

BUDGET ASSESSMENT PROJECT FY2009
EXECUTIVE SUMMARY
April 19, 2010

Introduction

The Division budget officers, the Assistant Vice President for Finance, the Director of Budget and Financial Planning, and the Chief Budget Officer compiled the information necessary to complete the following annual Budget Assessment Reports.

- a. Budget reductions from last year and impact*
- b. Carry forward balances*
- c. Cash and institutional ratios*
- d. Review and compare the FY2008-09 Budget to the FY2009-10 Budget*
- e. Student Fee Trust Fund estimates and Summer Funding*
- f. Division Sources and Uses of Funds*

Results and Conclusions

Despite additional budget reductions in FY2009 for the 2010 year, the University continues to operate in sound financial condition. This report is an update on the research questions first addressed in Spring 2009. For greater clarification on any given area, additional information and detail can be located in Appendix A General Information and Definitions, Appendix B NACUBO Categories, and the initial Spring 2009 Budget Assessment Report (archived on the Budget website). The significant findings related to the FY2009 Budget Assessment Reports are summarized below.

Section 1 FY09 Budget Reductions

□ The data collected verifies that the recurring cuts taken to create the FY2010 recurring budget totaled \$6,287,441. Of that amount, expenses totaling \$391,250 were moved to federal stimulus dollars and the reduction associated with summer indexes (\$197,086) was absorbed in the summer net margin distribution calculation. The remaining recurring cuts (\$5,699,107) were not taken evenly across all divisions, but instead, were distributed using the NACUBO functional categories (see Appendix B). The percentage reductions taken were as follows: academic support, 6.5%; direct instruction, 5.75%; institutional support, 10.07%; plant and operations, 10.0%; public service, 8.0%; research, 8.0%; student support, 6.75%; and utilities, 0.00%. The impact of the reductions taken by units and divisions are reported by dollar of reduction, positions eliminated or transferred to another funding source, and impact to hours of service by NACUBO functional category. Additional notes are also provided for clarification. For more details, please review the FY09-10 Budget Impact Summary.

Section 2 Carry Forward Funds

□ The University of West Florida uses a decentralized approach to the management of carry forward funds. The total E&G carry forward dollars (one-time savings) in all University accounts was \$27,748,500 as of July 1, 2009. The Central General carry forward accounts held \$5,286,077. Possible factors that contribute to cumulative carry forward reserves include the desire for decentralized reserves, some one-time non-recurring legislative appropriations, the carry forward from the strategic reserve, and the impact on spending patterns resulting from news of continuing issues in the national and state economy. This year divisions, colleges, units and departments were not asked to project their carry forward balance. Most likely due to recent economic volatility and uncertainty, last year's projections were inconsistent with eventual spending patterns and, therefore, did not seem to add significant value to the analysis. Consequently, the balances reported do not reflect encumbrances, plans, or reserves for which the funds may be committed or otherwise obligated. For more information about the distribution of carryforward funds held by the institution, please refer to the University Carryforward Trends Report.

Section 3 Cash

- All University cash is properly accounted for in Banner, there is no duplicate counting of cash, and no internal control weaknesses over cash have been cited by the State Attorney General's auditor. More information about the University's cash position is provided in the Comparative Cash 2009 Report.
- Significant cash (\$10,897,363 as of June 30, 2009) is held in Auxiliary accounts controlled by various divisions, colleges, units and departments (refer to Auxiliary Cash Report).
- While overall cash levels increased, ratio analysis shows that the overall level of unrestricted funds held by UWF remains consistent with our SUS peers. Ratios are displayed in the State University System Ratios Report.
- In FY2004, an internal University loan against the cash of the auxiliary accounts was done to finance the University's Banner ERP system. The remaining balance of that internal loan was \$938,817 as of June 30, 2009. It is expected to be repaid by mid-year FY2011. For additional information, refer to the ERP Paydown Report.

Section 4 FY09 to FY10 Budget Reconciliation

- All budget changes were accounted for in the FY09 to FY10 Budget Reconciliation Report and all Board of Governor adjustments and amendments were tied to the Board of Governors published 2009-2010 Allocation Summary and Workpapers.
- The total cuts to the recurring E&G budget approved by the state between the FY09 budget and the FY2010 were over \$9 million dollars before adjustments for increases in tuition. Recurring General Revenue was cut an additional \$7 million (12.4%) over the \$2.4 million dollar reduction announced in January, 2009 and recurring Educational Enhancement Trust Fund

(EETF) dollars were cut \$125,148 (2.2%). The state added \$4,516,518 in federal stimulus dollars (American Recovery and Reinvestment Act funds: ARRA) to the institution's budget. These funds are expected to be funded for one additional year only in the FY2011 budget. However, President Bense decided to treat about one third of the nonrecurring ARRA funds (\$1,248,138) as recurring for the purpose of planning the FY2010 budget (1.45%).

- New recurring dollars for maintenance and utilities for the Science and Engineering Building were added directly to the facilities and utilities budgets.
- The 8% tuition increase yielded an increase of \$1,241,611 in the Student Fee Trust Fund (SFTF) recurring budget and the 7% Differential tuition increase yielded \$847,400 (includes 30% restricted by statute to Financial Aid). One million dollars in enrollment growth, \$400,000 in interest, and \$91,217 for application scholarships were also booked to SFTF recurring budget for a total increase of \$3,580,228. Additional information on the changes to the recurring budget can be seen in the FY09 to FY10 Budget Reconciliation Report.

Section 5 Student Fee Trust and Summer

- The Student Fee Trust Fund (SFTF) makes up a growing percentage, nearly one-third, of the university's recurring budget. To ensure that enrollment growth is not a one-time anomaly and in an effort to be fiscally prudent, the University does not book enrollment growth for recurring budget purposes until it has been sustained for two years.
- In addition to the \$1 million enrollment growth that was booked in FY2009, the estimated Student Fee Trust yielded an additional \$889,790, of which over half was due to better than projected interest earnings. Based on enrollment data available as of February 27, 2010, the estimated FY2010 Student Fee Trust for all terms (summer enrollments and fall/spring enrollments) and interest is projected to exceed budget by \$1,975,601. Depending on the level to which the projected enrollment growth for FY2010 is sustained through the end of the year and then maintained into FY2011, additional Student Fee Trust budget may be booked for the FY2012 academic year. For further information, please refer to the Student Fee Trust Fund Revenues Report.
- The Summer Fund model approved at the May 2008 Budget Council was implemented in the fall of 2009. The Summer Net Margin was calculated and distributed for both Summer 2008 and Summer 2009. Since the initial distribution was delayed, it was agreed to forego the three year average calculation and distribute the same amount for both summers (\$953,001). If the three year average had been used for Summer 2009, the amount would have been \$832,270. The distributions for both summers were paid from the Summer Reserve carryforward index. The Summer Net Margin calculations for Summer 2007 through Summer 2009 can be seen in Summer Calculations Summary Report.

Section 6 Sources and Uses

- The Sources and Uses Reports are presented for E&G funds only, Carryforward funds only, and combined. The E&G funds only represent the four year trend by unit or division in spending their current year budgets. The Carryforward funds only reports may shed light on

how the unit or division expended their nonrecurring dollars. The combined Sources and Uses Reports are intended to show the overall utilization of funds available within a unit or division.

□ Caution should be used in analyzing these reports. Changes or fluctuations in the inflows and outflows of funds within any given year can lead to erroneous conclusions about the overall status of an individual unit or division budget situation. Clarification of anomalies should be sought prior to reaching any conclusions. However, from an overall view, these reports seem to provide further evidence that University account managers are holding salaries flat, reducing spending (e.g. travel), and postponing optional purchases (e.g. OCO) indicating a continued conservative and fiscally prudent management of funds across campus. For more information, see the Sources and Uses Reports.

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By Dr. Susan Stephenson

APPENDIX A

General Information and Definitions

At each stage the group compiled data based on a shared set of definitions to achieve the common goal of providing accurate, verifiable, comparable, useful, and understandable information.

The accuracy of the historical data was confirmed and verified by the members of the project group. Achieving comparable results was a challenging goal for the project group. Divisions fulfill different roles within the institution and have correspondingly different approaches to certain aspects of budgeting. In most cases, the project group was able to achieve a common format and provide comparable information. However, where there are differences, they are noted in the data, the analysis and this report. The ultimate goal was to provide useful information understandable to all audiences in a format that would clearly present the data collected.

Budget

The UWF Budget & Financial Planning Office publishes the Operating Budget Book for each fiscal year. The publication provides an overview and detailed accounting of how the authorization to spend Educational and General (E&G) Budget is allocated across the University. This allocation is supported by multiple sources of revenue: the Student Fee Trust Fund (SFTF), Differential Tuition, Federal Stimulus (ARRA) funds, the Educational Enhancement Trust Fund lottery funds (EETF), and General Revenue (GR).

Differential Tuition

General increases in undergraduate differential tuition represent additional tuition dollars paid by students to be used for the enhancement of undergraduate instruction. A plan for the use of differential tuition is submitted each year for approval by the Board of Trustees and the Board of Governors. Funds collected as differential tuition are used for this specified purpose and are tracked separately. Some differential tuition may from time to time be approved for segments of the student population, such as a cohort program.

Educational Enhancement Trust Fund

Another source of E&G funding is the Educational Enhancement Trust Fund (EETF). Each year, the State gives revenue earned from the state lottery to the Educational Enhancement Trust Fund. These funds are then appropriated by the state to support public schools, state universities, community colleges, Bright Futures Scholarships, and other educational projects. The portion of these revenues awarded to UWF each year may be designated as either recurring or non-recurring. This revenue source accounted for 7.1% of the FY2009 budget. Often, the non-recurring dollars are tied to a specific funding request and are not available for

general budgeting purposes. Typically only the recurring amount is included in the overall planning of the annual budget. EETF funds are not received by the University evenly over the year. The trend has been to receive these funds sporadically between December and June.

Financial Statements

Each year the University Financial Services Office prepares financial statements including management's discussion and analysis and the related footnotes and supplemental schedules for the University of West Florida. The Auditor General of the State of Florida performs an annual audit of the statements, internal controls, and other compliance matters. The University has received a clean audit opinion for the past several years with only one exception in 2004 that was related to a finding in the audited financial statements of one of the University's direct support organizations. The information from the University's financial statements is also used in preparing the Consolidated Annual Financial Report (CAFR) for the State of Florida.

General Revenue

The largest component of the annual E&G operating budget is funded by general revenue (66.1% in FY2009). It is the amount of estimated state tax revenue that is appropriated by the legislature to support public universities across the state. The amount of general revenue funds allocated to each university is based on the number of students forecast to be enrolled at each institution and a funding formula established by the state. This amount is also often discounted to then match state revenue forecasts. The cash for appropriated general revenue flows to the University in bi-monthly installments. However, when estimated state tax collections underperform projected estimates, the state, by law, must react to the deficits and balance the budget. As a result, the state may hold back a percentage of the appropriated budget forecasted for the current fiscal year or request institutions to reduce their annual budgets prior to the end of the year. This is the set of circumstances that led to the budget cuts in fiscal year 2008.

E&G Carry Forward Funds

The cash position of the University at the end of the year is greatly impacted by unexpended budget. E&G carry forward funds are the result of unspent E&G budget allocated to divisions, colleges, units, and departments. The reasons that these funds go unspent in any given year vary widely. The following is a non-exhaustive list of example events that may produce unspent budget or carry forward dollars in the divisions, colleges, units and departments across campus in any given year.

- Unallocated salary savings from a position vacated for a portion of a year.
- Residual salary savings from positions intentionally held vacant to fund planned expenditures such as adjunct salaries, OCO and operating expenses.
- Budget funds associated with expenses encumbered, but not expended near the end of the year or by contract.
- Unspent budget funds held at year-end to build carry forward to pay for things that must be funded over multiple years.

Any E&G allocated budget funds that are not expended by the division, college, unit, department or program during the academic year are moved into carry forward accounts. These accounts are prefaced in Banner by a CF designation (CFXXXX). The cumulative total of carry forward funds represent a significant portion of cash reported each year-end in the University's financial statements. While the cash is reported in total on the financial statements, the authorization to spend that cash resides with the divisions, colleges, units, departments and programs across the institution. Only a portion of that cash is controlled centrally. The planning and use of carry forward varies widely across the institution.

Nonrecurring Budget vs. Recurring Budget

Nonrecurring funds are one time allocations from the state or recurring budget dollars that are not spent in the current academic year. The State sometimes may substitute certain funding sources on a non-recurring basis. In this instance, the media may not report any cut to the state's funding of the institution, while the institution may have to take action to absorb the reduction in recurring available budget funds. Unlike recurring E&G budget, the institution does not consider the planning of recurring expenses on nonrecurring funds to be fiscally prudent. Examples of nonrecurring funds include: one-time appropriations, American Recovery and Reinvestment Act or Federal Stimulus dollars (ARRA is a 2 year appropriation only), and carryforward dollars. Carry forward dollars represent one-time savings that once spent are gone (see definition above).

Position Definitions

In order to assess the impact of the budget cuts on personnel due to eliminated positions across the divisions, colleges, units, and departments, common definitions had to be established. The definitions used to categorize eliminated positions are as follows:

"Transferred to Other Funding Source" – An amount and funding source should be entered in these columns if a position was saved by transferring the entire line or a portion of it to a permanent funding source. These columns should *not* be used to show positions that have been temporarily moved to another funding source until the line is vacated at which time the plan is to eliminate the line.

"Vacant Positions" - An amount should be entered in this column if the position eliminated was vacant or anticipated to become vacant through attrition. [Note: This column includes vacant lines that the Division intended on filling.]

"Unused Positions"- An amount should be entered in this column if the position eliminated was a vacant line that was never intended to be filled by the Division or College. [Note: "Unused" vacant positions would have represented salary savings that previously would have been used to fulfill other budget needs of the division, college, unit, or department.]

“Estimated Additional Positions Affected” - An amount should be entered in this column if a line that is not vacant (or will not be vacated through attrition) will be eliminated.

Recurring Budget

Recurring budget funds are recurring sources of revenue to fund ongoing university operations. The institution plans its recurring expenses based on the total of recurring funds. Examples of recurring funds include: recurring General Revenue from the state, recurring Educational Enhancement Trust Fund (EETF: lottery) dollars allocated by the state, and estimated collectable Student Fee Trust Fund (SFTF: tuition and interest) dollars.

Salary Savings

Salary savings are the one-time savings generated when a position is vacant or unused. Salary savings may be created by the unexpected departure of an employee or through holding open an unused position to generate one-time savings for a specified purpose.

Summer Net Margin

Each fall, the Budget and Financial Planning Office in cooperation with the Division Budget Officers calculates the net margin generated by summer enrollment. The calculation of net margin is the tuition dollars solely attributable to (all) summer enrollments less the direct instruction costs, direct instruction related summer travel costs (should be minimal), and up to \$30,000 in summer marketing. The Summer Net Margin Allocation will be based on the average of the most recent three completed summers. The Budget and Financial Planning Office processes the carryforward (nonrecurring) budget transfers for one half of the distribution amount to the Academic Affairs carry forward account and the remaining half to the other divisions as instructed by January 31st each year.

Student Fee Trust

The Student Fee Trust Fund is primarily comprised of two revenue sources, tuition and interest earnings on E&G cash (including carry forward). Each year, the state universities provide enrollment projections to the state and the state grants each university authority to spend the amount of tuition and fees as estimated by the state. At UWF, historically, the state’s estimate is higher than the University’s actual collections. As a result, UWF also prepares an estimate of the actual tuition and interest revenues anticipated to be collected in the next fiscal year. The tuition collections estimate involves a complex assessment of many variables including national factors, such as the economy, unemployment rate, and federal funding for education and local factors such as estimated number of graduating high school seniors, transfer students, student inquiries, applications, etc. UWF’s estimate is used in preparing the annual operating budget available for allocation across the divisions, colleges, units and departments of the University of West Florida. It is important to note that for most years the difference between the State authorized amount and the amount used in the UWF budget is significant. The amount for

each year is disclosed in the official published Budget & Financial Planning Operating Budget Book. Student Fee Trust Fund revenues are collected and produce cash flow over the course of the academic year with peak revenue collection at the beginning of the fall and spring semesters.

APPENDIX B

NACUBO Classification of Expenses

When presenting expenses by functional expense categories in their general purpose financial statements, public institutions should use the following functional expense classifications:

- Instruction
- Research
- Public service
- Academic support
- Student services
- Institutional support
- Operation and maintenance of plant
- Scholarships and fellowships
- Depreciation
- Auxiliary enterprises

Instruction

The instruction category includes expenses for all activities that are part of an institution's instruction program. Expenses for credit and noncredit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions should be included. This category excludes expenses for those academic personnel whose primary activity is administration—for example, academic deans.

Research

The research category includes all expenses for activities specifically organized to produce research, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution. Subject to these conditions, the

category includes expenses for individual and/or project research as well as that of institutes and research centers.

Public Service

The public service category includes expenses for activities established primarily to provide noninstructional services beneficial to individuals and groups external to the institution. Such activities include community service programs (excluding instructional activities) and cooperative extension services. Included in this category are conferences, institutes, general advisory services, reference bureaus, radio and television, consulting, and similar noninstructional services to particular sectors of the community.

Academic Support

The academic support category includes expenses incurred to provide support services for the institution's primary missions: instruction, research, and public service. It includes libraries, museums, galleries, services directly assist the academic functions of the institution, media such as audiovisual services and information technology, academic administration (including academic deans but not department chairpersons), and personnel providing administrative support and management direction to the primary missions.

Student Services

The student services category includes expenses incurred for offices of admissions and the registrar and activities with the primary purpose of contributing to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of the formal instruction program. It includes expenses for student activities, cultural events, student newspapers, intramural athletics, student organizations, intercollegiate athletics (if the program is not operated as an auxiliary enterprise), counseling and career guidance (excluding informal academic counseling by the faculty), student aid administration, and student health service (if not operated as an auxiliary enterprise).

Institutional Support

The institutional support category includes expenses for central, executive-level activities concerned with management and long-range planning for the entire institution, such as the

governing board, planning and programming operations, and legal services; fiscal operations, including the investment office; administrative information technology (when not accounted for in other categories); space management; employee personnel and records; logistical activities that provide procurement, storerooms, and printing; transportation services to the institution; support services to faculty and staff that are not operated as auxiliary enterprises; and activities concerned with community and alumni relations, including development and fund raising.

Operations and Maintenance of Plant

The operation and maintenance of plant category includes all expenses for the administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant. They include expenses normally incurred for such items as janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture, and equipment; care of grounds; maintenance and operation of buildings and other plant facilities; security; earthquake and disaster preparedness; safety; hazardous waste disposal; property, liability, and all other insurance relating to property; space and capital leasing; facility planning and management; and central receiving. This category does not include interest expense on capital-related debt.

Special Thanks to ...

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