

University of Maine System

INTERNAL FINANCIAL REPORTING

**FINANCIAL ANALYSIS OF
FY2010 UNRESTRICTED OPERATIONS &
STATE FISCAL STABILIZATION FUNDS**

FOR YEAR ENDED JUNE 30, 2010



*Maine's
Public
Universities*

UNIVERSITY OF MAINE SYSTEM

**UNIVERSITY OF MAINE SYSTEM
FY2010 UNRESTRICTED OPERATIONS & STATE FISCAL STABILIZATION FUNDS
HIGHLIGHTS**

For FY2010, UMS experienced a positive net increase from unrestricted operations of \$29.7 million. It should be noted, however, that this includes the receipt of \$7.2 million in State Fiscal Stabilization Funds from the American Recovery and Reinvestment Act (ARRA) and \$7.0 million more than budgeted in Temporary Investment Income.

Operating Results by university: UMaine \$6.5 million, UMA \$842 thousand, UMF \$1.7 million, UMFK \$44 thousand, UMM \$189 thousand, UMPI \$742 thousand, and USM \$5.1 million. Operating results exceeded budget at all campuses including UMFK which had originally budgeted an operating loss of \$96 thousand. Without the receipt of State Fiscal Stabilization Funds, however, UMFK would have experienced a loss and the positive operating results would have been reduced at all other universities.

Major factors impacting the year-end results:

- On November 20, 2009, the Governor issued an executive order curtailing appropriation allotments. This resulted in a \$6.0 million reduction in FY2010 appropriation for UMS.
- UMS received \$7.2 million in State Fiscal Stabilization Funds which were applied to allowable expenditures. These funds helped mitigate the loss of State Appropriation and were a key factor in positive year-end results.
- FTE average enrollments for Fall 2009 and Spring 2010 were above budget at all universities except UMFK. Overall annual residential occupancy, however, was 4.0% or 277 occupants below budget with 5 of the 6 universities experiencing a negative variance.
- The System realized \$9.0 million in temporary investment income, net of distributing earnings of \$1.0 million to the universities and other expenses, or \$7.0 million above budget. Of this excess revenue, \$5.0 million has been transferred to a Budget Stabilization Fund which may be utilized to mitigate deficit reserves and/or to hedge against future economic downturns. The remaining \$2.0 million may be used for one-time strategic investments. In comparison, in FY2009 the System had budgeted \$4.5 million in temporary investment and experienced a loss of \$3.2 million for a total budget-to-actual negative variance of \$7.7 million
- Healthcare claims were less than budgeted and were the primary factor in the \$5.0 million over-recovery in the allocation of departmental benefit costs. Due to the nature of self-insured health benefit programs, it has been recommended that the University of Maine System maintain benefit reserve levels equalling three to six months of benefit and expense payments. Therefore, these excess funds have been transferred to the Benefit Reserve.

Although the University of Maine System experienced positive operating results in FY2010, there is still the potential for State Appropriation reductions in FY2011 and FY2012. While the State Fiscal Stabilization Funds did mitigate the loss of State Appropriation in FY2010, these funds do not provide a permanent solution to eroding State financial support. As healthcare costs continue to be of concern, the Employee Health Plan Task Force is studying best practices, emerging trends, and changes in the environment affecting the cost of employee healthcare. A portion of the fuel and electricity savings during FY2010 were attributable to the mild winter weather and may not be repeated during the 2010-2011 winter season. Further enrollment declines resulting from changing demographics and a slow economic recovery are possible; however, the System has engaged Noel-Levitz to conduct a comprehensive study of markets, strategic pricing, and financial aid to improve access and affordability.

University of Maine System
FY2010 RESIDENTIAL HALL OCCUPANCY & FTE ENROLLMENT

	FY2009 ACTUAL	FY2010 BUDGET	FY2010 ACTUAL	VARIANCE	
				#	%
Residential Hall Occupancy					
UM	3,742	3,648	3,492	(156)	(4.3%)
UMA	-	-	-	-	-%
UMF	1,044	1,050	1,016	(34)	(3.2%)
UMFK	193	200	166	(34)	(17.0%)
UMM	254	241	242	1	0.4%
UMPI	300	301	279	(22)	(7.3%)
USM	1,460	1,441	1,409	(32)	(2.2%)
Total	6,993	6,881	6,604	(277)	(4.0%)
FTE Enrollment					
<u>Fall</u>					
UM	9,620	9,122	9,653	531	5.8%
UMA	2,639	2,642	2,777	135	5.1%
UMF	1,964	1,889	1,954	65	3.4%
UMFK	753	791	733	(58)	(7.3%)
UMM	575	539	561	22	4.1%
UMPI	1,102	1,043	1,062	19	1.8%
USM	7,035	7,035	6,971	(64)	(0.9%)
Total	23,688	23,061	23,711	650	2.8%
<u>Spring</u>					
UM	9,066	8,508	8,917	409	4.8%
UMA	2,513	2,513	2,698	185	7.4%
UMF	1,834	1,721	1,851	130	7.6%
UMFK	671	705	694	(11)	(1.6%)
UMM	576	546	583	37	6.8%
UMPI	956	944	941	(3)	(0.3%)
USM	6,549	6,549	6,621	72	1.1%
Total	22,165	21,486	22,305	819	3.8%
<u>Average</u>					
UM	9,343	8,815	9,285	470	5.3%
UMA	2,576	2,578	2,738	160	6.2%
UMF	1,899	1,805	1,903	98	5.4%
UMFK	712	748	714	(35)	(4.6%)
UMM	576	543	572	30	5.4%
UMPI	1,029	994	1,002	8	0.8%
USM	6,792	6,792	6,796	4	0.1%
Total	22,927	22,274	23,008	735	3.3%

University of Maine System
Unrestricted Operations & State Fiscal Stabilization Funds
FY2010
(\$ rounded in thousands)

	FY2009	FY2010	FY2010	VARIANCE	
	ACTUAL	BUDGET	ACTUAL	\$	%
Operating Revenue					
Tuition & Fee Revenue	\$239,420	\$241,904	\$252,442	\$10,538	4.4%
Dining & Residence Revenue	59,691	59,408	58,763	(645)	(1.1%)
Tuition Waivers/Scholarships	(37,780)	(42,095)	(41,160)	935	2.2%
Net Student Charges Revenue	261,331	259,217	270,045	10,828	4.2%
State Appropriation	177,657	178,930	172,960	(5,970)	(3.3%)
State Fiscal Stabilization Funds - ARRA	6,566	6,748	7,152	404	6.0%
Other Income	73,198	66,483	86,101	19,618	29.5%
Total Operating Revenue	\$518,752	\$511,378	\$536,258	\$24,880	4.9%
Operating Expense					
Compensation & Benefits (excl. Retiree Health)	\$312,239	\$322,396	\$307,516	\$14,880	4.6%
Retiree Health	17,804	17,353	18,880	(1,527)	(8.8%)
Fuel & Electricity	23,851	24,444	19,291	5,153	21.1%
Interest Expense	9,993	9,594	9,490	104	1.1%
Depreciation	25,618	27,521	27,258	263	1.0%
Other Expenses/Transfers	121,646	120,176	123,982	(3,806)	(3.2%)
Total Operating Expense	\$511,151	\$521,484	\$506,417	\$15,067	2.9%
Net Increase (Decrease) from Operations	\$7,601	(\$10,106)	\$29,841	\$39,947	
Modified Cash Flow					
Net Increase (Decrease) from Operations	\$7,601	(\$10,106)	\$29,841	\$39,947	
Plus Depreciation	25,618	27,194	27,258	64	
Less Capital Expenditures & Reserve Funding	(10,040)	(6,405)	(16,874)	(10,469) ¹	
Less Debt Service Principal	(14,894)	(9,712)	(10,537)	(825)	
Net Change	\$8,285	\$971	\$29,688	\$28,717	

¹ One-time funding from increased revenues and cost savings utilized to partially fund major approved capital projects including Boiler #8 & Stewart New Media Center at UMaine and the Dental Clinic and Gannett Building at UMA. Also reflects energy savings being re-directed into energy efficiency projects.

University of Maine System
Unrestricted Operations & State Fiscal Stabilization Funds
FY2010
(\$ rounded in thousands)

	FY2009 ACTUAL	FY2010 BUDGET	FY2010 ACTUAL	VARIANCE	
				\$	%
Operating Revenue					
UM	\$255,018	\$242,396	\$251,816	\$9,420	3.9%
UMA	35,739	35,142	38,020	2,878	8.2%
UMF	37,592	38,080	38,703	623	1.6%
UMFK	12,223	12,690	12,288	(402)	(3.2%)
UMM	10,738	10,588	10,649	61	0.6%
UMPI	16,562	15,967	16,911	944	5.9%
USM	138,784	139,062	143,369	4,307	3.1%
System-Wide Services	12,094	17,453	24,502	7,049	40.4%
Total Operating Revenue	\$518,750	\$511,378	\$536,258	\$24,880	4.9%
Operating Expenditures (includes debt service principal and capital expenditures utilizing operating funds)					
UM	\$249,607	\$241,973	\$245,325	(\$3,352)	(1.4%)
UMA	35,244	34,831	37,178	(2,347)	(6.7%)
UMF	36,789	38,080	36,981	1,099	2.9%
UMFK	12,825	12,786	12,244	542	4.2%
UMM	10,723	10,548	10,460	88	0.8%
UMPI	16,388	15,838	16,169	(331)	(2.1%)
USM	137,265	138,898	138,222	676	0.5%
System-Wide Services	16,241	17,453	14,974	2,479	14.2%
Employee Benefits	(4,617)	0	(4,983)	4,983	-%
Total Operating Expenditures	\$510,465	\$510,407	\$506,570	\$3,837	0.8%
Net Change					
UM	\$5,411	\$423	\$6,491	\$6,068	
UMA	495	311	842	531	
UMF	803	0	1,722	1,722	
UMFK	(602)	(96)	44	140	
UMM	15	40	189	149	
UMPI	174	129	742	613	
USM	1,519	164	5,147	4,983	
System-Wide Services	(4,147)	0	9,528 ^(a)	9,528	
Employee Benefits	4,617	0	4,983 ^(b)	4,983	
Net Change	\$8,285	\$971	\$29,688	\$28,717	

(a) Investment income net of expenses was \$7.0M above budget. \$5.0M of excess transferred to the Budget Stabilization Fund

(b) Favorable healthcare claims experience

FY2010 UNRESTRICTED OPERATIONS AND STATE FISCAL STABILIZATION FUNDS

UMaine - \$6.5 Million Net Increase

- The \$6.5 million net change in cash results from the following:

E&G	\$2,308,089
Auxiliaries	\$2,119,870
Cost Sharing	\$ 756,268
Designated	\$ (19,697)
Unrestricted Federal	\$ 373,141
Campus Projects	\$ 953,349

- Total operating revenue was \$9.4 million (3.9%) over the base budgeted amount.
- Net Student Charges Revenue was 5.1% above budget which reflects a 4.5% increase in Tuition and Fee Revenue and a 1.6% increase in budgeted Dining & Residence Revenue. This was all due to an increase in actual credit hour enrollment of 5.4% over budget (including summer enrollments).
- The campus continues to carefully monitor and project student enrollment as larger upper level classes graduate and leave the University and as continuing students struggle to pay off current balances in order to be able to register for upcoming semesters.
- UMaine's share of the state appropriation curtailment was \$3.0 million or a 3.6% reduction in appropriation. Due to receipt of State Fiscal Stabilization Funds, UMaine was able to redirect E&G funds to offset the FY2011 state appropriation curtailment.
- Total operating expenses were \$1.0 million (0.4%) below budget as departments continued to curtail their expenditures in anticipation of FY2011 reductions to base budgets.
- Due to a relatively mild winter season and excellent fuel and electricity contracts, UMaine realized a 14.6% positive variance in utility expenditures. UMaine continues to focus on concerted and aggressive conservation efforts. Any savings in this category were used for heating-related capital improvements with on-going paybacks.
- Central one-time funding from increased revenues and utility savings was used to set aside partial funding for two approved major capital projects (Boiler#8 and Stewart New Media Center).

UMA - \$842 Thousand Net Increase

- Net Student Charges Revenue was 14.1% above budget due to the unprecedented growth in FY2010 enrollment. The average Fall 2009 and Spring 2010 FTE enrollment exceeded budget by 6.2%.
- UMA's share of the state appropriation curtailment was \$0.5 million; the curtailment was offset by the utilization of State Fiscal Stabilization Funds.
- Fuel & electricity costs were \$0.2 million or 18.9% below budget as the result of conservation efforts, mild winter weather, and lower fuel rates.
- Total operating expenses were \$0.8 million or 2.3% above budget due to the increased cost of instruction delivery associated with the increased enrollment and the lifting of some spending restrictions at the end of FY2010 as tuition revenue and appropriation curtailment amounts were known.
- One-time funding of \$1.6 million from increased revenues is being utilized to fund future capital projects including the Dental Clinic and Gannett Building.

UMF – \$1.7 Million Net Increase

- Total operating revenue was \$0.6 million (1.6%) above budget. Net student charges exceeded budget by \$0.5 million (2.2%) as the average Fall 2009 and Spring 2010 FTE enrollment was 5.4%. above budget. UMF also experienced a strong May term.
- UMF's share of the state appropriation curtailment was \$0.4 million.
- Total operating expenses were \$1.4 million (3.7%) below budget due primarily to energy savings and position vacancies. Fuel and electricity costs were \$0.5million or 25% below budget as the purchase price for oil was \$1.30 per gallon less than budgeted.
- Increased operating revenues and energy savings allowed UMF to make additional investment in both capital and non-capital energy conservation projects.

FY2010 UNRESTRICTED OPERATIONS AND STATE FISCAL STABILIZATION FUNDS

UMFK – \$44 Thousand Net Increase

- UMFK's net change was a positive \$44 thousand as compared with an overall budgeted loss of \$96 thousand for a positive variance of \$140 thousand.
- Despite a 6.3% (16 FTE) increase in recruitment, fall enrollments were still 7.3% (58 FTE) below budget and 2.7% (20 FTE) below Fall 08 levels as Canadian enrollments continued to decline. Spring enrollments were only 1.6% or 11 FTE below budget. The average Fall 2009 and Spring 2010 FTE enrollment was 4.6% (35 FTE) below budget.
- Total operating revenue was \$0.4 million (3.2%) below budget due to below-budget enrollments which also impacted Dining and Residence revenues as residential hall occupancy was 34 students or 17% below budget.
- UMFK's state appropriation was not curtailed; \$0.2 million in State Fiscal Stabilization Funds was utilized.
- Total operating expenses were \$0.6 million (4.3%) below budget. Compensation savings (3.6%) were realized by the elimination of 2 positions, reduction of 2 positions to part-time, vacancy savings, and voluntary salary reductions by some administrators. Energy savings of \$0.3 million (34.7%) were achieved as the result of energy improvements and a mild winter. All departments were required to perform spending curtailments to generate cost savings.

UMM – \$189 Thousand Net Increase

- The average Fall 2009 and Spring 2010 FTE enrollment was 5.4% above budget. Net Student Charges Revenue was \$0.2 million or 2.7% below budget as unrestricted tuition waivers and scholarships exceeded budget by \$0.4 million (32.3%) due to the increased enrollment and mix of need-based students. Total operating revenue, however, was \$61 thousand (0.6%) above budget.
- Residential hall occupancy was 0.4% above budget. Auxiliary operations, however, experienced an operating loss of \$0.2 million, but this was offset overall by positive operating results in other unrestricted funds.
- UMM's state appropriation was not curtailed; \$0.2 million in State Fiscal Stabilization Funds was utilized.
- Fuel and electricity costs were \$0.1 million or 13.3% below budget due to a mild winter and energy efficiencies. Total operating expenses and capital expenditures from unrestricted sources were \$0.1 million or 0.8% below budget.

UMPI – \$742 Thousand Net Increase

- Total Operating Revenue was \$0.9 million (5.9%) above budget. Net Student Charges Revenue was 5.2% above budget due primarily to strong summer enrollments.
- UMPI's state appropriation was not curtailed; \$0.2 million in State Fiscal Stabilization Funds was utilized.
- Fuel & electricity costs were \$0.4 million (36.6%) below budget as a result of a mild winter and savings from the wind turbine.
- Total Operating Expenses were \$0.2 million (1.3%) above budget due primarily to increased activities in conferences and special programs, including Gentile Hall activities which were offset by additional revenues.
- Increased operating revenues allowed UMPI to earmark approximately \$0.3 million for future capital improvement projects.

FY2010 UNRESTRICTED OPERATIONS AND STATE FISCAL STABILIZATION FUNDS

USM – \$5.1 Million Net Increase

- Total operating revenues were \$4.3 million (3.1%) more than the base budget. Revenue from Net Student Charges was \$2.0 million (2.5%) above budget due to increases in academic year graduate level enrollments and summer enrollment increases. FY2010 grant and contract activity increased from previous years and resulted in indirect cost recovery exceeding budget by \$1.5 million. Computer sales and non-credit activities account for the remainder (\$0.8 million) of this positive variance.

- USM utilized State Fiscal Stabilization Funds (\$2.4 million) for instructional related expenses. This funding allowed USM to reallocate Educational & General funds to offset the \$1.5 million state appropriation curtailment and cover other one-time expenses.

- Total Operating Expenditures, including debt service and capital expenses, were \$0.7 million (0.5%) less than budgeted. During FY2010, energy savings attributable to an unusually mild winter, favorable energy prices, and efficiencies (\$1.6 million) were redirected to support facility upgrades, maintenance to HVAC delivery systems, and building envelop improvements. As a result of other one-time savings, USM completed repayment of the UMS Internal Loan for Working Capital three years ahead of schedule.

System-wide Services – \$2.5 Million Net Increase

- System-wide Services' share of the state appropriation curtailment was \$0.6 million or a 4.1% reduction in budgeted appropriation. System-wide Services did not receive State Fiscal Stabilization Funds to mitigate this reduction.

- System-wide Services' increase reflects the closeout of a long-term fixed price contract with the State of Maine Department of Education and the Maine State Library Network whereby UMS provided specific network and communication services. The System's accumulated net earnings from this contract (\$1.6 million) had previously been classified as "restricted". Upon termination of this contractual arrangement at the end of FY2010, the \$1.6 million was reclassified as "unrestricted" and transferred to SWS unrestricted operations. These funds are being placed in an unrestricted reserve for strategic IT initiatives.

- Compensation & Benefits were \$0.6 million (4.1%) below budget due to unfilled vacancies.

- Business Insurance was \$0.2 million below budget. These savings were placed in the Risk Management Reserve to mitigate future insurance claims and reduce premium costs.

- Various other expenses were \$1.0 million below budget and include savings in areas such as equipment/software maintenance, postage, telecommunications, fuel and electricity, rentals, office supplies, and travel.

- Capital expenditures exceeded budget by \$0.3 million with investments in the IT Data Center and back-up system.

System Temporary Investment Income- \$7.0 Net Increase

- Temporary Investment Income (net of \$1.0 million in earnings distributed to the universities, fees, and costs funded by this income source) totaled approximately \$9.0 million or \$7.0 million above budget.

- Of the \$7.0 million in excess funds, \$5.0 million has been transferred to the Budget Stabilization Fund which may be utilized to mitigate deficit reserves and/or to hedge against future economic downturns.

- The remaining \$2.0 million may be utilized for future one-time strategic investments.

System-wide Employee Benefits – \$5.0 Million Net Increase

- Healthcare claims were less than budgeted and were the primary factor in the \$5.0 million over-recovery in the allocation of departmental benefit costs during FY2010. Due to the nature of self-insured health benefit programs, it has been recommended that the University of Maine System should maintain benefit reserve levels equalling three to six months of benefit and expense payments. Therefore, these excess funds have been placed in the Benefit Reserve.