FINANCE

101

OR,

HOW THE UNIVERSITY OF NEW HAMPSHIRE

EARNs, SPENDs, MANAGES, ACCOUNTs FOR, AND

STEWARDS ITS FINANCIAL RESOURCES
WHAT IT’S ABOUT

IT’S A BIG PLACE
When school is in session, the population of the University of New Hampshire rivals cities the size of Portsmouth, N.H. Its budget must meet its numerous fiscal responsibilities. How UNH earns and spends its revenue underlies the University's successful day-to-day operations as well as its ability to meet the challenges and opportunities that lie ahead. Well-managed resources keep the doors open and the University moving forward.

IT’S AN IMPORTANT PLACE
UNH provides high-quality undergraduate and graduate education. It has a national and international agenda and holds land-, sea-, and space-grant charters. It’s a place known for the way students collaborate with faculty in the mission of teaching, research, and service. From its main Durham campus, its college in Manchester, and UNH Law School in Concord, the University serves New Hampshire and the region with higher education that is delivered online, on-campus, and abroad; cooperative extension; cultural outreach; economic development initiatives; and basic and applied research.

This report details how UNH manages its resources while maintaining its commitment to excellence.
The University of New Hampshire derives its income from several sources. Virtually everything, from funding for facilities, technology, financial aid, employment benefits, snow plows, and food in the dining halls is paid from these sources.

As a state university, UNH is obligated to provide the best possible education to qualified New Hampshire students and ensure that its research directly benefits the people of the state. The operating budget is prudently managed to meet these responsibilities.

Tuition and fees are typically the largest sources of revenue, while federal financial aid provides the lowest amount. Some revenue is restricted or limited in how it may be used.
MARKET FORCES PLAY A ROLE
SUPPLY AND DEMAND SHAPES THE UNH ECONOMY

OUR REVENUE SOURCES ARE NOT STATIC...

UNH KEEPS A CAREFUL EYE ON MARKET FORCES TO FIND THE RIGHT BALANCE AND TO FUNCTION AT ITS BEST.

...WHEN CIRCUMSTANCES AFFECT ONE OF THESE ELEMENTS, THE OTHERS ARE AFFECTED.
The University allocates its resources according to its mission of teaching, research, and outreach. To meet this goal, UNH invests in its people, in physical facilities, and in technological infrastructure.

**HOW UNH SPENDS ITS REVENUE**

**OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION**

Current Fund Expenditures FY13.* $539.2 Million**

- **PERSONNEL** $324.9 | 60.3%
- **SALARIES & WAGES** $240.6 | 44.6%
- **FRINGE BENEFITS** $84.3 | 15.6%
- **SUPPLIES & SERVICES** $141.9 | 26.3%
- **UTILITIES** $8.0 | 1.5%
- **TRANSFERS*** $64.4 | 12.0%

* Includes Durham, Manchester, and UNH Foundation
** Excludes Loans, Plant, and Endowment and Similar Funds
*** A transfer moves costs from one account to another, typically to set aside funds for future strategic initiatives or investments in the physical plant.

**FINANCE FACTS**

The majority of the University’s expenditures are directed toward the fulfillment of its core mission of teaching, research, and outreach.

UNH maintains more than six million square feet of space in more than 300 buildings and provides wireless service to all academic and residential buildings and key outdoor locations.

The University’s strategic plan, “UNH in 2020” calls for its continued commitment to excellence while holding down the cost of attendance for students and their families. Enhancements to its academic programming, the physical plant, and technology are necessary to maintain its position as a higher education leader in the 21st Century.
HOW UNH SPENDS ITS REVENUE
The University uses Responsibility Center Management (RCM) to make the best use of its financial resources. Each of the University’s 20 RCM units is responsible for its own financial decisions, for the management of its revenues and expenditures, and for meeting the full cost of its operations. Sound choices, with their attendant risks and rewards—on everything from the cost of instruction to the maintenance of its facilities—mean each unit must apply careful financial management.

RCM is guided by values and objectives in accordance with the University’s strategic plans and priorities. The University also maintains central strategic funds to support the University, reward excellence, and uphold the institution’s mission. The Office of the Vice President for Finance and Administration oversees RCM activities and assures that the University community remains inter-connected and unified, working together to meet University goals.

Each RCM unit is responsible for keeping its “fiscal house” in order. Each unit must maintain a healthy reserve balance to ensure the programs and services it provides will be sustainable.
SAVING FOR A RAINY DAY
OR, WE ALL KNOW WE HAVE TO DO IT

It takes a lot of planning—and saving—to manage a university. It’s akin to managing a household budget or business, only larger and more complex, but many of the same principles apply. A key part of the University’s continued success rests with its commitment to putting aside some of its resources on a regular basis to maintain and sustain the quality of its education and research.

A healthy savings plan allows for a smooth and stable revenue flow. Homeowners know to expect the unexpected, such as the need for a new roof or heating system. In the same way, the University must also set aside some revenue to assure that its dormitories are safe and up-to-date, its classrooms are renovated, or that a possible increase in the cost of energy does not disrupt its operations and progress. A prudent savings plan also allows the University to maintain a healthy bond rating, which in turn allows it to borrow at favorable rates to address physical plant needs, deferring the need to use current resources.

HOW WE USE OUR SAVINGS

- Tuition
- State Funding
- Grants & Contracts
- Rainy Day Fund
- Dormitory Upgrades
- Research Facilities
- Classroom Renovations
- Better Interest Rate
- Overall Student Experience
- Technology Infrastructure
- Grounds & Roads
BUDGETING
OR, HOW WE DEVELOP A SOUND PLAN FOR THE FUTURE

To support fully its human, financial, technical, and physical resources, the University regularly analyzes and updates its budget, with reviews several times each fiscal year and a five-year plan. This assures that it is on track to meet its long-term goals and priorities and provides the opportunity to make short-term adjustments where necessary to meet current needs.

ANNUAL FINANCIAL CYCLE

The Office of the Vice President for Finance and Administration assesses the University’s calendar budget four times per year:

MULTI-YEAR CYCLE

The University also analyzes its financial picture over a six-year period. This analysis encompasses the past and current fiscal years as well as the following four.
THE UNH RESPONSIBILITY CENTER UNITS*

The University of New Hampshire is divided into 20 Responsibility Center Units. Each unit is responsible for its financial decisions and manages its revenues, expenditures and fund balances. This list does not necessarily reflect the formal organizational reporting structure, but rather is intended to define RC units and the areas within those units.

ACADEMIC

College of Engineering and Physical Sciences

College of Health and Human Services
Major Programs/Centers/Institutes:
Browne Center, Institute on Disability, NH Institute for Health Policy and Practice

College of Liberal Arts
Major Programs/Centers/Institutes:
Carsey Institute, Center for the Humanities, Survey Center, Family Research Lab

College of Life Sciences and Agriculture
Major Programs/Centers/Institutes:
Agricultural Experiment Station, Hubbard Center for Genome Studies, NH Vet Labs, Thompson School of Applied Sciences

Peter T. Paul College of Business and Economics
Major Programs/Centers/Institutes:
Center for Business and Economic Research, Center for Venture Research, Enterprise Integration Research Center, Private Enterprise Center, Small Business Development Center, William Rosenberg International Center of Franchising

UNH at Manchester

AUXILIARIES

Intercollegiate Athletics

Housing
Related Auxiliaries: Forest Park

Hospitality Services and other Business Affairs

Whittemore Center Arena

CENTRAL

Student and Academic Services
Major Auxiliaries:
Health Services, Counseling Center, Memorial Union Building (MUB), Campus Recreation, Whittemore Center

Academic Affairs
Major Center:
The Leitzel Center

Library

Information Technology
Major Auxiliaries:
Computer Store, Telecommunications

General Administration, including Advancement

Institutional

FACILITIES

Major Auxiliaries:
Small Projects Construction Team, EcoLine

RESEARCH UNITS

Institute of Earth, Oceans, and Space (EOS)
Major Programs/Centers/Institutes:
Complex Systems Research Center, Climate Change Research Center, Ocean Process Analysis Lab, Space Science Center, School of Marine Science and Ocean Engineering

Cooperative Extension
Research Office
Major Programs/Centers/Institutes:
Cooperative Institute for Coastal and Estuarine Environmental Technology (CICEET), Cooperative Institute for New England Mariculture and Fisheries (CINEMar), Instrumentation Center, Consulting Center

* Each RCM unit is supported by a BSC, although some BSC’s support more than one RC unit.
The language of finance can be pretty arcane. Here are a few definitions to guide you.

**Deferred maintenance**
UNH maintains more than 6 million square feet of space in more than 300 buildings. These buildings, plus grounds, roads, and infrastructure must be maintained. To maintain our assets at their current level, UNH needs to be investing more than $60 million per year in the maintenance of its properties. Currently UNH invests an average of $22 million to $25 million per year from its operating and auxiliary funds, the deferred maintenance assessment, gifts and grants and state capital contributions. If UNH does not increase its funding levels, assets will soon fall into disrepair and will no longer be operable.

**Operating budget:**
To sustain its operations, UNH relies on support from these primary sources:

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage (FY 13)</th>
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</thead>
<tbody>
<tr>
<td>State of N.H.</td>
<td>7 percent</td>
</tr>
<tr>
<td>Tuition and fees (net of financial aid)</td>
<td>35 percent</td>
</tr>
<tr>
<td>Government and private grants and contracts</td>
<td>26 percent</td>
</tr>
<tr>
<td>Gifts and endowment income</td>
<td>4 percent</td>
</tr>
<tr>
<td>Auxiliaries—primarily student fee-funded operations</td>
<td>24 percent</td>
</tr>
<tr>
<td>Other sources</td>
<td>4 percent</td>
</tr>
</tbody>
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Some operating funds are restricted in how they may be used.

Restricted funds may not be used to support the general operating budget. Use of these funds is legally restricted by external sponsors or private donors for specific programs and scholarships. Government, private grants and contracts as well as restricted gifts and endowment income fall into this category.

**Operating Margin**
Operating margin is the ratio of net operating revenue to total operating revenue. It tells us how much operating revenue is left over to pay for fixed costs such as debt. It is an important measure of fiscal health particularly to bond rating agencies that evaluate an organization’s ability to repay its debt. UNH has $223 million (FY13) of debt outstanding used to finance many construction projects such as the MUB, Southeast Residential Quad, Ecoline, Campus Recreation Center, Holloway and Mills Halls and many others. UNH must keep a strong operating ratio (at least 3 percent) to satisfy bond holders and the rating agencies that we can repay our debt to keep our cost of debt low and allow us to access additional debt in the future.

**PAU pass-through**
In the state of N.H. budget, University System of New Hampshire funding is classified according to Program Appropriation Units or PAUs. UNH has several PAUs in the state budget. These are: UNH-General, Agricultural Experiment Station, Cooperative Extension, UNH Manchester, Marine Program and NH-IRCC. The PAU funding is at the discretion of USNH and UNH; however, the state funding to the PAUs other than UNH-General have traditionally been passed through USNH and UNH directly to those PAUs at the state budget funding level.

**State appropriations and the cost of attendance**
New Hampshire ranks 50th in the nation in per capita and per $1,000 of income in state support for public higher education. The amount of state appropriations provided to UNH has a direct impact on the cost of attendance for N.H. resident students. The state appropriations provide UNH with the funding to discount N.H. resident tuition well below the non-resident rate. Cost of attendance includes tuition, mandatory fees, and room and board.

**Structural deficit**
UNH has operated for years with what can be termed a structural operating deficit. That means that its basic revenue structure cannot cover its expenses over the long term. UNH has been able to grow revenue streams through increased enrollments and research; however, the reduction in state funding has negated much of that revenue growth. Looking out over the next few years, the core revenues of UNH fall short of core expenses.

**Vertical cuts**
UNH has had to make expense cuts for years to balance its budget. These cuts have largely been horizontal or across the board cuts (every cut by the same amount). Examples of horizontal cuts include the salary freeze, hiring freeze and benefits reductions. In a few instances, UNH has made vertical cuts which would involve the elimination of a complete function or service of UNH. An example of a vertical cut is the closure of the New England Center.

**Unrestricted Financial Resources**
Unrestricted Financial Resources or UFR is the amount of “savings” or reserves that are at the discretion of management. UFR is typically measured at the end of a fiscal year and it tells us how much money is in our savings account that can be used for such things as one-time investments and short-term emergencies. We must also keep a certain level of UFR to satisfy bondholders and bond rating agencies that we can repay our outstanding debt. Two measures are used: the ratios of UFR to outstanding debt and of UFR to operations. The UFR to outstanding debt ratio for UNH to maintain is a minimum of 40 percent while the UFR to operations ratio is at least 25 percent.
We welcome your questions, comments, and suggestions. Please feel free to contact us. We look forward to hearing from you!

**Contact us:**

Joanna Young  
Chief Information Officer and Interim Vice President for Finance  
Phone: (603) 862-2232  
Email: Joanna.Young@unh.edu  
Twitter: @unhcio

Kerry Scala  
Budget Director  
Phone: (603) 862-1355  
Email: Kerry.Scala@unh.edu

Jennifer Biron  
Finance and Information Systems Analyst  
Phone: (603) 862-0828  
Email: Jennifer.Biron@unh.edu

Jean Richard  
Senior Administrative Assistant  
Phone: (603) 862-2232  
Email: Jean.Richard@unh.edu

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