

TREASURER'S REPORT

1. **Division and Department:** Finance and Administration, Budget and Financial Planning, Treasury Management, and Facilities Management
2. **General Fund Budget Performance:** Oakland University's (University) FY2009 year-to-date enrollment for Summer and Fall semesters is up slightly over budget, with undergraduate enrollment exceeding projected levels and graduate enrollment falling short. There are similar enrollment patterns for Winter semester based on preliminary data. The November appropriation payment included the expected pro-rata share of the FY2009 increase from the State budget bill. Overall General Fund expenditures are all within budget with no deficits or major spending variances in any division or unit.

There continues to be uncertainty related to the State budget with revenue estimates continuing to decline and fall short of projections. According to a Senate Fiscal Agency memorandum dated January 9, 2009 (Memorandum), the State's FY2009 general fund/general purpose budget is in deficit \$158 million, while the student aid fund budget is in deficit \$38 million. A December 2008 mid-year Executive Order already reduced the State budget but did not impact universities. A second mid-year Executive Order is anticipated, with the impact on universities still unknown.

The Governor is expected to release the recommended budget for FY2010 on February 12, 2009. The Memorandum suggests a \$1.6 billion imbalance between estimated revenues and appropriations for the general fund/general purpose and student aid fund budgets, combined. The Memorandum states "This projected budget imbalance will have to be addressed by increased State revenue or appropriation reductions. The most likely scenario to begin to reduce the imbalance is for the State of Michigan to receive additional revenue from the Federal government that can be used directly to reduce projected general fund/general purpose and student aid fund budget imbalances." State budget discussions and revenue conferences are being monitored closely.

3. **Investment Performance:** A summary of the results of the University's pooled cash and endowment investment activities through the quarter and year ending December 31, 2008 are presented in the *Cash and Investments Report* (Attachment A).

Longstanding endowment funds have lost market value but remain viable and continue to pay out according to current spending requirements in the Endowment Investment Policy. Newer endowments have similarly lost market value and are now "under water" as the market value is currently below their historic gift values. As of 12/31/08, there are 93 under water endowments, valued at \$8,287,036. They will not pay out the expected amounts (4.5%) for their various purposes until they regain their historic gift values. The liquidity of the endowment investments remains strong.

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Oakland University
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February 4, 2009
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To further protect the endowment fund and to position the fund to take advantage of improving returns in fixed-income, upon the advice of the University's investment advisor, the strategic asset allocation in fixed-income investments has been increased from 33% to 40%, as provided for in the Endowment Investment Policy. In addition a treasuries fund investment option has been added as a protection against money market volatility.

Pooled cash has suffered investment losses to a lesser degree due to the lower amount of risk involved in the strategic asset allocation of these investments. Equities in pooled cash currently comprise 10% of the total portfolio. As a longer-term asset class, the equities are experiencing a significant loss in market value. While the fixed-income portion of the portfolio, 45% of the total, is exposed to some risk, it remains liquid and has experienced a lesser reduction in market value. The remaining 45% of pooled cash is invested in a sweep money market fund which has not been reduced in market value this year. Liquidity is not a current threat to the University's investment portfolio. In addition, this pooled cash asset allocation strategy allows the University to stay invested in equities and intermediate-fixed investments to take advantage of a market recovery when it occurs.

To add flexibility and greater safety to the management of pooled cash, the Board of Trustees (Board) will be asked to approve the use of an existing UBS managed U.S. Treasuries-focused money market fund.

The Oakland University investment advisors have recently reconfirmed their belief that the current strategic asset allocations and current investment managers conform to our investment policies and remain appropriate in the circumstances.

4. Debt Management: The *Capital Debt Report* (Attachment B) shows the University's outstanding principal, rate of interest, type of debt, maturity and weighted cost of capital as of December 31, 2008. The purpose of each debt issuance is also noted. The University's debt is being managed according to Board approvals. The University has been affected by the credit crunch this year. Interest rates have been more volatile than in the past which has produced very low rates on the 1998 Bonds but has had some minor negative effect on the 2008 Bonds hedge. The remaining debt is fixed-rate debt and is not impacted by the volatile interest rate environment. The banking industry and credit markets are being monitored daily by the University's Treasury Management Department.

5. Construction Projects Progress Report: The *Construction Projects Progress Report* (CPPR) through December 31, 2008 is presented in Attachment C. The CPPR includes budget information, source of funding, forecasted final costs and comments for all ongoing capital projects above \$500,000 or previously approved by the Board. 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.

7. **Attachments:**

- A. Cash and Investments Report, December 31, 2008 and 2007
- B. Capital Debt Report, December 31, 2008
- C. Construction Projects Progress Report, December 31, 2008

Submitted to the President
on _____, 2009 by

John W. Beaghan
Vice President for Finance and Administration
and Treasurer to the Board of Trustees

Recommended on _____, 2009
To the Board for Approval by

Gary D. Russi
President

| | Fair Market Value December 31, 2007 | Fair Market Value December 31, 2008 | Total Return Qtr. Ending December 31, 2008 | Benchmark Qtr. Ending December 31, 2008 | Fund Migr Return Cal Yr. 2008 | Benchmark Cal Yr. 2008 |
|--------------------------------|--|--|--|---|----------------------------------|---------------------------|
| Pooled Cash | | | | | | |
| Munder Equity | \$ 36,556 | | | | | |
| JP Morgan Equity Funds | \$ 15,000,000 | 12,657,694 | -21.92% | -21.93% | -36.97% | -38.01% |
| Equities Total | \$ 15,036,556 | \$ 12,657,694 | | | | |
| Munder Bonds | 17,985,078 | | | | | |
| Commonfund High Quality Bonds | 42,376,564 | 58,712,539 | 0.34% | 4.58% | -2.06% | 5.24% |
| Overnight Sweep - Money Market | 54,277,948 | 59,662,602 | 0.43% | 0.46% | 2.61% | 2.61% |
| Pooled Cash Summary | \$ 129,676,146 | \$ 131,032,835 | -1.77% | 0.14% | -3.31% | -0.14% |

Endowment

| | Fair Market Value December 31, 2007 | Fair Market Value December 31, 2008 | Total Return Qtr. Ending December 31, 2008 | Benchmark Qtr. Ending December 31, 2008 | Fund Migr Return Cal Yr. 2008 | Benchmark Cal Yr. 2008 |
|-------------------------------|--|--|--|---|----------------------------------|---------------------------|
| Commonfund: | | | | | | |
| CF Multi-Strategy Equity Fund | \$ 31,287,962 | | | | | |
| CF Multi-Strategy Bond Fund | 12,501,760 | | | | | |
| UBS: | | | | | | |
| Equity Funds | | 24,169,507 | -22.58% | -21.94% | -32.45% | -37.00% |
| Fixed Income Funds | | 12,955,788 | 2.18% | 4.58% | -2.81% | 5.24% |
| REIT | | 1,832,846 | -35.89% | -38.80% | -33.86% | -37.73% |
| Cash | | 383,589 | 0.35% | 0.04% | 2.61% | 2.61% |
| Endowment Pool Summary | \$ 43,789,722 | \$ 39,341,730 | -16.34% | -11.73% | -24.37% | -22.08% |

*Endowment assets were not fully transferred to UBS until February 2008.

Comments:

Pooled cash is greater than the previous year as cash generated from operations (General, Designated, Auxiliary and Expendable Restricted Funds) was conservatively managed (e.g. vacant position management), held in reserves and slowly spent on projects due to uncertainty with the State economic situation and appropriation funding levels. Much of the actual growth has been negated by investment losses in equities. However, pooled cash liquidity remains excellent and sufficient for future operations.

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: Russell 2000, Russell Mid Cap Growth & Value, Russell 1000 Growth & Value, MSCI EAFE International (Relative Weighted)

For Endowment Fixed Income: Barclays Government Corporate Index, Barclays Capital U.S. Aggregate Bond Index, Merrill Lynch High Yield, Citigroup World Government Bond (Relative Weighted)

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.

Pooled cash equity funds matched the benchmarks for the quarter and exceeded the benchmarks for the calendar year.

Pooled cash bonds lagged the benchmark for the quarter and the calendar year due to a significant allocation to corporate debt compared with the Barclay's Aggregate inclusion of a significant amount of treasuries and agencies.

Pooled cash money market investments matched the benchmarks for the quarter and calendar year.

Endowment equity investments lagged their benchmarks for the quarter but exceeded their benchmarks for the calendar year.

Endowment bonds lagged their benchmarks for the quarter and calendar year due to a significant allocation to corporate debt compared with the Barclay's Aggregate inclusion of a significant amount of treasuries and agencies.

Endowment real estate investments have exceeded their benchmarks for the quarter and the calendar year.

Oakland University
 Capital Debt Report
 December 31, 2008

Bonded Indebtedness:

| | Principal Remaining | Rate of Interest | Interest Type | Expires | Purpose |
|--|---------------------|------------------|---------------------|---------|--|
| General Revenue Bonds, Series 1997 | \$ 3,480,000 | 4.850% | Fixed | 2011 | Elliott Hall, Admin Comp System, Parking |
| Variable Rate Demand Bonds, Series 1998 | 4,600,000 | 1.270% | Variable | 2024 | Sharf Golf Course |
| General Revenue Refunding Bonds, Series 2004 | 29,045,000 | 5.100% | Fixed | 2026 | Sports, Recreation and Athletics Center |
| General Revenue Refunding Bonds, Series 2008 * | 53,280,000 | 3.373% | Variable/Hedged | 2031 | USA, Pawley Hall, OC Expan, Elec Upgrade |
| | <u>90,405,000</u> | <u>3.878%</u> | <u>Weighted Avg</u> | | |

Other Capital Debt:

| | | | | | |
|-------------------------------------|-----------------------|---------------|---------------------|------|------------------------------|
| 2005 Installment Purchase Agreement | 164,443 | 4.490% | Fixed | 2009 | Golf Cars |
| 2005 ESA II Loan | 17,578,655 | 3.785% | Fixed | 2027 | Energy Services Agreement II |
| 2006 Capital Lease | 55,766 | 3.890% | Fixed | 2010 | Golf Mowers |
| | <u>17,798,864</u> | <u>3.792%</u> | <u>Weighted Avg</u> | | |
| | <u>\$ 108,203,864</u> | <u>3.864%</u> | <u>Weighted Avg</u> | | |

* The 2001 General Revenue Bonds were refunded by the 2008 General Revenue Refunding Bonds in June 2008.

Oakland University
CONSTRUCTION PROJECTS PROGRESS REPORT
 December 31, 2008

| Item | Projects in Progress - over \$500,000 | JCOS Approval Required | 10/17/2000 | Original Budget | Revised Project Budget | Actual Expenditures to Date | Forecast of Final Cost | Source of Funding |
|------|--|-------------------------------------|------------|-----------------|------------------------|-----------------------------|------------------------|--|
| 1 | University Student Housing Fund Number 70514, 70608, 70609, 70638 Status: CLOSED Board of Trustees Approved: March 2000 Projected Completion Date: July 2008 | Yes | | \$21,000,000 | \$21,000,000 | \$21,000,000 | \$21,000,000 | 2001 Bond Issue |
| 2 | Meadow Brook Hall Repairs/Renovation Project / MBH Tent & Outbuilding Fund Number 70589,70590 Status: CLOSED Board of Trustees Approved: June 2004 Projected Completion Date: May 2008 Comment: MBH Tent and Outbuilding work canceled \$1.4M Comment: Increase \$55,268 due to additional grants for gutter & arbors | Yes | 6/17/2005 | \$8,400,000 | \$7,055,268 | \$6,969,744 | \$6,969,744 | \$7.0M - Matilda R. Wilson Fund Charitable Trust \$24,000 - Motor Cities Nat'l Heritage Grant \$31,268 - MBH Reserve Fund |
| 3 | HTHW Trench & Piping Project Fund Number: 70624 Status: Waiting on final invoices to close project, anticipate closing in March 2009 Board of Trustees Approved: October 2005 Projected Completion Date: February 2008 | Yes | 12/1/2005 | \$5,800,000 | \$5,800,000 | \$5,426,983 | \$5,800,000 | Existing debt service and projected energy savings |
| 4 | Academic Lab Renovation Fund Number 70729 Status: Construction 66% 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 | \$83,000 | \$2,734,994 | \$389,333 | \$2,734,994 | \$ 83,000 - #14488 Instructional Labs - \$4.8 M Fund \$1,917,000 - #14488 Instructional Labs - \$4.8 M Fund \$ 734,994 - #24810 Plant Renewal Supplement |
| 5 | ODH 2nd Floor SOM Renovation Fund Number 70779 Status: Construction to begin February 2009 Board of Trustees Approved: November 2008 Projected Completion Date: May 2009 | Notification required and completed | 12/1/2008 | \$1,800,000 | \$1,800,000 | \$23,805 | \$1,800,000 | \$1,800,000 - #30203 OU WBSM Gift Fund |
| 6 | KL Technology Center Fund Number: 70752 Status: Bidding phase 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 | \$1,169,057 | \$37,693 | \$1,169,057 | \$1,274,057 - #14488 Year End Funds (\$ 85,000) - #14488 Year End Funds |

Oakland University
CONSTRUCTION PROJECTS PROGRESS REPORT
 December 31, 2008

| 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 | South Foundation Hall Second Floor Classroom Improvements Fund Number: 70640 Status: Construction complete, waiting on final invoicing, and anticipate closing in March 2009 Board of Trustees Approved: March 2006 Projected Completion Date: February 2008 Comments: Decrease due to reduction in scope, funding returned to funding source \$43,688 | No | \$865,000 | \$821,312 | \$739,109 | \$821,312 | \$844,800 - #14488 Year End Funds \$ 20,200 - #12147 University Technology Fund (\$43,688) - returned to #14488 Year End Funds |
| 8 | P-3 Parking Lot Refurbishing & Expansion Fund Number: 70653 Status: Construction complete, waiting on final invoicing, anticipate closing in March 2009 Board of Trustees Approved: November 2006 Projected Completion Date: February 2008 Comment: Original budget was preliminary engineering only | No | \$43,500 | \$800,000 | \$731,998 | \$800,000 | \$800,000 - #24349 Parking Improvement Reserve |
| 9 | NFH & ANI Renovation for Career Services Fund Number: 70740 Status: Construction to start in February 2009 Board of Trustees Approved: May 2008 Projected Completion Date: August 2010 | No | \$800,000 | \$800,000 | \$18,221 | \$800,000 | \$800,000 - #14488 '08YE Fund |
| 10 | DHE Data Center UPS Fund Number: 70754 Status: Construction to start in February 2009 Board of Trustees Approved: June 2008 Projected Completion Date: April 2009 Comment: Budget increase due to scope change per UTS | No | \$575,000 | \$595,000 | \$22,700 | \$595,000 | \$575,000 - #14488 '08YE Fund \$ 20,000 - #19542 UTS Operations |
| 11 | Culvert Rpl - Meadow Brook Road Fund Number: 70702 Status: Construction Completed, working on punch list, anticipate closing out in May 2009 Board of Trustees Approved: June 2007 Projected Completion Date: September 2008 Comment: Increase \$210,000 as a result of contractors bids | No | \$360,000 | \$570,000 | \$416,873 | \$570,000 | \$360,000 - #24350 Capital Project Supplement Fund \$210,000 - #24350 Capital Project Supplement Fund |

Oakland University
CONSTRUCTION PROJECTS PROGRESS REPORT
 December 31, 2008

| 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 |
|-----------------------------------|--|------------------------|-----------------|------------------------|-----------------------------|------------------------|--|
| 12 | Back-Up Generator - Phase II Fund Number 70664 Status: CLOSED Board of Trustees Approved: November 2006 Project Completion Date: February 2008 Comment: Total approved occurred in 2007 with funding from two separate years 2007 and 2008 | No | \$500,000 | \$500,000 | \$499,584 | \$499,584 | \$430,000 - #24810 Plant Renewal Fund '07 \$ 70,000 - #24810 Plant Renewal Fund '08 |
| 13 | Automotive Antenna Instrumentation Fund Number 70645, 34573 Status: Construction completed, waiting on final invoices, anticipate closing out in February 2009 Board of Trustees Approved: June 2006 Projected Completion Date: May 2008 | No | \$620,000 | \$620,000 | \$568,446 | \$620,000 | \$220,000 - #21756 School of Engineering Special Research Support \$400,000 - National Science Foundation Grant |
| 14 | Concrete Repairs to Utility Tunnel Fund Number 70700 Status: Construction completed, waiting on final invoices, anticipate closing out in February 2009 Board of Trustees Approved: June 2007 Projected Completion Date: March 2008 | No | \$360,000 | \$360,000 | \$341,047 | \$360,000 | \$360,000 - #24810 Plant Renewal Fund |
| TOTAL PROJECTS IN PROGRESS | | | \$42,480,557 | \$44,645,631 | \$37,185,536 | \$44,559,691 | |

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.