daily depending on interest rates and eventually becoming zero at the end of the swap agreement.

This swap however does fix the interest rate paid on the bond issue at 3.373% for the life of the bond issue (and the swap agreement).

Oakland University
CONSTRUCTION PROJECTS PROGRESS REPORT
 February 28, 2010

Item	Projects in Progress - over \$500,000	JCOS Approval Required		Original Budget	Revised Project Budget	Actual Expenditures to Date	Forecast of Final Cost	Source of Funding
1	2010 Infrastructure North Loop HTHW Fund Number: 70849 Status: Engineering Phase Board of Trustees Approved: July 2, 2009 Projected Completion Date: October 2012	Yes	2/4/2010	\$11,000,000	\$11,000,000	\$8,200	\$11,000,000	\$11,000,000 - 2009 General Revenue Bonds
2	HTHW Trench & Piping Project Fund Number: 70624 Status: Construction is completed; waiting on final invoices to close project Board of Trustees Approved: October 2005 Projected Completion Date: February 2008	Yes	12/1/2005	\$5,800,000	\$5,800,000	\$5,760,711	\$5,800,000	Existing debt service and projected energy savings
3	Human Health Building Fund Number 70786 Status: Construction Document Phase Board of Trustees Approved: February 4, 2009 Project Completion Date: December 2012 Comment: Original budget is architectural and engineering only, pending finalization of capital outlay.	Yes	11/12/2009	\$2,989,150	\$2,989,150	\$1,227,866	\$2,989,150	\$2,989,150 - 2009 General Revenue Bonds
4	Academic Lab Renovation Fund Number 70729 Status: Construction completed, waiting on completion of punch list and final invoices to close project Board of Trustees Approved: April 15, 2008 Project Completion Date: September 2009 Comment: Original budget was preliminary engineering only	Notification required and completed	10/1/2008	\$63,000	\$2,734,994	\$2,579,603	\$2,734,994	\$ 83,000 - #14488 Project Support - \$4.8 M Fund \$1,917,000 - #14488 Project Support - \$4.8 M Fund \$ 734,994 - #24810 Plant Renewal Supplement
5	ODH 2nd Floor SOM Renovation Fund Number 70779 Status: Construction completed in ODH & KL, waiting on completion of punch list and final invoices to close project Board of Trustees Approved: October 2008 Projected Completion Date: November 2009	Notification required and completed	12/1/2008	\$1,800,000	\$1,800,000	\$1,709,691	\$1,800,000	\$1,800,000 - #30203 OUWBSM Gift Fund
6	KL Technology Center Fund Number: 70752 Status: Construction completed, waiting on completion of punch list and final invoices to close project Board of Trustees Approved: May 2008 Projected Completion Date: August 2009 Comment: Decrease funds because of reduction of scope	Notification required and completed	10/1/2008	\$1,274,057	\$1,189,057	\$1,009,314	\$1,189,057	\$1,274,057 - #14488 Project Support (\$ 85,000) - #14488 Project Support

Oakland University
CONSTRUCTION PROJECTS PROGRESS REPORT
 February 28, 2010

Item	Projects in Progress - over \$500,000	JCOS Approval Required		Original Budget	Revised Project Budget	Actual Expenditures to Date	Forecast of Final Cost	Source of Funding
7	Katke-Cousins Irrigation Fund Number: 70817 Status: Construction 60% Board of Trustees Approved: October 2008 Projected Completion Date: August 2010	Notification required and completed	9/15/2009	\$1,031,020	\$1,031,020	\$517,189	\$1,031,020	\$1,031,020 - #44256 Katke Cousins G.C. Maintenance Fund
8	NFH & ANI Renovation for Career Services Fund Number: 70740 Status: Construction completed for Anibal, on-hold with NFH until other departments move in April 2010 Board of Trustees Approved: May 2008 Projected Completion Date: August 2010	No		\$800,000	\$800,000	\$622,041	\$800,000	\$800,000 - #14488 Project Support
9	MBH Kitchen Renovation Fund Number: 70830 Status: Bid Phase Project Completion Date: August 2010 Comment: Original budget was preliminary engineering only.	No		\$69,000	\$657,830	\$138,723	\$657,830	\$657,830 - #33751 Matilda R. Wilson Gift Fund
10	DHE Data Center UPS Fund Number: 70754 Status: Construction completed, waiting on completion of punch list and final invoices to close project Board of Trustees Approved: June 2008 Projected Completion Date: July 2009 Comment: Budget increase due to scope change per UTS	No		\$575,000	\$595,000	\$365,038	\$595,000	\$575,000 - #14488 Project Support \$ 20,000 - #19542 UTS Operations
TOTAL PROJECTS IN PROGRESS				\$25,421,227	\$28,597,051	\$13,938,377	\$28,597,051	

Notes:

1. Revised Project Budget equals the Original Budget plus all approved changes to the budget.
2. Projects are added to the report when a funding source has been identified and a plant fund is authorized for the project.
3. The project status will be reported as "Completed" when the "actual expenditures to date" equals the "forecast", TMA work order system ties to Banner, and no additional expenditures or work is anticipated on the project.
4. A project whose status has been reported as complete to the Board, will be removed from the report for the next Board meeting.