

Thank you for your interest in Dr. Bunsis's report! This note will provide context; please read it in its entirety before going to the recording and slides.

First, we must distinguish between budgets and annual financial reports.

The **budget** in any given year is the University's estimate of revenues and its plan for how money will be spent. It is a plan and is not set in stone. It does provide more current data in some ways but is not subject to audit nor typically to generally accepted accounting principles (GAAP). It is a management document, used by administration to keep track of, in part, how much money has been spent on various cost items and how much revenue has been collected.

**Audited Annual Financial Reports**, from which Dr. Bunsis drew data for his report, are the final word on the University's finances for the relevant year. These financial reports are only current at the moment they are filed (and for perhaps a few days afterwards), but they do show year-over-year trends and importantly, the latest complete picture of the University's finances.

It has been pointed out that Dr. Bunsis's report was produced using audited annual financial reports that are now obsolete, which is true. The \$42 million in unrestricted reserves referenced in the report is indeed not a current number; to get the current number we will need to wait until the Board of Trustees approves the 2019-2020 Audited Annual Financial Report, which typically occurs in November.

In the meantime, we ask that you focus on three parameters from Dr. Bunsis's report.

1. The *unrestricted reserves* are monies which the University may choose to spend as it wishes, subject to Board approval. This

number was reported by WOU as \$42 million at the end of June 2019. Though it may no longer be at that level, WOUFT believes that it is still at a level sufficient to handle the current short-term crisis.

2. WOU's audited Annual Financial Report for 2019-2020 (available at <https://wou.edu/business/wou-financial-statements/>) shows that WOU reported \$47 million in cash and investments at the end of June 2019. As with the University's unrestricted reserves this number is indeed obsolete, but WOUFT believes that it is likely still robust.

3. Finally, the \$42 million in unrestricted reserves reported by WOU in June 2019 is made up of \$11 million in net reserves and \$31 million in adjustments resulting mostly from the inclusion of pension liabilities.

a. These pension liabilities are in fact a liability of the State of Oregon, which has been permitted by the Governmental Accounting Standards Board to assign a portion of the liability to WOU (as well as other state agencies).

b. It is WOUFT's understanding that the pension liability comprises the estimate for the present value of payments which are made annually by WOU now and far into the future, using a "discount rate" which estimates the rate of pension fund growth. A small change in the discount rate results in a large change in this long-term liability.

c. **Importantly, bond rating agencies (like Moody's) *take out* these pension liabilities when calculating the ratios used to assess the financial health of universities.** It is the annual payments - currently a little higher than \$5.5 million for WOU - that matter most, **not** the long-term liability of \$31 million.

WOUFT's position is that although WOU faces significant short-term financial challenges, management has saved for this rainy day. This is not the time to use permanent cuts to solve a short-term revenue shortfall. Moreover, WOUFT intends to push for investments in program-level enrollment growth efforts before the administration decides on eliminations or curtailments that could negatively impact our students and dilute WOU's mission.

Portland State University has agreed to use at least \$13 million of its reserves to help cover their shortfall. If we don't use reserves now, when would we *ever* use them?

Thanks to Dr. Bunsis for his enlightening report.