

## TREASURER'S REPORT

1. **Division and Department:** Finance and Administration, Budget and Financial Planning, Treasury Management, and Facilities Management

2. **General Fund Budget Performance:** FY2012 year-to-date enrollment shows a slight increase overall from budget. Undergraduate enrollment is favorable compared to budget, while graduate enrollment is down slightly. Overall FY2012 General Fund expenditures are tracking consistent with budget, with no major spending variances in any division or unit.

The University's FY2012 General Fund budget incorporates the State's 15% (\$7.6 million) appropriation cut, \$3.2 million in budget reductions, and a 7% tuition increase. The University has received confirmation from the State Budget Office that we have complied with the FY2012 tuition restraint requirement.

Final participation in the early retirement program numbered 36; 18 faculty, eight clerical, four administrative professional, four service and maintenance, one academic administrator, and one police sergeant. Thus far, one position has been eliminated and 12 vacancies have been posted and filled with lower salaries, with documented annual salary and benefit savings of \$181,374. The remaining positions have not yet been vacated or are being evaluated for strategic personnel decisions. A final report of the early retirement program will be presented to the Board once all personnel decisions have been finalized.

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 is presented in the *Cash and Investments Report, September 30, 2011 and 2010* (Attachment A).

For the quarter ending September 30, 2011, pooled cash investments lost 2.3%, while endowment investments lost 10.9%, both primarily due to losses in world equity markets for the period. Comparatively, for the year ended June 30, 2011, pooled cash investments produced a 6.7% return, and endowment investments produced a 19.7% return. Each of these quarterly and annual returns are comparable to benchmarks (see Attachment A for further detail of benchmarks and returns).

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

4. **Debt Management:** The *Capital Debt Report, September 30, 2011* (Attachment B) shows the University's outstanding principal, rate of interest, weighted average 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. Two capital debt obligations expired in FY2011. 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, September 30, 2011* (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.

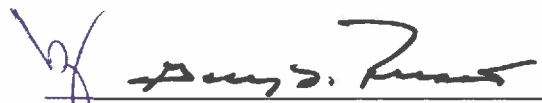
7. **Attachments:**

- A. Cash and Investments Report, September 30, 2011 and 2010
- B. Capital Debt Report, September 30, 2011
- C. Construction Projects Progress Report, September 30, 2011

Submitted to the President  
on 10/21, 2011 by

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

Recommended on 10/21, 2011  
to the Board of Trustees for Approval

  
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Gary D. Russi  
President

**Oakland University  
Cash and Investments Report  
September 30, 2011 and 2010**

	<u>Fair Market Value September 30, 2010</u>	<u>Fair Market Value September 30, 2011</u>	<u>Strategic Asset Allocation</u>	<u>Total Return Qtr. Ending September 30, 2011</u>	<u>Benchmark Qtr. Ending September 30, 2011</u>	<u>Total Return Fiscal Yr. Ending June 30, 2011</u>	<u>Benchmark Fiscal Yr. Ending June 30, 2011</u>
<b><u>Pooled Cash</u></b>							
JP Morgan Equity Funds	\$ 16,325,936	\$ 28,495,763	17.3%	-17.49%	-16.16%	33.17%	30.16%
Commonfund High Quality Bonds	49,777,216	52,189,796	31.7%	2.24%	3.82%	5.79%	3.90%
JP Morgan S-T Bond Fund	50,125,481	25,936,273	15.7%	0.26%	0.29%	1.31%	1.06%
Overnight Sweep - Money Market	34,732,291	58,062,652	35.3%	0.00%	0.00%	0.08%	0.03%
Pooled Cash Summary	<u>\$ 150,960,924</u>	<u>\$ 164,684,484</u>	<u>100.0%</u>				
<b><u>Endowment</u></b>							
UBS:							
Equity Funds	\$ 32,650,703	\$ 29,142,647	57.0%				
Real Assets	-	1,462,857	2.9%				
Fixed-Income	18,339,344	18,237,751	35.7%				
Alternative Investments	1,300,222	2,226,343	4.3%				
Cash	23	52,610	0.1%				
Endowment Pool Summary	<u>\$ 52,290,293</u>	<u>\$ 51,122,208</u>	<u>100.0%</u>	-10.92%	-9.85%	19.68%	19.57%

Comments:

The pooled cash is greater than the previous year due to investment returns, and as cash was generated from operations it was conservatively managed (e.g. vacant position management), held in reserves and slowly spent on projects due to uncertainty with State economic conditions and appropriation funding levels.

The weighted average pooled cash return for the quarter ended September 30, 2011 was -2.3% and for the year ended June 30, 2011 was 6.7%.

The endowment pool balances are lower than the prior year due primarily to decreases in market values during the past quarter.

Benchmarks for Investments are:

For Equities: Russell 1000 Value Index, Russell 1000 Growth, MSCI - EAFE International (Relative Weighted)

For Bonds: Barclays Capital Aggregate Bond Index, Barclays Capital 1-3 year US Gov/Credit 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 Real Assets: MSCI World Metals & Mining and S&P North American Natural Resources

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 Alternative Investments: HFRI Fund of funds Diversified Index

Benchmark Performance Comments:

Pooled cash and endowment investment funds are "actively managed funds" (not index funds) and are expected to exceed their benchmarks over time.

They will not necessarily meet or exceed their benchmarks each month or quarter.

For example, "actively managed funds" like Oakland's do not follow flights to security short term trends, but invest in securities that they have researched for longer term investment.

Therefore, most active managers do not match benchmark indexes during periods of high volatility, like the quarter ending September 30, 2011.

**Oakland University  
Capital Debt Report  
September 30, 2011**

	<u>Principal Remaining</u>	<u>Rate of Interest</u>	<u>Interest Type</u>	<u>FY 12 Debt Service</u>	<u>Expires</u>	<u>Bond Rating</u>	<u>Purpose</u>
<b>Bonded Indebtedness:</b>							
General Revenue Bonds, Series 1997	\$ -	4.850%	Fixed	\$ -	2011	Aaa	Elliott Hall, Admin Comp System, Parking
Variable Rate Demand Bonds, Series 1998	4,600,000	0.220%	Variable	6,440	2023	-	Sharf Golf Course
General Revenue Refunding Bonds, Series 2004	25,785,000	5.189%	Fixed	2,491,488	2026	Aaa	Sports, Recreation and Athletics Center
General Revenue Refunding Bonds, Series 2008	53,280,000	3.373%	Variable/Hedged	1,501,022	2031	Aa1	USA, Pawley Hall, OC Expan, Elec Upgrade
General Revenue Bonds, Series 2009 - BABs	32,960,000	4.427%	Fixed	2,810,400	2039	A2	HHB, Infrastructure Projects
<b>Other Capital Debt:</b>							
2005 ESA II Loan	15,792,954	3.785%	Fixed	1,302,687	2027		Energy Services Agreement II
	<u>\$ 132,417,954</u>	<u>3.929% *</u>		<u>\$ 8,112,037</u>			

\* Weighted Avg

**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 annual debt service on senior debt and one times annual debt service on subordinate debt each fiscal year. At June 30, 2011, the University recorded \$208,816,000 in qualified General Revenues while the calculated debt service covenant requirement amounted to \$17,832,000. The University exceeds its debt covenant requirement by a multiple of 11.7.

	<u>Counterparty</u>	<u>Notional Amount</u>	<u>Termination Present Value</u>	<u>Counterparty Rating</u>	<u>Purpose/Comment</u>
<b>Debt-Based Derivatives:</b>					
Constant Maturity Swap (CMS)	JPMorgan Chase Bank	\$ 34,370,000	\$ 3,245,324	Aa1	Yield curve swap paying about \$65,000 per month.
Interest Rate Swap - Synthetically Fix 2008 Bonds	Dexia Credit Local	53,280,000	(10,851,866)	A3	Current low variable rates = High termination costs.

The CMS is performing as expected because the yield curve is relatively normal at this time. Current extremely low variable interest rates (0.17% 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's underlying credit rating, according to Moody's Investors Service's Global Rating Scale is A1 - Stable.

**Oakland University**  
**Construction Projects Progress Report**  
 September 30, 2011

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	<b>Human Health Building</b> Fund Number 70786, 70868, 32102 & 39576 Status: Construction 40% Board of Trustees Approved: February 4, 2009 Project Completion Date: December 2012	Yes	11/12/2009	\$2,989,150	\$64,561,200	\$20,727,454	\$64,561,200	\$21,748,100 - 2009 General Revenue Bonds \$40,000,000 - Capital Outlay \$ 2,738,100 - DOE Grant \$ 75,000 - Kresge Grant Green Building Initiative
2	<b>2010 Infrastructure North Loop HTHW</b> Fund Number: 70849 Status: Construction 100% of North Loop; Construction 100% of UTS Addition; & Construction 0% for ODH Windows Board of Trustees Approved: July 2, 2009 Projected Completion Date: October 2012	Yes	2/4/2010	\$11,000,000	\$11,000,000	\$5,437,837	\$11,000,000	\$11,000,000 - 2009 General Revenue Bonds
3	<b>Engineering Center</b> Fund Number 70494 Status: Planning Phase Board of Trustees Approved: TBD Project Completion Date: December 2014	Yes	State submittal will be 11/4/2011	\$2,645,300	\$2,645,300	\$81,480	\$2,645,300	\$ 2,645,300 - TBD
4	<b>Mt. Clemens Renovation</b> Fund Number: 70901 & 32891 Status: Completed, punch list being worked on Board of Trustees Approved: September 2010 Projected Completion Date: October 2011	Yes	9/16/2010	\$2,087,750	\$2,087,750	\$1,952,510	\$2,087,750	\$ 504,000 - #14292 Strategic Fund \$ 1,583,750 - HUD Grant
5	<b>CERC Energy Upgrades</b> Fund Number: 70909, 32104 & 39239 Status: Construction 25% Projected Completion Date: June 2012	No		\$500,000	\$1,517,333	\$306,094	\$1,517,333	\$ 500,000 - #24350 Capital Projects Supplement \$ 500,000 - #32104 DOE Grant Alternative Energy Education \$ 65,000 - #39239 Southwest Michigan Resource Dev. Counsel Grant \$ 452,333 - Vendor (Energy Systems Group) obtained & controlled grant from State of Michigan DELEG (Dept of Energy Labor & Economic Growth)
6	<b>Campus Surveillance Cameras</b> Fund Number: 70870 Status: Construction 20% Projected Completion Date: December 2011	No		\$980,000	\$980,000	\$83,500	\$980,000	\$ 980,000 - #24350 Capital Projects Supplement

**Oakland University  
Construction Projects Progress Report  
September 30, 2011**

Item	JCOS Approval Required	Original Budget	Revised Project Budget	Actual Expenditures to Date	Forecast of Final Cost	Source of Funding
<b>Item Projects in Progress - over \$500,000</b>						
7	No	\$795,000	\$795,000	\$0	\$795,000	\$ 795,000 - #24350 Capital Projects Supplement
Fund Number: 70940						
Status: Design Phase						
Projected Completion Date: December 2012						
8	No	\$1,020,000	\$700,000	\$576,130	\$700,000	\$ 720,000 - #45489 Residence Hall
Fund Number: 70903						
Status: Construction 98%						
Projected Completion Date: December 2011						
Comment: Due to receiving low bids, reduced funding in February						
<b>TOTAL PROJECTS IN PROGRESS</b>		\$19,222,200	\$81,811,583	\$28,505,375	\$81,811,583	

**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.