

STANDARD IX

Financial Resources

Financial Resources Task Force:

Coordinator: Fred A. Schnur, Vice President
Finance and Administration

Kent Chamberlain, Associate Professor
Electrical and Computer Engineering

Robert Kertzer, Professor
Physical Education

Neil Lubow, Associate Vice President
Academic Affairs

Carol Powers, Assistant Director of Budget and Finance
Office of the Vice President for Finance and Administration

Bruce Spenser, Director of Budget and Finance
Office of the Vice President for Finance and Administration

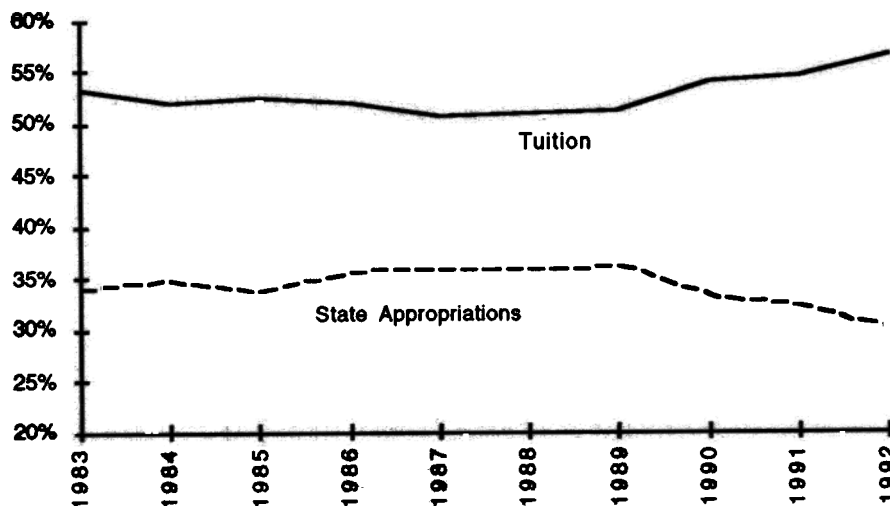
FINANCIAL RESOURCES

DESCRIPTION

Financial Stability and Adaptability

The University of New Hampshire has continued to grow in financial stability over the last ten years. While revenues have increased steadily during the past decade, there has been a change in the proportions received from various sources. The University's education and general revenues can be grouped into three major categories: state appropriations, tuition and fees, and other (miscellaneous) sources. Over the last four years, state support has declined steadily as a percentage of the total education and general budget, and consequently there have been corresponding increases in revenue from tuition and fees. The following table illustrates how tuition and fee revenues have increased as a percentage of total revenues, corresponding to the proportional decline in state appropriations:

TUITION and STATE APPROPRIATIONS
as a Percent of Total Revenues

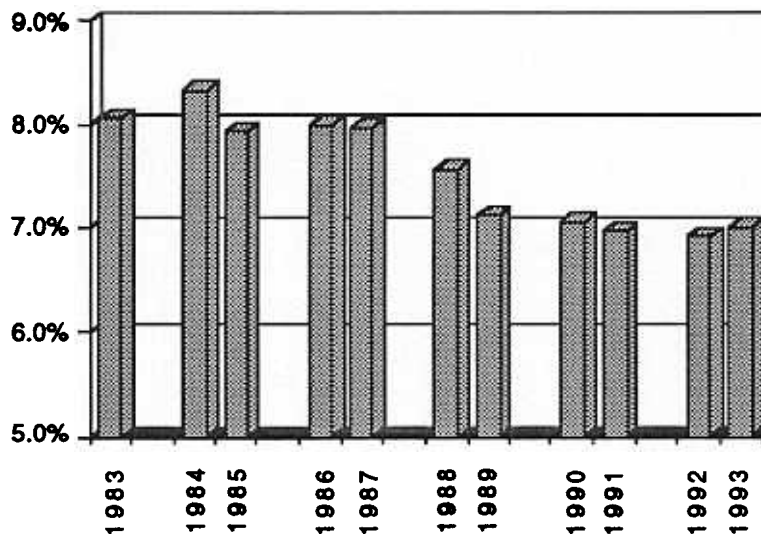


Both the administration and the Board of Trustees recognize the impact that large annual tuition increases can have on accessibility and enrollments. Therefore, despite inflationary pressures and the need to use

tuition revenue to replace state funding, tuition increases have been minimal. Instead, the growth in tuition revenue has been, to a significant extent, due to increased enrollments. Given the region's declining number of high school graduates and its poor economic health during this period, increased enrollments of high-quality students are a testament to the quality and value of a UNH education.

Although we are providing a high quality education for our students in accordance with our mission, there is no doubt that educational services would improve if our state appropriation increased as a proportion of the University's budget. Inadequate growth in the state appropriation to the University System, and hence to the University, is not simply a function of minimal growth in the overall state budget. Instead, during the past decade the University System's share of the state budget has declined significantly. The following chart illustrates the percent of the state budget received by the University System over the last ten years.

STATE OF N.H. SUPPORT TO USNH BUDGET



By 1990 the declining trend in our general reserve balance was reversed, and since then we have had a steady growth in reserves which now amount to 2% of our education and general operating budget. While this is an impressive gain given recent inflationary pressures and disappointing state appropriations, the NACUBO accounting guidelines recommend a reserve balance of 3-5%. We have made significant progress

toward this goal, and hope to further improve our reserve balance in order to provide a substantial cushion in these financially perilous times.

In addition to campus reserves, the University also has a separate contingency fund of \$250,000 available for its use. Reserve funds are also held by the University System for use at the discretion of the Board of Trustees. These include the short term investment reserve of \$4,518,000, a risk (medical, insurance) contingency of \$577,412, a student activities reserve of \$926,112, an indirect recovery reserve of \$884,000, and a utility contingency fund of \$216,317, and approximately \$1.2 million in reserves in otehr funds at 1993 fiscal year-end.

The University has proven its ability to respond to financial setbacks in a systematic and effective manner. Over the past five years, UNH has been subjected to four rescissions in state funding. In response, the University has had to act decisively to reallocate its resources in accordance with institutional priorities. The state rescissions were assessed as follows:

<u>YEAR</u>	<u>PERCENT</u>	<u>AMOUNT</u>
FY 1988-89	3.0%	\$1,155,419
FY 1989-90	7.5%	2,862,750
FY 1990-91	7.5%	2,999,000
FY 1991-92	3.5%	1,386,308

The FY 1990-91 rescission amount of \$2,999,000 was assessed prior to the budget preparation cycle, and was incorporated into the opening budget allocations. In order to balance our budget, the University reduced the proposed salary increase for faculty and staff from 9.5% to 6.0%. During the other years, the rescissions took place during the fiscal year, thereby requiring mid-year budget adjustments. In FY 1989-90, half of the rescinded amount (\$1,431,375) was funded by a spring semester tuition increase. In all other years, meeting the rescissions in state funding required budget reductions and reallocations to offset the loss of revenues.

Responding to rescissions in state funding is only a small part of the University's recent efforts to maintain and improve its financial health in the face of adverse circumstances. Like institutions of higher education nationwide, UNH has experienced inflationary pressures well beyond those in the general economy. Substantial increases in the cost of financial aid, employee compensation, library acquisitions, research initiation, etc., have

exceeded revenue growth, resulting in major university-wide efforts to reduce costs and enhance revenues.

In the fall of 1990, President Nitzschke formed the Allocation of Resources Task Force to address the University's financial problems. Having made significant progress, the Task Force evolved into the UNH Planning Council, which continues the work of reassessing priorities and reallocating available resources in accordance with those priorities. The section on Standard Two includes a detailed description of the memberships, procedures, and accomplishments of the Task Force and Planning Council.

Financial Autonomy and Viability

The University System receives a lump sum allocation from the state legislature for each year of the state's biennial budget cycle. Based on a formula agreed to by all System institutions, the University is allocated its share of the state appropriation by the Board of Trustees. While we receive an appropriation from the state of New Hampshire, the UNH budget is not subject to line-item scrutiny or control by the state Legislature or Governor. Although the twenty five member Board of Trustees includes, ex officio, the Governor and three state commissioners, it has very clearly demonstrated its independence from state government in managing the University and its budgets.

The state appropriation accounts for roughly 30% of the education and general revenue budget, tuition and fees account for 60%, and miscellaneous sources provide the remainder. Although the relative proportions among these revenues may change gradually over time, they have proven to be very reliable sources of income. The University's financial ability to graduate its entering class can be assured.

Budgeting Processes

The University has established budget processing schedules for both the biennial budget request to the state of New Hampshire and the annual operating budget. Dissatisfied with how biennial budget requests had been developed in the recent past, in 1990 UNH devised a process that precedes the USNH process in the budget cycle. Our aims were twofold. First, instead of only reacting to proposals from the System, we wanted to be able

to take the initiative; and second, we wished to build the UNH portion of the biennial budget using a "bottom up" rather than a "top down" approach.

The University's role in the biennial budget process begins more than two years prior to the start of the biennium being budgeted, with the vice presidents requesting budgetary input from their constituencies. Work on the biennial budget request continues at UNH until eighteen months before the biennium begins; at that point, the University submits its biennial budget package to the System office for inclusion in the development of the USNH biennial budget request. The process continues with repeated interactions among the institutions, System personnel, and Board of Trustees. By October 1, nine months before the start of the biennium, the USNH biennial budget request is submitted to the Governor. At that point, the state's political process takes over, resulting in the state appropriation to USNH, usually by the start of the biennium. (A more detailed account of the biennial budgeting process is contained in "Procedures for Preparing Biennial Budgets.")

The President, through the Administrative Board, and the Vice President for Finance and Administration, through the Financial Policies and Planning Council, participate in developing the System-level guidelines and models for each year's operating budget. In January, a Trustee approved operating budget model is distributed and discussed at the Financial Policies and Planning Council.

This model is then reviewed at the University by the Vice Presidents' budget group, the Deans' Council, the Budget and Planning Committee, the UNH Planning Council and other appropriate groups. Where permitted by the Board, the Trustee approved model is revised to reflect campus priorities and new revenue estimates. These decisions are made in consultation with the aforementioned groups. All requests for enhancements are carefully weighed in terms of the established priorities and mission of the institution.

Once a balanced budget has been prepared, it is presented to the President's Staff for review and approval. Allocation sheets are prepared for each vice president identifying his gross budget for the next fiscal year. The University has an on-line budget preparation process, and at the departmental level, designated staff enter the operating budget detail directly into the financial system. This entire preparation process is completed through a number of budget iterations over a four to six week

period, and may involve additional adjustments to each vice president's allocation. The annual budget process is finalized by the Board of Trustees, which usually takes formal action on tuition, fees, room and board charges, and overall institutional budgets at its June meeting. (For a more detailed description of the annual budget process, see "Procedures for Preparing Annual Budgets.")

In developing the annual operating budget, the University is cognizant of the importance of all functions which support its mission. For example, we realize the importance of our physical plant in both recruiting and educating students. Funds are annually dedicated to deferred maintenance. Most student services (dining, housing, health, and the Memorial Union) have been made auxiliary enterprises. This action allows for a direct financial relationship between the students and these functions, and because these services are self supporting, they are protected from any reduction in state support.

Financial Policies

The University has System-wide policy statements governing investments, insurance, risk management, and inter-fund borrowing which are under the jurisdiction of the Vice Chancellor for Financial Affairs. System-wide financial policy committees allow for campus input, and the VP for Finance and Administration participates in these meetings. The financial policies of the University are widely distributed and available for all offices to review. Revisions are made to reflect the current views of the National Association of Colleges and University Business Officers (NACUBO), as well as the Financial Accounting Standards Board (FASB).

Financial Management

The University, unlike other USNH institutions, operates its finances in a very decentralized manner. Allocations are distributed at the beginning of the fiscal year, and unless there are budgetary cutbacks mandated either by the state or urgent institutional priorities, the individual departments have authority to spend their budgets in accordance with broad policy statements. In 1986, the University purchased the CUFS financial software to upgrade the accounting system. This action was in response to the need to modernize how financial expenditures are tracked. CUFS

records encumbrances of departmental expenditures as requisitions and purchase orders are issued. The system is designed in such a way that it is not possible to overspend budgetary allocations in non-salary areas. Selected staff have been identified and granted access via computer terminals to only those accounts for which they have security clearance in order to make purchases and commitments on-line. Training is offered on a continual basis in order to protect the integrity of the data. Access can be revoked for anyone violating University operating procedures. Because the system is updated on a nightly basis, data is always available for review. Reports are generated frequently to provide information on how money is being spent.

The financial management of the institution is delegated to the Vice President for Finance and Administration. Because the University operates in such a decentralized manner, meetings are held every two weeks with the vice presidents in order to discuss the status of the budget and plan for any current year contingencies which may arise. Although the VP for Finance and Administration also engages in long range financial planning, the UNH Planning Council also assists in this endeavor. All academic deans and vice presidents, as well as faculty and staff representatives, serve on this Committee, which ensures broad representation.

The University provides quarterly reports to the Board of Trustees through the Vice Chancellor for Budget and Planning. These reports not only show expenditures to date, but also describe any problems which are anticipated. The VP for Finance and Administration works closely with the Vice Chancellor on these submissions. In addition, the VP for Finance and Administration attends the Financial Affairs Committee meetings of the Board of Trustees, as well as any meetings of the Audit or Investment Committees.

In FY92 the University System transferred the Controller's Office to UNH. One reason for this transfer was to strengthen the finance and accounting operations of the University. Access to greater expertise in these areas has improved services to the campus community and allowed review of the staffing of the Business Office and Credit and Collections. The Controller reports jointly to the VP for Finance and Administration and the Vice Chancellor for Finance. This has effectively increased opportunities in fiscal control. Of course, when necessary, the Internal Audit department,

which is part of the University System, conducts management studies in order to verify that financial controls and other appropriate management procedures are effective.

Fund Raising

The University's fund-raising efforts are coordinated cooperatively by the University of New Hampshire Foundation (incorporated in 1989) and the University Development Office. The Foundation pursues major gifts of \$25,000 or more, chiefly for the purpose of building endowments. The Development Office emphasizes gifts for current use through the Annual Fund. The distinction in aims between the Foundation and Development Office is a matter of emphasis, since major gifts for endowment purposes continue to be directed to the University through the Development Office and, from time to time, smaller annual gifts are made to the Foundation. The principal roles of each entity, however, are clearly articulated and are reasonably understood by the contributing constituencies.

Special attention to fund raising to enhance the academic mission of the University was articulated in President Haaland's *The University of New Hampshire in the Year 2000: A Working Paper* (1988). This theme was reiterated in the 1990 *Academic Plan*. Between 1988 and 1990 the President consulted with alumni and other friends of the University on preferred foci for individual philanthropy, and the Provost worked with the deans and faculty to articulate preferred targets for private support. The Foundation Directors then developed a long range plan to address the priorities that had emerged. Consistent with the long range plan, the Foundation staff continues to construct annual strategic plans. Over the course of the last five years, fifteen professorships and two endowed chairs have been created. In 1992 UNH received \$6.6 million in private support.

The Office of Finance and Administration and the Office of Alumni Affairs are currently developing an improved endowment tracking system. Policies governing the solicitation and acceptance of gifts can be found in the *USNH Policy Manual* and the *UNH Policy Manual*. All gifts are acknowledged in a timely manner. Gifts of \$1,000 or more are personally acknowledged.

Financial Records

All financial statements prepared for the University are the responsibility of the Controller's Office and the Vice Chancellor for Financial Affairs and Treasurer. Each year, the University System prepares an *Annual Financial Report*. The financial statements in this report, and the accompanying notes, are prepared in accordance with generally accepted accounting principles and are clear and objective.

The financial reporting process utilizes an on-line budgeting and accounting system with spending controls on current operating funds and with electronic access and approvals. All approved users have continual on-line access to the status of their accounts which allows for review of expenditures to date against the approved budget. This assures effective stewardship of funds. Transactions as recorded in the accounting system are aggregated and reflected in regular monthly reports to management, quarterly reports to the Board of Trustees Financial Affairs Committee, and annual audited financial statements.

The internal control systems described above, which are used throughout the University System, provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition. Transactions are executed in accordance with approved authorization and are recorded properly to permit the preparation of financial statements which are free from material misstatement. Internal control systems include an organizational structure which provides for proper segregation of financial duties, careful recruitment and training of qualified personnel, and a program of regular internal audits.

The internal auditors, while employees of USNH, are nevertheless objective in the planning, conduct and reporting of their audits. The Audit Committee of the Board of Trustees, the voting members of which are solely outside trustees, meets at least semi-annually and at the request of the Director of Internal Audit. Both internal and external auditors have unencumbered access to the Audit Committee at all times. The Audit Committee is responsible for oversight of USNH's financial reporting process and internal control systems, as well as for recommending and engaging independent public accountants for the annual audit.

The University System employs a professional certified public accounting firm (currently Coopers and Lybrand) to provide an opinion as

to the fair presentations of the financial statements. The FY92 review was the 29th year in a row that independent auditors have issued an unqualified opinion to USNH. As part of their audit, Coopers and Lybrand assessed accounting principles, conducted a study and evaluation of USNH internal control systems, and performed standard tests of transactions and account balances to provide reasonable assurance that the financial statements are free from material misstatement.

APPRAISAL

The University of New Hampshire has continued to grow in financial stability over the last ten years and has proven its ability to respond to financial challenges such as declining state appropriations and rescissions. There has been significant success in fund raising and the building of endowments through the Development Office and the newly formed UNH Foundation. Staff members responsible for financial affairs participate in well developed training activities. Internal Audit conducts studies to verify the institution's effectiveness in managing its financial affairs.

The process used to develop the annual operating budget is well publicized and involves every level of administration within the University as well as advisory committees representing each campus constituency. The Vice President for Finance and Administration participates fully in System-wide financial planning committees which determine the financial policy under which the system operates. Budget development and planning, policies and management procedures, and the training of financial affairs staff is regularly evaluated.

The new biennial budget process adopted in 1990 resulted from such an evaluation. Although we have only the experience of one biennium in using the new process, it has helped significantly in setting University-wide priorities, which have influenced both the biennial and annual budgets. The establishment of the Senate Budget and Planning Committee, the Allocation of Resources Task Force, and the Planning Council provide other examples of how the University assesses its budgetary policies and procedures and changes them to improve their effectiveness.

Despite these areas of effectiveness, there have been continued financial pressures on the institution. The state appropriation, as a

percentage of total revenue, has steadily declined over the last four years, which in turn has necessitated balancing the budget through a corresponding increase in tuition and fund raising activities. Although general reserves have increased through careful budgetary controls and oversight, they still fall short of the NACUBO recommendations.

UNH is the only university, and the only research, land grant, sea grant, and space grant institution within the University System of New Hampshire. However, its distinctive needs, contributions to the state, and the diverse demands it meets have not been fully recognized within the System. If UNH is to fulfill its mission with maximum effectiveness, these differences need to be addressed when distributing the state appropriation among System institutions and when developing annual budgetary guidelines.

The share of the state appropriation each System institution is given tends to be based on past shares, with little attention given to the fact that expenses do not increase uniformly among such a diverse group of institutions. For example, research start-up costs for faculty in the sciences have escalated rapidly during the past decade, in some cases amounting to two or three hundred thousand dollars per faculty member. This form of inflation has not similarly affected the other System institutions, but it has also not affected UNH's share of the state appropriation.

There is continuing concern that the Board of Trustees has not given the University adequate authority to determine its budgetary priorities nor the flexibility necessary to manage its local operations within broad guidelines agreed upon at the beginning of each fiscal year. Inflationary pressures in areas such as salaries, scientific equipment, utilities, and library acquisitions are not uniform for all System institutions. Consequently there is a need for each institution within the University System to adopt inflationary guidelines which reflect the particular mission and character of that institution.

PROJECTION

A central goal is to work with the Board of Trustees and the Chancellor to improve state appropriations and reduce reliance on tuition increases. This is seen as crucial to UNH's ability to meet the State's educational needs and

maintain its tuition at a competitive level. The University administration will continue to work with System committees and the Board of Trustees to develop budgetary policies that best reflect the distinctive needs of the institution. Broad based participation in budget evaluation, planning and development at the institutional level will continue. To foster that participation, efforts to inform faculty and staff about University finances will be increased. Greater efforts will be made to communicate the budgetary recommendations of campus groups to governing bodies at the System level.

These measures should go a long way toward improving the financial situation for the University of New Hampshire. However, at the same time, alternative sources of support through fund raising will be pursued, and strategies will be identified to continue strengthening the general reserves of the university so that unanticipated financial stresses can be effectively addressed. Finally, long range financial plans that will enable the University to respond to fluctuations in enrollments and changes in the regional economy will continue to be developed and assessed.

SELECTED SOURCES

- Academic Plan: Appendix B.* Durham, NH: UNH, Office of the Provost and Vice President of Academic Affairs, 1990.
- Annual Financial Report.* Durham, NH: USNH, Controller's Office, recent years.
- "Procedures for Preparing Annual Budgets." Durham, NH: UNH, Office of the Vice President for Financial Affairs, 1991.
- "Procedures for Preparing Biennial Budgets." Durham, NH: UNH, Office of the Vice President for Financial Affairs, 1991.
- University of New Hampshire in the Year 2000: A Working Paper.* Durham, NH: UNH, Office of the President, 1988.
- University of New Hampshire Policy Manual.* Durham, NH: UNH, 1993.