

## FY2015 Q2 Operating Management Report

Oregon State University's FY2015 Second Quarter (Q2) Operating Management Report presents the first six months of operating results for the three operating fund groups: Education & General, Self-Support, and Restricted funds. The quarterly management report is a summary level report that compares:

- Year-to-date actual activity relative to the projected total for the year to the same relationship in prior years or to expected current year totals to provide early warning of unexpected operating trends.
- The current quarter projection for the year to the prior quarter projection to highlight mid-year changes in expected annual results.

The percentage of year-to-date actual revenue and expenditures to the total projected annual amounts is calculated to help ensure that the Board and management have an early warning regarding unanticipated operating trends in the major categories. This percentage is called the *realization rate* for revenues and the *burn rate* for expenditures. The next step is to compare the current year realization/burn rate to the seven-year average of prior years' actual rates. The seven-year average is used to smooth out one-time operating changes. This method has proven to be very successful in identifying when the current year actual results are not tracking as expected, allowing management to make any necessary budgetary changes to address unanticipated results.

The low standard deviation of the actual year-to-date results for each quarter over the past seven years provides support for the predictive value of the data. The standard deviation, coupled with the materiality of the amounts, provides a basis upon which we have established tolerance ranges within which the actual results should track. If the actual year-to-date amounts fall outside the established tolerances, the data are flagged for further analysis.

This approach is applied with the following tolerances:

- Tuition & Resource Fees, net of waivers – at +/- 2%
- Enrollment Fees – at +/- 2%
- Sales & Services – at +/- 5%
- Other revenue – at +/- 7%
- Federal restricted – at +/- 5%
- State restricted – at +/- 7%
- Other restricted – at +/- 6%
- Personnel Services – at +/- 2%
- Supplies & Services & Capital Outlay – at +/- 5%

To provide similar precision to the other captions in the report for which actual results do not track similarly from year to year, the expected current year results provide similar predictive value to the report. For these captions, we have established tolerance ranges based upon materiality. This approach is applied with the following tolerances:

- State General Fund – at +/- 2%
- Transfers – at +/- 10%

The breakdown and discussion of the variances in the FY2015 Second Quarter (Q2) report for each major operating fund type is as follows:

### **EDUCATION & GENERAL**

No items are flagged for Q2. All burn rates, realization rates and changes in projections are within the established tolerances.

The projected Ending Unrestricted Net Assets of 8.8% of operating revenues is relatively unchanged from the adjusted budget.

### **SELF-SUPPORT**

For the Self-Support funds, the following items are of note:

#### Revenues:

- The Enrollment Fees realization rate tolerance is +/-2%. The current realization rate is 2.4% less than the seven-year average which is just outside the tolerance level. The seven-year average includes a high of 70.1% and a low of 63.8%. Last year at this time the realization rate was 64.4%, so we are slightly higher at 64.7% this year. Additionally, the projection of \$33.2M is 2.8% higher than last year's final of \$32.3M. Management does not consider this realization rate difference to be material at this point and will continue to monitor actual vs. prior year and the adjusted budget.
- The Sales & Services revenue projection was increased approximately \$2.6M due mainly to:
  - Higher than expected health insurance enrollment, particularly with international students, driving a projected revenue increase of \$1.7M.
  - An increase in projected revenue of approximately \$1.0M in conference services as bookings beyond the adjusted budget estimate have been confirmed.

#### Expenditures:

- The Supplies & Services & Capital Outlay projection is being increased by \$2.8M due to the following:
  - Health Services
    - \$1.5M mainly due to expenses associated with the higher health insurance enrollment noted above.
    - \$300K relating to various other expense categories.
  - Other Auxiliaries
    - \$950K increased costs mainly associated with the higher confirmed conference services bookings noted above.

Transfers:

As mentioned in the Committee meeting held January 9, 2015, the adjusted budget for Transfers In was increased \$15.1M due to moving the reserves for building repairs and equipment replacement from plant funds to operating funds in order to facilitate more complete reporting of the assets of the self-support units. The realization rate (column B) is flagged as some units have not processed their transfers on the schedule that was originally anticipated.

In addition, Transfers Out have been increased \$1.9M relating to University Housing & Dining Services transfers to plant funds for various maintenance and renovation projects. Also Transfers Out have been increased \$111K for the Food Innovation Center Internal Bank loan principal payment that was included as a fund deduction in the Q1 report.

Additions / (Deductions) to Unrestricted Net Assets:

Additions/ (Deductions) to Unrestricted Net Assets are being adjusted \$3.1M. There are additional capital purchases of \$1.5M, an adjustment of \$1.3M to recognize the current portion of a prior coach's termination liability, and \$300K in amortization of premium/discount on Internal Bank loans included in interest expense that does not impact Unrestricted Net Assets. The \$111K Internal Bank loan principal payment now reported as a transfer out as mentioned above was offset by a \$97K lease purchase payment not previously budgeted.

Total Unrestricted Net Assets:

The projected Ending Unrestricted Net Assets of 29.2% of operating revenues is down \$5.4M, or 3.2% from the adjusted budget. The \$5.4M decrease consists mainly of \$1.5M additional capital purchases, \$1.3M to recognize the current portion of a prior coach's termination liability and \$1.9M increased Transfers Out from University Housing & Dining Services.

**RESTRICTED**

In the Restricted Funds area the following items are of note:

Revenues:

- The State revenues realization rate is higher than the seven-year average. This is mainly due to \$2.2M of financial aid revenue received in December this year that had been received in January in the prior years.
- Other revenues consist mainly of gift revenues. FY2015 is already \$7.1M higher than the prior year averages due mainly to an increase in Foundation reimbursements, a \$1.0M gift for the College of Earth, Ocean, and Atmospheric Sciences, and a \$1.0M gift in kind for the College of Agricultural Sciences.

Expenditures:

- Supplies & Services & Capital Outlay is increasing by \$3.9M. There is an increase in spending of \$8M due to higher corresponding gift revenues that is offset by \$4.1M for Internal Bank principal loan payments now being recorded as Transfers Out.

Transfers:

- The Transfers Out category is being increased by \$4.1M for principal loan payments that were previously recorded as Supplies & Services & Capital Outlay. The realization rate (column B) is flagged as the Transfers Out for Internal Bank principal loan payments

were not originally budgeted as transfers. The majority of the payments occurred in June 2014.

As was mentioned in the October 2014 meeting, when OSU was a member of OUS, it was not required to report and monitor the operating results of the Restricted funds. The nature of the Restricted funds is that many represent grants or contracts that are on a reimbursement basis, where we make the expenditure and bill for reimbursement. Grant, contract and gift monies received will ultimately be spent or returned to the grantor/donor so we do not build and carry reserves in these funds. Accordingly, there is not the same focus on the Net Assets as there is in Education & General and Self-Support funds. There are over 1,000 active Principal Investigators who conduct and oversee research. Predicting the timing of expenditures can be challenging as many of the awards have expenditures covering multiple years. However, spending does not take place until the award has been confirmed, and there is a monitoring process to ensure that spending does not exceed the amount of the award.

The following provides the magnitude of the number of funds within each restricted area for FY2014:

- *Federal* – 2,532 separate “funds” wherein each grant or contract is accounted and budgeted for separately. Of those, 1,053 had expenditures of \$20K or less, 609 had expenditures of between \$20K and \$50K, and 870 had expenditures of more than \$50K.
- *State* – 198 separate funds. Of those, 124 had expenditures of less than \$20K, 40 had expenditures of between \$20K and \$50k, and 34 had expenditures of more than \$50K.
- *Other* – 993 separate funds. Of those, 537 had expenditures of less than \$20K, 202 had expenditures of between \$20K and \$50K, and 254 had expenditures of more than \$50K.

## **STAFF RECOMMENDATION**

Staff proposes that the Finance & Administration Committee accept the FY2015 Second Quarter Operating Management Report as of December 31, 2014.

**Oregon State University**  
**Quarterly Operating Management Report**  
(Unaudited, for management purposes only)

**As of December 31, 2014**  
**For the Fiscal Year Ended June 30, 2015**

	YTD Actual		Budget & YE Projection					Notes
	A	B	C	D	E	F	G	
	YTD	YTD as a % of Projected	Prior 7 yr. avg. YTD %	Budget	Adjusted Budget 6/30/2015	Projected Variance from Budget	Projected YE 6/30/2015	Chg from prior qtr. projection
<b>EDUCATION &amp; GENERAL</b>								
State General Fund	\$86,382	57%	58%	\$150,328	\$150,428	\$1,383	\$151,711	\$1,283
Tuition & Resource Fees, net of Waivers	215,753	68%	69%	314,523	317,403	3,644	318,167	764
Other	33,313	41%	40%	73,888	76,737	8,022	81,910	5,173
<b>Total Revenues</b>	<b>335,448</b>			<b>538,739</b>	<b>544,568</b>	<b>13,049</b>	<b>551,788</b>	<b>7,220</b>
Personnel Services	(196,617)	46%	46%	(409,884)	(419,779)	(15,125)	(425,009)	(5,230)
Supplies & Services & Capital Outlay	(50,087)	44%	47%	(118,432)	(113,023)	5,318	(113,114)	(91)
<b>Total Expenditures</b>	<b>(246,704)</b>			<b>(528,316)</b>	<b>(532,802)</b>	<b>(9,807)</b>	<b>(538,123)</b>	<b>(5,321)</b>
<b>Net from Operations</b>	<b>88,744</b>			<b>10,423</b>	<b>11,766</b>	<b>3,242</b>	<b>13,665</b>	<b>1,899</b>
Transfers In	217	19%	17%	1,226	1,119	(80)	1,146	27
Transfers Out	(5,757)	64%	58%	(7,600)	(7,619)	(1,368)	(8,968)	(1,349)
Fund Additions/(Deductions)	(37)			0	0	(73)	(73)	(73)
<b>Change in Unrestricted Net Assets</b>	<b>83,167</b>			<b>4,049</b>	<b>5,266</b>	<b>1,721</b>	<b>5,770</b>	<b>504</b>
<b>Beginning Unrestricted Net Assets</b>	<b>42,693</b>			<b>42,693</b>	<b>42,693</b>	<b>0</b>	<b>42,693</b>	<b>0</b>
<b>Ending Unrestricted Net Assets</b>	<b>\$125,860</b>			<b>\$46,742</b>	<b>\$47,959</b>	<b>\$1,721</b>	<b>\$48,463</b>	<b>\$504</b>
<b>% Operating Revenues</b>				<b>8.7%</b>	<b>8.8%</b>		<b>8.8%</b>	
Student FTE Enrollment-Summer and Fall terms only	10,538	40%	40%	26,064	26,564	500	26,564	0

**Oregon State University**  
**Quarterly Operating Management Report**  
(Unaudited, for management purposes only)

**As of December 31, 2014**  
**For the Fiscal Year Ended June 30, 2015**

	YTD Actual		Budget & YE Projection					Notes
	A	B	C	D	E	F	G	
	YTD	YTD as a % of Projected	Prior YTD %	Budget	Adjusted Budget 6/30/2015	Projected Variance from Budget	Projected YE 6/30/2015	Chg from prior qtr. projection
<b>SELF-SUPPORT - Auxiliaries, Designated Operations and Service Departments</b>								
Enrollment Fees	\$21,483	65% -	67%	\$33,636	\$33,182	(\$451)	\$33,185	\$3
Sales & Services	53,906	41%	42%	122,550	127,838	7,855	130,405	2,567
Other	13,316	43%	46%	40,427	30,794	(9,695)	30,732	(62)
<b>Total Revenues</b>	<b>88,705</b>			<b>196,613</b>	<b>191,814</b>	<b>(2,291)</b>	<b>194,322</b>	<b>2,508</b>
Personnel Services	(46,429)	48%	49%	(97,382)	(97,102)	154	(97,228)	(126)
Supplies & Services & Capital Outlay	(49,710)	49%	50%	(93,665)	(98,807)	(7,894)	(101,559)	(2,752)
<b>Total Expenditures</b>	<b>(96,139)</b>			<b>(191,047)</b>	<b>(195,909)</b>	<b>(7,740)</b>	<b>(198,787)</b>	<b>(2,878)</b>
<b>Net from Operations</b>	<b>(7,434)</b>			<b>5,566</b>	<b>(4,095)</b>	<b>(10,031)</b>	<b>(4,465)</b>	<b>(370)</b>
Transfers In	12,638	58% -	90%	5,435	21,475	16,216	21,651	176
Transfers Out	(1,341)	19%	11%	(4,575)	(5,031)	(2,539)	(7,114)	(2,083)
Additions/(Deductions) to Unrestricted Net Assets	(2,266)			0	(5,921)	(9,004)	(9,004)	(3,083)
<b>Change in Unrestricted Net Assets</b>	<b>1,597</b>			<b>6,426</b>	<b>6,428</b>	<b>(5,358)</b>	<b>1,068</b>	<b>(5,360)</b>
<b>Beginning Unrestricted Net Assets</b>	<b>55,648</b>			<b>55,648</b>	<b>55,648</b>	<b>0</b>	<b>55,648</b>	<b>0</b>
<b>Ending Unrestricted Net Assets</b>	<b>\$57,245</b>			<b>\$62,074</b>	<b>\$62,076</b>	<b>(\$5,358)</b>	<b>\$56,716</b>	<b>(\$5,360)</b>
% of Operating Revenues				31.6%	32.4%		29.2%	
<b>Total Unrestricted Net Assets</b>				\$108,816	\$110,035		\$105,179	
<b>Days of Expenditures in Total Unrestricted Funds</b>				39	39		37	

- (1) Tolerance is +/- 2%, variance is 2.4% and is in line with last year's rate. We don't consider this to be material at this point and will continue to monitor.  
(2) Higher than expected health insurance enrollment particularly in international students \$1.7M, increase due to confirmed conference bookings \$1.0M.  
(3) Higher associated expense than expected due mainly to higher health insurance enrollment particularly in international students \$1.5M and \$300K of various other expenses, increase in conference services mainly due to confirmed bookings \$950K.  
(4) Timing issue as some units have not processed their transfers of plant reserves as originally anticipated.  
(5) The change includes \$1.9M for UHDS transfers to plant funds and \$111K for Food Innovation Center IB loan payment.  
(6) The \$3.1M change consists mainly of \$1.5M capital purchases and \$1.3M to recognize current portion of prior coach's termination liability.

**Oregon State University**  
**Quarterly Operating Management Report**  
(Unaudited, for management purposes only)

**As of December 31, 2014**  
**For the Fiscal Year Ended June 30, 2015**

	YTD Actual		C Prior 7 yr. avg. YTD %	Budget & YE Projection				Notes
	A YTD	B YTD as a % of Projected		D Budget	E Adjusted Budget 6/30/2015	F Projected Variance from Budget	G Projected YE 6/30/2015	
(in thousands except enrollment)								
<b>RESTRICTED FUNDS</b>								
Federal	\$100,738	50%	50%	\$198,975	\$203,510	\$3,135	\$202,110	
State	8,812	57% +	45%	13,265	14,770	2,161	15,426	(7)
Other	37,124	43%	37%	75,800	79,000	11,200	87,000	(8)
<b>Total Revenues</b>	<b>146,674</b>			<b>288,040</b>	<b>297,280</b>	<b>16,496</b>	<b>304,536</b>	7,256
Personnel Services	(60,593)	50%	50%	(115,216)	(119,563)	(5,140)	(120,356)	(793)
Supplies & Services & Capital Outlay	(96,981)	53%	48%	(172,824)	(180,741)	(11,833)	(184,657)	(3,916) (9)
<b>Total Expenditures</b>	<b>(157,574)</b>			<b>(288,040)</b>	<b>(300,304)</b>	<b>(16,973)</b>	<b>(305,013)</b>	<b>(4,709)</b>
<b>Net from Operations</b>	<b>(10,900)</b>			<b>0</b>	<b>(3,024)</b>	<b>(477)</b>	<b>(477)</b>	<b>2,547</b>
Transfers In	0	n/a	17%	350	30	(350)	0	(30)
Transfers Out	(612)	15% -	50%	(1,300)	(117)	(2,887)	(4,187)	(4,070) (10)
Additions/(Deductions) to Restricted Net Assets	(141)			0	0	(278)	(278)	(278)
<b>Change in Restricted Net Assets</b>	<b>(11,653)</b>			<b>(950)</b>	<b>(3,111)</b>	<b>(3,992)</b>	<b>(4,942)</b>	<b>(1,831)</b>
<b>Beginning Restricted Net Assets</b>	<b>12,546</b>			<b>12,546</b>	<b>12,546</b>	<b>0</b>	<b>12,546</b>	<b>0</b>
<b>Ending Restricted Net Assets</b>	<b>\$893</b>			<b>\$11,596</b>	<b>\$9,435</b>	<b>(\$3,992)</b>	<b>\$7,604</b>	<b>(\$1,831)</b>
% of Operating Revenues				4.0%	3.2%		2.5%	

(7) Realization is higher than seven year average due mainly to \$2.2M financial aid revenue received in December this year and in January in prior years.

(8) Other restricted revenue is mostly gift revenue. FY15 is already \$7.1M higher than prior years average due mainly to increase foundation reimbursements, a \$1M gift for CEOAS and \$1M gift in kind for Ag Science.

(9) Supplies & Services & Capital Outlay are projected to increase a net \$3.9M; \$8M increase due to higher corresponding gift revenue and a decrease of \$4.1M for IB principal loan payment now recorded as Transfers Out.

(10) Transfers Out of \$4.1M for IB principal loan payments were originally projected as Supplies & Services and will now be recorded as Transfers Out.

**OREGON STATE UNIVERSITY**  
**Transfers schedule**  
(in \$000's)

**As of December, 2014**  
**For the Fiscal Year Ended June 30, 2015**

	Self-Support									
	E&G	Auxiliary	Designated Operations & Service Departments	Plant fund	Restricted	Internal Bank (h)	Misc.	Total		
<u>Transfers In - E&amp;G</u>	-	\$ 49	\$ 593 (d)	\$ 386 (e)	\$ 117	-	-	\$ 1,145		
<u>Transfers Out - E&amp;G</u>	-	4,563 (a)	1,846 (b)	1,393 (c)	-	\$ 1,166	-	8,968		
<u>Transfers In - Auxiliary</u>	\$ 4,563 (a)	-	-	11,553 (f)	-	-	-	16,116		
<u>Transfers Out - Auxiliary</u>	49	-	-	6,338 (g)	-	111	-	6,498		
<u>Transfers In - Designated Operations &amp; Service Departments</u>	1,846 (b)	-	-	3,689 (f)	-	-	-	5,535		
<u>Transfers Out - Designated Operations &amp; Service Departments</u>	593 (d)	-	-	22	-	-	-	615		
<u>Transfers In - Restricted</u>	-	-	-	-	-	-	-	0		
<u>Transfers Out - Restricted</u>	117	-	-	6	-	4,064	-	4,187		

(a) mainly athletic support \$4.0M

(b) subsidies from E&G for supporting Designated Operations and Service Departments

(c) transfers to plant fund for remodels and space renovations

(d) mainly transfer of royalties to E&G - \$653K

(e) close out plant funds

(f) moving equipment and building repair reserves from plant funds to Self-Support operating funds

(g) transfers from student centers to fund plant projects

(h) transfers of principal portion of debt service