

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) enrollment is expected to exceed budget by over 4%, contributing to an overall favorable revenue variance for FY2010. Plans are under development to manage the tuition revenue variance to cover incremental instructional, programmatic, and operating expenditures which are necessary to support the higher than budgeted enrollment. A campus-wide budget planning process is assisting in managing this effort. State appropriations, including the American Recovery and Reinvestment Act (ARRA) one-time stimulus funding, has been received as planned, with the University dedicating 100% of its ARRA funding to student financial aid. No FY2010 appropriation reductions via Executive Order are anticipated.

Overall General Fund expenditures as of May 31, 2010 are within budget with no major spending variances in any division or unit. The *General Fund Budget Performance Summary, May 31, 2010 and 2009* (Attachment A) summarizes this information.

The FY2011 appropriation outlook is still uncertain, as State revenues continue to fall short of forecasted amounts used in the State's budget assumptions. Recent estimates predict the State will face a \$1.8 billion budget deficit in the coming fiscal year, making it highly probable that the University will face appropriation cuts in FY2011 and beyond. The Senate has proposed a 3.1% appropriation reduction, while the Governor and House of Representatives proposed a flat higher education budget. The Senate and House will negotiate the final budget in conference committee.

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

3. **Investment Performance:** A summary of the results of the University's pooled cash and endowment investment activities are presented in the *Cash and Investments Report, May 31, 2010 and 2009* (Attachment B).

Market declines were recorded in May after market increases for most of the fiscal year. Investment performance through the previous quarter ended March 31, 2010 was above benchmarks in both pooled cash and equity investments primarily due to strong equity market gains and good intermediate fixed income investment gains.

Implementation of the alternative investment category in the Board of Trustees (Board) approved revised Endowment Investment Policy is being pursued with Investment Advisor UBS Financial Services.

The liquidity of both pooled cash and endowment investments remains strong.

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4. Debt Management: The *Capital Debt Report, May 31, 2010* (Attachment C) shows the University's outstanding principal, rate of interest, weighted cost of capital, type of debt, annual debt service, maturity, bond rating, and purpose of each debt issuance. The University's debt is being managed according to Board policies and approvals.

The liquidity provider for the General Revenue Refunding Bonds, Series 2008, Allied Irish Bank, has experienced credit rating downgrades since their letter of credit was issued resulting in increased interest rates in May and June. The Treasury Management Department anticipated this situation and is working with JPMorgan Chase on a substitute letter of credit which is expected to be finalized by early July. The University's other debt is not impacted by this situation. The banking industry and credit markets are being monitored daily by the University's Treasury Management Department.

Moody's Investors Service (Moody's) has discontinued its Municipal Rating Scale, under which universities have traditionally received credit and bond ratings, and released its new Global Rating Scale. Oakland University's underlying credit rating was A2 Stable under the Municipal Rating Scale. The University's new Global Rating Scale underlying credit rating is A1 Stable. Each university in Michigan (except the University of Michigan which is one of only three Aaa rated universities in the United States, the highest available rating) improved by one rating step. The upward shift seems to be more a recognition that universities in general were underrated compared to corporations relative to credit worthiness and risk of financial default, a rare occurrence in higher education.

Moody's ratings of Michigan public universities are as follows;

University of Michigan	Aaa	Stable
Michigan State University	Aa1	Negative
Wayne State University	Aa2	Stable
Central Michigan University	Aa3	Stable
Michigan Technological University	Aa3	Stable
Eastern Michigan University	A1	Negative
Ferris State University	A1	Stable
Northern Michigan University	A1	Stable
Oakland University	A1	Stable
Saginaw Valley State University	A1	Stable
Western Michigan University	A1	Stable

Moody's Global Rating Scale is as follows:

Aaa: obligations of the highest quality with the smallest degree of risk.

Aa1, Aa2, Aa3: obligations of high quality with very low credit risk, but with somewhat greater susceptibility to long-term risks.

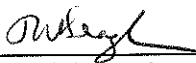
A1, A2, A3: obligations of upper-medium grade subject to low credit risk, but susceptible to impairment over the long term.

Baa1, Baa2, Baa3: obligations of moderate credit risk and considered medium-grade with protective elements potentially lacking or unreliable.

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5. **Construction Projects Progress Report:** The *Construction Projects Progress Report, May 31, 2010* (Attachment D) 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. General Fund Budget Performance Summary, May 31, 2010 and 2009
 - B. Cash and Investments Report, May 31, 2010 and 2009
 - C. Capital Debt Report, May 31, 2010
 - D. Construction Projects Progress Report, May 31, 2010

Submitted to the President
on 6/16, 2010 by



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

Recommended on 6/18, 2010
to the Board of Trustees for Approval



Gary D. Russi
President

Oakland University
General Fund Budget Performance Summary
May 31, 2010 and 2009

	FY 2010			FY 2009		
	Budget	YTD Actual	% of Budget	Budget	YTD Actual	% of Budget
Revenue:						
State Appropriations	\$ 51,739,744	\$ 36,865,962	71.3%	\$ 51,932,900	\$ 33,378,674	64.3%
Tuition and Financial Aid	127,436,170	137,212,029	107.7%	120,905,169	121,061,070	100.1%
Other	7,070,394	7,143,670	101.0%	5,403,303	4,681,989	86.7%
Total Revenue	\$ 186,246,308	\$ 181,221,661	97.3%	\$ 178,241,372	\$ 159,121,733	89.3%
Expenses:						
Academic Affairs	\$ 117,250,362	\$ 106,139,222	90.5%	\$ 111,343,491	\$ 94,100,967	84.5%
All Other Divisions	68,995,946	55,142,057	79.9%	66,897,881	46,313,639	69.2%
Total Expenses	\$ 186,246,308	\$ 161,281,278	86.6%	\$ 178,241,372	\$ 140,414,606	78.8%
Excess of Revenue over Expenditures	\$ -	\$ 19,940,382		\$ -	\$ 18,707,127	

Oakland University
Cash and Investments Report
May 31, 2010 and 2009

	Fair Market Value May 31, 2009	Fair Market Value May 31, 2010	Total Return Month Ending May 31, 2010	Benchmark Month Ending May 31, 2010	Total Return Qtr. Ending March 31, 2010	Benchmark Qtr. Ending March 31, 2010	Total Return FYTD March 31, 2010	Benchmark FYTD March 31, 2010
<u>Pooled Cash</u>								
JP Morgan Equity Funds	\$ 12,920,355	\$ 15,534,944	-8.54%	-8.58%	5.11%	5.57%	30.97%	29.89%
Commonfund High Quality Bonds	62,171,313	71,983,102	0.50%	0.84%	3.01%	1.78%	11.24%	5.81%
Overnight Sweep - Money Market	42,707,617	48,831,366	0.01%	0.00%	0.01%	0.01%	0.04%	0.05%
Pooled Cash Summary	\$ 117,799,285	\$ 136,349,412	-0.71%	-0.53%	2.11%	1.55%	9.29%	6.46%
<u>Endowment</u>								
UBS:								
Equity Funds	\$ 23,757,342	\$ 28,829,277			4.40%	5.39%	28.86%	29.19%
Fixed Income Funds	15,253,441	17,005,276			2.86%	1.78%	10.42%	5.81%
REIT	1,612,428	2,174,991			8.07%	10.02%	55.61%	60.40%
Cash	84	22			0.06%	0.03%	0.20%	0.08%
Endowment Pool Summary	\$ 40,623,295	\$ 48,009,566			3.99%	3.92%	21.75%	19.49%

Comments:

The pooled cash balances are greater than the previous year 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
May 31, 2010**

	<u>Principal Remaining</u>	<u>Rate of Interest</u>	<u>Interest Type</u>	<u>FY 10 Debt Service</u>	<u>Expires</u>	<u>Bond Rating</u>	<u>Purpose</u>
Bonded Indebtedness:							
General Revenue Bonds, Series 1997	\$ 1,175,000	4.850%	Fixed	\$ 1,298,925	2011	Aaa	Elliott Hall, Admin Comp System, Parking
Variable Rate Demand Bonds, Series 1998	4,600,000	0.380%	Variable	39,100	2023	-	Sharf Golf Course
General Revenue Refunding Bonds, Series 2004	26,925,000	5.100%	Fixed	2,492,738	2026	Aaa	Sports, Recreation and Athletics Center
General Revenue Refunding Bonds, Series 2008	53,280,000	3.373%	Variable/Hedged	1,797,134	2031	Aaa	USA, Pawley Hall, OC Expan, Elec Upgrade
General Revenue Bonds, Series 2009 - BABs	33,650,000	4.427%	Fixed	-	2039	A2	HHB, Infrastructure Projects
Other Capital Debt:							
2005 ESA II Loan	16,708,124	3.785%	Fixed	1,302,687	2027		Energy Services Agreement II
2006 Capital Lease	17,216	3.890%	Fixed	29,027	2010		Golf Mowers
	<u>\$ 136,355,340</u>	<u>3.936%</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	\$ 2,685,989	Yield curve swap paying about \$70,000 per month.
Interest Rate Swap - Synthetically Fix 2008 Bonds	Dexia Credit Local	53,280,000	(5,724,731)	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).

Reset rates on the 2008 Bonds have increased in May and June 2010 due to downgrades in Allied Irish Bank's credit rating as they provide the letter of credit behind this bond issue.

The letter of credit is being replaced by one provided by JPMorgan Chase in July 2010.

Oakland University's underlying credit rating, according to Moody's Investors Service's Global Rating Scale is A1 - Stable.

Oakland University
CONSTRUCTION PROJECTS PROGRESS REPORT
May 31, 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: Construction 1% Board of Trustees Approved: July 2, 2009 Projected Completion Date: October 2012	Yes	2/4/2010	\$11,000,000	\$11,000,000	\$230,066	\$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	\$5,769,590	\$5,800,000	Existing debt service and projected energy savings
3	Human Health Building Fund Number 70786, 70868 Status: Construction to start May 7, 2010 Board of Trustees Approved: February 4, 2009 Project Completion Date: December 2012	Yes	11/12/2009	\$2,989,150	\$61,748,100	\$1,942,513	\$61,748,100	\$21,748,100 - 2009 General Revenue Bonds \$40,000,000 Capital Outlay
4	Academic Lab Renovation Fund Number 70729 Status: COMPLETED 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	\$2,581,246	\$2,581,246	\$ 83,000 - #14488 Project Support - \$4.8M Fund \$1,917,000 - #14488 Project Support - \$4.8M Fund \$ 734,994 - #24810 Plant Renewal Supplement
5	2010 Parking Projects Fund Number 70854 Status: Construction 2% completed Board of Trustees Approved: April 7, 2010 Projected Completion Date: April 2011 Comment: Original budget was preliminary engineering only	Notification required, in process to send to state		\$107,800	\$1,915,540	\$37,710	\$1,915,540	\$1,915,540 - 24349 Parking Lot Reserve Fund
6	ODH 2nd Floor SOM Renovation Fund Number 70779 Status: COMPLETED Board of Trustees Approved: October 2008 Projected Completion Date: November 2009	Notification required and completed	12/1/2008	\$1,800,000	\$1,800,000	\$1,728,332	\$1,728,332	\$1,800,000 - #30203 OU WBSM Gift Fund
7	KL Technology Center Fund Number: 70752 Status: COMPLETED Board of Trustees Approved: May 2008 Projected Completion Date: August 2009 Comment: Decrease funds due to reduction in project scope	Notification required and completed	10/1/2008	\$1,274,057	\$1,189,057	\$1,015,736	\$1,015,736	\$1,274,057 - #14488 Project Support (\$ 85,000) - #14488 Project Support

Oakland University
CONSTRUCTION PROJECTS PROGRESS REPORT
May 31, 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
8	Katke-Cousins Irrigation Fund Number: 70817 Status: Construction 70% Board of Trustees Approved: October 2008 Projected Completion Date: August 2010	Notification required and completed 9/15/2009	\$1,031,020	\$1,031,020	\$629,620	\$1,031,020	\$1,031,020 - #44256 Katke Cousins G.C. Maintenance Fund
9	Campus Surveillance Cameras Fund Number: 70870 Status: Engineering Phase Projected Completion Date: December 2011	No	\$980,000	\$980,000	\$0	\$980,000	\$980,000 - #24350 Capital Project Supplement
10	NFH & ANI Renovation for Career Services Fund Number: 70740 Status: Construction completed for Anibal anad WH; Career Services to move to NFH in June 2010 Board of Trustees Approved: May 2008 Projected Completion Date: August 2010	No	\$800,000	\$800,000	\$631,355	\$800,000	\$800,000 - #14488 Project Support - \$4.8M Fund
11	VBH Window Replacement Fund Number: 70859 Status: Construction 10% Board of Trustees Approved: April 2009 Projected Completion Date: June 2011	No	\$1,007,300	\$740,000	\$0	\$740,000	\$1,007,300 - #45489 Residence Halls Rooms (\$ 267,300) - #45489 Residence Halls Rooms
12	MBH Kitchen Renovation Fund Number: 70830 Status: COMPLETED Project Completion Date: August 2010	No	\$69,000	\$657,830	\$568,070	\$568,070	\$ 69,000 - #33751 Matilda R. Wilson Gift Fund \$ 7,800 - #33751 Matilda R. Wilson Gift Fund \$581,030 - #33751 Matilda R. Wilson Gift Fund
13	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	\$490,540	\$595,000	\$575,000 - #14488 Project Support \$ 20,000 - #19542 UTS Operations
TOTAL PROJECTS IN PROGRESS			\$27,516,327	\$90,991,541	\$15,624,777	\$90,503,043	

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.