Board of Trustees
Finance and Administration Committee Meeting

Thursday, September 15, 2016
4:00 p.m. – 6:00 p.m. (or until business concludes)
DeBoer Room, Hannon Library

MINUTES

Call to Order and Preliminary Business

Chair Nicholson called the meeting to order at 4:03 p.m. The committee welcomed President Schott to the meeting.

The following committee members were present: Paul Nicholson, Lyn Hennion, Jeremy Nootenboom, April Sevcik and Dennis Slattery. Trustees Les AuCoin and Steve Vincent were absent. President Linda Schott (ex officio) also attended the meeting.

Other meeting guests included: Craig Morris, Vice President for Finance and Administration; Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Jason Catz, General Counsel; Dr. Matt Stillman, University Registrar, Co-Executive Director of Student Enrollment; Partha Chatterjee, Senior Budget Analyst; Kelly Moutsatson, Director of Admissions, Co-Executive Director of Student Enrollment; Steve Larvick, Director of Business Services; Melinda Joy, ASSOU; Treasa Sprague, Administrative Services Coordinator; Sabrina Prud'homme, Board Secretary; Gordon Carrier, Computing Coordinator; and Kathy Park, Executive Assistant.

Chair Nicholson advised the committee of three changes to the draft July 14, 2016 meeting minutes: he requested the word "significant" be used instead of "exponential" in the discussion on tuition revenue in the HECC Update; in the discussion on the president's residence, he noted the university does not retain contractors; and prior to the meeting, a sentence about reaching the five-year fundraising goal of $5 million was reworded for clarity. Trustee Slattery moved to approve the July 14, 2016 meeting minutes as amended. Trustee Sevcik seconded the motion and it passed unanimously.

Public Comment

There was no public comment.

Vice President's Report

Reviewing the financial dashboard, Craig Morris said operating cash is at target but is well below last year at this time. This can be attributed to the considerable amount of cash in SOU's bank account last year for the science [building] project. Because of the new governance structure, on construction projects for which the state pays the debt, cash is held at the state level and SOU must submit invoices for reimbursement of bills it has paid. Discussion followed on this new payment procedure.

Mr. Morris then highlighted labor expenses, which for the first two months, are exceeding the burn rate of last year. This can be attributed to a one-time payment in July to faculty pursuant to the collective bargaining agreement. He believes it will even-out as the year progresses.

Regarding enrollment, Dr. Matt Stillman said headcount is down 2.7 percent and FTE is down 1.5 percent. This represents substantive progress compared to the low watermark of six weeks before start of the term. He said folks get nervous this time of year when looking at current enrollment compared to end of term enrollment for last year. Current enrollment is far off from end of term enrollment for last year but part of that is a timing issue. He pointed out that last year headcount increased from the fall to the end of the year, the vast majority of that increase being Advanced Southern Credit students. Advanced Southern Credit students are not yet recorded for this year. He said they are comfortable the retrenchment targets will be met. He added that diversity numbers are up and students continue to come from California. SCH is down for resident students but up for WUE students; although this translates to more tuition revenue, recruiting efforts will refocus on resident students.

Kelly Moutsatson said, rather than focus on applications at this point, they are focusing on enrolled students. Two weeks before start of fall term, the number of enrolled students is 1278, a 5.9 percent decrease from last year at the same time. The bulk of the decrease is in resident freshmen. The decrease in that population is not unique to SOU; other Oregon public universities report similar decreases. Regarding SOU's recruiting efforts, Ms. Moutsatson highlighted the Portland admissions counselor's efforts; upcoming SOU2You events; admission counselor's visits to local high schools and discussions about the Pledge; and calling campaigns. She stressed that they are not taking their foot off the gas. Responding to Trustee Hennion's inquiry, Ms. Moutsatson said the community colleges are also reporting decreases in their numbers. Possible explanations for the decreases were mentioned, including the decrease in high school graduation rates, the impact of the Oregon Promise, more students may be taking a gap year and the increasing cost of college.

Review of Year-end Financials and External Audit Update
Introducing this agenda item, Chair Nicholson said the purpose of this item was to inform the committee of the year-end process and how the year ended and provide an update on CliftonLarsonAllen's external audit. Steve Larvick hit the high points on the Periodic Management Report. The Education and General fund balance improved to 11.9 percent, driven by higher than anticipated enrollments, the enrollment mix of higher paying students and lower than anticipated labor costs particularly tied to benefits; however, this was offset somewhat by increased S&S costs. Regarding presentation of the report this year, there were a couple of accounting changes (e.g., shift in bad debt allowances and recording funds from the North Campus Village). Overall transfers are up largely due to increased support to athletics.

Discussing Auxiliary Enterprises, about $1.4 million of the revenue increase is tied to accounting changes. There was an increase in recreation center revenue, an overall increase in housing occupancy and fewer fee remissions issued from the housing area. Labor expenses included general budgeted pay increases; increased spending in athletics for both post-season expenses and added programs; and increased labor relating to housing maintenance activities. S&S is up; $2.1 million of the increase is associated with the North Campus Village. Two factors account for the deficit in the Auxiliary Enterprises: BOLI settlement and the athletics shortfall.

In Designated Operations, there was an overall general increase in activity, some of which was higher than last year but lower than budget expectations. Revenue finished at just under $5 million. On the expense side, labor and S&S expenses changed, largely due to increased activities in the JPR area where spending was up but less than anticipated.

Regarding the external audit, Mr. Larvick said they are in the final stages of completion. There were a few audit comments to bring forward but nothing material at this stage. When the audit statements come out, there will be substantial changes in the way things are reported, such as bond obligations being removed from SOU's financial statements and the increase in the pension liability.

The external audit includes the A-133 audit, which focuses on federal grants to universities and non-profit organizations to ensure funds are used appropriately. SOU receives federal funding, primarily to support financial aid programs. The A-133 audit is nearing completion. There may be a few comments, most being relatively minor.

Mr. Larvick then discussed bad debt reserves. There was a 9 percent growth in the total charges posted to Banner accounts, compared to a 2.4 percent increase in the accounts receivable. Collection history is relatively consistent from year to year. Through the fourth year, approximately 99 percent of the student accounts have been collected; after that mark, write-offs begin to occur. Factors going into estimating the bad debt allowance include the age of the debts; status of payments; percent of debts remaining outstanding at the end of the first year; growth or decline of debts older than four years; and recovery history on previously written-off accounts.

Mr. Larvick provided some history on the bad debt reserve then mentioned the alternative model SOU created in FY2015. As of July 2015, the bad debt reserve was $3.5 million; in June 2016, it was $3.7 million. SOU's alternative formula for calculating the bad debt ending reserve results in a $3.6 million reserve, $100,000 over the amount reached using the auditor's reasonableness test. If the old OUS calculation were used, the reserve would have been $4.2 million. Mr. Larvick said the takeaway is that SOU's reserve levels are adequate and reasonable; Mr. Morris concurred.

Review of New Budget Forecasting Model

Mark Denney said the pro forma will continue to be presented each month. The pro forma projects enrollment revenue and other information based upon relatively simple inflation or multiplier factors. However, it lacks the ability to get into some of the nuances driving those factors beyond the current budget year that is being developed. He wanted to enhance the pro forma to take the level of detail already used in budget development and continue that level of detail into future years. While much of the model will be familiar, it will also lay out how the model in each segment is built. Each month, Mr. Denney will present a different element of the model, building in some what-if drivers, looking at what it takes to move the economic forecast and helping to identify areas that should be focused on. The current format will be retained but with separate tabs for each element and assumptions.

Mr. Denney said the desired end state will be a data-driven model and an interactive tool for other campus constituents to use. Mr. Morris said the work Mr. Denney and Partha Chatterjee have done is already paying off; it has facilitated more sophisticated conversations in meetings of the president's cabinet. In closing, Mr. Denney recognized Mr. Chatterjee's great work on the project.

Endowment Investment Policy Update
Craig Morris provided background information on this item, saying the chair formed a work group with Trustee Sevcik as the leader and Trustees Hennion and Slattery as members, along with himself. The group met and Penny Burgess walked them through the endowment investment policy. After a hearty conversation, the group developed some recommendations.

Trustee Sevcik said the issue is the $2.136 million and how it is invested. The work group reviewed the draft policy, with Ms. Burgess's help, and made recommended changes to the asset allocation and the spending policy and some wordsmithing changes. Trustee Sevcik said the work group will recommend the committee and the full board approve the policy. Ms. Burgess asked for a copy of the board's approval so she can forward it to the state treasurer for further action. Chair Nicholson set forth the timeline for approval of the policy, with the board's anticipated approval happening in January.

Future Meetings
Chair Nicholson said all committee members are in charge of the agenda. This item was added to ensure committee members knew what was coming up and to include desired agenda topics. He reviewed a calendar detailing the topics covered in past meetings and proposed topics for future meetings. Chair Nicholson noted his absence for the November and December meetings. He encouraged members to think about topics they would like to discuss.

Adjourn
Chair Nicholson adjourned the meeting at 5:25 p.m.

Date: October 20, 2016

Respectfully submitted by,

Sabrina Prud'homme

Sabrina Prud'homme
University Board Secretary