

STANDARD SEVEN: FINANCE

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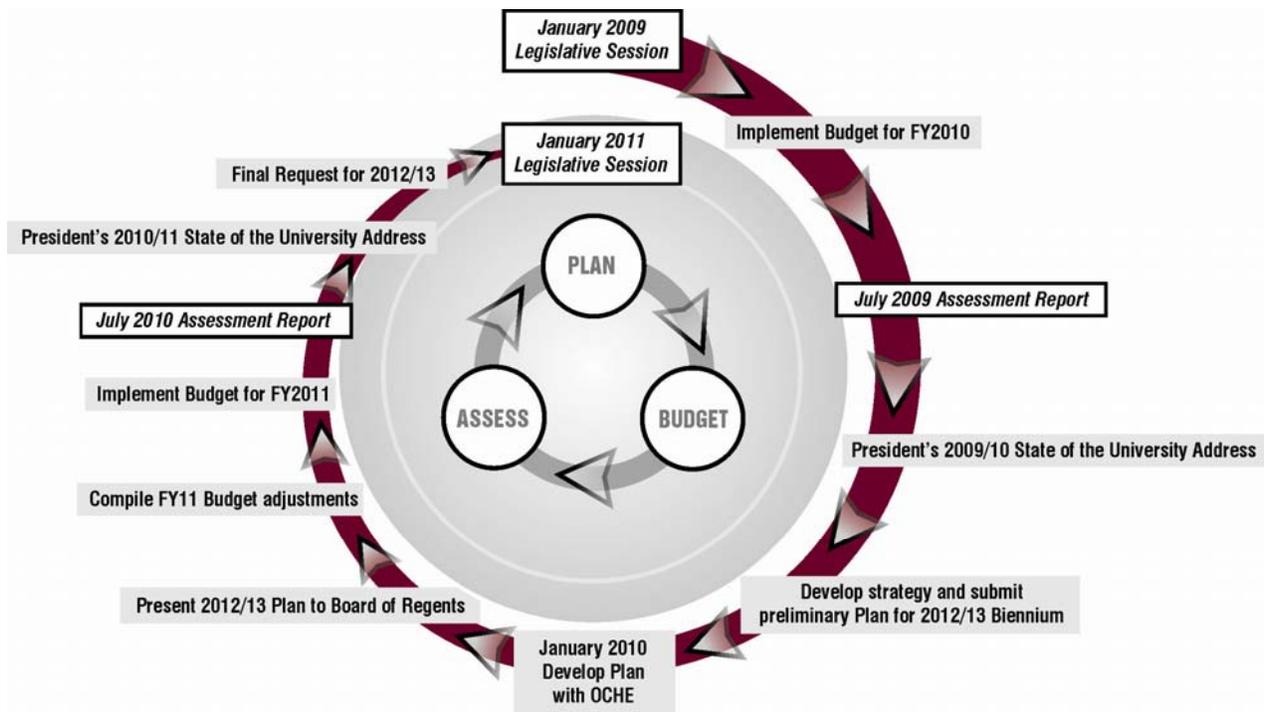
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7.A: FINANCIAL PLANNING

The University of Montana is one of two flagship campuses of The Montana University System, and operates under the governance of a seven-member state Board of Regents (BOR). The Regents, appointed by the Governor and confirmed by the Legislature, create policies and procedures to govern the campuses in the University System. In addition, under constitutionally delegated authority, the Regents set strategic planning priorities and allocate to the campuses the budget authority appropriated by the Legislature.

Within these broad parameters, the University plans and allocates resources in a proactive and participative process fully described in *Standard 1: Institutional Mission and Goals, Planning and Effectiveness*. The following illustrates the linkage between assessment, planning, and budgeting in the current and upcoming biennia.

Figure 7-01 – Planning, Budgeting, and Assessment Cycle 2009-2011



As shown, the assessment process informs planning priorities and goal setting. The President formally communicates the current conditions, upcoming priorities, and targets for achievement in the annual State of the University address. Campus planning committees compile initiatives for the upcoming biennium, submitting them for the consideration of the Board of Regents, in the year prior to the next legislative session. These priorities, as approved by the Regents, shape the agenda for the discussion with the Executive and Legislative branches of government as the Governor's budget proposal is compiled and the Legislature deliberates on the issues of the State's budget and

appropriations for the next two years.

Recently, statewide planning and budget discussions have focused on the issue of affordability; minimizing tuition increases has been the shared goal of the University, the Regents, the Governor, and the Legislature. As a result, resident tuition remained flat for FY 2008 and FY 2009, and will rise only 3% for baccalaureate and graduate students in FY 2010 and FY 2011, while two-year and certificate-seeking students will see their tuition remain flat for another biennium.

Maintaining affordability of tuition, while continuing to ensure access to the appropriate array of quality academic programs and student support, is an increasing challenge, particularly as Montana experiences its share of national and global economic difficulties. That said, the University was able to strike an accord whereby, although State appropriations were limited, and failed to fully fund the inflationary and contractual cost increases of a current services budget, the combination of continued success in strategic enrollment growth, modest tuition increases, and prudent cost-cutting in non-academic areas yielded a balanced budget that should ensure continued accomplishment of our mission.

7.A.1: Governing Boards, State Agencies, and Financial Autonomy

In preparation for the legislative session, the Commissioner of Higher Education and the Board of Regents, with input from the campuses, develop a budget request based on expected inflationary increases and initiatives for achieving the strategic goals of the system. The budget request is submitted to the Governor for funding. After receiving the request, the Governor's Office develops its own budget for the Montana University System, composed of a base (the first year's expenses in the current biennium), adding an element of current service budget adjustments (called "Present Law Adjustment") for inflation and enrollment growth, as well as general pay plan increases. Ideally, consideration is given to the Board of Regents budget request, including proposals for new funding of strategic initiatives.

As stated previously, the Montana Constitution vests in The Board of Regents of Higher Education broad authority to manage the campuses of the Montana University System. Therefore, once the Montana Legislature establishes a lump sum appropriation each biennium for the Montana University System, the Regents decide on the allocation of this lump sum among the campuses, and set the tuition rates charged by each campus. The Regents also have final approval of biennial enrollment projections submitted by the campuses, and estimates of other income. In so doing, the Regents set total spending authority for each campus. Should the campus realize additional revenue, spending in excess of the previously approved total requires additional delegated authority.

Within these parameters, campuses submit for Regents' approval summary budgets, which must support the achievement of the Regents' broad strategic goals. It is the responsibility of the campus to prepare, manage, and control detailed budgets in support of the institutional mission, and exercise stewardship to ensure fiscal stability and compliance with State and Federal law.

7.A.2: Strategic Financial Planning

Effective strategic planning, budgeting, and assessment are all components of a comprehensive resource management process critical to the ongoing success of The University of Montana. Planning is a structured process in which the University develops long-term priorities and initiatives. The loci of planning are both central and distributed. Several functional areas of focus have specialized strategic planning processes. These include campus master planning, information systems planning, and library planning, as well as strategic plans for Academic Affairs, Student Affairs, and Research. In addition, annual operating plans are prepared by all designated and auxiliary-funded operating units on the campus, as well as individual schools and colleges. These distributed planning efforts are consistent with, and under the broad leadership of, the campus planning processes centered in the Office of the President, the Executive Planning Council, and the Strategic and Budget Planning Committee.

The [Executive Planning Council](#)ⁱ (EPC), the [Strategic and Budget Planning Committee](#)ⁱⁱ (SBPC), and the [Office of Planning, Budgeting, and Analysis](#)ⁱⁱⁱ (OPBA) coordinate the planning process to ensure timely development and management of the operational budgets and plans. The EPC is made up of the President, Provost and vice presidents, and the Chair of the Executive Committee of the Faculty Senate. The function of the council includes the determination of the range of the University's operations in accordance with the University's strategic initiatives, and the development of planning parameters. The SBPC is made up of the Provost and Vice President for Academic Affairs, the University's other vice presidents, four representatives of the academic officers, six faculty members, two students, five members of the professional staff, and two members of the classified staff.

In turn, the planning process provides the basis and framework for both capital and fiscal budgeting. Budgeting, of course, involves allocating the appropriate resources to achieve these objectives. Although budgets are prepared and maintained on a fiscal (annual) basis, budget parameters are largely determined biennially. As stated earlier, tuition rates and general fund appropriations are determined by the Regents for a biennium at a time, as are student fees which effectively determine revenues for auxiliary enterprises. The illustration above highlights the fact that, in order to affect the priority-setting for the biennial process, the campus level budget planning committees must work proactively more than a year in advance of the legislative session, or nearly two years prior to the implementation of the resulting biennial budget.

Even so, the campus uses a monitoring structure to adjust operating budgets for the second year of a biennium, accounting for refinement of enrollment-related and miscellaneous revenue, updated expense estimates, and any associated required reallocation of spending authority at the program or unit level. These refinements are compiled and considered by the Strategic and Budget Planning Committee, and implemented by the Executive Planning Council, under the direction of the President. Similarly, any required mid-year adjustments follow the same process, as semester results are carefully monitored utilizing a continuous enrollment analysis/projection structure led by the Enrollment Management Council.

The Campus Development Committee, as described in *Standard 6: Governance and Administration*, is chaired by the Provost and Vice President for Academic Affairs. Membership includes the University's other vice presidents, deans, the President and

CEO of the UM Foundation, the Vice President of Development of the UM Foundation, the associate provosts, the Chief IT Officer, the Executive Director of the Alumni Foundation, the Director of Intercollegiate Athletics, the Registrar, the Director of the Montana Museum of Art and Culture, and directors of four other UM centers. The function of the council is to coordinate the long range development and fundraising activities to address facility needs, as well as endowment and scholarship needs.

The [Committee on Campus and Facilities](#)^{iv} is made up of the Vice President for Administration and Finance (chair), four faculty members, two staff members, one student, two deans, and a representative from Disability Services for Students. This committee develops recommendations on proposed capital facilities in conjunction with the Campus Master Plan and policies affecting campus development. The committee forwards its recommendations to the President.

The State Legislature's Long Range Building Program (LRBP) is the primary source of funding for non-auxiliary campus capital construction and maintenance of facilities. Requests for all campuses of The University of Montana are submitted by the President to the Board of Regents. Requests throughout the University System are prioritized by the Board of Regents and submitted to the Governor. The Governor, in turn, ranks all requests from the state and submits to the Legislature those believed to be the highest priority. The Legislature makes the final funding decisions. This process is discussed in greater detail in *Standard 8: Physical Resources*.

The last step, assessment, involves careful analysis of outcomes, comparing the results with established goals and objectives, and gaining an understanding of the components of our mission-critical activities and the environmental factors affecting success, thereby providing a rational basis for the next round of planning. Again, assessment processes at the University are fully described in *Standard 1*, but it should be noted here that all campus planning and budget processes are informed by a foundation of extensive, ongoing assessment. Although assessment is continuous, and covers every aspect of the University's mission, it culminates in an annual Assessment Report, a collaborative effort representing each of the vice presidents. The [Executive Summary of the 2009 Institutional Assessment Report](#) can be found in [Exhibit RD 2A-01](#).

7.A.3: Annual Budget Publication

The annual operating budget of The University of Montana is presented by the President each September for formal approval of the Board of Regents. This budget is the tangible result of months of collaborative preparation, coordinated by the Office of Planning, Budgeting, and Analysis, involving individual managers of each operating unit or responsibility center on campus. The campus planning committees, particularly the Enrollment Management Council, the Strategic and Budget Planning Committee, and the Executive Planning Council, provide input as well as oversight to the process. Prior to the formal presentation to the Board of Regents, the fiscal staff of the Office of the Commissioner of Higher Education performs an independent technical review of the budget, ensuring that it complies with all applicable statutory, constitutional, and Montana University System requirements. After the budget is formally approved, it is distributed widely in printed form to campus stakeholders as well as advisory board members. Finally, the operating budget is posted in its entirety on the [OPBA website](#).

7.A.4: Review of Debt

The majority of the long-term debt at the University is composed of six series of revenue bonds, approved by the Board of Regents, as detailed in the [annual financial audit reports](#)^v ([Exhibit RE 7-02](#)). Proceeds from the sale provide funds to advance, refund, or discharge previously issued bonded indebtedness, and to pay the costs of acquisition, construction, repair, replacement, renovation, and improvement of certain facilities at the University. The revenue stream supporting the bond debt service is derived from auxiliary operations, student fees, and other self-supporting activities clearly defined as pledged revenues within the bond documents. Prior to the issuance of debt, an in-depth analysis is performed to ensure that the revenues pledged to the bonds are clearly defined and meet coverage ratios required by the indenture. These coverage requirements ensure that the debt is not dependent upon revenues that would otherwise be used for educational purposes.

The University believes that renovations and new construction of facilities provided through the issuance of revenue bonds places each of the campuses in a more competitive position for the future. Further, this important investment in the University's facilities is essential to the future health of all campuses of The University of Montana. This debt also significantly increases the liability of each campus and The University of Montana as a whole and is monitored on an ongoing basis by the Debt Management Team, comprising representatives from each of the four campuses. The Debt Management Team also helps ensure compliance with the University's comprehensive [Debt Management Policy](#) implemented in FY 2005 ([Exhibit OSM 7-02](#)).

The Debt Management Team, established 10 years ago, has been instrumental in addressing concerns raised by the campus that the University is overextended in its debt. The Team issued a report in 1999 after completing a comprehensive review of the indebtedness of the University. A number of recommendations were made in the report including a recommendation to review the first call date of Series A 1993 bonds in FY 2003, "to determine if there is benefit to the University in taking advantage of call privileges or of restructuring the debt." Since the issuance of the 1999 Debt Management Team report, this and other recommendations put forth have been approved by the Board of Regents to restructure the University's debt. Through the issuance of Series F 1999, Series I 2004, and Series J 2005 Refunding and Facilities Improvement Revenue Bonds, the University has restructured \$109.1 million of previously issued revenue bonds.

In FY 2009, the University engaged two credit rating agencies to assess the credit worthiness of its revenue bond issuances. The University received indicative bond credit ratings of A+ and A1 from Standard and Poor's and Moody's, respectively. The ratings provide additional assurance to investors and others, that the University's revenue bond issuances are high grade, low risk, and safe investments.

This activity, along with other long-term debt, is audited on a regular basis and continues to be reviewed by the Debt Management Team.

7.B: ADEQUACY OF FINANCIAL RESOURCES

7.B.1: Sources of Funds

The total operating budget for The University of Montana for Fiscal Year 2009 is approximately \$345 million. The General Funds budget, the primary source of funds for the instructional mission of the University, is approximately \$135 million, of which nearly two-thirds comes from students in the form of tuition, and about one-third comes from state appropriations (the ratio was approximately 56% to 44% in FY 1999).

The remaining \$210 million comes primarily from restricted funds (about \$80 million), auxiliary funds (\$46 million), designated funds (\$44 million), and plant funds (\$37 million). The restricted funds primarily support sponsored research.

The University of Montana Foundation endowment currently stands at around \$103 million. Through successful fundraising, and the effective use of donated funds and debt financing, The University of Montana has been able to add \$143 million worth of new facilities for instruction, research, and student services over the past 10 years, while \$26 million of capital funds has been provided by the state for new construction. Similarly, through creative capital financing and stewardship, the University has made significant progress in addressing deferred maintenance and infrastructure needs, again with relatively small investments from the state.

Recent completion of the capital campaign resulted in over \$131 million of capital gifts, including:

- \$26 million for scholarships, funding 486 undergraduates and 79 graduate students.
- \$11 million in faculty support, including several endowed chairs and professorships.
- \$57 million in direct support of academic programs.
- \$37 million for construction and renovation of facilities.

Over the past two decades, the portions of the general funds budget coming from the State and from tuition have effectively reversed. Where the State of Montana provided 69% of the education and general funds budget in 1990, it now supports 36%. As a result, while The University of Montana still spends far less in total than its peers to educate a student, tuition rates have risen dramatically, more than doubling over the past 10 years. This situation is all the more alarming because of the relatively low average salaries in the state (Montana ranks 40th in the nation in median household income). The high ratio of tuition to average income, combined with a comparatively small amount of available need-based financial aid creates a real affordability challenge in Montana.

The faculty of The University of Montana has been very successful in competing for sponsored research money, growing from a level of \$12 million in 1994 to \$71 million in the current year. Research activities also spin off approximately \$8.5 million in recovery of indirect costs, and these funds are reinvested in efforts to continue the growth of research. As illustrated in Table 7-01, total funding from this source has grown by 126% in the last decade; over the same period the number of grants awarded grew by 22%. The dollar volume of sponsored research per tenured faculty FTE significantly exceeds the benchmarks in the [National Study of Instructional Costs and Productivity](#)^{vi}.

Table 7-01 - Dollar Volume and Number of Grants Awarded FY 1999-FY 2009

<u>Fiscal Year</u>	<u>Grants Awarded</u>	
	<u>Volume</u>	<u>Number</u>
1999	\$31,405,857	625
2000	\$38,227,455	629
2001	\$48,168,116	665
2002	\$50,227,277	691
2003	\$60,923,446	742
2004	\$65,731,434	763
2005	\$68,313,457	782
2006	\$62,730,341	775
2007	\$58,153,226	796
2008	\$64,445,701	862
2009	\$71,094,279	763

Resources provided by The University of Montana Foundation from private gifts and bequests support the students, programs, and services of the University in a variety of ways. Table 7-02 shows UM Foundation support for Fiscal Years 2006 to 2009.

Table 7-02 - Academic and Institutional Support and Scholarship Awards Funding - UM Foundation

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Academic and Inst. Support	\$5,588,301	\$6,043,645	\$7,866,354	\$6,126,111
Scholarships and Awards	\$2,634,370	\$2,994,728	\$3,513,964	\$3,837,574

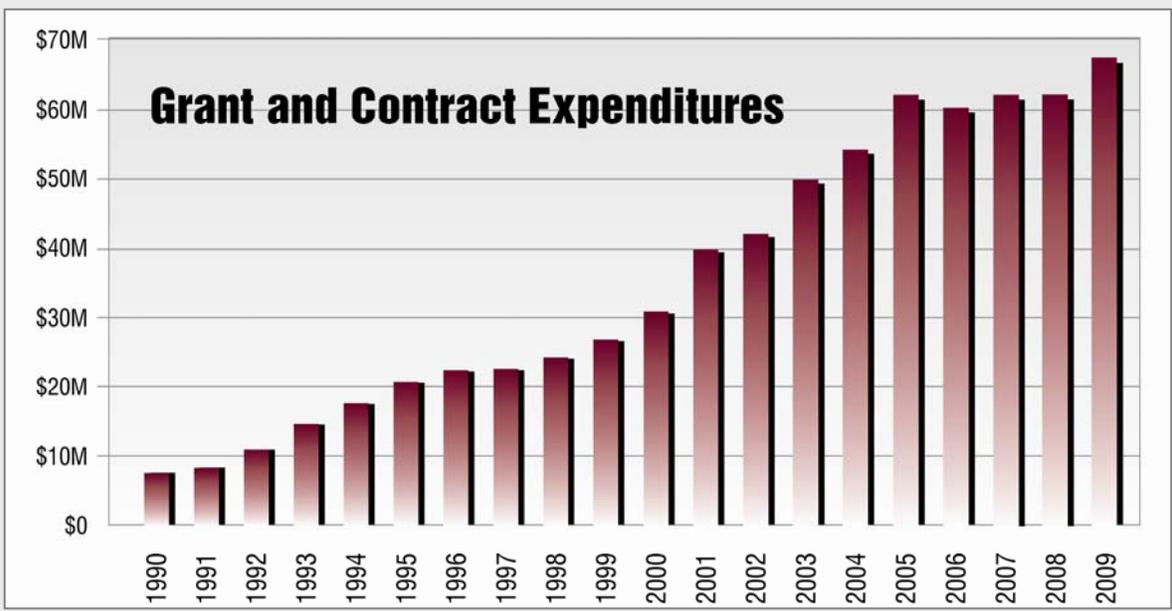
The allocation of resources among the various programs is informed by the strategic planning process, reflecting the mission, goals, and priorities of the institution. As seen in [Standard 7 – Finance Table 2](#), programs which have grown relative to total current funds expenditures since 2006 include Academic Support, Plant Operation and Maintenance, and Scholarships and Fellowships.

Trends in the major objects of expenditure during this period will be discussed in further detail in section 7.B.5.

TANGENTS TO THE OVAL...

RESEARCH AND CREATIVE ACTIVITIES

Expenditures from extramurally funded grants and contracts have grown significantly, due to institutional investments in recruitment and startup for new faculty—from \$7 million in FY 1990 to \$67 million in FY 2009, an annual growth rate of 7.77%. The number of scholarly peer-reviewed publications has grown steadily (ISI Web of Knowledge). Annual publication rates have tripled in the last two decades, and the quality and importance of the research is impressive. In the last five years, UM faculty published nearly 30 papers in the premier science journals *Science* and *Nature*. The Office of Technology Transfer has aided transfer in biomedical and pharmaceutical sciences, chemistry, wildlife biology, and computer science, leading to 21 active licenses with local, national, and international companies. The growth of the research enterprise has helped nearly 20 faculty members create nine different spin-off companies.



7.B.3: Financial Stability

Financial statements for 2005 through 2009 are made available as [Exhibit OSM 7-01](#). The University is able to satisfy current operating and non-operating expenditure requirements with revenue from current operating and non-operating sources.

In FY 2008 the University adopted the provisions of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued by the Governmental Accounting Standards Board (GASB). The standard requires that the cost of postemployment healthcare benefits be accounted for under the accrual basis of accounting, where the cost of benefits to employees is recognized in periods when the related services are performed. The University is affiliated with the Montana University System Group Insurance Plan, which provides optional postemployment healthcare benefits to eligible University employees who receive retirement benefits from State of Montana sponsored retirement plans. Retiree monthly premium rates are substantially less than the cost of providing benefits to this group of employees. The actuarially calculated unfunded liability related to the “implicit rate subsidy” at the end of FY 2009 was in excess of \$78 million, which is being amortized over 30 years. At this time, there is no plan by the University or the Montana University System to fund this liability. Over time, this will cause an accumulated deficit in reported unrestricted net assets in the University’s financial statements. The University does not believe, however, that this liability will ever be realized and believes GASB will rescind this provision of the standard.

7.B.4: Fund Transfers

All transfers among major funds and inter-fund borrowing comply with the Montana Department of Administration’s Management Memo Number 2-02-04, “Transfers and Capital Contributions.” ([Exhibit OSM 7-03](#)).

7.B.5: Financial Support for Occupational, Technical, and Professional Programs

Because the University has operated for many years with limited financial resources, it has become adept at operating efficiently. As a result, although The University of Montana is one of the lowest-cost doctoral universities in the country, it continues to provide a diverse array of high quality educational programs and student services. As discussed earlier, while tuition has to some extent supplanted insufficient State appropriations support, limited individual and family income in Montana has made affordability a particularly acute issue, and has caused the University to use prudent restraint in tuition decisions. The recent willingness of the executive and legislative branches of state government to recognize the connection between State support and tuition affordability has allowed the University to minimize resident tuition increases (flat in the last biennium, only 3% increases for baccalaureate and graduate students in the current biennium, with two-year program tuition remaining flat) and still balance the budget with only minimal spending cuts.

However, as in the past, this balancing comes at the cost of personal sacrifice on the parts of faculty and staff of the University. Once again, salary increases have been curtailed, with no general increases for the 2010/11 Biennium. Only a small pool is provided for

contractually required faculty merit and promotion increases, and no base salary increases will be implemented for staff. While this situation is all too common nationally in the current economic environment, it is unfortunately not new to Montana. In the decade culminating in the 2010/11 Biennium, four of the ten years have seen no salary increases, and two of the years saw only 2% increases. At the same time, workloads have remained high. In order to ensure continued academic quality, the University has invested scarce resources in needed faculty positions to maintain and even improve student-faculty ratios. The University has competed successfully in the marketplace for new faculty, particularly at the Instructor and Assistant Professor levels. However, the lack of adequate inflationary increases over the years has taken its toll by causing noncompetitive faculty salaries at the Associate and Professor ranks, and the problem generally becomes more acute with longevity. Additionally, budget constraints have largely precluded staff expansion and workloads have grown as enrollments have continued to grow.

Still, The University of Montana has gained some ground. While still lagging national benchmarks, the University's expenditures per FTE have actually grown faster than the national averages over the past decade. Moreover, strategic budget allocations have enabled the University to make prudent investments in needed academic programs and key faculty positions, facilitating impressive growth in sponsored research, continued gains in market share of enrolling Montana graduating high school seniors, and renewed national competitiveness for out-of-state students.

Moreover, strategic resource allocation at both the State and campus level have borne fruit, specifically in disciplines and delivery options aimed at occupational, technical, and professional programs. In the past two biennia, one-time-only funds have been budgeted for instructional equipment and two-year programs, particularly in technical and workforce training programs. In addition to expanding nursing and allied health programs, a new master's program in public health was added in 2006, and a badly needed program in communicative sciences and disorders implemented in 2009 will add both baccalaureate and master's-trained professionals to the job force. At the same time, online course offerings and enrollment have seen phenomenal expansion, growing by more than 100% since 2006.

Finally, the University has been responsive to community needs by expanding access to courses in the Bitterroot Valley and by working collaboratively with local job services offices and lifelong learning centers to provide training for workers displaced by the recent economic downturn.

Table 7-03 – Measures of Financial Adequacy: Expenditures per FTE Student for Selected Functions, AY 2002-03, 2005-06, and 2008-09, and U.S. Public University Average, AY 2005-06

Function (IPEDS)	Expenditures per FTE Student			
	The University of Montana			U.S. Public Universities *
	2002-03	2005-06	2008-09	2005-06
Instruction	\$5,117	\$5,462	\$6,030	\$8,255
Research	\$2,564	\$3,145	\$3,216	\$4,021
Public Service	\$ 647	\$ 849	\$1,005	\$1,581
Academic Support (incl Libraries)	\$1,602	\$1,450	\$1,930	\$2,145
Student Services **	\$1,214	\$1,275	\$1,507	\$1,206
Institutional Support	\$1,095	\$1,515	\$1,769	\$2,255
Plant Operation & Maintenance	\$1,255	\$1,132	\$1,769	\$2,009
Scholarships & Fellowships	\$ 976	\$ 969	\$1,206	\$ 995
*Average for all U.S. public universities, IPEDS, Academic Year 2005-06				
**Student Services figures for The University of Montana include athletics.				

7.B.6: Sources of Student Financial Aid

The University's shifting financial support patterns discussed earlier and its increased dependence on tuition as a source of revenue are likewise reflected in the changes observed in student financial aid. As resident students have been paying a significantly higher share of the cost of their education compared to 10 years ago, and nonresidents continue to be expected to pay all of the cost, more students are turning to financial aid. Currently, though, as indicated in [Standard 7 – Finance Table 4](#), the majority of the aid to eligible UM students is in the form of self-help aid, almost exclusively loans to the students, rather than in gift aid. This pattern is typical for most public universities.

In FY 2008, almost two-thirds of the University's financial aid funding was self-help aid. About 2% was through work-study, both State and Federal, and about 3% for institutional and private loans. The bulk of the self-help aid, 59%, was in Federal loans to students, primarily in subsidized and unsubsidized Stafford loans (32% and 24%, respectively).

Gift aid, on the other hand, accounted for about 36% of the financial aid to UM students in FY 2008, and was distributed relatively evenly among Federal aid (13%), tuition and fee waivers and State scholarships and grants (10%), and UM scholarships and fellowships (11%). The Federal aid was almost exclusively in Pell Grants.

The increasing dependence on financial aid can also be seen in the average awards to qualifying students entering the University in the first-time freshmen cohorts, as shown in [Standard 7 – Finance Table 4](#). The average Federal grant, mostly in Pell Grants to these first-time students, has increased about 52% since FY 2000, from roughly \$2,200 to over \$3,300 awarded in FY 2008. Part of this increase was the result of a congressionally mandated increase in the Pell Grant amounts. Tuition and fee waivers, along with some State government scholarships and grants, collectively increased about seven-fold during the same period, from an average of \$330 to almost \$2,500 per award. The University also increased its outlay for institutional scholarships, resulting in a 43% increase in the average award to about \$3,100 in FY 2008. The data also show the increased dependence

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on loans, with about twice as many students pursuing this option. The average loan amount also increased significantly, about 81% since FY 2000, from about \$2,600 to about \$4,600 in FY 2008.

7.B.7: Financial Reserves

The University has retained flexibility to respond to probable or unanticipated future events that could have a financial impact. In addition, the University has established reserves to cover unanticipated swings in future retirement costs, as well as reserves for early retirement of debt that could be used for other purposes if necessary.

7.B.8: Income Measurement

[Standard 7 – Finance Table 1](#) shows the history of the various components of total income for the period FY 2006 to FY 2009, along with projections for FY 2010 and FY 2011.

The constantly shifting nature of revenue sources, whether due to changing levels of state support or the implementation of selective tuition freezes, dictates that The Office of Planning, Budgeting, and Analysis remain continually engaged in the detailed analysis of revenues. Tuition and fee revenues are analyzed relative to both student headcount and full-time equivalent students. This analysis is updated each semester, ultimately informing annual, biennial, and long range revenue projections.

7.B.9: Auxiliary Enterprises

Auxiliary enterprises of The University of Montana are expected to be entirely self-supporting in revenue and are not relied upon to generate surpluses for the general and educational operations of the University.



A Student Using a Griz Central Computer Station

7.C: FINANCIAL MANAGEMENT

The University of Montana currently uses the BANNER Finance System which is fully integrated with BANNER student, financial aid and human resource systems. A combination of BANNER baseline reports, *ad hoc* reports developed by technical staff, and the University and Montana University System data warehouse reports enables University Officials to make timely and effective management decisions.

In FY 2008, the University established an internal control committee to develop and facilitate the implementation of a process that documents the internal control systems of the University. The documentation will include management's assessment of their control systems, as well as their monitoring process/practices to ensure the systems are working as intended. The committee will make recommendations to management of the University that will ensure continuous improvement in the internal control framework.

7.C.1: Presidential Reports

The President submits an annual operating budget for approval by the Montana Board of Regents at the beginning of each fiscal year. The budget provides a detailed presentation of proposed revenues and expenditures for the current year and reports actual revenue and expenditures for the previous year. Monthly budget status reports are submitted to the Office of the Commissioner of Higher Education (OCHE). The Commissioner's staff approves immaterial budget changes and material changes are submitted to the Board of Regents for review and approval. See [Exhibit RE 7-03](#) for the [FY 2010 Current Unrestricted Operating Budget](#)^{vii}.

7.C.2: Financial Officers

The Vice President for Administration and Finance is the Chief Fiscal Officer (CFO) of The University of Montana. The CFO sits on the Executive Planning Council and reports directly to the President. His responsibilities include general oversight of finances on all four campuses and of all financial entities of The University of Montana. Individuals who report directly to the Vice President include: Associate Vice President for Administration and Finance; Associate Vice President for Planning, Budgeting, and Analysis; Director of Business Services; Director of Campus Security; Director of Facilities Services; Executive Director of the Adams Event Center; Director of Human Resource Services; and Director of the Island Lake Lodge. All of the directors are experienced managers and hold appropriate professional and academic credentials.

Fiscal responsibility for grant and contract activity resides with the Vice President for Research and Development.

7.C.3 Control of Expenditures and Income

As a state agency, the University operates under the authority of statutes within the [Montana Code Annotated](#)^{viii}, policy and procedures prescribed by the [Administrative Rules of Montana](#)^{ix} and the [Montana Board of Regents Policy and Procedures Manual](#)^x, and [University of Montana Policies](#)^{xi} ([Exhibit OSM 7-04](#)). In addition, departments have developed internal operating procedures. Financial aid programs and resources are controlled and managed by the Office of Financial Aid. University income from all

sources and related expenditures are recorded in the institution's financial management system.

7.C.4: Cash Management and Investment

Choice of investments for state funds is strictly limited by state statute for direct investments as well as for state-pooled funds. Bond indentures further define permitted investments. All investments are made either through the bond trustee or the state investment pool. The University has adopted an aggressive investment policy in an attempt to maximize return within available investment opportunities. Privately donated funds are invested in accordance with policy developed by The University of Montana Foundation.

7.C.5: Accounting System

The BANNER Finance System is designed to allow the financial statements to be presented in accordance with generally accepted principles of accounting. The accounting system interfaces with the State of Montana accounting system which is the source of information used to prepare the *State of Montana Comprehensive Annual Financial Report*. The University follows the standards of accounting and reporting as prescribed by the Governmental Accounting Standards Board (GASB). For financial reporting purposes, the University is considered a special-purpose government engaged only in business type activities. The University's financial statements include the basic financial statement required under GASB statements No. 34 and No. 35. The University continually monitors new and proposed standards promulgated by GASB to ensure that applicable pronouncements are implemented timely and effectively. The University also reviews technical guidance provided by NACUBO on various accounting issues.

7.C.6-7.C.10: Annual Audit and Financial Reports

The University of Montana is subject to a series of various financial compliance and performance audit requirements. Per state statute, the general institutional financial statements are subject to independent audit by the Montana Legislative Audit Division (LAD).

The special purpose audits for The University of Montana require that they be conducted by independent auditors and that they be prepared annually. Independent auditors are typically selected via a bidding process coordinated by the office of Internal Audit. Included in this group of audits are the University's public broadcasting stations (KUFM Television and KUFM Radio), as required by the Corporation for Public Broadcasting; the Athletics program, as required by the National Collegiate Athletic Association, and the revenue bond audit, as required by the Indenture of Trust. Periodic audits of sponsored research programs are mandated and governed by the funding agency in accordance with Federal Circular A-133 or as required by state and private funding sources. All audits are considered public documents and are available for inspection upon request. Copies of the [Annual Financial Report](#)^{xiii}, which contain the University's consolidated financial statements, are widely circulated.

LAD conducts a financial related audit of the University on a biennial basis and the results are included in the statewide Single-Audit Report. This audit report complies with

the reporting requirements of the Government Auditing Standards, the Single Audit Act of 1984, and the Office of Management and Budget Circulars. The LAD conducts an annual financial statement audit of the University to determine if the financial operations are properly conducted, the financial reports are presented fairly, and the University has complied with applicable laws and regulations.

All funds received by the University, including those utilized for student financial aid programs, are subject to the audit conducted by the LAD. In performing the financial compliance audit work, LAD uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. As a result of the financial compliance and Single-Audit work performed, LAD issues a report and management letter. This report is submitted to and reviewed by the Audit Committee of the Montana Legislature.

7.C.11: Internal Audit

The University's office of Internal Audit reports directly to the President. Its purpose is to provide an independent appraisal function for units of the University. Internal Audit also coordinates external audits of University funds. Internal Audit, on a scheduled and *ad hoc* basis, conducts routine audits of campus departments and preliminary investigations of any suspected fraudulent activity. The office is adequately staffed with trained and qualified personnel.

7.C.12: Audit Report Recommendations

LAD and independent auditors issue an audit report that includes their findings and recommendations. Internal Audit coordinates and compiles, in writing, the University's response to each recommendation. It also coordinates the development and implementation of an audit plan to respond to all recommendations. While it is the audited department's responsibility to implement any action included in the response, Internal Audit staff provides follow-up review on management's compliance with agreed-upon resolutions. Any ongoing problems are reported to the University's administration.

7.C.13: Availability of Audit Reports

Financial Audit Reports for the past several years are available on the [Business Services website \(Exhibit RE 7-02\)](#).

7.D: FUNDRAISING AND DEVELOPMENT

Established in 1951 with the belief that excellence in higher education could be greatly enhanced through the infusion of private gifts, The University of Montana Foundation (UMF) serves the University as an independent charitable nonprofit organization under Internal Revenue Service 501(c)(3) designation and is the official development office for The University of Montana. A forty-member board of trustees maintains fiduciary and operational responsibility for the UM Foundation and embraces its goals: to work with the University community to ascertain financial needs of the University, to raise private funds to meet the University's needs, and to provide sound stewardship of private assets. The UMF accomplishes these goals by seeking gifts, grants, bequests, and other forms of financial support: conducting public relations programs with alumni, students, faculty,

government entities, the business community, the general public, and other appropriate groups, and by managing the assets of the corporation in accordance with its purpose and fiduciary responsibilities. The UMF works in strong partnership with the University administration, which determines the academic agenda and defines and establishes priorities for UM programs. Total pledges made and gifts received have grown from \$7.9 million in FY 1999 to \$22.0 million in FY 2009.

7.D.1: Fundraising Activities

As the official development office for The University of Montana, the UM Foundation is responsible for the coordination of all fundraising activities conducted for the benefit of the University ([Exhibit RE 7-04](#)). There are other University-affiliated organizations engaged in fundraising that function independently (Grizzly Scholarship Association, KUFM Public Broadcasting, Friends of the Mansfield Library, The University of Montana Alumni Association), but the UM Foundation coordinates the efforts of these organizations. The University of Montana adheres to the centralized constituency fundraising model, whereby all fundraising activities are coordinated by and through The University of Montana Foundation.

Development officers are assigned to each of the University's units and report jointly to their respective college or school and the UM Foundation.

The UMF oversees all fundraising and development activities in order to ensure appropriate approaches are made to donors from the private sector. Institutional fundraising priorities are determined by the Campus Development Committee (CDC). Whereas the Office of Research and Development has primary responsibility for soliciting and administering government grants and contracts, UMF has primary responsibility for soliciting and administering all philanthropic gifts, awards, endowments, and life income agreements.

The UM Foundation practices the highest standard of financial accountability to donors as monitored by its Board of Trustees. Confidential information pertaining to donors or prospective donors is carefully protected so that the relationship of trust, integrity of the institution, and right to privacy is maintained. Independent accountants audit the UMF annual financial statement and [Exhibit RE 7-04](#) contains UMF financial statements and supplementary information (including independent auditor's report) and annual reports. As stated in [BOR Policy 901.9^{xiii}](#), the UM Foundation is requested to submit an annual financial report to the Board of Regents at their December meeting. Such statements should include an expression of opinion by an independent Certified Public Accountant.

The UM Foundation has recently revised its employee handbook, which specifically addresses issues of ethical behavior. Since UMF employees have access to information of a confidential nature, they are forbidden from discussing Foundation business outside of the office. Employees are instructed that charitable donations are the personal business of the donors unless the interested parties give permission for the release of information. The use of UMF funds for the benefit of specific projects, departments, faculty, staff, or students is to be considered confidential. Resources available to staff members include staff meetings, consultation with colleagues through list services on the Internet, affiliation with professional organizations, institutional membership in the Council for Advancement and Support of Education, and individual membership in a variety of fundraising organizations.

7.D.2: Administration of Endowment and Life Income Funds

The UM Foundation is chartered to accept, hold, and invest charitable gifts on its own behalf and on behalf of The University of Montana, its colleges, departments, programs, and affiliated activities. A donor may either designate the gift to generally support the UM Foundation or the University or may designate it to support a specific purpose or activity of UMF or the University. Furthermore, the donor may designate that her or his gift, either an outright gift or a deferred gift, be held permanently in an endowment fund.

Cash donations, received by any unit of the Montana University System and made payable to that unit, will be deposited as Montana University System assets into the state Treasury and recorded on the statewide budgeting and accounting system unless documentation clearly provides evidence of other donor intent or identifies the donation as a result of campaigns or solicitations from a separately incorporated foundation acting on behalf of the University unit. The campus must maintain copies of such documentation. When properly documented, such a cash donation may be forwarded to the separately incorporated foundation.

All UM Foundation funds are managed and invested in accordance with two internal Foundation documents: "Distribution of Spending Allocation from Pooled Investments" and "Statement of Investment Objectives and Policy." The investment policy establishes clear understanding of the investment goals and objectives of the UMF. It sets forth the guidelines and restrictions to be followed by the investment managers including risk and return parameters, and the long-term target asset allocation for the investment portfolio. Investments consist of marketable debt and equity securities purchased through institutional mutual funds as well as fixed income securities held in individual accounts in the Foundation's name and funds of funds investment partnerships. Investments are carried at fair market value. Increases or decreases in fair value are recognized in the current period as investment gains or losses. In order to maintain the real value of permanently restricted net assets, the UM Foundation has adopted a policy whereby a portion of total pooled investment return is reinvested as temporarily restricted net assets, and is unavailable for current expenditure.

Assets to fund charitable trusts may be transferred directly to the UMF, if it will serve as trustee. As trustee, the Foundation manages and invests the assets of the trust. Each trust established is separately accounted for in compliance with the trust agreement, state trust law, and Foundation policies governing gift acceptance, investment, spending, and fee assessment.

Complete records are maintained for endowment and life income funds including the original gift agreement or contract signed by the donor, a record of the gift(s) transferred, a copy of the acknowledgment, and substantiation provided to the donor. The Foundation refers to the gift agreement or contract to ensure that all terms of the gift are followed. Chairs and department heads are given a report on a quarterly basis on the status of all endowments and scholarships that are designated for their unit. Donors who have established an individual endowment fund are provided with a fiscal year-end financial summary of the status of the fund including gifts credited, earnings and fees posted, and expenditures made. Donors who have named the Foundation trustee of a charitable trust receive a calendar year-end financial summary showing the trust's change in fair market value. Charitable gift annuity and trust beneficiaries receive the appropriate Form 1099-R

or Schedule K-1 to report the annual income distributed to them. The Foundation files the required reports for each of the life income gifts it holds.

7.D.3: Relationship with the UM Foundation

The UM Foundation is an independent corporation whose relationship with the University is governed by its Articles of Incorporation and Bylaws of the UM Foundation as filed with the Secretary of State of the State of Montana. The University agrees to encourage and maintain the independence of the Foundation and, at the same time, foster the cooperative relationship between the University and the Foundation.

The University of Montana has a clearly defined relationship with The University of Montana Foundation as spelled out in the [Memorandum of Understanding \(Exhibit RE 7-04\)](#) which is in compliance with the BOR Policy. The UM Foundation's, as well as the University's, responsibilities are clearly outlined in this document which is renewed at the beginning of each fiscal year.

WEBSITES REFERENCED

- ⁱ Executive Planning Council: <http://www.umt.edu/committees/execplanning.aspx>
- ⁱⁱ Strategic and Budget Planning Committee: <http://www.umt.edu/committees/strategicbudget.aspx>
- ⁱⁱⁱ Office of Planning, Budgeting, and Analysis: <http://www.umt.edu/plan/>
- ^{iv} Committee on Campus and Facilities:
<http://www.umt.edu/committees/Campus%20Facilities.aspx>
- ^v Annual Financial Audit Reports: <http://www.umt.edu/bussrvcs/employees/reports.aspx>
- ^{vi} National Study of Instructional Costs and Productivity: <http://www.udel.edu/IR/cost/>
- ^{vii} FY 2010 Current Unrestricted Operating Budget
<http://www.umt.edu/plan/Budget%20Finance/Budget%20Book/default.aspx>
- ^{viii} Montana Code Annotated: http://data.opi.state.mt.us/bills/mca_toc/index.htm
- ^{ix} Administrative Rules of Montana: <http://www.mtrules.org/default.asp>
- ^x BOR Policy and Procedures Manual: <http://mus.edu/borpol/default.asp>
- ^{xi} UM Policies: <http://www.umt.edu/policies/>
- ^{xii} FY 2008 UM Annual Financial Report:
[http://www.umt.edu/bussrvcs/files/FY08%20UM%20Annual%20Financial%20Report%20\(1-07-09_web\).pdf](http://www.umt.edu/bussrvcs/files/FY08%20UM%20Annual%20Financial%20Report%20(1-07-09_web).pdf)
- ^{xiii} BOR Policy 901.9, Campus-Affiliated Foundations: <http://mus.edu/borpol/bor900/901-9.htm>