

Standard 7



Finance

Standard 7: Finance

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Some may think that finances are a rather dull issue, but OSU's experience over the last decade has all the elements of a riveting story—drama, tension, struggle, survival, strength, and success. The decade dawned with the passage of Ballot Measure 5 by Oregon voters, resulting in unprecedented cuts in state funds appropriated to the University. OSU was quickly involved in the challenge of coping with the many implications of diminished funding while at the same time maintaining quality programming and services.

Major budget shifts occurred; programs were merged, reduced or eliminated; staff positions were terminated; and even the smallest expenditures were subject to intense scrutiny. In an effort to increase revenues and help alleviate the funding shortfall, tuition and fees were raised, a flurry of grant applications was generated, and fundraising efforts were shifted into high gear. Tension was further heightened in mid-decade when revenue losses from low enrollment during a two-year period necessitated a dip into the University's budget reserves. The only certain assets during this tumultuous time were the strengths, talents, resourcefulness, and steadfastness of the University's staff and faculty.

During the second half of the decade, a number of significant successes were noted and are still impacting programming today. Generous gifts to the OSU Foundation, Inc., have resulted in the construction of a number of major campus facilities, expanded student scholarship funds, and enhanced support for many University programs. An aggressive marketing campaign and programs for improving student retention have yielded substantial increases in student enrollment, which resulted in more revenue from tuition and fees. Fueled by enrollment gains, the 2000–2001 Education and General Operating Budget of \$181.9 million represents a 10.3 percent increase over the continuing services level. As the University enters the first year of the new

decade, excitement and (prudently cautious) optimism prevail.

The dramatic events of the preceding decade provide the context for the following account of OSU finances. Financial planning is discussed with reference to recent changes in the legislative funding formula and the University's ongoing budgeting process. The adequacy of current financial resources is then addressed, followed by a description of financial management practices for ensuring sound financial decision making. University fundraising and development efforts are examined next, including a look at new efforts to strengthen the partnership between the University and the OSU Foundation, Inc. Finally, the overall picture of OSU finances is assessed by summarizing observations, drawing implications, and identifying priorities for future activity.

Financial Planning

OSU is one of seven institutions making up the Oregon University System (OUS) of higher education. The Oregon State Board of Higher Education is charged with the oversight of these institutions. OUS is a semi-independent agency of the state and is governed by *Oregon Revised Statutes* and *Oregon Administrative Rules*.

Over the last five years both the Legislature and the State Board of Higher Education have provided significantly more latitude to OUS institutions. The passage of Senate Bill 271-B, the Higher Education Efficiency Act of 1995 (Exhibit 7.1), has allowed much more autonomy in the areas of purchasing, contracting, and human resources, which has led to significant reductions in cost and much more efficient work flow processes. In addition, the Board and the Legislature are encouraging campuses to be much more flexible and entrepreneurial in meeting the educational needs of the state. (A review

The past decade saw the University through dramatic cuts in state funding and equally significant gains in fundraising and student enrollment. Legislative changes brought a new level of autonomy to OSU's financial planning and management.

of the impact of Senate Bill 271 is provided in Exhibit 7.2.)

Overall, OSU now has sufficient autonomy to control the outcomes of its financial planning and management process. Although the level of state support received from the Legislature cannot be controlled, enrollment levels can be influenced, other revenue sources can be expanded, and the University can determine program priorities and budget allocations on and off campus (Appendix 7.1).

Legislative Funding

The state appropriation for OUS is set by the Oregon State Legislature, based on the biennial

budget request sent by the Chancellor to the Governor's Office. The Legislature meets in odd-numbered years, beginning in January and usually continuing through June.



The University has expanded efforts to provide stable support for academic programs and operations despite fluctuating support from state appropriations.

During its 1999 session, the Legislature introduced a new funding formula for OUS higher education appropriations, changing from a continuing service level approach to a Resource Allocation Model (Exhibit 7.3). The RAM method distributes state support to OUS institutions in two components. The first is cost-per-student support, which includes instructional costs as well as academic, student, and administrative support services, and is calculated using current enrollments. The second is a lump-sum funding amount for costs related to targeted programs that are not based on the number of students, including statewide public services, research, state/OUS initiatives, transition funding, and performance funding. Tuition and other revenues generated by each institution remain at the institution.

(The previous allocation method, referred to as the BAS budget model, distributed state support and tuition to campuses by a complex formula

that factored in student FTE by level, discipline, and projected program costs. Allocations were based on enrollments over the preceding two years and system-wide tuition revenues were pooled and managed by OUS.)

Cost-per-student support accounts for the major portion of budget requests and appropriations, serving as the basis of budget requests from individual institutions to OUS and the Legislature, and later determining the budget allocation of appropriated funds to OUS institutions.

Budget Development

OSU's Office of Budgets and Institutional Research coordinates the University budget under the direction of the Associate Vice President for Finance and Administration in consultation with the Provost and Executive Vice President and the Vice President for Finance and Administration. The final version of the budget is reviewed and approved by the President and the President's Cabinet.

The Deans, Vice Presidents, and Vice Provosts develop continuing service budgets along with improvements and new initiatives in concert with their respective department chairs/unit managers. Program directions, needs, and priorities are incorporated, and serious consideration is given to the University's mission and goals. The resulting budget requests are sent to central administration, where they are reviewed and prioritized within the parameters set by the Oregon State Board of Higher Education. After the President's approval, the finalized request is forwarded to the Chancellor's Office for consideration as part of the biennial OUS request to the Governor and Legislature.

The Chancellor coordinates the requests submitted by the OUS institutions and sends the completed budget to the Governor's Office, where it is reviewed by fiscal analysts before being sent to the entire legislative body. The Legislature then

sets the state budget for the biennium, including the budget for OUS. The Chancellor's Office allocates biennial funds to individual institutions. On the basis of this allocation, OSU develops an annual budget each year of the biennium.

The long-term Capital Construction Program Request for each OUS institution is also compiled as part of the planning/budgeting cycle (Exhibits 8.6 and 8.7). Unlike the operating budget, the capital construction budget has a three-biennia time frame that is updated biennially by taking into account emerging needs and priorities. Also, unlike the operating budget appropriation, capital construction authorization from the state must be spent on the explicit project identified in the budget request. (The capital construction budgeting process is described in Standard 8.)

Budget Allocations

Budget planning during the current biennium has been a challenge, due to the Legislature's introduction of the new Resource Allocation Model (RAM) and a combination of factors related to student enrollment. At the same time OUS and the Legislature were considering RAM, OSU began to develop an internal budget allocation model for the University. A committee representing campus-wide constituencies was appointed in 1998 to develop principles and processes intended to provide long-term guidance for revenue and budget allocations (Appendix 7.1). Committee members put a great deal of time and effort into developing the model, and it received general support from the OSU community. However, problems occurred during the implementation process because of pressures from a dramatic increase in student enrollment and an uncertain forecast of tuition revenues (Exhibit 7.4). About \$3 million more than the forecasted revenue was allocated for the pressing demand of student access in the hope that tuition dollars from expected enrollment would alleviate the shortfall. This was not the case, however, and most academic units received an

unexpected

2 percent budget cut during the 1999–2000 academic year to make up for the over-allocation. Following this experience with the new budget allocation process, a Budget Allocation Advisory Committee of the Faculty Senate was established to reflect and make recommendations to the President and the Provost and Executive Vice President for the 2000–2001 budget process (Exhibit 7.5).

Budget allocations for the 2000–2001 fiscal year also followed an incremental model (Exhibit 7.6). The procedure went more smoothly, however, assisted by a \$17 million budget boost largely due to enrollment gains, as well as an open, thorough, campus-wide review. The FY 2001 Education and General Operating Budget was distributed to the faculty and staff via an informational memo, which included the URL for the budget on the University's Website (Appendix 7.2).

While this process was underway, the Provost and the Vice President for Finance and Administration affirmed their commitment to a thoughtful, participatory, and rigorous approach to re-engineering the base budget on a long-term basis. A work group will be created to realign the base budget for fiscal years 2002 and beyond. Its purpose will be to specify incentives and expectations for generating additional resources; improving institutional efficiency; and better aligning allocations with the mission, strategic direction, priorities, and goals of the University. In addition, the Vice President for Finance and Administration has agreed to create and implement a rolling three-year all-funds financial plan that will reflect external factors, enrollment projections, and the new budget allocation model.

Debt Management

All long-term debt is recognized in notes to the annual financial audit completed by an outside audit firm for OSU and OUS. The University is very conservative relative to the issuance of debt.



Cost-per-student support serves as the basis for determining the budget allocation of appropriated funds to OUS institutions.

Over the last few years, bonds for capital construction have been mostly limited to renovations of dormitories and food service facilities and are retired from revenues generated by these



The conservative use of bonds at OSU has been limited primarily to dormitories and food service improvements. The debts are retired from revenues these facilities generate.

operations. The University also incurred debt to cover costs for installing and implementing the new Human Resources Information System necessary to solve a Y2K payroll problem. Debt burden

on Intercollegiate Athletics facilities was a problem in the recent past, but a significant increase in private giving has helped alleviate the situation. All new capital construction projects for Intercollegiate Athletics are no longer initiated until funds are on hand and/or pledges are sufficient for project completion (Exhibit 7.7).

Adequacy of Financial Resources

OSU uses a variety of funding sources to support its many programs. For years the primary sources of OSU revenue have been state appropriations, federal grants and contracts, and student tuition and fees. Considered altogether, these three sources customarily account for about 80 percent of the University's annual revenues (Table 7.1).

To accommodate the loss of revenue from state funds resulting from Ballot Measure 5, there has been an increasing reliance on student tuition and fees. From FY 1990 to FY 2000, tuition and fee revenue increased by 95 percent. Additionally, faculty and staff have been encouraged to make even greater efforts to attract grants and contracts, and the OSU Foundation, Inc., has boosted its fundraising efforts. In 1990, the year before Ballot Measure 5 was implemented, state appropriations accounted for about 36 percent of OSU's

revenue. At mid-decade the proportion had dropped to about 25 percent; by the end of the decade it was 29 percent. Over the same time period, revenue accounted for by tuition and fees, government grants and contracts, and private giving has risen, with tuition and fees showing the largest gain. From FY 1990 to FY 2000, total current funds revenue increased by 53.1 percent.

Efforts to ensure economy and efficiency have always been encouraged, but after Ballot Measure 5 took effect, the call for "doing more with less" raised these activities to an art form by the mid-1990s. With the exception of two years (FY 1996 and FY 1997), when expected student enrollments did not materialize, revenue kept pace with expenditures throughout the decade (Tables 7.2 and 7.3).

Revenue Issues

All of OSU's revenue sources are monitored collectively by senior level administrators for adequacy and stability. Procedures relating to interfund transfers and interfund borrowing comply with general accounting principles outlined by the Government Accounting Standards Board (GASB) and are defined in the *OUS Financial Administration Standard Operating Manual (FASOM)* (Exhibit 7.8). For the most part, auxiliary enterprise operations are self-sustaining, and the University does not rely on their income to support academic and general-funded operations. The University is investing financial resources in Intercollegiate Athletics, with the understanding that this investment will benefit academic units in the long term by attracting more and better students and generating more revenues from successful revenue-generating sports programs. A Faculty Senate task force is currently completing an extensive analysis of this subject.

OSU's professional programs are funded at the same levels as other academic programs at the University. That funding is now about 90 percent

Table 7.1 OSU Current Revenue by Source

Revenue Sources	ACTUAL						PROJECTED					
	Year 1 (1996/1997)		Year 2 (1997/1998)		Year 3 (1998/1999)		Year 4 (1999/2000)		Year 5 (2000/2001)		Year 6 (2001/2002)	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Tuition and Fees	65,189,419	18.27	67,420,359	18.28	68,012,779	17.11	73,453,801	17.11	77,861,029	17.57	82,532,691	18.27
Government Appropriations												
Federal	6,086,757	1.71	6,643,240	1.80	7,146,253	1.80	7,717,953	1.80	7,872,312	1.78	8,029,758	0.45
State	93,185,064	26.12	105,946,955	28.72	115,885,018	29.16	125,155,819	29.16	130,162,051	29.37	135,368,533	29.96
Local	4,035,744	1.13	3,788,020	1.03	4,041,418	1.02	4,364,731	1.02	4,452,025	1.00	4,541,066	1.01
Government Grants & Contracts												
Federal												
Unrestricted	15,869,917	4.45	15,605,234	4.23	14,650,362	3.69						
Restricted	74,017,688	20.75	77,184,775	20.92	78,418,800	19.73						
State												
Unrestricted	1,930,730	0.54	1,923,744	0.52	2,745,611	0.69						
Restricted	5,393,729	1.51	5,389,234	1.46	6,779,996	1.71						
Local												
Unrestricted	13,500		6,358	<.01	15,000	<.01						
Restricted	1,356,911	0.38	1,014,867	0.28	405,718	0.10	454,375	0.11	463,463	0.10	472,732	0.10
Private Gifts, Grants and Contracts												
Unrestricted	405,101	0.11	169,023	0.04	256,252	0.06						
Restricted	24,820,156	6.96	25,545,305	6.92	30,682,349	7.72	33,413,689	7.79	34,081,963	7.69	34,763,602	7.69
Endowment Income												
Unrestricted	141,392	0.04	138,677	0.04	152,057	0.04						
Restricted	768,848	0.22	762,542	0.21	836,237	0.21	1,067,358	0.25	1,088,705	0.25	1,110,479	0.25
Sales and Services of Educational Activities												
Sales and Services of Auxiliary Enterprises	13,671,532	3.83	15,295,388	4.15	15,675,568	3.95	16,929,613	3.94	17,268,205	3.90	17,613,569	3.90
Sales and Services of Auxiliary Enterprises	35,087,105	9.84	37,892,152	10.27	42,941,219	10.81	46,376,517	10.81	47,304,047	10.67	48,250,128	10.68
Other Sources												
Unrestricted	14,770,540	4.14	4,162,659	1.13	4,266,452	1.07	9,443,488	2.20	9,632,358	2.17	9,825,005	2.17
Restricted			0	0.00	4,477,518	1.13						
Total Current Funds Revenue	356,744,133	100.00	368,888,532	100.00	397,388,607	100.00	429,179,692	100.00	443,204,553	100.00	457,786,326	100.00

Source: IPEDS Finance Survey and OSU Office of Budgets and Institutional Research.

Table 7.2 OSU Current Funds Expenditures and Mandatory Transfers by Function

Expenditure/Transfer Functions	ACTUAL						PROJECTED					
	Year 1 (1996/1997)		Year 2 (1997/1998)		Year 3 (1998/1999)		Year 4 (1999/2000)		Year 5 (2000/2001)		Year 6 (2001/2002)	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Education and General Expenditures												
Instruction	88,366,225	26.41	85,973,911	26.40	93,315,205	27.20	100,780,421	27.51	108,842,854	28.66	117,550,283	29.84
Research	104,119,931	31.12	105,071,830	32.27	111,193,741	32.41	120,089,240	32.78	122,491,025	32.26	124,940,845	31.71
Public Service	42,002,283	12.56	41,890,151	12.86	44,594,063	13.00	48,161,588	13.15	49,124,820	12.94	50,107,316	12.72
Academic Support (excl. Libraries)	19,118,553	5.72	17,290,428	5.31	19,616,557	5.72	12,589,239	3.41	12,841,024	3.33	11,694,865	2.97
Library Expenditures	4,395,998	1.31	6,972,417	2.14	7,959,855	2.32	8,596,643	2.35	8,768,576	2.31	9,645,437	2.45
Student Services	10,202,599	3.05	9,931,095	3.05	10,207,853	2.96	11,024,481	3.01	11,244,971	2.96	11,469,870	2.91
Institutional Support	27,147,646	8.12	17,234,374	5.29	23,209,412	6.77	25,006,165	6.83	25,567,488	6.73	26,078,838	6.62
Plant Operations and Maintenance	16,290,711	4.87	13,977,999	4.29	16,107,084	4.70	17,395,651	4.75	17,743,564	4.67	18,098,435	4.59
Scholarship and Fellowship Awards from Unrestricted Funds	5,392,379	1.61	5,479,390	1.68	6,260,043	1.82	6,760,846	1.85	6,896,063	1.82	7,896,063	2.00
Awards from Restricted Funds	10,307,410	3.08	11,789,950	3.62	13,842,321	4.04	14,949,707	4.08	15,248,701	4.02	15,536,675	3.94
Educational and General Mandatory Transfers	1,237,992	0.37	332,615	0.10	853,038	0.25	921,281	0.25	939,707	0.25	939,707	0.24
Non-Mandatory Transfers	5,949,967	1.78	9,690,773	2.93	-4,093,826	-1.19						
Total Educational and General Expenditures and Transfers	334,531,694	100.0	325,634,933	100.0	343,065,346	100.0	366,335,262	100.0	379,708,793	100.0	393,958,334	100.0
Auxiliary Enterprises (Incl. Transfers)	41,468,100	—	44,619,067	—	48,946,173	—	52,861,867	—	53,919,104	—	57,154,250	—
Total Current Funds Expenditures and Transfers	375,999,794	—	370,254,000	—	392,011,519	—	419,197,129	—	433,627,897	—	451,112,584	—

Source: IPEDS Finance Survey and OSU Office of Budgets and Institutional Research.

Table 7.3 OSU Summary Report of Expenses and Revenues

	ACTUAL			PROJECTED		
	Year 1 (1996/1997)	Year 2 (1997/1998)	Year 3 (1998/1999)	Year 4 (1999/2000)	Year 5 (2000/2001)	Year 6 (2001/2002)
	Amount	Amount	Amount	Amount	Amount	Amount
Education and General						
Revenues	306,886,488	326,833,721	345,703,418	373,359,687	386,268,148	399,711,193
Expenditures	327,343,735	315,611,545	346,306,134	365,413,981	378,769,086	393,018,627
Transfers						
Mandatory	1,237,990	332,615	853,038	790,820	790,820	790,820
Non-Mandatory	5,949,967	9,690,773	-4,093,826	3,841,127	3,841,127	3,841,127
Net Excess (Deficit)	-27,645,204	1,198,788	2,638,072	3,313,759	2,867,115	2,060,619
Auxiliary Enterprises						
Revenues	49,857,645	42,054,811	51,685,189	55,820,005	56,936,405	58,075,133
Expenditures	41,468,100	44,619,067	48,946,173	52,861,867	53,919,104	57,154,250
Transfers						
Mandatory	0	0	0	0	0	0
Non-Mandatory	0	0	0	0	0	0
Net Excess (Deficit)	8,389,545	-2,564,256	2,739,016	2,958,138	3,017,301	920,883
Net Operational Excess (Deficit)	-19,255,659	-1,365,468	5,377,088	6,271,897	5,884,416	2,981,502

Source: IPEDS Finance Survey and OSU Office of Budgets and Institutional Research.

of the average funding for like programs at OSU's peer institutions. Discussions are currently underway with the Chancellor's Office regarding enhancements to the PharmD program in the College of Pharmacy. Also being considered is the possibility of expanding OSU's Veterinary Medicine program from two years (an additional two years are spent at Washington State University) to a complete four-year program at OSU.

OSU has a wide range of student financial aid programs from private, state, and federal sources (Appendix 7.3). The University projects enrollment growth and its impact on the availability and distribution of financial aid. Key areas of fund management include working with the OSU Foundation, Inc., to increase private funds, maximizing existing financial aid programs, and advising students on the availability of alternative sources that are not administered or awarded by the University. Alternative loans and national scholarship search programs are two examples of these sources. The University has also made strong efforts to recruit and retain students utiliz-

ing scholarship commitments through a tuition revenue fund. These funds are used in combination with private and state funds designated for this purpose.

Adequacy Issues

Because of the lingering legacy of Ballot Measure 5, declining enrollment in the mid-1990s, and the rising costs of attracting and retaining quality faculty, many of OSU's units are still overextended. The central administration is addressing this situation through continuing efforts to provide funds by increasing enrollment (through the enhancement of recruitment activities and strategies), reducing the dropout rate (through the enhancement of retention programs), eliminating duplication, and refocusing the University's mission and goals. This is being accomplished in part by creating centralized service centers to process bills and other paperwork. Also, all faculty and staff are strongly encouraged to "think outside the box" to develop new ideas and methods for performing

essential functions and to determine those functions that are no longer appropriate or necessary.

In addition, the President has appointed a work group to address the issue of low salaries at OSU and develop a plan to bring salaries up to those of peer universities (Exhibit 7.9). Limited budgets



at OSU have caused faculty salaries to fall relative to those at peer institutions (Exhibit 7.10). At the same time, faculty workloads have increased because insufficient funding is available to hire additional

instructors. With the increased enrollment being experienced by the University, faculty are teaching more classes, working with more graduate students, and serving on more committees than ever before.

Some central administrative efforts have already met with considerable success. Boosted by a gain of more than a thousand new students last year, OSU's 2000–2001 operating budget of \$181.9 million is a 10.3 percent increase over the continuing services level. Additional revenues are being used to add more class sections and student support, as well as address initiatives to enhance academic programs, upgrade technology, boost faculty salaries, and improve the University's infrastructure.

Despite these efforts and successes, many OSU departments and offices are still hampered by the effects of long-term funding reductions as they strive to maintain quality programming. Many examples are included in the self study report. The decision to protect instructional and research programs from the major effects of reduced revenue has had implications for other parts of the University. A major instance is the \$50 million backlog of deferred maintenance for physical resources. It's obvious that the

University still misses the state funding levels enjoyed in the past.

Fiscal Stability

Fiscal stability at the University has always been of major importance. During the last decade OSU has been challenged to fulfill its mission with available resources, but at no time has the University recorded an accumulated deficit. Although it has sometimes been necessary to redirect resources, eliminate programs, or reduce staffing, the University has never been unable to fulfill its core educational mission due to inadequate fiscal resources.

During the 1996 and 1997 fiscal years, OSU made the decision to spend down University reserve funds to maintain academic programs in the face of declining state support and a lack of growth in the student population. At the end of the 1998 fiscal year, almost all of the University's reserves had been expended. As student numbers significantly increased during the 1999 fiscal year, funds were budgeted to begin rebuilding reserves. The University now expects reserves to be back to appropriate levels within the next four to six years, with no adverse affect on academic programs or central administrative functions.

During the 1997–1998 fiscal year, OSU recognized that three units of the University—Information Services (including the Library), Intercollegiate Athletics, and the College of Science—had significantly overspent their available resources. Each unit worked out a plan with the Vice President for Finance and Administration to balance revenues and expenditures, reduce deficits, and return overspent dollars (Exhibits 7.11a and 7.11b). These plans are in place and all three units are now operating with balanced budgets and fulfilling their repayment obligations.

All faculty are strongly encouraged to 'think outside the box' to develop new ways to perform essential functions. With increased enrollment, faculty are teaching more classes, working with more graduate students, and serving on more committees than ever before.

Financial Management

The Vice President for Finance and Administration directs and coordinates all the business functions of the University and reports directly to the President (Exhibit 7.12). The Finance and Administration Leadership Team supports the Vice President in the day-to-day operations of the division. The team is made up of the Assistant Vice President for Finance and Administration and directors of the units supervised: Budgets and Institutional Research; Business Affairs (general accounting, research accounting, payroll, auxiliary enterprise accounting, and student accounts); Property, Contract and Risk Management (including purchasing, surplus property, inventory and recycling); Printing and Mailing Services; and Public Safety, which includes the Oregon State Police. Also on the team are the directors of Human Resources, and Facilities Services.

Income and Expenditures

All income and expenditures, including the administration of scholarships and other student support, are part of the University's regular budgeting, accounting, and auditing procedures.

OSU utilizes two major administrative departments, the Office of Budgets and Institutional Research and the Office of Business Affairs, to centrally manage both financial resources (income) and the use of those financial resources (expenditures). Academic units also have a large role in administering financial resources through the activities of deans and their business and administrative managers.

The Office of Financial Aid and Scholarships administers scholarships, grants-in-aid, and student loans in cooperation with the Office of Business Affairs. Federally financed loans and

grants programs are utilized to the maximum extent available. Planning for federal student aid awards occurs every year and is factored into the planning for institutionally based financial aid projections. OSU also administers several privately funded scholarship endowment funds as well as numerous privately funded scholarship programs. All sources of student support are reviewed when the annual budget for student support is prepared. (More information on financial aid and scholarships is included in Standard 3.)

Audits and Controls

An independent accounting firm performs an annual external audit of OSU finances. In addition, the Office of Financial Aid and Scholarships is audited annually by an independent audit firm for compliance with federal regulations (OMB A-133) governing the distribution of federal funds for student support. As a Carnegie Doctoral/Research-Extensive institution, OSU is also the subject of independent audits for compliance with federal regulations (OMB A-21 and A-110). Audits of sponsored research programs are mandated and performed on a regular basis by the sponsoring agency in accordance with Federal Circular A-133 or as defined by state or private funding entities (Exhibit 7.13).

All funds available for investment and held by OUS institutions are managed by the Treasurer of the State of Oregon. Cash management functions are the responsibility of the Controller's staff in the Chancellor's office. The day-to-day cash

During the last decade OSU has met the challenge to fulfill its mission despite substantially reduced resources. At no time has the University recorded an accumulated deficit, nor has it been unable to fulfill its core educational mission due to inadequate funding.

position is monitored by the Controller and business affairs staff at each institution. At OSU, this is done by the Office of Business Affairs in the Division of Finance and Administration. Conformance with generally accepted accounting principles is verified in annual OUS audits conducted by an independent accounting firm.



Audits in 1997–1998 revealed that Information Services, Intercollegiate Athletics, and the College of Science had overspent available resources. Each developed plans now in place to assure balanced operating budgets and fulfill repayment obligations.

The Internal Audit Division of the Chancellor's office is the primary unit fulfilling internal auditing functions for the University (Exhibit 7.14). It scrutinizes operations and activities and provides risk assessment, analysis, recommendations, counsel, information, and assistance. Evaluations are conducted to ascertain effective use of computer systems and accounting records, data integrity, program

documentation, and archiving. In addition, the Secretary of State's Audit Division undertakes auditing functions that are prescribed by the Oregon Legislature. The campus works closely with the OUS Director of Internal Audit and the State of Oregon Audit Division to prevent the loss of University resources. Both offices conduct their activities in accordance with the Standards of Professional Practice of Internal Auditing (Exhibit 7.15).

All audit recommendations are reviewed by the President, the Vice President for Finance and Administration, and appropriate staff, including the management personnel responsible for the audited subject. All recommendations are considered, and corrective action is implemented as quickly as possible.

Accounting and Reporting Procedures

A hierarchy of fund accounting regulations guides all of OSU's financial operations. At the top of that hierarchy are generally accepted accounting principles codified by the Government Accounting Standards Board (GASB). Next are the *Oregon Administrative Rules* (OARs). Chapter 580 is specific to the OUS; divisions 40 and 41 of the chapter specifically address financial management and accounting issues (Exhibit 9.2). OUS's *Financial Administration Standard Operating Manual (FASOM)* articulates policies and procedures for financial operations based upon OARs (Exhibit 7.8).

The Oregon State Board of Higher Education receives periodic financial reports compiled by the OUS Controller, who works with budget and business affairs staff at OUS institutions (Exhibit 7.16). In addition, OSU's President and the Vice-President for Finance and Administration make annual presentations to the Board, as well as additional presentations when requested. Over the last three years the Board has paid particular attention to the financial condition of OSU's Intercollegiate Athletics department (Exhibit 7.17). Recently the Board commended the President and other OSU administrators for balancing the Intercollegiate Athletics budget and meeting the deficit reduction plan that has been in place for two years.

Fundraising and Development

The OSU Foundation, Inc., is an independent, non-profit corporation with the sole purpose of providing support for the mission and goals of OSU. The Foundation's primary focus is to manage funds held for the University and provide for University advancement activities. It also supports special projects and programs that promote existing educational opportunities. The Foundation accomplishes these functions by (a) managing assets of the corporation in accordance with its purpose and fiduciary responsibilities and (b) seeking gifts, grants, bequests, and other forms of financial support.

As state appropriations decreased during the past decade, the OSU Foundation's role became even more valued. Since 1990, the Foundation, on behalf of OSU, has received donor contributions totaling more than \$297.4 million. In this same period, the Foundation expended more than \$466.2 million for OSU activities from its restricted accounts. Additionally, the endowment fund total managed by the Foundation rose from about \$141,500 in 1990 to nearly \$294.8 million in 2000.

Coordination of Development Activities

Coordination between the OSU Foundation, Inc., and the University is imperative for successful fundraising and development activities. Policies require that all development efforts seeking funds be reviewed and approved to ensure appropriate approaches and continued funding from the private sector. The OSU Foundation's mission statement, bylaws, OSU/Foundation contractual agreement, investment objectives and policy, and articles of incorporation are provided in Exhibits 7.18 through 7.22.

In 1999 the University Development Office and the fundraisers dedicated to specific colleges were merged into the OSU Foundation, Inc. (Exhibit 7.23). At that point, development office functions changed from University-managed to Foundation-managed. These actions have allowed the full centralization of all University development activities, a move designed to provide better communication among University staff, programs, and donors. As part of the contractual arrangement between the Foundation and the University (Exhibit 7.20), the Foundation Board works with the OSU President to set development goals on an annual basis. The President develops these goals in collaboration with the Cabinet, the Development Council, and the Dean's Council (Appendix 7.4).

The OSU Development Council is the coordinating entity for all fundraising and development initiatives that occur on behalf of OSU. While the University sets forth its priorities on an annual basis, these can often change depending on necessities and circumstances. The Council is diligent in communicating the priorities to the University leadership and the campus community. Council membership consists of the President of OSU (chair), the Provost and Executive Vice President (co-chair), the Vice President for University Advancement (co-chair), the Vice Provost for Research, the Director of Intercollegiate Athletics, the Director of Alumni Relations, the President of the OSU Foundation, Inc., and the Deans of the Colleges of Liberal Arts and Engineering.



Since 1990, the OSU Foundation, Inc., on behalf of Oregon State University, has received donor contributions totaling nearly \$300 million and expended more than \$466 million for OSU activities from its restricted accounts. The Foundation manages an endowment fund that grew from \$141,500 to nearly \$300 million in the last decade.

Income and Expenditures

In 1998–1999, the OSU Foundation, Inc., received more than \$32.7 million in gifts. Total



A \$5 million gift and pledge from alumni Al and Pat Reser to support Intercollegiate Athletics gave a boost to football enthusiasts who enjoyed the renovations to Reser Stadium.

receipts, including investment income, life income agreements, and net gain on investments, came to \$58.7 million.

Expenditures during that time period were \$39.5 million, including \$16.6 million used

to support building construction, remodeling, and maintenance. Total assets exceeded \$357.2 million, up \$22.4 million from the previous year. The value of the endowment fund grew by \$31.5 million to a total of \$264.8 million. The endowment fund has performed at or above the median of a group of other university endowments and corporate retirement plans in the U.S. in five out of the six periods (Exhibit 7.24).

Major donor gifts and bequests during the past five years have included:

- **\$10 million**—A gift from the Valley Foundation of Oakland, California, to support the construction and renovation of the Valley Library. (1995)
- **\$6 million**—A gift of stock from Bernard “Bernie” Newcomb, a 1965 alumnus and co-founder of E*Trade, to support activities in the College of Business. (1997)
- **\$5 million**, with an option for an additional \$7.5 million after six years—A gift and pledge from Al and Pat Reser, OSU alums, to support the Department of Intercollegiate Athletics. (1999)

- **\$5.9 million**—A bequest from the estate of Edward N. Rickert, Jr., to support programs and activities in the College of Engineering. (1999)

- **\$20 million**—A gift from an anonymous OSU alumnus to support the College of Engineering Technology Campaign. (2000)

Financial Accountability

Procedures are in place to ensure that the OSU Foundation’s Board of Directors monitors appropriate financial accountability. Confidential data pertaining to donors or prospective donors is carefully protected to maintain trust, institutional integrity, and the right to privacy. Independent accountants audit the Foundation’s annual financial statement (Exhibit 7.25). The Foundation is required to submit a financial report to the University annually, including an expression of opinion by an independent CPA.

The Foundation is chartered to accept, hold, and invest charitable gifts on behalf of OSU and its five affiliate organizations (the E.R. Jackman Foundation, the OSU Beaver Athletics Scholarship Fund, the OSU Mother’s Club, the Construction Educational Foundation, and the OSU Student Foundation). The five affiliate organizations are not separately incorporated. A donor may designate a gift to support a specific purpose or activity of the OSU Foundation, Inc., or the University. Furthermore, donors may designate that their gifts, outright or deferred, be held permanently in an endowment fund.

Fund Management and Investment

All OSU Foundation, Inc., funds are managed and invested in accordance with the Statement of Investment Objectives and Policy (Exhibit 7.21).

This document establishes a clear understanding of the investment goals and objectives of the Foundation. It sets forth guidelines and restrictions to be followed by the investment managers, including risk and return parameters and the long-term target asset allocation for the investment portfolio. The Investment Committee of the Foundation's Board of Directors ensures compliance with the investment policy of the Foundation, provides guidance to the Foundation Treasurer and the investment managers, and reviews investment performance on a regular basis.

Life income gifts may be given directly to the OSU Foundation, Inc., which serves as trustee, or through a corporate trustee. As trustee, the Foundation manages and invests assets of the trust in a pooled investment fund. Each trust is separately accounted for in compliance with policies governing gift acceptance, investment, spending, and fee assessment.

Complete records are maintained for endowment and life income funds, including the original gift agreement or contract signed by the donor, a record of the gift(s) transferred, and a copy of the acknowledgment and substantiation provided to the donor. The OSU Foundation, Inc., refers to the gift agreement or contract to ensure that all terms of the gift are followed. Finally, the Foundation files the required reports for each trust it holds.

Operational Procedures

The OSU Foundation, Inc., is an independent corporation whose relationship to the University is governed by its Articles of Incorporation, Bylaws, and Operating Agreement (Exhibits 7.22, 7.19, and 7.20). The University encourages and maintains the independence of the Foundation, yet at the same time fosters a cooperative relationship. The terms of the relationship and spe-

cific responsibilities are clearly defined in the detailed operating agreement that has been approved by the governing bodies of both parties.

The OSU Foundation, Inc. is incorporated under Section 501(C)3 of the Internal Revenue Service Code. All University fundraising activities comply with institutional policies and government requirements. The Foundation's annual report (Exhibit 7.26) is widely disseminated and includes a financial report and lists of the Board of Trustees, Honorary Trustees, Special Appointees to Committees, and an Honor Roll of Donors.

Assessment

Over the past decade OSU has dealt with many financial challenges—declining state support, increasing dependence on tuition revenue, intense competition for new faculty hires, and significant cost increases in a wide array of budget elements. All considered, the University has done extremely well. OSU is fiscally sound, student enrollment is growing, faculty and professional staff salaries will be enhanced this fiscal year, and strategic initiatives are being developed and/or implemented for academic programs and the way the University conducts business.

The Legislature's introduction of a new approach to allocating state funds for higher education has been a recent challenge, particularly as it has translated into internal budget allocations. The funding model developed by the University had some unanticipated problems because of pressures from a dramatic increase in student enrollment and an uncertain forecast of

A work group appointed by the Provost and Vice President for Finance and Administration has been charged with developing a business plan for OSU that optimizes performance and positions the University for continued future success.

tuition revenues, so a “base plus” model was used instead for both years of the biennial budget. To be able to create new programs, enhance existing programs, and nurture less-established programs, a new approach to budgeting funds is necessary.

The highest priorities for future

budget recommendations include promoting distance education, increasing student financial aid, enhancing faculty and professional employee salaries, and addressing the deferred maintenance backlog.

The reallocation of funds from within the existing budget has not been attempted to any significant degree. As a result, there are those within the University who claim that the current distribution of funds among programs does not substantially reflect institutional priorities or student

enrollments. Many have expressed a desire for a more open budgetary process, with more opportunity for input as the budget is planned. The 2000–2001 budget planning process, although still using the “base plus” approach, was appreciated by the campus community as being more open and informative than in the recent past.

In response to these concerns, the Provost and the Vice President for Finance and Administration have appointed a work group to design a process for realigning OSU’s base budget for 2002 and beyond. The task is to develop a business plan for the University that optimizes performance (as it is defined in multiple ways) and allows the University to best position itself for future success. During the process, the administration will encourage open dialogue and discussion while looking forward to the involvement of the campus community. In addition, the Provost and the Vice President have made a commitment to create and maintain a rolling three-year all-funds financial plan that will reflect external factors, enrollment projections, and the new budget allocation model.

Annual budget reports have been criticized by some who feel the reports should be more detailed and more widely disseminated.

Generally speaking, deans, department heads, and other administrators seem satisfied with the way the budget is detailed and distributed in the dissemination process; faculty and staff not in administrative positions seem to want more information and details. Some members of the latter group suggest that future reports be expanded to include: (a) a letter of overview from the Vice President of Finance and Administration, (b) OSU’s organizational chart, (c) goals and objectives for the coming year, (d) the annual operating budget for the coming year (listing budget detail by college and department), and (e) financial statements from the previous year.

Other budgetary recommendations concern assurance of new or continuing support for efforts where OSU has had particular success and/or identified specific priorities. For instance, as the University continues to use enrollment increases as a primary source of revenue enhancement, it will need to continue concentrated marketing, recruiting, and retention efforts. High priority areas that cross departmental lines, such as distance education and student financial aid, will need particular attention to ensure ongoing support. And, since one of the highest priorities is to enhance faculty and professional employee salaries, the University will need to continue addressing the possible reallocation of funds until salary levels equal those for similar positions in peer institutions. Other ongoing inadequacies, such as the \$50 million deferred maintenance backlog, will require particular attention in the coming years.

Throughout the decade, the OSU Foundation, Inc., has been a valued partner in helping the University lessen the funding shortfall resulting

from the reduction of state funds. As this partnership continues, the OSU Development Council has identified six fundraising initiatives designed to reflect areas where the University's capabilities best match the needs of the state and region (Appendix 7.4):

- **Harnessing and advancing technology** to improve human welfare, sustain and spread prosperity, and expand learning.
- **Assessing, conserving, and astutely using natural resources** to maintain economic stability and sustain human and natural communities.
- **Advancing human health** through scientific discovery while improving public health systems and promoting healthful living.
- **Supporting a comprehensive approach to education and training** that offers new dimensions of learning and delivers educational opportunity to citizens regardless of age, schedule, or location.
- **Strengthening programs in the humanities, arts, and sciences** that form the underpinnings of learning, enrichment, and growth in every field.
- **Continuing the resurgence of Intercollegiate Athletics** at OSU to full competitiveness in the PAC-10 and supporting the continued success of student-athletes.

Finally, while OSU is doing quite well, considering the dramatic financial changes it has undergone during the last decade, the adequacy of

state funding still needs to be addressed. The successes noted in the second half of the decade—increased revenue from student enrollment and OSU Foundation, Inc., gifts, for example—are encouraging and welcome. But many needs remain. Throughout the entire self study report there are numerous references to the long-term effects of reduced funding and the continuing challenge to deliver quality programs or perform first-rate functions. Where state support is concerned, the bottom line remains the same: the State of Oregon provides OSU with a less-than-adequate level of funding compared to state allocations received by peer institutions in other states.



The OSU Development Council has identified six initiatives that reflect areas in which the University most complements the needs of the state. One of these is assessing, conserving, and astutely using natural resources to maintain economic stability and sustain human and natural communities.

Resources

Tables

- 7.1 *OSU Current Funds Revenues by Source: FY 1997–FY 2002.* IPEDS Finance Survey and OSU Office of Budgets and Institutional Research.
- 7.2 *OSU Current Funds Expenditures and Mandatory Transfers by Function: FY 1997–FY 2002.* IPEDS Finance Survey and OSU Office of Budgets and Institutional Research.
- 7.3 *OSU Summary Report of Revenues and Expenditures: FY 1997–FY 2002.* IPEDS Finance Survey and OSU Office of Budgets and Institutional Research.

Appendices

- 7.1 *OSU Budget Process.* Oregon State University, Office of Academic Affairs (January 29, 1999).
- 7.2 *OSU FY 2001 Education and General Operating Budget.* Oregon State University, August 2000.
- 7.3 *OSU Sources of Financial Aid: FY 1997–FY 2002.* IPEDS Finance Survey and OSU Office of Budgets and Institutional Research.
- 7.4 *OSU Fundraising Priorities: February 2000.* Oregon State University, University Development Council.
- 7.5 *OSU Capital Investments: FY 1997–FY 2002.* OSU Office of Budgets and Institutional Research.
- 7.6 *OSU Operating Gifts and Endowments: FY 1997–FY 2002.* OSU Office of Budgets and Institutional Research and OSU Foundation, Inc.

Exhibits

- 7.1 *Senate Bill 271-B: The Higher Education Efficiency Act.* Oregon Legislature. 68th Oregon Legislative Assembly, 1995 Regular Session.
- 7.2 *Senate Bill 271 Review Panel: Final Report.* Oregon University System, Department of Administrative Services, July 1998.
- 7.3 *OUS New Budget Model Summary: February 5, 1999.* Oregon University System.
- 7.4 *OSU Budget Guidelines and Instructions: 2000.* Oregon State University, Office of Budgets and Planning.
- 7.5 *OSU Internal Budget Allocation Process Development and Outcomes.* Oregon State University Budget Allocation Advisory Committee, April 1999.
- 7.6 *OSU Budget Exhibits FY 1999 and 2000.* Oregon State University, Office of Budgets and Planning.
- 7.7 *OSU Debt Service Schedule.* OUS Controller's Office.
- 7.8 *OUS Financial Administration Standard Operation Manual (FASOM).* Oregon University System.

- 7.9 *OSU Issue Group on Faculty Compensation.* Oregon State University, Faculty Senate, May 2000.
- 7.10 *1997–1998 Average Faculty Salaries Among Peer Universities.* Oregon University System, Office of Institutional Research Services, 1998.
- 7.11.a *OSU Information Services Review Task Force: Final Report.* Oregon State University Faculty Senate, September 1998.
- 7.11.b *OSU Ad Hoc Information Services Committee: Report.* Oregon State University Faculty Senate, April 1999.
- 7.12 *OSU Finance and Administration Organizational Charts.* Oregon State University, Division of Finance and Administration.
- 7.13 *State of Oregon, Federal Compliance Report and Internal Control Report: FY 1999.* Oregon Secretary of State, Audits Division. (FY 1997 and FY 1998 are also included.)
- 7.14 *OUS 1999–2000 Internal Audit Plan.* Oregon University System, Internal Audit Division. (1998–1999 also included.)
- 7.15 *State of Oregon, Oregon University System: FY 1999.* Oregon Secretary of State, Audits Division. (FY 1997 and FY 1998 are also included.)
- 7.16 *OUS Systemwide Financial Statements.* (Examples). Oregon University System, Board Committee on Budget and Finance.
- 7.17 *Audit Report of the OSU Intercollegiate Athletics Department.* Deloitte and Touche Consultants, October 1998; June 1999; May 2000.
- 7.18 *OSU Foundation Mission Statement.* Oregon State University Foundation, Inc., 2001.
- 7.19 *OSU Foundation Bylaws: Revised January 2000.* Oregon State University Foundation, Inc.
- 7.20 *OSU/Foundation Contractual Agreement: July 1, 2000, to September 30, 2000.* Oregon State University Foundation, Inc.
- 7.21 *OSU Foundation Statement of Investment Objectives and Policy: September 1998.* Oregon State University Foundation, Inc.
- 7.22 *OSU Foundation Articles of Incorporation: October 29, 1999.* Oregon State University Foundation, Inc.
- 7.23 *OSU Foundation Organization Chart: 2000.* Oregon State University Foundation, Inc.
- 7.24 *OSU Foundation Financial Summaries.* Oregon State University Foundation, Inc.
- 7.25 *OSU Foundation Report on Audit of Financial Statements for the year ended June 30, 1999.* PriceWaterhouseCoopers Consultants. (FY 1997 and FY 1998 are also included.)
- 7.26 *OSU Foundation Annual Report: July 1, 1999 – June 30, 2000.* Oregon State University Foundation, Inc., 2001.