

Standard IX

Financial Resources

Description

Western Connecticut State University is a financially stable publicly-assisted University that budgets and expends funds subject to the statutes, regulations, policies and oversight of the State of Connecticut and the Board of Regents of Connecticut Schools and Universities (ConnSCU). Within this framework, senior administration and the University Planning and Budget Committee (UPBC) use the goals and values articulated in WCSU's 2007 Strategic Plan to guide budget and spending decisions.

As measured by ConnSCU's spending plan format, the University has generated operating surpluses from FY05 through FY12 and entered FY13 with a balanced plan. (The ConnSCU format is essentially a cash-based measure that does not include depreciation, that classifies the state appropriation as revenue and that includes certain reserve transactions as part of operations, all in contrast to GAAP, which governs the presentation used on WCSU's financial statements.) WCSU's reserve schedule reveals that the University held \$33.4 million in reserve at June 30, 2012, including a ConnSCU required unrestricted fund balance equal to 7% of the current year's operating budget (see Appendix: Standard IX: 1). This balance provides an ongoing cushion against severe adverse economic events.

WCSU's employees are bound by ConnSCU's and the State's [ethics policies](#). Compliance is monitored and enforced by the local [Ethics Liaison Officer](#) (the Associate Vice President for Human Resources); by annual audits conducted by an external public accounting firm (PriceWaterhouseCoopers) which includes ethics-related questions to key stake holders as part of its review; and by regular audits by the state's Auditor of Public Accounts.

Financial Position/ Net Assets

As DATA FIRST tables reveal, Property, Plant, and Equipment assets comprised 69% of total assets in FY 2011 (\$179 million of \$260 million). Subtracting \$53.5 million in total liabilities from \$260 million in total assets yields \$206.5 million in net assets. WCSU's formal liabilities do not include bonded debt although most capital projects on campus are bond funded. Capital projects for academic and administrative facilities are funded by general obligation bonds of the State of Connecticut: Neither WCSU nor the Board of Regents has debt service obligations for these bonds. The current general obligation bond program that benefits the state Universities is called CSUS 2020, and it is scheduled to run through fiscal year (FY) 2019. Capital projects for auxiliaries such as housing, food service, student centers, and for student parking are funded under bonds authorized by the Connecticut Health and Education Facilities Authority (CHEFA). CHEFA debt is carried on the Regent's balance sheet, not that of the individual Universities. Each University, however, has debt service obligations for CHEFA bonds. In FY 2012, for example, WCSU transferred \$7.2 million to the Regent's office that was either used to make current debt service payments or to fund a reserve for future debt service payments.

Revenues and Expenses (DATA FIRST presentation)

Total operating revenues were \$68.3 million in FY 2012, up 2.3% from the prior year. Nearly three quarters of those revenues came tuition and fees (\$50.9 million, up 1.2%), and nearly one-quarter from room and board (\$16.4 million, up 3.3%). After subtracting \$10.5 million in financial aid, the net student fees amounted to \$56.8 million. Government grants and contracts are a small fraction of the total: they increased by 0.7% between 2011 and 2012.

Total operating expenses were \$116.3 million in FY 2012, an increase of 1.03%, and state appropriations were \$ 38.9 million, a decrease of 15.2% over the prior year. Therefore, state appropriations covered only 33.4% of total operating expenses in FY 2012, compared to 39.0% in FY 2011.

Supplemental Data

Net assets at the end of FY 2012 were \$211.8 million, an increase of 2.6% over the prior year. During FY 2012, net assets increased by \$5.3 million, compared to an increase of \$2.5 million during FY 2011.

Unrestricted institutional financial aid funds decreased by 16.2% between 2011 and 2012 (from \$ 4.8 to \$4.0 million). Concurrently, federal, state, and private grants increased by 0.4% (approximating \$9.3 million in both years), resulting in a 5.3% decrease in total funds available for student financial assistance.

Discount of tuition and fees reached 26.1% in FY 2012 (1.8 percentage points lower than the prior year), while the unrestricted discount declined to 7.8% (1.7 percentage points lower than the prior year). The declines in institutional aid and discount rates reflected a decision to reduce the amount of tuition revenue set aside to fund need based aid by one percentage point, an action taken to, in part, absorb the sharp decrease in state support that occurred in FY 2012.

As measured by ConnSCU's spending plan format, the University has generated operating surpluses from FY05 through FY12 and entered FY13 with a balanced plan. On April 2, 2013, WCSU estimated that it would end FY13 in balance, despite experiencing a revenue shortfall of \$5.6 million. As measured by GAAP in its publically audited financial statements, the University has increased its net assets over the 10-year period (see Appendix: Standard IX: 2).

Since its adoption in 2007, WCSU has used its strategic plan to guide resource allocation and budget decisions. The plan commits WCSU to support a range of high quality academic programs and to seek program accreditation where available. Between FY06 and FY13, the number of fulltime teaching faculty positions increased to 234, from 197, or 19%. WCSU programs are accredited by their appropriate discipline-specific organization and the University is actively pursuing accreditation from additional organizations: The Association to Advance Collegiate Schools of Business; The National Association of Schools of Theatre; and the National Association of Schools of Art and Design.

State support to WCSU was relatively stable between 2007 and 2011, and then dropped dramatically for 2012: it declined by 15.2% (\$6.9 million) between FY11 and FY12 (from \$45.8 to \$38.9 million). At April, 2013, state support and is forecast to decline a further 0.7% for FY13 (to \$38.6 million) because of a mid-year rescission. (State support for FY14, however, was budgeted at \$40.8 million, based on the Governor's budget, an increase of 5.6%.)

Finances in FY12 were challenged when total enrollment fell short of budget by approximately 3% and challenged again in FY13 when total FTE enrollment fell short by 4.1%. WCSU absorbed these cuts while maintaining faculty lines by reducing the number of funded fulltime positions in other areas (by more than 24 positions), holding some funded positions vacant, identifying operating efficiencies, and holding the line on operating expenses. The University has maintained essential services at acceptable levels even with these cuts, but there have been service impacts felt by students, faculty, and staff. These impacts include lack of adequate clerical coverage in some offices, sporadic lapses in daily cleaning of some areas, and deferral of new initiatives in some program areas, such as study abroad.

Financial pressures will intensify in FY14. Although the state budget has not been finalized, it is clear that the level of state support will effectively decline. WCSU, like all state entities in Connecticut, is a party to a labor concession agreement reached in late fall 2011. Under the agreement, wages were frozen for FY12 and FY13 in return for a commitment to provide raises in FY14 – FY16 and protect the job security of most full-time incumbents. The raises will range from about 3% to 5% annually, depending on specific union affiliation and current pay level.

After rising for several years, enrollment has softened. In FY13 total enrollment on an FTE basis retreated to roughly the same level as it was in FY08. In response, WCSU will leave a number of faculty positions filled by limited term “special appointments” open in FY14, and will remove funding from a smaller number of non-faculty positions to bring the total number of fulltime positions in better alignment with enrollment levels. (Increases in the aforementioned faculty lines were made in response to then-growing enrollment.)

Senior administration believes there is limited ability to deal with future emergencies without impacting some elements of essential services. The institution’s ability to rapidly assess certain operations and reorganize or redeploy existing resources is hindered by a combination of collective bargaining agreements and various state regulations. Despite these challenges, the administration is committed to achieving balanced budgets while maintaining academic program quality.

Financial Stability

WCSU is financially stable and has prioritized educational quality. Like any public institution, WCSU’s finances suffer when state finances suffer. Throughout the past 10 years, however, enrollment-related revenue (tuition, fees, housing and food) has provided the larger share of financial support, increasing to 64% of budgeted FY13 revenue (see Appendix: Standard IX: 3).

WCSU draws nearly all of its students from Connecticut. Unfortunately, 2012 WICHE data forecasts a 10.8% decline in graduating Connecticut high-school seniors between 2012 and 2022. WCSU leadership is actively exploring program and marketing initiatives that will make WCSU more attractive to out-of-state students and non-traditional students (see Appendix: Standard IX: 4).

The University is overseen by the [Board of Regents of Connecticut State Universities and Schools](#) (ConnSCU), an entity which governs four regional state Universities, 12 community colleges and Charter Oak College (an institution devoted to online degree completion programs). Regents serve by gubernatorial and legislative appointment. ConnSCU assumed its current role

in full on January 1, 2012, replacing the former Connecticut State University System (CSUS) that had overseen the four regional Universities for many decades (see Appendix: Standard VIII: 5).

Financial Planning

WCSU develops current and multi-year financial planning in consultation with Admissions. Admissions and Finance officers are cognizant of economic conditions, demographic trends, institutional programming, and marketing initiatives. Working with ConnSCU, WCSU estimates likely levels and trends for state support. ConnSCU develops biennial budget requests, which matches the state's budgeting process, and informs constituent schools of their likely state allocation, based on a pre-established protocol that provides each school with a base line of support and additional dollars related to relative school size and projected fringe benefit expenses for selected staff (11). ConnSCU is reviewing the budget calendar that CSUS had used and may make minor changes. In general, the governing body initiates the annual budget process near the start of the calendar year, requests budget submissions in April, reviews them in May, and approves them in June, shortly before the start of the new fiscal year. The governing board requests a formal mid-year review that is due each February. In April, a revised forecast for the current year is submitted along with the budget for the coming year.

WCSU's FY04, FY08, and FY12 financial records demonstrate its use of financial resources to support academic purposes, programs and student students.

<u>Expenditures</u>	<u>FY12</u>	<u>FY08</u>	<u>FY04</u>
Instructional	\$46,035,507	\$33,435,587	\$27,642,438
Research	\$370,616	\$600,753	\$403,830
Public Service	\$483,647	\$424,395	\$413,898
Academic Support	\$8,340,300	\$7,798,144	\$7,050,077
Student Services	\$12,210,023	\$11,214,790	\$8,300,307
Institutional Support	\$28,989,087	\$19,220,979	\$16,287,826
Scholarships & Fellowships	\$9,226,795	\$5,952,916	\$5,280,798
<u>Auxiliary Enterprises</u>	<u>\$10,681,718</u>	<u>\$8,172,146</u>	<u>\$5,683,997</u>
Total	\$116,337,693	\$86,819,709	\$71,063,172

Financial Aid

The governing board requires WCSU to set aside at least 15% of its tuition revenues to fund aid for its students, with the bulk of these monies to be used for need-based aid. The Board has authorized two merit-based financial aid programs, the Presidential and the Trustee scholarship programs (see Appendix: Standard IX: 6). The board periodically reviews and amends these programs. WCSU Student Financial Services, Admission, and Fiscal Affairs regularly discuss scholarship and recruiting needs. Based on these discussions, WCSU has chosen to set aside

more than the Board required 15% of tuition for several years. Admissions and some of the Deans report difficulties in attracting the best students due to limited merit-based aid. In response, WCSU funded the Trustee Scholarship program for the first time in FY13, at a policy specified maximum level of \$114,000. The University will fund the program again in FY14.

WCSU's independent foundation is able to supplement the institution's financial aid resources, consistent with donor restrictions. This makes additional money available for need-based and merit-based scholarships. In FY12, the Foundation provided \$213,000 in scholarship assistance. Even with this help, WCSU needs to identify more resources in the coming years for both need-based and merit-based help.

Finance Staff and Financial Management

WCSU has a full-time Vice President for Finance and Administration (CFO). Paul Reis has served in this capacity since August 2010. The CFO oversees all aspects of the institution's financial status. He is supported by a staff of six budget and finance professionals. The CFO holds an MBA from the Kellogg Graduate School of Management of Northwestern University with an undergraduate degree in economics. He has 15-years' experience in managing finance, budgets, and operations within higher education, holding positions previously at the University of Chicago and Roosevelt University. Sean Loughran serves as the University's controller. He holds an MBA from the University of Connecticut and is a Certified Management Accountant (CMA). Mr. Loughran has five years' experience in higher education (at WCSU) and many years' experience in industry. The balance of the staff is talented and appropriately qualified to serve in their positions; four of the six hold the MBA.

WCSU's practice of prudent financial management is evident in its ability to have generated operating surpluses while increasing faculty lines and obtaining additional program accreditations through FY13. In FY14, the University will demonstrate prudence by ensuring that the number of fulltime positions is consistent with recent, declining enrollment patterns. The institution will simultaneously identify operating efficiencies and possible new revenue streams. WCSU protects the integrity of its finances through appropriate division of duties in the origination, authorization, and payment of financial commitments and adherence to well-developed fiscal policies. Regular audits by PriceWaterhouseCoopers and the state's Auditor of Public Account monitor compliance and identify improvement areas (see "Audits," below). WCSU makes regular semi-annual reports to ConnSCU on its overall finances and generates monthly reports for internal use by budget holders (see Appendix: Standard IX: 7).

Budget: Establishment, Implementation and Overall Financial Planning

WCSU establishes its budgets in light of multiple discussions and contacts with relevant stakeholders. In general, the Vice President of Finance and Administration's (VPFA) generates at least one – and in many cases, several – scenarios projecting various levels of total resources and costs of operations. Budget and finances are regular discussion topics at the President's senior-leadership cabinet meeting. Senior leaders are free to present their needs and initiatives throughout the year and particularly during the budget formulation period that takes place early in the calendar year. Based on these discussions, the Budget Office formulates budget scenarios that are shared with the University's Planning and Budget Committee for review and comment. This information is also shared at University Senate and in open forums to which the general

University community is invited. Particular attention is paid in spring to developing personnel and financial aid budgets, while the non-personnel operating expense (OE) budget is generally treated in aggregate. In late spring and early summer, the Budget Office firms up the total OE budget, based in part on feedback and decisions from ConnSCU and after consulting division heads and leaders of various WCSU departments with significant OE budgets (see Appendix: Standard IX: 8).

The Budget Office and VPFA area make a regular practice of developing multiple scenarios in addressing new budgets and possible fund reductions. At the President's request, WCSU reviewed key elements of its strategic plan during FY12, including its underpinning financial assumptions. The VPFA chaired a group that developed a five-year financial model as part of this review process. The model facilitates the creation of multiple scenarios that show the impact of changes in key variables such as state support, tuition and fee rates, enrollment, and retention.

When recent trends for enrollment, tuition pricing, state support and labor costs were entered into the model in spring 2012, it clearly showed that Western's current economic model was not sustainable – the institution would generate significant annual deficits by FY 2017. Western cannot control many of these major variables, including tuition pricing (which is set at the system level), state appropriation levels, and the multi-year commitment to raises without layoffs through FY 2016 created as the result of a state-wide labor concession in fall 2012. Western can improve its recruitment and retention of students, however, and is adopting this as one of its key strategies for financial health in the coming years. The budget for FY 2014, for example, assumes flat enrollment with FY 2013 – a result that will only materialize with improved recruitment and retention because the general population of college-age people in Connecticut is declining. The number of in-state high school graduates in May 2013, for example, will decline by 1.9% from May 2012.

Western also realizes that one way to support enrollment growth is through offering superior programs that gain a wide-ranging reputation for excellence. We already have some programs like this, such as our BS in Nursing and our Music Education degrees. To foster excellence and control expense, Western will be much more selective in identifying which academic programs in which to invest. In a time of limited resources, Western will need to prioritize its programs, both academic and non-academic.

Each year's operating budget contains some unallocated OE funds that are held as a hedge against enrollment shortfalls or other adverse economic developments. Personnel budgets are developed to fund each position fully for the year, allowing the University to use savings from turnover and vacancies to deal with contingencies. These vacancy savings were key to absorbing enrollment shortfalls in FY12 and FY13. While senior leadership avoided overcommitting its budgets in most years, the unexpected scope of the enrollment decline in fall 2012 (-4.1%) in conjunction with a 5% rescission of state support and a sharp increase in retirement-plan related fringe benefits costs fully exhausted any contingencies for FY13. Despite these strains, WCSU forecasts a break-even position at April 2013 for FY13.

At April 2013, WCSU crafted a break-even spending plan for FY 2014 and submitted it to the Regents for review and approval. The plan assumes \$40.8 million in state support, but that amount could change based on the state legislature's final actions for the FY 2014 budget. The plan assumes flat enrollment for the coming year. Senior administration believes, however, that

WCSU can increase its retention rates and improve its recruitment efforts to meet this enrollment level. In order to achieve balance, WCSU reduced total base line full-time positions by 20 from FY13, with most of the reductions achieved by attrition and reduction in one-year special appointment faculty members. New faculty hiring is being focused on programs for which WCSU already has a strong reputation (Music Education and Nursing, for example) or for which it has previously committed itself to making enhancements (Business, for example, which was accepted for AACSB accreditation candidacy this year).

WCSU takes advantage of attrition to re-evaluate positions and, if needed, reallocate funding. It looks for improvements in processes, procurement, and technology to reduce OE expense and free up dollars for use in other areas. The University is party to a combination of collective bargaining agreements and the terms of a labor concession agreement from summer 2011 that bars any position layoffs or reductions for the period of FY12 – FY16. These terms, along with various state regulations make it difficult for WCSU to make changes with the speed that it desires.

New Revenue Sources

Opportunities for developing new academic programs are governed by the faculty and reviewed and approved by the University Planning and Budget Committee, WCSU leadership, ConnSCU and, where needed, NEASC (see Appendix: Standard IX: 9).

New sources of revenue related to auxiliaries and other operations are reviewed by the relevant Vice President and the VPFA. The University's independent Foundation approved a comprehensive campaign in fall 2012 – its first in more than ten years. The campaign has a multi-year goal of raising at least \$12.5 million, and is now in the “quiet phase” during which the Foundation and the President will be approaching the most promising donors and soliciting support. If successful, the campaign could add significantly to the Foundation's endowment assets, valued at about \$11 million at December 31, 2012. The campaign will use the excitement associated with the opening of the new 134,000 square-foot Visual and Performing Arts Building in May 2014 as one of its major draws. The campaign will raise money for three major areas: student support, innovation and research involving faculty and students, and partnerships with the community.

The University should also benefit from the services of a full-time Director of Sponsored Research, hired in July 2012. The new staff person will support faculty members and others in the community as they develop grant proposals. Western expects the number and value of grants to increase over the coming years.

Ethics

WCSU and ConnSCU leadership expect the highest ethical conduct from all staff. [The State ethics policies](#) and compliance mechanisms are overseen by the [local Ethics Liaison Officer](#) (the Associate Vice President for Human Resources).

Audits

ConnSCU contracts PriceWaterhouseCoopers (PWC), a well-regarded public accounting firm, to audit each of the four regional state Universities annually. The auditing agency provides each institution individually and the system as a whole with a management letter. PWC's senior partner in charge meets with WCSU's President, VPFA, and Controller at the end of each engagement to review the management letter and the audit. Similar meetings take place at the System level. For FY11 and FY12, PWC reported that WCSU had a "clean audit." No new management comments were identified and the agency noted that a comment made in the FY10 audit had been addressed and closed (see Appendix: Standard IX: 10).

Institutional Advancement

WCSU has steadily increased the professionalism of its Institutional Advancement (I/A) Office and Foundation during the past several years. Although additional staff is needed and there is more work to do, the office is committed to following best practices, as delineated by the Association of Fundraising Professionals' "[Donor Bill of Rights](#)." (See the Foundation's planned campaign in "New Revenue Sources," above.)

Documentation

WCSU maintains documented policies on internal networked computer files and, in many cases, on departmental websites and shared mainframe drives where they are readily available to members of the University Community. Comprehensive fiscal policies, for example, are maintained on Fiscal Affairs' shared computer drive, while travel, purchasing and hiring policies are available on departmental web pages (see Appendix: Standard IX: 11).

Appraisal

WCSU has done a respectable job of managing its available resources. There is a realization, however, that the resource base needs to grow for the University to fulfill its strategic priorities. Fostering this growth will be challenging since recent trends point to reduced state support and decreasing numbers of in-state high school graduates over the next 10 years.

The institution is committed to collective bargaining agreements through FY16 that, starting in FY14, call for annual raises of 3% to 5% and preclude layoffs. At the same time, the Governor has indicated a desire to limit increases to tuition and fees. In FY12, for example, state support fell by 12.0% but tuition and fees rose by only 2.5%. This ratio ran counter to nationwide trends, in which tuition and fees for public four-year universities rose by an average of 15%. The tuition increase for FY13 was 3.9% and the tuition increase for FY14 was 5.25%

The University will need to succeed at a number of activities in order to offset troubling financial trends. It must improve current programs and initiate new programs in order to attract a larger share of in-state students and more out-of-state students. It needs to extend its recruiting efforts to nearby populous counties in New York State. It needs to attract larger numbers of non-traditional students. It needs to make its best case for appropriate increases in tuition and fees. It needs to lower operating costs and it must successfully attract new donors and supporters.

In spite of the fiscal challenges it faces, there are numerous positive aspects of WCSU financial management. Perhaps most significantly, the University has remained debt-free in the last four fiscal years. Budgeting and financial transparency have increased steadily during the past five years. And the university continues to receive “clean audits.”

Projection

Whatever policy and operational changes WCSU makes, these decisions must be reached through a transparent and inclusive process. Senior administration works closely with the University Planning and Budget Committee on major financial issues and communicates regularly with the University Senate on finances. The University will continue to hold additional open forums at which tuition and fee decisions and fiscal news are shared with the full University community (see Appendix: Standard IX: 12). In light of recent enrollment shortfalls, the University is reviewing and revising its enrollment operations. A new Director for Admission, who has extensive experience in tuition –dependent private institutions, joined Western in March 2013. That same month, Western’s Interim Chief Information Officer initiated a process re-engineering exercise focused on streamlining and rationalizing the recruitment-admission-financial aid-registration-billing process. The ad-hoc task force working on this initiative expects to make its recommendation for process improvements in August 2013.

Western must improve retention and recruitment to thrive in the future. During FY 2013, we began putting new personnel in place to achieve this result and are also planning changes to our advising, first year experience, and administrative processes to better serve our students and keep them in school. Fall 2013 enrollment levels will provide a good indication of whether or not our early efforts are succeeding and, most likely, will highlight where we need to make further improvements. To support enrollment growth, Western will need to prioritize its programs and make strategic investments in a selected number of programs that will attract students, provide a meaningful distinction for Western from its peers and provide a halo effect for the overall institution. If Western can improve retention and enrollment, it will be able to meet the needs of its students and fulfill its collective bargaining commitments while generating, on a spending plan format basis, breakeven or positive financial results. Failure to generate needed enrollment, however, will create short-term deficits and necessitate attrition-based staff reductions and curtailments in non-personnel expenditures that will lower the quality of learning and the general quality of life on campus.

Institutional Effectiveness

WCSU uses data from internal accounting systems, information created to meet its reporting requirements to ConnSCU, and findings from its audits to monitor its financial condition and make continuous improvements to its systems and policies. Each year, the University forecasts current revenue shortly after confirming its fall enrollment levels and compares that value to its budgeted revenue. It does the same for housing and meal plan revenue, and then uses this information to manage spending throughout the year. WCSU runs monthly expenditure reports against its approved spending plan to track patterns and variances. Early identification of revenue shortfalls provides the University greater flexibility in dealing with the resulting challenges. During FY 2013, for example, the University scaled back its searches for tenure track faculty for FY 2014 once it identified the financial impact of the 4.1% enrollment decline on its resource base for future years. The University has generated break- even results or better for the past 10

years, a reflection of the administration's commitment to financial responsibility. Even with the great challenges of the next several years, that commitment remains in place.