

STANDARD 9

FINANCIAL RESOURCES

DESCRIPTION

Financial Stability

Financial stability begins with the activities of the Office of the Vice President for Administration and Finance/Chief Financial Officer (CFO). The CFO co-chaired the *UMFK 2003-2008 Strategic Plan* and is responsible for implementing those aspects relating to financial administration. Guidance is contained in strategic plan priorities 3 and 9, which provide the basis for budgetary recommendations throughout the year (Exhibit 1.03: *UMFK 2003-2008 Strategic Plan*). Embedded within the priorities are four major areas of the University's fiscal operation and planning: establishment of the University budget, the allocation of unbudgeted funds, funding for hiring of personnel, and the development of idle University land and assets.

The priorities described in *UMFK 2003-2008 Strategic Plan* govern the allocation by this office of new, unbudgeted funds from sources such as instructional block grants, or state-funded equipment grants, and excess budgeted revenue. Departments and programs request funds by first identifying then prioritizing them at the division level. Each division and department then presents its requests to the appropriate Vice President. The Vice Presidents, in concert with the President's Cabinet, prioritize each request according to its relation to identified University goals and recommend funding accordingly.

Criteria for hiring new personnel or filling vacant positions are tied to University goals.



Requests for replacing faculty, classified, professional, or administrative positions, as well as for hiring new positions, originate at the department level. Once the division/department endorses a request, it is brought to the appropriate Vice President for consideration and approval for recommendation to the President. The intent of personnel requests for each of these steps includes specific information identifying the relationship of the position to one or more University goals or objectives identified in the strategic plan.

Since the adoption of the *UMFK 2003-2008 Strategic Plan*, the University has begun to link its goals and objectives more closely to the development of the University's annual budget. The intent has been to increase the role of the CFO in establishing and overseeing the budget to more closely align planning and financial stability with financial decision making. As a result the President's Cabinet has been able to consider specific methods of addressing the budget and planning process: a modified incremental approach and a modified historical method. In addition, the President's Cabinet must keep in mind the alignment of the *UMFK Five-Year Capital Plan*, the *UMFK Facilities Master Plan 2002*, and their relationship to the *UMFK 2003-2008 Strategic Plan*.

Future long-term obligations are defined by UMS as long-term debt. UMS in concert with UMFK takes responsibility for identifying and meeting these obligations. Short-term obligations are reviewed and projected yearly and identified by line item

and object code in the completed UMFK budget.

Current long-term obligations include the costs associated with the construction of the new student dormitory and the addition of the Acadian Archive building to the Blake Library. UMS projects costs and maintains reserve funds for ongoing obligations such as health benefit costs for existing and retired employees.

UMS carries general and vehicle liability insurance with a coverage limit in excess of \$1,000,000. The liability insurance is provided by Admiral Insurance Company, policy #UM000000239-01 (Exhibit 9.01: Vehicle Liability Insurance Policy). UMS is self-insured for Worker's Compensation coverage as authorized by the State of Maine.

All property and casualty insurances are handled through UMS, Risk Management, 107 Maine Avenue, Bangor, ME 04401.

Financial Resources

Each fall, the UMS Office of Treasury and Finance forwards to UMFK's CFO the UMS budgetary planning information for the next fiscal year. UMFK's CFO sends that information to the President and other members of the Cabinet. These administrators make budgetary planning decisions based on anticipated revenue and planned expenses.

Planning for increased enrollment revenue from in-state, as well as from the University's international students, and from other external sources is already part of the University's annual and long-range budgeting formulas.

After the yearly budget has been finalized and approved by UMS BOT's, all projected expenditures and confirmed Federal, State, and other revenue funding are analyzed to establish a projected cash flow for the University during the current budgeting

period. Should imbalances occur between the receipt and expenditures of funds during the course of the year, campus budgets are covered by the cash management function controlled by the office of finance and treasurer at the UMS Office. Cash management function at the campus level is primarily the responsibility of the CFO and is performed with the direction of the President.

Reserve accounts are unique for each campus and are budgeted by two methods. The first is a direct budget allocation for that purpose. The second involves the sweeping of all accounts at the end of a fiscal year for excess revenue in unexpended budgets. The sum of this sweep is automatically allocated to reserves with 20% appropriated to facilities per UMS Board policy.

During the mid to late 1990's, reserves at UMFK were drawn down as the institution struggled to survive. By 2002, reserves had reached zero from a high of \$1,000,000 at the start of the 90's. During AY 2003, \$20,000 was allocated back to reserves and in AY 2004, another \$100,000, and we anticipate another \$100,000 as we close out FY 2005.

The University is, in addition to being responsible for cash management, also accountable for the management of all funds allocated to it through UMS, internally and externally generated funds, and auxiliary accounts. All requests for expenditures are compared to available funds by line-item and object code to provide financial controls and to ensure that funds are allocated in the most effective and efficient manner. Controls are implemented at the division and department manager level and progress to the CFO.

Over the last ten years, we have increased 83% in student full-time equivalents (FTE's) (Exhibit 4.16: Student FTE, Fall 1995-2004). The University has pursued an aggressive recruitment program and has also been diligent in its efforts to retain current

students. While the state of Maine data suggests there may be a leveling of future enrollments, UMFK is responding proactively to increase enrollment and meet growth targets set by our administration.

Financial Planning, Management, and Organization

UMFK maintains a *5-Year Capital Improvement Plan*, which contains a five-year inventory of facilities needs and a scheduled maintenance plan. These documents are regularly updated by the University's CFO with input from the Director of Facilities Management and members of the President's Cabinet, as well as input from the Board of Visitors.

The campus' long-range *UMFK 5-Year Capital Plan* and *UMFK Facilities Master Plan 2002* (Exhibit 2.02, 2.03) in support of education objectives describe proposed building construction projects, which extend beyond the next three bienniums providing the campus with enhanced facilities for instruction. Recent campus remodeling of classrooms and offices in Cyr Hall, the three year old Nadeau Hall (faculty offices, classrooms, and the teleconference center), and the latest additions to the campus this year, the 150 bed dormitory and Acadian Archives Building, are examples of projects that support the *UMFK Facilities Master Plan 2002* and UMFK's educational needs, objectives, and mission.

On-going financial planning and budget development is the primary responsibility of the CFO. Guidance for understanding funding, finance, and budgeting can be found in the Administrative Practice Letters (Exhibit 9.02), which are prepared by the UMS Chancellors office and approved by the Board of Trustees (BOT). In addition, the CFO prepares a budget binder (Exhibit

9.03), which is made available for any member of the UMFK community, that explains budget development and State funding processes. Although the University adheres to financial and budgeting standards required by law and BOT policies, there are no clearly established guidelines or processes for University-wide institutional financial planning.

The University's CFO, with assistance from the President's Cabinet, is responsible for carrying out University-wide development of financial plans and budgets. Requests for personnel and funding from all sources, including block grants, are initiated at department or program levels, with input from all affected staff.

Within the last two, years the position of Business Manager at UMFK was dissolved, and the responsibilities of that office were spread between the CFO and the Executive Director of Human Resources, Affirmative Action. The classified staff under these two offices respectively (Administrative Assistant to Administrative Services Office and Accounting Coordinator) assumed the clerical functions for tracking the general fund accounts allocated to the University through the UMS budget model. In Fall 2004, a decision was made to restore the Assistant CFO/Business Manager position and a search is in progress.

Each UMFK auxiliary fund has a separate line account. Financial statements, consisting of balance sheets, and income and expense reports, are prepared annually through the UMS Office of Finance and Treasury. Various reports are issued monthly and reviewed by the President and appropriate account managers.

As the business agent of the University, the CFO is responsible for determining the validity, accuracy, and appropriateness of all contracts and agreements. Contracts involving an expenditure of more than \$25,000 for work to be done or for materials

or supplies are awarded by formal bid with the assistance of UMS.

Fund Raising Efforts

The UMFK foundation is a separate 501 (c) (3) entity incorporated within the State of Maine. The purpose of the foundation is to support the fundraising efforts of the University staff and to provide guidance and feedback on our strategies, as well as to identify, cultivate, solicit, and recognize donors. All activities and fund-raising efforts of the University Foundation consistently support the programs, services, mission, and goals of UMFK.

All funds are maintained by the Administrative Assistant for Gifts and Special Events under the supervision and guidance of the President's Office. Endowed funds are managed by the treasurer of UMS.

The independent public accounting firm, KPMG LLP, 99 High Street, Boston, MA, is hired by UMS to conduct a comprehensive annual audit of all University E&G and Auxiliary funds. Additionally, the UMFK Foundation is subject to an annual audit by an independent auditor, Chester M. Kearney, hired by that foundation (Exhibit 9.04: Audit Report). Chester Kearney was selected by the Foundation Board in 2004 when it became clear that prior reviewers could not express an opinion on the audit reports due to membership on the Foundation Board.

Auditing and Evaluation of Financial Records

The Office of the Vice President for Administration operates according to Federal, State, and University regulations and guidelines. In addition to reporting requirements set forth by the UMS BOT, both UMS and UMFK follow Governmental Accounting Standards (GAS). In 2002, the entire UMS incorporated the GASB 34 & 35 guidelines as required by law (Exhibit 9.05).

This process assures that funds are budgeted and expended in support of instructional activities. The completed annual audit report also serves as a tool for the University President and Vice Presidents to assess the financial stability of the institution.

UMFK, as well as UMS, is audited by the internal audit department several times a year, generally without warning. In addition, external auditors, currently KPMG, do a complete audit at least annually. UMFK is also subject to federal audits, which could occur at any time without warning. These audits are conducted to ensure proper and adequate internal controls, high business standards, as well as compliance with state and federal laws. Following any internal or external audit, the auditors meet with the CFO, and when appropriate, the President for an exit interview. Any findings to be cited are discussed, and recommendations are made by the auditors. Most findings require minimal changes and can be corrected immediately. All appropriate parties, including the UMFK Visitors, are informed of the audit report and any appropriate action needed to be taken.

UMS policies require that all contractual agreements conform to established policies and are reviewed by the UMS Council, when appropriate, before being signed by the CFO with guidance from the President. Contracts are often forwarded to the UMS Risk Management Office of Central Purchasing for review. Time-sensitive contracts and specialized needs contracts may be sent for outside counsel.

APPRAISAL

Financial Stability

In spite of limited resources from the State funding base, we have been able to sustain

and, in several areas, improve upon our goals and objectives. The available financial base has provided sufficient revenues to maintain a competitive salary base and to maintain and retain a faculty level, which has kept pace with our increase in student population.

We compare well with other UMS campuses of similar size. Expenditures have increased both for instruction and academic support. Great strides have occurred since UMFK's last self study in the area of facilities improvement (Exhibit 2.02: *UMFK 5-Year Capital Plan*; Exhibit 2.03: *UMFK Facilities Master Plan 2002*). UMS has recognized UMFK's growth and growth potential and has allowed sufficient funds to flow to keep pace with growth.

A conservative approach to capital improvements has limited the number of fixed-cost increases, which might not be supported by either tuition increases or expected state revenue. This has allowed UMFK to avoid putting any undue pressure on resource allocations. Benefit costs for full-time employees has increased to 41.4% in FY 2004 from 30.5% in FY 1995 (Exhibit 9.06: Employee Salaries FY 2004, FY 1995 Comparison Table). It is expected that these costs will increase in FY 2005 to 41.9%. The greatest increase, in these figures has been in the health care coverage and it is anticipated that this area of the budget will continue its upward spiral. Utility costs have risen, but not as dramatically as in the area of fuel oil (Exhibit 9.07: Utility Costs).

UMFK has been able to adequately budget for faculty, staff, and support salaries annually. UMS-wide cost of living percentage increases have been maintained each year as negotiated by the bargaining units (Exhibit 9.08: Annual Cost of Living Salary Increases, Trend Data). The administration monitors National Association of College and University Business Officers (NACUBO) and our closest competitors' (University of Maine at Presque Isle and University of Maine at

Machias) faculty salaries, in an attempt to stay competitive.

An aggressive admissions program is paying dividends at UMFK. The campus strategic plan and capital improvement plan, both founded upon a proactive budgeting process, have resulted in enrollment increases in eight of the last ten years. The FTE for Fall 1995 was 495.39, this grew to 906.82 FTE for Fall 2004. These figures reflect an average overall of 8.3% increase per year for this period. These increases demonstrate UMFK's growth, retention, and stability. (Exhibit 1.09: *UMFK Statistical Abstract, May 31, 2005*, page 10b).

See appendix 9.01-9.03 for last three years' (FY 2002-2004) primary financial statements with auditors' opinion. See appendix 1.01, CIHE data form I, for information related to the current funds budget for present FY 2005. Funds budget for the next fiscal year (FY 2006) is currently not available, thus will be provided to evaluators during the site visit. In addition, see appendix 9.04 for information related to certificates of insurance coverage.

Financial Resources

UMFK has been able to secure financial support from UMS to fund the new programs developed since the last self study. Additionally, the campus has been able to experience growth in other programs through its general funds and from student fees. Please refer to Chapter 4, Programs and Instruction, for further detail.

Funding for new campus capital initiatives, presently included in our strategic plan, have been accomplished either through UMS funding, State Bonds, or University Bonds. Campus resources and/or reserves are not depleted in exchange for new initiatives.

Student fees and tuition have been fairly constant over the past ten years. Tuition has risen on average \$4 per year from \$92 per credit in Fall 1995 to the current rate of

\$132 for Fall 2004. Student fees similarly have increased an average \$1.20 per credit over the past ten years, starting at \$3 in Fall 1995 to \$15 in Fall 2004. When combined, these increases are far below the cost of living increase over that period of time. UMFK has consistently resisted any increases in student fees, which would be used to justify a new program and/or salary and benefits increases.

The Reserve Fund has shown a positive number over the last two years (Exhibit 9.09: Reserve Fund Trend Data). The overall reserve balance is favorable when compared to institutions of similar size within UMS. The past several years of growth in enrollment, has generated increased revenues and reserves.

The UMS state appropriation accounts for 47.6% of UMFK's funding for FY 2005. Historically state appropriation used to cover 3/5 of the cost of education, with the remaining 2/5 covered by student tuition and fees. Today these numbers reflect a very different picture. The state appropriation provides less than half of the cost of education with the remainder picked up by student tuition and fees. Fortunately, the state appropriation has remained relatively stable over the last three to four years.

Although UMFK is one of seven universities within the UMS, the campus community is fortunate to have considerable latitude concerning fiscal matters. UMFK is able to carry forward all unused funds. This flexibility, a reward for fiscal responsibility, allows UMFK to rebuild contingency reserves.

The UMS distributes monthly status reports and publishes an annual campus profile (Exhibit 9.10: Monthly Status Report and Annual Profile). At UMFK, these indicators are distributed by the President to his Cabinet and Board of Visitors. This information is used in the campus' ongoing planning and ultimately the budget planning cycle.

UMFK's budget process/cycle has been relatively static over the years. Changes in the positions of President and Board of Visitors have not caused significant changes, primarily because the CFO/Vice President for Administration has remained the same person. This stability in fiscal matters has proven to be a major asset to UMFK.

Most faculty and staff have a basic comprehension of the budget process. Additionally, these groups also understand that the CFO at UMFK has little discretion concerning the funds available during any FY. The likelihood of overspending is held in check by a combination of budget controls and legal/fiscal requirements.

Financial Planning, Management, and Organization

UMFK budget controls include fiscal reports, which are used to monitor fund balances, as well as scheduled and unscheduled audits. Reports that indicate a departmental deficit incurred or to be incurred are immediately investigated and funded appropriately, before the budgetary cycle has concluded. It is standard operating procedure that the CFO's Office alerts any departments where a fiscal issue may arise. Normally the department will be instructed to correct the deficit or to meet with the CFO to search for an alternate funding source.

Fund Raising Efforts

Under the direction of the President, development has undergone staff changes and a revitalized approach to institutional giving has occurred since the current President took office. During FY 2004 the annual fund produced \$76,750.16 as compared to \$106,974.42 in FY 2003. This figure is approximately the same as the previous year excluding a one time donation of \$40,000.00. Our goal is to increase the

annual contributions at a modest pace while establishing a solid foundation to sustain this growth over the longer period.

We have already exceeded last year's annual fund total in FY 2005, and will close the year over \$77,000. Alumni participation rate is still a problem at 1.6%. The endowment stood at \$1,563,612 (market value) through May 31, 2005. Endowment performance was exceptional during FY 2004 generating a 19% return, and the current (2005) one-year trailing return is 9%. The asset allocation formula during FY 2005 was 60/25 with another 15% in cash or alternatives.

The Office of the Executive Director for Corporate Relations was eliminated in 2003 in order to focus on a development organization for UMFk. For two years, the University has focused on building participation in the annual fund, initiated a charitable gift annuity program through the UMS Office and sent out a bequest brochure.

Auditing and Evaluation of Financial Records

UMS is committed to a complete conversion to PeopleSoft® in all areas by 2010. The financials module is scheduled to go live in July 2005. This software includes reports and user-friendly financial information. UMFk's purchasing and procurement processes follow the standards established by UMS and local campus procedures. Departments have autonomy for a small portion of the overall budget and they are responsible for maintaining documentation to support all reviews and audits.

PeopleSoft® has established a user support group on campus and training is available on-line or face-to-face when needed and appropriate. UMFk users of financial reports have found that web based information is far more timely and accurate and this information surpasses the

previously used system. UMFk's financial management office currently provides a very high level of information to all constituents within the campus community for their operational and informational needs.

PROJECTION

The BOT adopted a new *UMS Strategic Plan* for the system in September 2004. One of the driving forces behind this plan was financial stability in the face of projected state deficits.

The University will explore new ways to manage its revenue and control its expenditures both on our own campus and through the proposed consortium involving the three smaller institutions.

We have done an excellent job in planning for and managing growth as evidenced by the construction of a new student dormitory (The Lodge) and the remodeling and addition (Acadian Archives) to the Blake Library, while operating within our fiscal resources. The positive projections of student growth have UMFk planning for capital improvements in the following areas to include classrooms, faculty spaces, residential life facilities, and parking. Remodeling and maintenance of existing facilities have also been included in the facilities planning documents. A significant strength of this institution in recruiting and fundraising is the extraordinary level of care and maintenance displayed throughout this campus.

In May 2005, we hired an Assistant Director of Finance. This position will bolster the financial organization and provide an additional resource for assisting account managers, as well as oversight of the business office. This will permit the CFO to

engage in more sophisticated modeling and future planning.

In accordance with *UMFK's 2003-2008 Strategic Plan*, more emphasis will be given to the further growth of fund raising efforts to generate additional revenues. We currently have a commitment from the System Office to hire a development professional to support all three institutions in the Consortium. This individual would administer annual campaigns, phonathons, and initiate prospect research for all three institutions. We expect to begin this search during the summer of 2005. Longer range, we would like to build an endowment of \$5 million over the next three to five years.

In addition, implementation of the *UMS Strategic Plan 2004* includes a state-wide effort geared to institutional advancement for UMS chaired by the President of the University of Maine and the President of UMFK.

We will work with UMS programmers to help develop and write appropriate reports for identifying and evaluating our financial situation. This will enable the CFO to work with account managers and make the appropriate adjustments to ensure credibility and accuracy. We will work to increase campus resources through growing enrollments, faculty research grants, and private gift support. At the same time, the CFO will focus on the strategic allocation of resources using forecasting and modeling tools.

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