

Principles

Principles are a formalized method for communicating the university's resource management and allocation strategy and serve as a forum for discussions.

Illustrative Principles

- The budgeting process and decision will be sensitive to the key aspects of University's culture and remain committed to its core academic capabilities
- All budgeting decisions will be made in adherence to the University's strategic plan
- The maximization of all revenues, the management of expenses, and the inter-relation of the two will be central to the budgeting process
- Full costing will be used for all revenue generating departments as means of understanding the university's internal economy (self-sufficiency vs. subsidization)
- "Growth by substitution" will be used to ensure incremental resources are devoted to strategic initiatives in all years
- All budgetary decisions and reasoning will be communicated clearly and systematically in a transparent reporting process
- The operating, capital, and new initiatives budgeting processes will be combined into a single, multi-year budgeting process

Principles can serve as a first step in communicating a transition from the current budgeting processes to a new budget process.

Principle Rationale & Implementation Difficulty

Effective communication regarding the benefits, rationale, and considerations of each principle will be needed to build consensus and support for the principles.

| Principle | Rationale | Considerations | |
|-------------------------------|--|----------------|-------------|
| | | Risk | Change |
| Mission | Ensures key stakeholders of our commitment to the University's mission and academic culture | Low | Limited |
| Strategic Plan | The strategic plan is a representation of university goals, and the new strategic plan is being created with broad input and support; this principle ensures that resource allocations align with these goals, input and support | Low | Limited |
| Revenue and Expenses | Budgeting both revenue and expenses promotes departmental ownership and accountability while simultaneously providing optimal incentives for efficiency | Medium | Substantial |
| Full-Costing | Encouraging revenue generating departments to obtain an appropriate level of self-sufficiency, fosters effective, entrepreneurial management across all departments and it identifies subsidies, providing for easy alignment with strategic initiatives | Medium | Substantial |
| Growth by Substitution | Ensures that as a University, we do not neglect our strategic initiatives in turbulent fiscal time, rather we will find lower priorities initiatives to cut so investments can be made in each and every year | High | Moderate |
| Transparency | Full transparency provides the highest level of accountability of decisions, where accountability is defined as accountability to the university's strategic initiatives | Medium | Moderate |
| Integration | Combining the budgeting processes encourages a holistic, strategic view of the budget while maintaining a multi-year budget establishes long-term planning | Medium | Moderate |

Obtaining agreement and buy-in for these medium/high risk principles and moderate/substantial changes will be integral to a successful transition.

Illustrative Principles

The principles adopted by the Medical University of South Carolina are summarized below as illustrative; the full principles and action steps are provided in the appendix.

- Be Transparent: budgets should be clear and “self-explanatory”
- Match budget categories to financial statements (for simplicity of final performance reports)
- Budget all funds (both restricted and unrestricted)
- Balance responsibility with authority
- Balance local with central authority to assure resources for university-wide priorities
- Enable entrepreneurship
- Reward positive financial performance, require payments of deficits
- Balance academic quality issues with budget incentives

Illustrative Principles

The principles adopted by the University System of New Hampshire are summarized below as illustrative; the full principles and action steps are provided in the appendix.

- Financial planning/budgeting/reporting and all Trustee and management actions will be aligned with approved and well understood USNH and institutional strategic plans and a realistic view of resources available over time.
- The goals and objectives of the strategic plans will support vibrant, agile and financially healthy USNH institutions capable of sustaining a strong competitive market position.
- Timely decision-making and prudent delegation of authority and responsibility will occur according to a well-documented structure so that Trustees, Chancellor and Presidents know their responsibilities, the limits of their authority, and will be held accountable for their performance.
- USNH will have a financial planning/budgeting/reporting process that results in simple but comprehensive, transparent, fully integrated plans, budgets and reports that will aid Presidents, Chancellor and Trustees in making resource allocation decisions and responding timely to opportunities and emergencies.
- Trustees, Chancellor and Presidents with their institutions will develop plans and budgets that are strategic, challenging but achievable, measurable, accurate, and result in long-term attainment of the mission and solid financial health.
- The Chancellor and Presidents will foster an environment that rewards entrepreneurialism and results, but that also identifies, mitigates, and manages major enterprise risks, including threats and opportunities.
- The annual budget/planning process will provide adequate time for Trustees, Chancellor and Presidents to provide input on important decisions that shape the budget.

Appendix: Selected Principles

Funds Flow Committee
Budgetary Principle Action Steps

P1: Transparency and Integrity (encompasses timeliness, accuracy and completeness)

Transparency

- 1) Decision-makers should have timely, accurate and complete information before them in order to make budget decisions.
- 2) The bases for budget decisions should be effectively communicated to stake holders:
 - A budget calendar should be published online and kept up to date
 - Financial input should be solicited in a timely manner
 - Goals and objectives should be tied to the budget
 - A consistent budget communication vehicle should be developed and utilized (e.g., dashboards, the operating budget)
 - A feedback mechanism should be established

Integrity

- 1) Revenue and expenditure estimates should be based on a set of reasonable, agreed-to assumptions
- 2) Allocation methodologies should be based on reasonable and measurable criteria

P2: Authority commensurate with responsibility and accountability

- 1) Individual units are responsible for maintaining balanced budgets, accomplished thru:
 - Management of revenue
 - Management of expenses
 - Payment for all University delivered services
- 2) To accomplish #1, individual units must have:
 - Ability to raise revenue thru setting of tuition fees and # of students within certain limits
 - Ability to raise revenue thru billing for services delivered both within and outside the University
 - Revenue sharing formulas that incentivize new revenue (see P5)
 - Ability to control expenditures based on usage based charges for services purchased from within and outside the University
 - Ability to control expenditures based on flexible faculty and non-faculty staffing within the MUSC state mandated or contractual guidelines
 - Ability to control expenditures thru management of internal programs

“Individual Unit” – can be defined at any level depending on the characteristics of the revenue and expenses within the institution.

P3: Flexible, Scalable, Translatable

- 1) There should be a common format of financial information that encompasses all MUSC entities(University, MUHA, MUSC Foundation, UMA, FRD)
- 2) Ideally the data should be able to be integrated into these other entity’s financial management systems without requiring rekeying the data from system generated reports

- 3) Financial information should include reserves as well as revenue, expenses and transfers
- 4) To the extent possible, terminology should be easily recognizable by management level users, not just those used by MUSC accountants/finance staff
- 5) Any contingencies, restrictions or limitations on funds' use should be clearly delineated (i.e., the degree to which the funds are fungible).

P4: Balance between Central and Local Budget Authority (ensure institutional priorities can be funded)

- 1) Establish agreement on benchmarks used by central administrative units to establish funding needs for those units.
- 2) Establish agreement about the scope of services to be provided by the administrative units.
- 3) Establish agreement that should the scope of services be changed either by local, state or federal requirements, or by the Resource Center, the costs associated with providing those services will be paid by resource centers as appropriate.
- 4) Develop a financial oversight group or other mechanism to review the model and determine whether adjustments are needed to accomplish its intended outcomes.
- 5) Discussion should next focus on central mechanisms for strategic infusion of resources for university-wide initiatives.

P5: Incentive Driven (enable entrepreneurship)

- 1) Opportunities for incentives & entrepreneurial activities should be available
 - Rationale: entrepreneurship should be encouraged, regardless of the resources available to any specific area.
- 2) The budget model should support this equality in opportunity.
- 3) Entrepreneurialism may not necessarily result in a profit, but must produce an overall net benefit to the institution.
 - Rationale: We should promote entrepreneurship broadly. It may mean that a unit or department may lose money or resources, but the institution as a whole gains; or we may be entrepreneurial in how we use resources, allocate resources, etc., that results in cost savings or other efficiencies.

P6: Enables Forecasting and Strategic Planning

- 1) Combine academic and budget planning at multiple levels of the university and adopt a common fiscal forecasting tool
- 2) Provost working with the Vice President for Administration and Finance to implement a fiscal forecasting tool as a routine strategic initiative.



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Framework for Shared Vision of USNH Future State Financial Planning/Budgeting/Reporting

Introduction

The current planning and budgeting processes throughout USNH have worked well for the past several years as evidenced by the relatively strong financial health of USNH and the institutions. However, the current economic climate, coupled with more complexity and risk, now requires a greater level of clarity, integration, collaboration, and planning. As such, it has become more important than ever to ensure that the budgeting process is reflective of Trustee, system and campus goals. The following document outlines suggested approaches to achieve a desired future state through a set of guiding principles and a shared vision for the USNH financial planning/budgeting/reporting cycle. It is the intent of this document to define and document the framework of the desired future state that can be supported by the three primary groups of stakeholders – Trustees, Chancellor, and Presidents.

Guiding Principles

Trustees, Chancellor and Presidents should first agree on guiding principles and a shared vision for planning/budgeting/reporting. Suggested tenets of the vision include:

- Financial planning/budgeting/reporting and all Trustee and management actions will be aligned with approved and well understood USNH and institutional strategic plans and a realistic view of resources available over time.
- The goals and objectives of the strategic plans will support vibrant, agile and financially healthy USNH institutions capable of sustaining a strong competitive market position.
- Timely decision-making and prudent delegation of authority and responsibility will occur according to a well-documented structure so that Trustees, Chancellor and Presidents know their responsibilities, the limits of their authority, and will be held accountable for their performance.
- USNH will have a financial planning/budgeting/reporting process that results in simple but comprehensive, transparent, fully integrated plans, budgets and reports that will aid Presidents, Chancellor and Trustees in making resource allocation decisions and responding timely to opportunities and emergencies.
- Trustees, Chancellor and Presidents with their institutions will develop plans and budgets that are strategic, challenging but achievable, measurable, accurate, and result in long-term attainment of the mission and solid financial health.

- The Chancellor and Presidents will foster an environment that rewards entrepreneurialism and results, but that also identifies, mitigates, and manages major enterprise risks, including threats and opportunities.
- The annual budget/planning process will provide adequate time for Trustees, Chancellor and Presidents to provide input on important decisions that shape the budget.

Proposed Future State Financial Planning/Budgeting/Reporting Cycle

The proposed future state financial planning/budgeting/reporting cycle follows a six-step process as depicted in Exhibit A and as detailed below. These steps are accomplished on an annual cycle but in any one year there are three years / various stages of the cycle: the past year, the current year, and the future year. The approximate timing and sequence of these steps is depicted in Exhibit B.

Step 1 – Trustees formalize commitment to enterprise-level mission and goals and institutional strategic plans based on recommendation of Chancellor and Presidents

For example, Trustees could reinforce and refine their commitment to:

- Promote achievement of the USNH mission, the Presidents’ first quartile goals, and the institutions’ approved strategic plans.
- Ensure USNH as a whole remains financially prudent and responsible, as evidenced in part by its current Aa3/A+ bond ratings, to allow it to maintain its reputation for strong financial management and respond to emergencies and opportunities.
- Endorse criteria established at the September 2010 Financial Affairs Committee Work Session for Presidents’ annual recommendations for institution-specific, mission-driven, market-based cost of attendance that will allow their institutions to meet the following overarching goals:
 1. Campus budgets must demonstrate programs of maintaining and increasing quality (to be defined in Step 2 below).
 2. Campus budgets must demonstrate affordability and market competitiveness of student cost of attendance (for in-state and out-of-state students) and optimization of tuition net of financial aid.
 3. Campus budgets must demonstrate financial performance by meeting specific financial objectives (to be defined in Step 2 below).
 4. Campus budgets must demonstrate that they are institution mission-driven and strike an appropriate balance between non-resident and resident enrollment.

Step 2 – Trustees, Chancellor and Presidents agree on objectives to assure USNH attains the goals

- A. Based on agreed upon goals in Step 1, the Chancellor and Presidents recommend measurable and achievable objectives to assure USNH and its institutions attain the goals. For example, annual and long-term targets will be set for campus and USNH-wide strategic indicators such as UNA to debt, Operating Margin, Facilities Condition Index, etc. Institutional success will also be measured by progress towards meeting agreed upon measurements of top quartile peer institutions.
- B. In addition, the Chancellor, with significant counsel from Presidents, recommends the major global planning parameters necessary to begin the distributed annual budgeting process. The parameters

include anticipated state appropriation, salary and benefits, general inflation, and similar major budget drivers. Trustees approve the global planning parameters prior to moving to Step 3.

Step 3 – Chancellor and Presidents develop annual budget and 3-year projections to achieve objectives

- A. Management recommends tuition, fees and room and board (“cost of attendance”) rates using the criteria in 1.-4. in Step 1 and the planning parameters in Step 2B. above. Trustee approval occurs early enough to maximize marketing effectiveness and financial aid packaging efficiency.
- B. Management develops an annual budget and 3-year projections that support attainment of the strategic indicators based on Trustee-approved goals and objectives set in Steps 1 and 2 above. The budget will include the cost of attendance rates from Step 3 A and will be approved by Trustees one to two months prior to the beginning of the new fiscal year.. By definition, this has to be an "all funds" budget and, as such, will be in a format that allows prediction of the final audited financial statements, including the balance sheet. This requires an online, distributed enterprise performance management system. The budget is the detailed management plan that allows management to successfully meet Trustee goals and objectives, among other things. The budget also serves as a management control that will enable management to make mid-year corrections to assure attainment of Trustee goals and objectives.

Step 4 – Management monitors progress against the budget and strategic indicators and adjusts as necessary

Monthly reports enable management to tell if institutions are on track to accomplish the broad objectives set out at the beginning of the year. Only a high-level, USNH consolidated (not campus-specific) summary budget to actual financial report is appropriate for quarterly (10/31, 12/30, 2/28, and 5/31) reporting to support Trustee fiduciary responsibilities. The high-level USNH activities statement and balance sheet is supplemented by narratives and graphics to communicate campuses' progress toward their objectives. Over time, a graphical dashboard may be developed to assist in communicating important performance measures. Management will analyze results and current year forecasts and take corrective action as necessary, providing a summary thereof to Trustees on a quarterly basis.

Step 5 – Audit and compare results to audit

External audit of management's numbers ensure Trustees are getting complete, accurate, relevant and timely financial information. Trustees hold management accountable to compare audited numbers to the approved current budget to determine reasons for variances and areas where improvement can be made in management, budgeting and projecting.

Step 6 – Validate and revise goals and objectives as necessary, then begin the process all over again

Validate the propriety of Trustee-approved goals and objectives through ongoing, independent, objective reviews, such as Moody's rating reviews, IPEDS comparisons, NACUBO endowment benchmarking study, competitor analysis of market-share, accreditation reports, news reports and ratings, etc. Revise goals and objectives as necessary.