Oregon TECH

Special Meeting of the
Oregon Tech Board of Trustees
Finance and Facilities Committee
Sunset Room, Klamath Falls Campus
Public listening site: Room 130 Wilsonville
May 4, 2016
Noon – 5pm

Finance and Facilities Committee also Sitting as the Audit Committee Agenda

Meeting of the Oregon Tech Board of Trustees Finance and Facilities Committee Room 402, Wilsonville Campus

February 22, 2016
10:15am – 1:15pm

DRAFT MINUTES

Trustees Present:
Steve Sliwa, Chair
Jill Mason
Paul Stewart

Other Trustees Present:
Lisa Graham, Chair
Celia Núñez -Flores
Dan Peterson
President Maples
Kelley Minty Morris

University Staff and Faculty Present:
Brad Burda, Provost
Lita Colligan, AVP Strategic Partnerships
Erin Foley, VP of Student Affairs/Dean of Students
Jay Kenton, Special Projects
George Marlton, Executive Director of Purchasing/Contract Services
Michelle Meyer, Interim VP Finance and Administration
Tracy Ricketts, AVP Development and Alumni Relations
Di Saunders, AVP Communications and Public Affairs
David Thaemert, Associate Professor Civil Engineering and incoming Faculty Senate President

Others Present:
Diana Barkelew, CPA, Director of Financial Reporting Services, USSE

1. **Call to Order/Roll/Declaration of a Quorum**

   Chair Sliwa called the meeting to order at 10:15am. The Secretary called roll and a quorum was declared.

2. **Consent Agenda**
   2.1 Approve Minutes of February 2, 2016 Meeting
   Trustee Stewart stated he was not at the meeting so cannot vouch for the accuracy of the content of the minutes.
   Trustee Sliwa moved to approve the consent agenda. Trustee Mason seconded the motion. With all Trustees present voting aye, the motion passed unanimously.

3. **Management Report**
   Interim VP Meyer stated the Finance and Administrative Staff are reviewing the metrics requested by the committee at the February 2, 2016 meeting. The following will be presented as

part of the Management Report at the next regularly scheduled Finance and Facilities Committee meeting: viability ratio, primary reserve ratio, net revenue ratio, return on net position ratio, debt burden ratio, current ratio, contribution ratio, tuition and fees funding ratio, and net income margin. Measurement dates will be June 30, 2016. Staff analysis to be reported on an on-going basis includes: sensitive or significant assumptions, basis of those assumptions, changes to those assumptions to date, year to date budget and actual comparison, and anticipated changes. At the February 2nd meeting an anticipated operating loss of $2.1M was reported. Based on salary savings from unfilled positions the E&G will change from a negative operating budget of over $1M to a positive $500,000; the anticipated operating loss (overall deficit for the university) is now forecast to be between $750,000 and $1.2M.

4. Action Items

4.1 Recommendation to the Board regarding Adoption of a One-Time Funding Philosophy

Chair Sliwa recommended amending criteria three of the proposed philosophy - deleting the reference to the Board of Trustees so it would read "3. Contribute to the Strategic Mission of Oregon Tech ~~Board of Trustees~~." **He suggested using a guideline of having a payback of 5% in one to two years for Criteria 1 and 2.**

Trustee Mason moved to recommend to the Board adoption of the One-Time Funding Philosophy as amended. Trustee Stewart seconded the motion. With all Trustees present voting aye, the motion passed unanimously.

4.2 Recommendation to the Board regarding Adoption of a Debt Management Policy

Interim VP Meyer gave an overview of the proposed policy. Discussion regarding compliance and reporting

Trustee Stewart moved to recommend to the Board adoption of a Debt Management Policy. Trustee Mason seconded the motion. With all Trustees present voting aye, the motion passed unanimously.

4.3 Recommendation to the Board regarding Adoption of a Tuition and Fee Process Policy

Interim VP Meyer reviewed the policy and explained the make-up and processes of the Tuition Recommendation Committee and Incidental Fee Committee. **Chair Sliwa** questioned the term 'other fees' and the need to clarify the difference between those and incidental fees. **Trustee Stewart** requested inclusion of the language of ORS 352.105 in the policy or with the agenda information so it is known what the policy is referencing, and an explanation of the mandatory process (this can be included in the background information). **Chair Sliwa** asked that the board have the ability to preview fees prior to being asked to set them and for the policy to address transparency and compliance.

Trustee Stewart moved to recommend to the Board adoption of the Tuition and Fee Process Policy, and directed staff to return to the Finance and Facilities Committee at the next regularly scheduled meeting with a modified policy addressing:

1. **clarification between incidental fees and other fees,**
2. **language of ORS 352.105 for reference (can be included in the agenda report and not the actual policy),**
3. **an explanation of the mandatory review and adoption process, and**
4. **a statement regarding transparency and compliance describing the implementation to arrive at this point.**

Trustee Mason seconded the motion. With all Trustees present voting aye, the motion passed unanimously.

4.4 Recommendation to the Board regarding Approval of the Capital Budget of $2,019,277 to Continue the Design and Construction of the Soccer Field Project– Continued from February 2, 2016 meeting

Athletic Director Schell gave an overview of the history of the project, the pro forma, and a proposed budget for FY16-17. He addressed the rationale for bringing soccer back to campus, the number of athletes who would benefit from the project, and the academic caliber of student athletes. He addressed the high dependency of the budget on advertising and confirmed that any deficit will be absorbed by the athletic department. He clarified that Rugby is an extra-rural sport with a budget of $6,000 and they do not play other NAIA schools. **Chair Sliwa** walked through a list he created, based on information received to date, of the pros and cons of passing the proposal (on file). **Trustee Peterson** questioned the replacement costs and timing being a con. Consensus that the committee is comfortable with recommending approval to the board based on the financial aspects under the committee's purview but there are other issues the board should consider prior to making a decision.

Trustee Mason moved, based on analysis of the items under the purview of the Finance and Facilities Committee, to recommend to the Board approval of a capital budget of $2,019,277 to continue the design and construction of the soccer field project. Trustee Stewart seconded the motion. With all Trustees present voting aye, the motion passed unanimously.

Chair Sliwa will amend the list for use by the board at its meeting.

5. Discussion Items

5.1 Investment Update

Chair Sliwa stated the reference to SOU in the document should be to Oregon Tech but the dollar amount referenced is correct. **Interim VP Meyer** walked through the report and stated there was an error in the state's modeling; the overall affect to Oregon Tech is a decrease of $80,000.

5.2 Creation of an Investment Policy and an Endowment Policy

Interim VP Meyer stated the inherited policies from the Oregon University System are sufficient for Oregon Tech. In an estimated 6-9 months an outside financial advisor will assist the university in reviewing and editing the policies. **AVP Ricketts** confirmed the endowment funds of the Foundation are not commingled with the University endowment funds. Discussion regarding various type of endowment funds; confirmation that the university only has a quasi-endowment currently. Consensus to wait until the end of the year for a Financial Advisor prior to amending the investment and endowment policies.

LUNCH BREAK – 11:50am - 12:20pm

5.3 Presentation of the June 30, 2015 Annual Financial Report

Director Barkelew walked through the annual financial report. She stated the university is subject to Government Accounting Standards Board (GASB) and explained the changes in GASB 68, which will impact our budgeting, including the net pension asset and the cost of living increase for retirees. As a result of this change the University went from having a $2.1M asset to having a $2.5M deficit. Discussion regarding past and future audits. Next year's audit will require additional work by student affairs and financial aid. **Interim VP Meyer** stated the RFP for an external auditor will be let next week. **Director Barkelew** identified the debt obligations that were removed and stated Oregon Tech will retain $48M of obligated debt.

5.4 Meeting Schedule

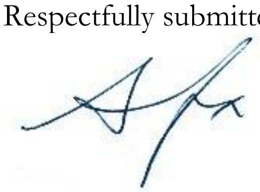
Interim VP Meyer stated that the collective ask for operating budgets of the seven universities and Oregon Tech's capital request are due to HECC by March 31 as HECC needs to submit the information to DAS by April 1.

6. Other Business/New Business - none

7. Adjournment

Meeting adjourned at 1:00pm.

Respectfully submitted,



Sandra Fox,
Board Secretary

Action
Agenda Item No. 3.1

Request to Select an External Auditor and Authorize Staff to Enter into a Contract

Background

In April 2016, Oregon Tech received proposals from qualified contractors to perform an audit of the Oregon Tech financial statements for FY2016, and a compliance audit in accordance with the Federal Office of Management and Budget (OMB) Circular 133 or applicable federal OMB circulars at the time of the engagement. Because the former Oregon University System (OUS) was a state agency, the financial statement and federal compliance audits were previously performed by the Oregon Secretary of State Audits Division. Oregon Tech's independent governance status requires the university to contract for these services.

Typical Audit Cycle for these engagements is as follows:

Financial Statements & Federal Compliance Audit	
Scheduling:	January-February
Control Testing:	May/June
Fieldwork:	Summer 2016
Reporting:	Fall 2016
Board Committee Presentation:	first quarter meeting, calendar year 2017

The audit firm evaluation was designed to identify the firm with the strongest qualifications based upon ratings of their submitted proposer's qualifications; scope of work; experience of performing the service, including experience with universities of similar size and complexity to Oregon Tech; price of the goods or services; quality of proposal; and responsiveness to submittal component. All proposers were ranked based on evaluation criteria. One firm ranked significantly higher, which is the basis for the recommendation.

Recommendation

Staff recommend that the Audit Committee approve the firm selected by the evaluation team, CliftonLarsonAllen LLP, authorizing staff to enter into a contract with the firm subject to the RFP protest period (three business days from issuance of Notice of Intent to Award Contract). The resulting contract will be initially awarded for services for the years ending June 30, 2016, June 30, 2017 and June 30, 2018 (unless otherwise terminated). The contract may be extended to perform the services for up to four additional one-year periods, for a possible total of seven audit periods ending June 30, 2022, as such services are needed.

Attachment

Under Separate Cover: CliftonLarsonAllen LLP Proposal

Action
Agenda Item No. 3.2

Request for a Recommendation to the Board of Trustees to Retroactively Approve the Corrected 2015-16 Mandatory Fee Schedule for Wilsonville

Background

Subsequent to the adoption and publication of the 2015-16 tuition and mandatory fee schedules two errors were noted in the Wilsonville mandatory fees. The first error involved the total fees. Rather than a total of $154 per Wilsonville student per quarter for the building, incidental and health service fees, it was supposed to be $139 per student. A second error involved the distribution of the $139 corrected total which had incidental fees overstated by another $15 per student and understatement of the health service fee by $15 per student per quarter. These errors were discovered in Fall term when Wilsonville students were billed per the schedule. This error was corrected by lowering the total charge by $15 per student per quarter (which entailed refunds to students who had paid the fall billing) and by transferring $15 of the incidental fee income to the health service account.

Now, due to the error on the published fee schedules, the HECC is requiring that OIT report to the Legislature why OIT's Wilsonville health service fee is doubling from the $15 printed for 2015-16 to the $30 which was approved by the Board of Trustees in March 2016. Given this, and the fact that we have not assessed fees or collected revenues at the rate suggested by the erroneous fee schedule, staff are recommending that the Board adopt a retroactive correction to the Wilsonville mandatory fee schedule for 2015-16 as outlined in the attached tables.

This remedy has been reviewed and approved by the following individuals and entities:
- The administrators involved from the Wilsonville and Klamath Falls campuses;
- The leadership of the ASOIT;
- The incidental fee committee;
- The director of the OIT Health Service; and
- The Health Services Advisory Committee.

Recommendation

Staff recommend that the Board of Trustees retroactively approve the attached (corrected) 2015-16 mandatory fee schedule for students enrolled at the Wilsonville campus.

Attachment

Corrected 2015-16 Mandatory Fee Schedule for students at Wilsonville

OIT Wilsonville
2015-16 Mandatory Fees

As Previously Stated

	Building Fees		Incidental Fees		Health Service Fees		Total Mandatory Fees	
Credit Hours	**UG**	**Grad**	**UG**	**Grad**	**UG**	**Grad**	**UG**	**Grad**
1	$23	$23	$94	$94	$15	$15	$132	$132
2	$25	$25	$94	$94	$15	$15	$134	$134
3	$27	$27	$94	$94	$15	$15	$136	$136
4	$29	$29	$94	$94	$15	$15	$138	$138
5	$31	$31	$94	$94	$15	$15	$140	$140
6	$33	$33	$94	$94	$15	$15	$142	$142
7	$35	$35	$94	$94	$15	$15	$144	$144
8	$37	$37	$94	$94	$15	$15	$146	$146
9	$39	$39	$94	$94	$15	$15	$148	$148
10	$41	$41	$94	$94	$15	$15	$150	$150
11	$43	$43	$94	$94	$15	$15	$152	$152
12 or more	$45	$45	$94	$94	$15	$15	$154	$154

Corrected Mandatory Fee Schedule for Wilsonville for 2015-16
As Assessed and Income Distributed

	Building Fees		Incidental Fees		Health Service Fees		Total Mandatory Fees	
Credit Hours	**UG**	**Grad**	**UG**	**Grad**	**UG**	**Grad**	**UG**	**Grad**
1	$23	$23	$64	$64	$30	$30	$117	$117
2	$25	$25	$64	$64	$30	$30	$119	$119
3	$27	$27	$64	$64	$30	$30	$121	$121
4	$29	$29	$64	$64	$30	$30	$123	$123
5	$31	$31	$64	$64	$30	$30	$125	$125
6	$33	$33	$64	$64	$30	$30	$127	$127
7	$35	$35	$64	$64	$30	$30	$129	$129
8	$37	$37	$64	$64	$30	$30	$131	$131
9	$39	$39	$64	$64	$30	$30	$133	$133
10	$41	$41	$64	$64	$30	$30	$135	$135
1	$43	$43	$64	$64	$30	$30	$137	$137
12 or more	$45	$45	$64	$64	$30	$30	$139	$139

Discussion
Agenda Item No. 4.3

Financial Projection

Oregon Tech
Education and General Fund
2015-16

	a	b		c	d	c/d
	Actual	Projected		Actual	Actual	Ave. Burn Rate
	3/31/2016	6/30/2016	2015-16 Budget as Approved	3/31/2015	6/30/2015	%Mar/June
Revenues:						
Gross Tuition	$30,250,276	$31,006,453	$31,429,630	$27,885,278	$28,582,335	97.6%
Fee remissions	($2,889,494)	($3,675,572)	($3,698,761)	($2,416,809)	($3,074,294)	78.6%
Net Tuition	$27,360,782	$27,330,881	$27,730,869	$25,468,469	$25,508,041	99.8%
State Funding	$20,918,608	$24,955,580	$24,955,580	$17,174,598	$20,727,301	82.9%
Harmony Sale	$4,200,000	$4,200,000	$73,654	$0	$0	
Other Income	$697,815	$999,303	$712,828	$555,426	$795,394	69.8%
Total Income	$53,177,206	$57,485,764	$53,472,931	$43,198,492	$47,030,737	91.9%
Expenses:						
Unclassified	$14,492,421	$20,522,868	$20,943,073	$13,832,824	$19,588,805	70.6%
Classified	$3,513,247	$4,756,926	$5,064,894	$3,240,214	$4,387,241	73.9%
Student	$505,936	$711,325	$663,044	$479,181	$673,709	71.1%
GTA	$25,704	$41,794	$40,000	$15,720	$25,560	61.5%
OPE	$8,549,027	$11,997,590	$13,292,333	$8,044,914	$11,290,125	71.3%
S&S	$5,990,344	$8,578,660	$10,190,631	$5,513,215	$7,895,372	69.8%
Travel	$558,217	$859,160	$546,814	$502,945	$774,090	65.0%
CO	$321,419	$469,475	$829,183	$344,908	$503,783	68.5%
Service credits	($794,267)	($919,421)	incl. above	($820,298)	($949,554)	86.4%
Transfers	$913,620	$1,094,611	$1,094,611	$1,368,498	$1,319,880	103.7%
Debt Service	$1,092,693	$1,610,362	$1,610,362	$1,006,964	$1,372,636	73.4%
Total Expenses	$35,168,362	$49,723,350	$54,274,945	$33,529,085	$46,881,647	71.5%
Net	$18,008,844	$7,762,415	($802,014)	$9,669,407	$149,089	

means standard formula over-ridden

Discussion
Agenda Item No. 4.5

Administrative Delegation

Memo from Interim VPFA Jay Kenton to Oregon Tech Faculty and Staff

April 20, 2016

To: All Faculty and Staff

RE: A Desired Future State: A preferred set of circumstances often used as a goal. When implementing change for a university it is crucial to keep its desired future state firmly in mind in order to maximize the overall effectiveness of the change process.

Colleagues-

I am writing you today to lay out a proposal to decentralize many of our administrative responsibilities in an effort to both, better align: authority, responsibility and accountability; and to empower you with more control over your affairs by placing the decision making authority closer to its point(s) of impact. I also believe that these changes will improve the efficiency and effectiveness of our various units.

Our institution has grown markedly in the past few years. We have become better, larger and more complex. Our brand is strong and getting stronger as we offer quality programs well aligned with critical work force and societal needs. Our value proposition is strong as our tuition is reasonable and our graduates are quickly employed at impressive salary rates or continue their education with graduate studies. I know you join me in being proud of our institution, our programs and our people.

Yet, we operate in a competitive and somewhat volatile environment. Other universities in the state and adjacent areas are competing with us for students and funding. Key costs, like PERS and healthcare remain out of our control and are projected to increase markedly over the next three biennia. The new funding model will require that we focus on recruiting, retaining and graduating students – in essence, student credit hours (inputs) are being replaced by student success (outputs) as the new coin of the realm.

Recruiting, enrolling and ensuring the success of students are essential ingredients for our future financial sustainability. And, we all play extremely important roles in these activities. We must work together to keep our campus safe, clean and beautiful. We must also work to ensure students want to come to Oregon Tech, are successful in their pursuits once here and that they become prodigious alums and donors to the institution in the process.

Unlike the past, today there is no one standing behind us to back us up should we falter - the Chancellor's office is gone; we are on our own and must act accordingly. We must be focused by being data driven and efficient in executing our affairs. We must act together, coordinating our activities to ensure there is no unnecessary duplication or contradiction. We must focus our efforts on value adding activities and free ourselves from unnecessary administrative details. Our people are our most important assets thus we will strive to provide fair and equitable compensation, comprehensive benefits, robust training opportunities and a healthy and functional work environment. Every member of the campus community is an important stakeholder in our organization and should be treated as a full partner in our enterprise.

Today, we have many challenges, including an executive team (President, Provost, VPFA, etc.) that is transitioning; and we have many faculty and staff vacancies. But, we also have the opportunity to reshape the institution as we fill these positions. We must take advantage of our new found freedom and leverage the capabilities of our new Board of Trustees as well as the Foundation Board Members. We must embrace change and adapt to our changing environment. We can start to do this by bringing new people into the organization, changing how we conduct our internal affairs and better aligning our resources with our strategic priorities.

The following ideas are based on inputs from a variety of sources on campus as well as adopting best practices from other institutions. These proposals have been reviewed with the executive staff, deans, Board leaders and the Fiscal Operations Advisory Committee (FOAC) Chair. We have congruent views and goals, thus with your indulgence, we would like to proceed apace in implementing new ways of administering our affairs. In exchange, throughout this change process and beyond we promise to be inclusive, transparent and open in our communications and with our information.

Better Aligning Authority, Responsibility and Accountability and Improved Services:

<u>Travel, Other Personal Reimbursements and Hosting:</u>

The Business Office has already eliminated the need for a preauthorization for travel. Next they will improve our review process and shorten the turnaround time for reimbursements.

The Business Office has also eliminated the need for executive staff approval of Hosting Forms. In lieu of executive staff approval, departmental/divisional budget authority approval will be all that is required for hosting groups and guests and seeking reimbursement for such costs.

<u>Procurement and Contracts:</u>

First, I am pleased to announce that Vivian Chen is our new contracts officer and that Leticia Hill is our new procurement and risk officer. Both of these professionals bring impressive credentials and great experience to these positions. They also bring a service ethic that I think you will find refreshing. They are replacing George Marlton who has left Oregon Tech for a new opportunity at Clackamas County.

To improve accountability and reduce costs, we'd like to limit approvals of most transactions to two people. The person who completes the request certifies that the good or service was acquired in full compliance with institutional procedures (code of ethics, Uniform Grant Guidance (for those procurements involving federal funds), debt guidelines and other institutional procurement or contract procedures). The person who approves the transaction certifies that: 1) they have the budget to cover the cost of the item(s), and 2) the item(s) are needed for mission accomplishment.

Currently departments can purchase items costing up to $10,000 without involving the procurement department. Purchases above this limit currently require the use of a solicitation document (RFP, RFI, RFQ, etc.) and need to coordinated and approved by the procurement office. In most cases this can add days or weeks to the process. Going forward we propose to raise this limit to $25,000, thus in the future departments can purchase items costing up to $5,000 with one written quote to be retained for audit purposes and can purchase items between $5,001 to $25,000 by documenting three competitive bids. Items costing more than $25,000 will need to be coordinated with and reviewed by the procurement office. (Note: the Uniform Grant Guidance may require lower thresholds and additional documentation for procurements involving Federal funds)

For contracts, departments will be required to sign the agreement before the contracts officer signs. The signer is certifying that they have the budget to pay for the contract consideration, that they need the good or service to accomplish their mission and that their department will administer and manage the contract upon execution (i.e., confirming that services are being performed, inspecting and accepting goods/services, paying the invoice, etc.). The contracts officer will also sign the contract certifying that the document complies with institutional standards and legal requirements.

Education and General Fund Budget Process and Authority:

Currently, our budget process is ill-defined, lacks consultation and transparency and is centrally managed. Therefore, we propose to change it as follows:

New OIT E&G Budget Process – Proposed

1. Each winter/spring the VPFA and staff will make a projection of revenues and expenditures for the coming fiscal year. This projection will start the process and determine whether we are in an investment mode or reduction mode, thereby dictating the process to be used from there.
2. The FOAC will be involved throughout the process, reviewing projections and any notifications or instructions sent to units. The FOAC will also review the budget before the Board will be asked to approve such.
3. Each spring the finance/budget officers will meet with the VP/Provost/Dean or Director of each major unit to go through the roster of permanent positions (faculty (tenure, tenure track, and fixed term), administrative faculty and classified) to verify the roster and indicate the projected cost of such for the year. This conversation will also include a discussion of the proposed inflationary adjustments (if any) to unclassified/classified pay, student wage, OPE, service and supply and capital outlay budget lines.
4. Once the budget is approved by the Board in the (summer/fall), it will be loaded into Banner. At that point, divisions/departments will be expected to adhere to their total budget for the remainder of the fiscal year.
5. Divisions/departments will be free to move budget from one category to another (including OPE), so long as the total division/department budget is not changed. However, permanent (faculty, administrative faculty and classified) positions shall only be created with the approval of the Vice President for Finance and cognizant Provost/VP.
    a. Should mid-year budget changes be required departments will be notified at the earliest possible date. Mid-year changes shall be limited to salary adjustments resulting from collective bargaining agreements that are agreed to after the initial budget has been loaded, mid-year additions/reductions due to unexpected enrollment or other revenue fluctuations, etc.
6. Savings from mid-year position vacancies will be retained by the division/department, however, the unit will be expected to cover any vacation payoffs for departing employees, search expenditures for new employees and moving or other applicable costs to get new employees

on-boarded. Savings from sabbatical or other approved leaves shall be retained in the department to be used for adjunct coverage or other purposes as determined by the cognizant Dean.

   a. Vacancies in permanent faculty (tenured, tenure-track and fixed-term) positions shall accrue to the Provost at the end of year, who will consult with the Deans to determine the appropriate disposition of the position; be it to be refilled in the same department, transferred to another department or re-allocated for other purposes.

7. At year end all budget carry-forwards (both positive and negative) shall be rolled up at the division level. If carry-forwards are positive, divisions may request reinstatement of all or part of the carry-forward in the next fiscal year. Final decisions on these matters will reside with the President and Vice President for Finance and Administration.
8. Budget overdrafts will not be tolerated.
   a. If a division/college is trending toward an overdraft situation it should immediately notify the VP Finance and Administration who will advise on corrective action.
9. Assuming resources are projected to be adequate, a reserve will be budgeted at the beginning of the year. Calls against the reserve will tracked by the budget office and will be decided upon by the president in consultation with Executive staff. Decisions could include: to fund the request immediately, defer the request, deny the request or carry the request forward until resource levels are more certain. Once the request is approved by Executive staff, funds will be removed from the reserve and transferred to the requesting organization.
10. Executive staff will receive a budget report each month from the Budget Officer. Said reports shall summarize the budget to actual and encumbered amounts by major division, however, detail by department will also be available if needed to address questions or concerns. Quarterly, the budget office will provide a summary of revenues and expenditures to date complete with projections to year-end. These reports are intended to keep everyone on Executive staff in the know about the institution's resources, budget and status.

We are also planning to empower departments with the authority to directly enter <u>balanced</u> budget changes in Banner/FAST without any further approvals from the Budget Office. These budget changes must be balanced within the organization, thus any budget increases must be offset by equal budget decreases as needed to balance the transaction.

<u>Commitment to Transparency:</u>

As a public entity, we have an obligation to be open and transparent in our operations and information. For this reason we have removed the partitioned security in Banner. This means that any user will be able to view financial information for any department or for the institution as a whole. The old way fostered distrust and suspicion of hidden agendas. We must conduct our affairs in an open, transparent and inclusive manner. And, we must be comfortable reading about our transactions on the front page of the local newspaper should it be reported. If not, we shouldn't be doing what we're doing.

Training and Transition Management:

Obviously, changes of the type suggested above will require that we bolster training programs to ensure that campus personnel receive instruction on the appropriate ways of making purchases, administering contracts, processing budget changes, etc. This training can be both group sessions using generic examples as well as one-on-one sessions in departmental offices using your equipment and examples so it's more specific to your needs.

It is our hope that these changes can be implemented soon, preferably before the start of a new fiscal year on July 1, 2016. You are encouraged to continue providing input and suggestions on how we can streamline, be more efficient and effective, etc. Please let me or FOAC members know if you have any comments or concerns about the issues and directions we are suggesting above or if you have other ideas for improvement.

It's time for Oregon Tech to shine!

Thank you.

Jay Kenton

Discussion
Agenda Item No. 4.8

Financial Statement Ratios

Background

As was requested at an earlier meeting, the Board is interested in having certain financial metrics to enable it to keep its finger on the financial pulse of the institution. While no single metric or set of metrics can used to definitively ensure financial sustainability, in my experience five primary ratios can be used to determine if the institution is well placed in its changing environment. These five ratios will now be discussed in more detail:

1. **Net Revenues Ratio** – total net income contrasted to total revenues. This ratio measured the net income or loss against total revenues. Obviously, one would hope this ratio would be positive indicating that the institution has more revenues than expenses. A positive ratio means that the institution is adding to its reserves. A negative ratio means the institution is spending its reserves and this is something that while it may be fine for the short term, if it continues can become very problematic for the institution.

Oregon Tech	**2015**	2014	2013
Net Revenues Ratio	-3.06%	-6.19%	11.90%

	OT	WOU	SE MO	S Utah U	SOU	EOU
Net Revenues Ratio	-3.06%	3.25%	1.04%	3.07%	-1.92%	-2.74%

Oregon Tech has had two years of negative net revenues which indicates its reserves have been reduced. This is clearly not a sustainable pattern that must be reversed.

2. **Current Ratio** – a measure of liquidity. Calculated by taking current assets divided by current liabilities. Current in this context means that assets can be converted to cash within one year and liabilities will be payable within one year. In essence contrasting short term assets against short term liabilities. Current ratio is typically expected to be at least 2:1 and the year-over-year trend is important as declining liquidity is the first sign of fiscal distress.

Current Ratio	**2014**	**2015**
Current Assets	$16,519	$14,495
Current Liabilities	$11,446	$15,628
Ratio	1.44	0.93

Obviously, OIT does not have a 2:1 ratio and is currently experiencing declining liquidity. While this is troubling, I expect the ratio to increase at the end of 2016 due to promising financial improvements from a growing surplus.

3. **Revenue Mix or Dependence Ratio** (aka contribution ratio) – a measure of revenue diversity. Calculated by taking each revenue source as a percentage of the total revenues. Generally, the more diverse the revenue streams the better the hedge against uncertainty. Finally, knowing the institution's dependence of certain revenues suggests where focus and priority needs to be applied.

Revenue Mix	**2014**		**2015**	
Tuition	$21,488	38.0%	$21,933	34.3%
Grants & Contracts	$1,528	2.7%	$2,685	4.2%
Education Dept. Sales	$299	0.5%	$320	0.5%
Auxiliary Enterprises	$6,609	11.7%	$7,805	12.2%
Other Operating Income	$284	0.5%	$283	0.4%
State Appropriation	$18,207	32.2%	$20,439	31.9%
Financial Aid	$7,125	12.6%	$7,015	11.0%
Investment income	$330	0.6%	$372	0.6%
Gain/Loss on Sale of Property	($1,031)	-1.8%	($2)	0.0%
Interest Expense	($2,650)	-4.7%	($3,652)	-5.7%
Other Non-Operating income	$2,351	4.2%	$2,694	4.2%
Capital/Debt Service Appropriation	$2,496	4.4%	$2,421	3.8%
Capital Gift/Grant	$470	0.8%	$1,557	2.4%
Transfer w/i OUS	($952)	-1.7%	$112	0.2%
Total	$56,554	100.0%	$63,982	100.0%

Once again, the year over year changes are telling. In OIT's case both major sources of revenues (tuition and state appropriations) declined in dependence which is indicative that the institution is moving to a more diverse mix of revenues. This analysis shows obvious dependence on tuition and state appropriations, thereby suggesting where attention should be focused. Tuition as the most significant revenue stream requires constant monitoring and attention. Enrollment management (balancing recruitment of new students and retention of continuing students) is job #1 so to speak. The current State funding formula rewards student success as measured by degrees conferred with a lesser emphasis on enrollment generally, thus strategies must be adjusted accordingly. This analysis also shows significant revenues from auxiliaries and financial aid. Nevertheless, goals should be set to incentivize increased diversity in revenue sources and dependence to spread the risk from too much reliance on any one revenue stream that could become challenged.

4. **Primary Reserve Ratio** – this ratio measures expendable fund balance as a percentage of operating expenses. In essence it suggests how long an institution could continue making expenditures with no added revenues. There is no one amount that is ideal as once again it is dependent on environmental volatility, appetite for risk and other emotional vicissitudes. OUS used 5-15% with a target of 10% for E&G funds. This ratio is a double-edged sword so to speak; too high and one can be accused of not using funding provided to its fullest extent or other intergenerational inequities; and too low and one can be questioned as to their judgement and could actually lose grants or other support by being deemed too risky to be a "going-concern."

Oregon Tech	**2015**	2014	2013
Primary Reserve Ratio	**0.43**	0.40	0.40

	OT	WOU	SE MO	S Utah U	SOU	EOU
Primary Reserve Ratio	**0.43**	0.38	0.00	0.00	0.20	0.30

With a ratio of .43 or 43% of operating expenses be held in expendable reserves means Oregon Tech is well positioned in an otherwise volatile environment. This also means that the institution could get through 5.16 months without revenues. This is good as we are about to confront significant cost increases for PERS, healthcare and employee compensation as well as increasing competition for students.

5. **Debt Burden Ratio** – calculated by taking annual principal and interest payments on debt and dividing this sum by total operating expenses. In essence, this ratio suggests how much of an institution's expenditures are comprised of debt payments. The general rule is that this ratio should be less than 7%. This is not to say that an institution with a ratio above 7% will not be able to sell debt instruments, however, the higher the ratio above 7% the more interest new debt holders will require and this will have an adverse impact on the institution's debt rating. Obviously, as operating expenses grow, this ratio will decline assuming debt payments remain level.

Oregon Tech	**2015**	2014	2013
Debt Burden Ratio	**5.19%**	4.55%	4.99%

	OT	WOU	SE MO	S Utah U	SOU	EOU
Debt Burden Ratio (debt service to total expenditures)	**5.19%**	4.92%	NA*	3.55%	4.05%	3.59%

*NA= not able to calculate with available information

Oregon Tech is within the 7% limit, however, has the highest debt burden of its comparators. This is a finite resource and other institutions are currently better positioned at present on this indicator.