

FERRIS STATE UNIVERSITY EMPLOYEE LEADERSHIP DEVELOPMENT PROGRAM

Financial Management at FSU

Budget Fundamentals

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Session Overview

- Budgeting Concepts
- Fiscal Management
- FSU Budget Fundamentals
- Current Budget Overview

What is a Budget?

- Plan
 - Roadmap for the future
- Control
 - Monitored, spending curtailed when needed
- Commitment
 - Promise to deliver services, employ people, etc.
- Performance Measure
 - Assessing performance on deliverables



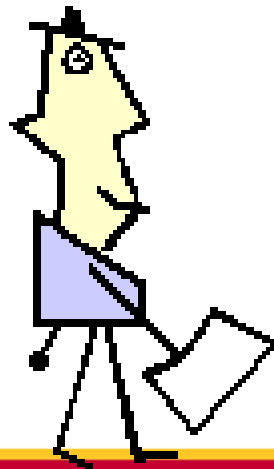
Planning and Budgeting

- Processes are directly linked
 - Plans influence budgets
 - Budgets influence plans
- Dynamic activities
 - Internal and external forces influence planning and budgeting on an ongoing basis
- Statement of businesses priorities
 - Resources reallocated from low- to high-priority needs



Who's Involved?

- Planning and Budgeting must be directed from the top
 - CEO/President/Governing Board
 - Expectations
 - <http://www.ferris.edu/strategic-planning2/Expectations-2015-16-May-6.pdf>
- Widespread Involvement
 - Strategic Planning and Resource Council (SPARC)
 - Individuals (Expertise in their areas)



University Models for Budget Function

- Central planning activity reporting to the President
- Central planning activity reporting to Provost or VP Business/Finance
- Non-planning activity reporting along traditional lines as a finance or control function



The Ferris Budget Planning Model

- Ferris' budget model is a planning function reporting directly to the President.
- The model encompasses four basic fiscal functions:
 - Budget Development (Planning)
 - Short-term (annual) budget development
 - Long-term (four-year) budget planning
 - Budget Allocation and Analysis
 - Fiscal Control of the allocated resources
 - Responsibility of Finance Office
 - Provides checks and balances
 - Audit (GASB)
 - Also responsibility of the Finance Office

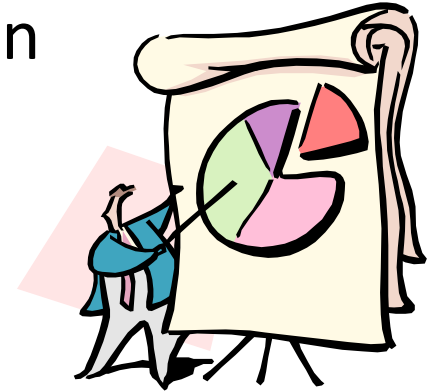
How are Budgets Developed?

- Past Experience used to Project the Future
 - Annual financial statements
 - Prior year budget compared to actual experience
 - Generally incremental in nature
- Based upon Planning Assumptions
 - Projected Revenues/Expenses
 - Sources of revenue
 - Tuition/State Funding
 - Anticipated changes
 - Enrollment/New Initiatives/External Support



Key Fiscal Analysis Tools

- Constant analysis of the fiscal health of an organization is crucial to success
 - Monthly budget comparisons
 - How are we performing compared to budget
 - Annual financial statements
 - Comparison over time compared to prior years
 - Competition
 - How are our competitors improving their bottom line?
 - Assessment of how budget supports mission/goals
 - Dashboard



Annual VS Strategic Budgeting

- Annual Budget
 - Very specific
 - Best estimate of fiscal activity for the year
- Strategic (Long-Range) Budgets
 - Provided to support long-range planning
 - Usually three- to five-years in length
 - Allows entity to plan for the future

Operational (Base) VS One-Time Budget

- Operational budget is annual, recurring categories of revenue and expense
 - Positions, scholarships, utilities, as examples.
- One-time budget is temporary. Once it's gone, it's gone.
 - Classroom remodel, construction projects, department carryover



Questions on Budgeting Concepts?

Fiscal Management

Guiding Principles:

- Fiduciary responsibility
- Laws and policies
- Internal Controls



Reporting:

- The Board of Trustees
- The State
- Other agencies

Fiduciary Responsibility

- Definition:
 - Legal duty to act solely in another party's interests. Someone entrusted with care of money or property.
- Who does Ferris have a Fiduciary Responsibility to?
 - Federal and State government, taxpayers, students, granting agencies, donors, employees, vendors, patients, public, etc
- Key responsibilities
 - Loyalty, due care, good faith, full and fair disclosure



Laws & Procedures



- Legal requirement for fiduciaries
- The gambit of regulatory agencies
 - IRS, DOL (FLSA), OSHA, EPA, ect, ect, ect
(www.federalregister.gov/agencies) >500
www.Michigan.gov/som/0,1607,7-192-29701_29702_30045---_00.html = 18
- Budget Management Policy
- Business & Special Expense Policy
- Travel & Expense Policy

Internal Controls

- Definition:
 - Systematic measures to conduct business in an orderly and efficient manner; safeguard its assets and resources; deter and detect errors, fraud, and theft; ensure accuracy and completeness of its accounting data; provide reliable and timely financial and management information; and ensure adherence to its policies and plans.
www.businessdictionary.com
- What are some examples?
 - Separation of duties, limiting access, requiring approvals, budget to actual reconciliations, locking your office/computer, ect
- Who do internal controls protect?
 - The University
 - Employees
 - Stakeholders



Reporting

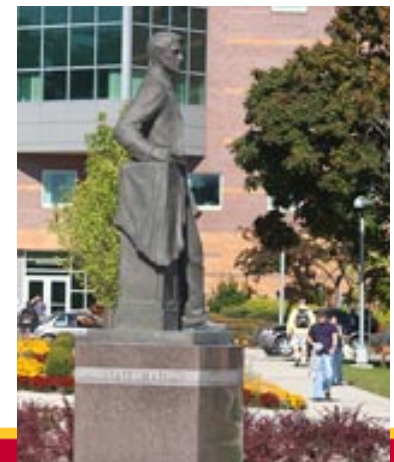
- Financial Statements - www.ferris.edu/finance
 - Balance Sheet
 - Income Statement
- Board Reports
 - Budget to actual
 - Internal audit reports
- IPEDS, HEIDI, CAFR, ect



Questions on Fiscal Management?

FSU Budget Fundamentals

- Ferris is a major industry
 - Customer base of 14,715 students
 - Just over 1,400 full-time employees
 - Annual revenue of \$250 million
 - Ferris has an annual payroll of over \$128 million
- Ferris is the largest employer in Mecosta County
 - Growing Grand Rapids presence
 - Locations across the State



Where do Ferris' Dollars Come From?

- State of Michigan
 - FSU is a public university, supported in part through State budgets
 - State operating appropriation
 - State capital appropriation
- Students
 - Tuition and Room/Board
 - Books and Supplies
- Public
 - Grants, Contracts, Gifts
 - Consumers of products and services (golf course, etc.)



FSU Operating Funds

- **General Fund:** Primary support from State of Michigan and student tuition; supports academic mission of the University
- **Designated Fund:** Supported from gifts and grants for designated purposes
- **Auxiliary Fund:** Self-supporting operations of the University (housing, dining, golf course, etc.)
- **Expendable Restricted:** Restricted State and Federal Grants and Contracts

FSU Non-Operating Funds

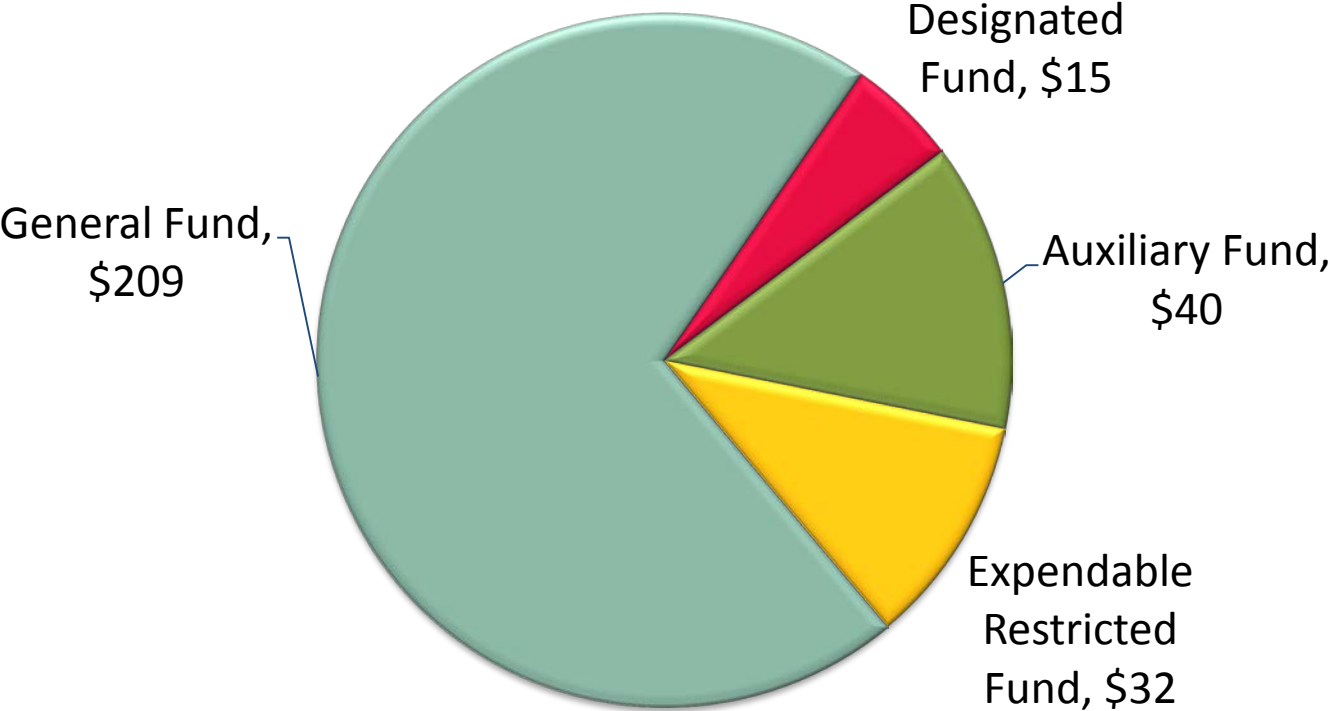
- **Student Loan Fund**
 - Provides students with the means to help meet their financial obligations in obtaining their education. Major sources of revenue are private gifts and government grants
- **Endowment Fund**
 - Amounts for which the donor or Board of Trustees has specified that the principal may not be expended. Interest income used to support operations.

FSU Non-Operating Funds

- Plant Fund - Consists of Four Units
 - Unexpended Appropriations - records assets available for new construction or major repairs/renovations
 - Reserve for Maintenance and Replacement
 - Reserve for Debt Service
 - Physical Properties - Value of physical properties
- Pension Obligation Fund
 - GASB 68
- Agency Fund
 - Represents funds held in custody for students and University related organizations.
 - Ferris Professional Women
 - Residence Hall Association

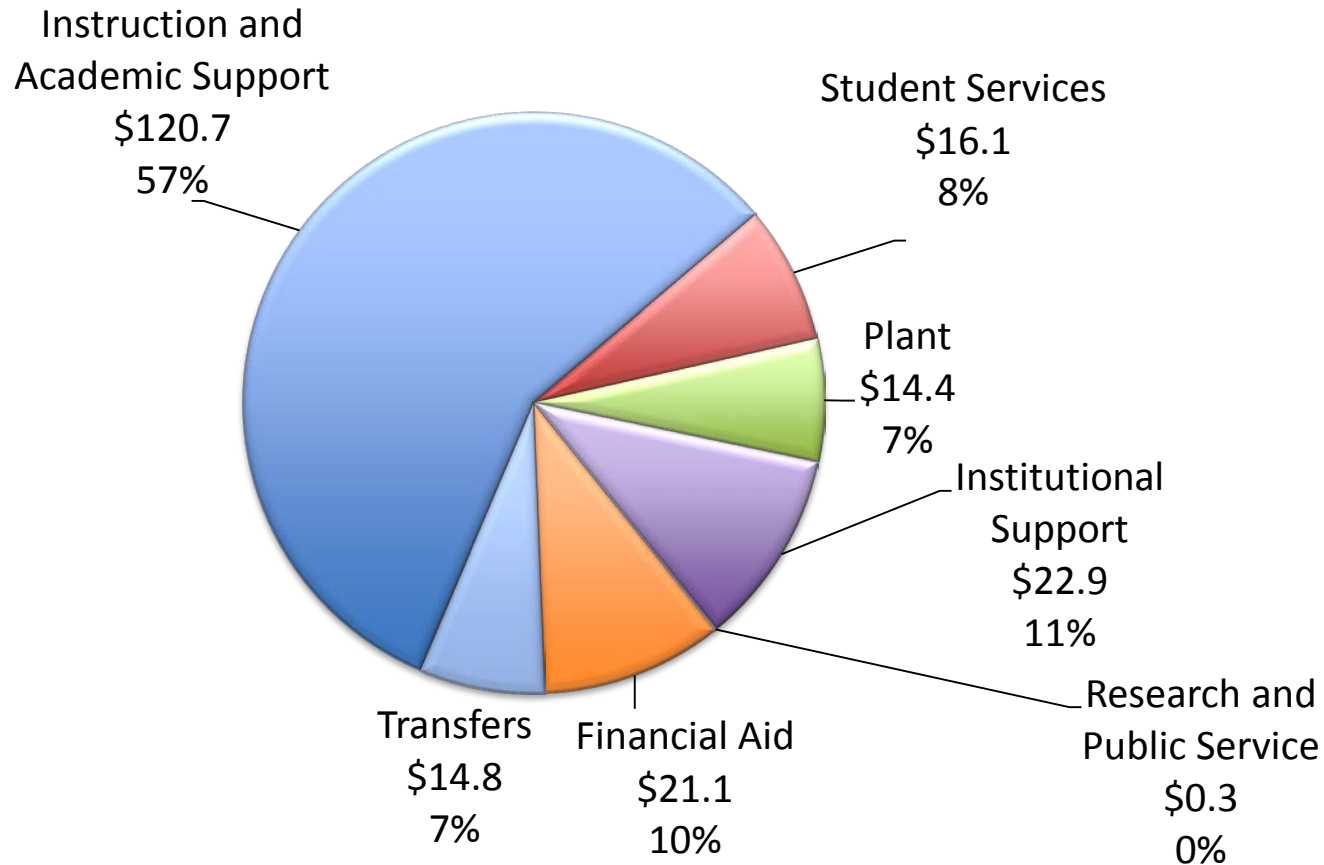
Current Operating Funds Revenues - FY 2015 - \$296 Million

(Amounts in Millions)



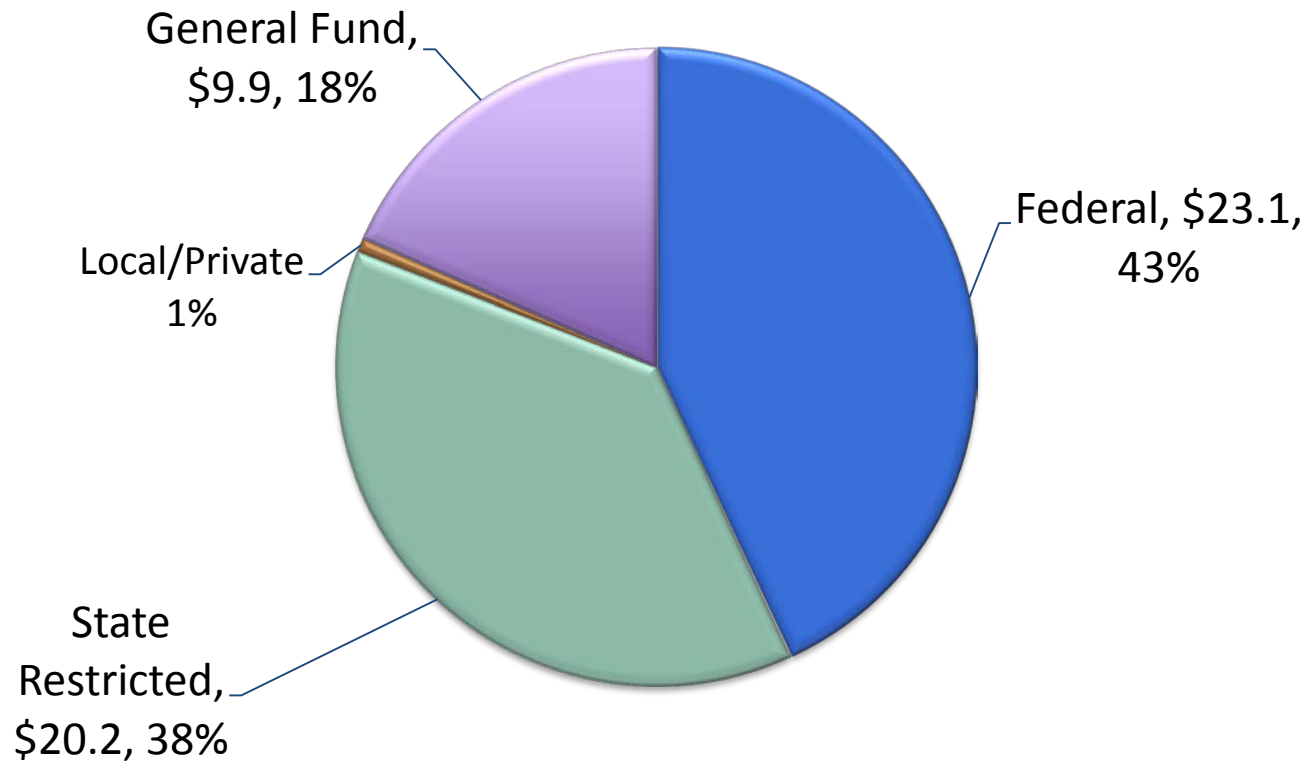
FSU FY 15 General Fund Spending - \$210M

(Amounts in Millions of Dollars)

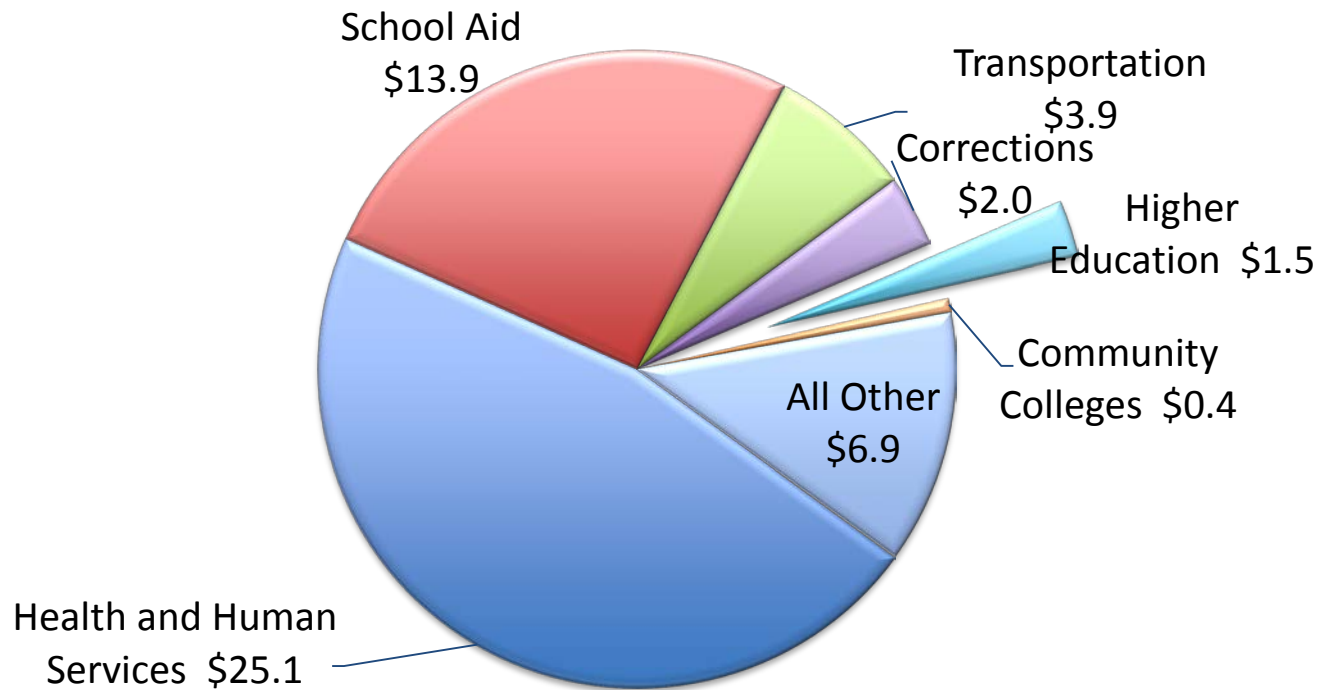


Questions on FSU Budget Fundamentals?

State of Michigan Budget Sources FY 2016 - \$53.6 Billion

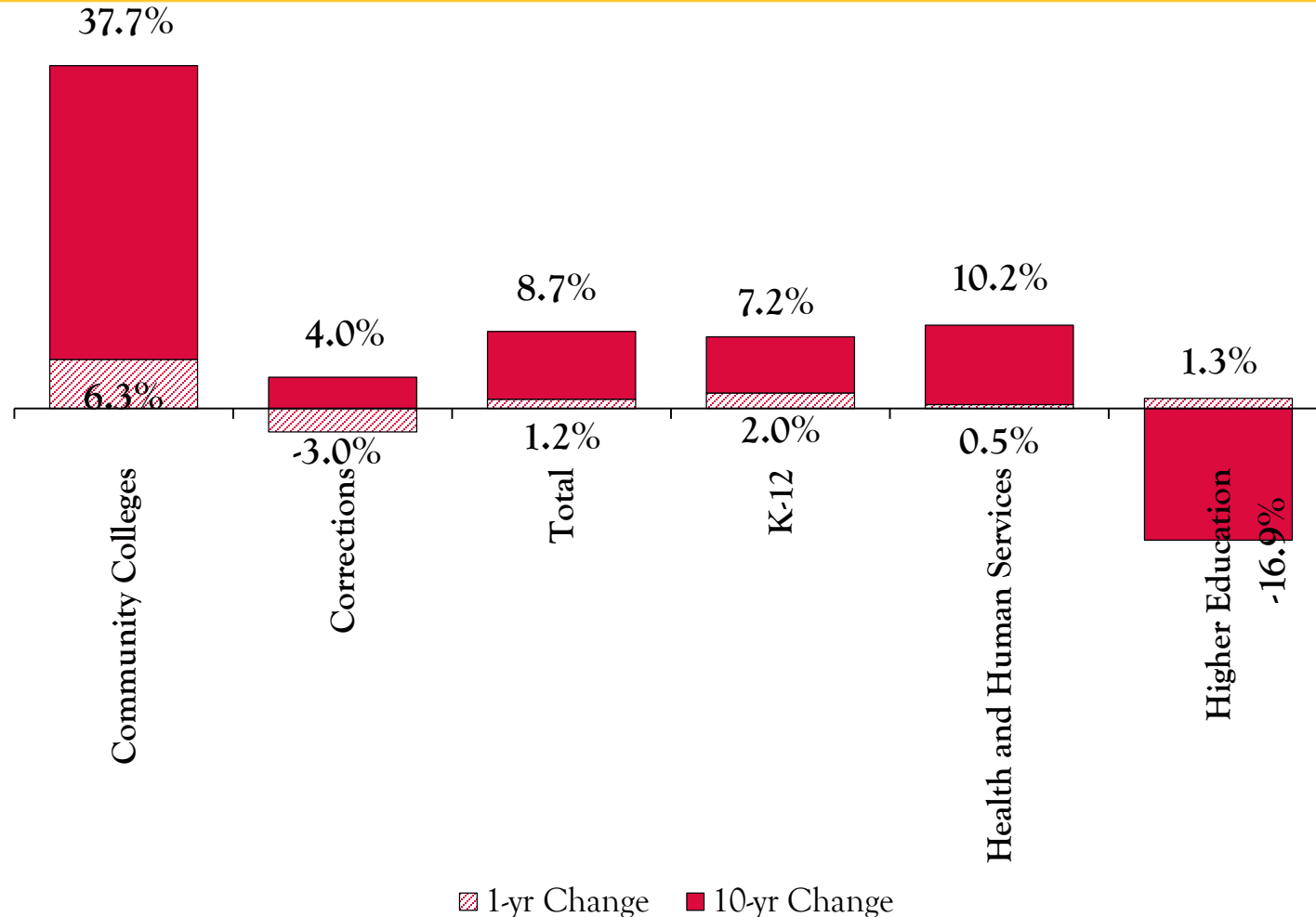


State of Michigan Budget Uses FY 2016 - \$53.6 Billion



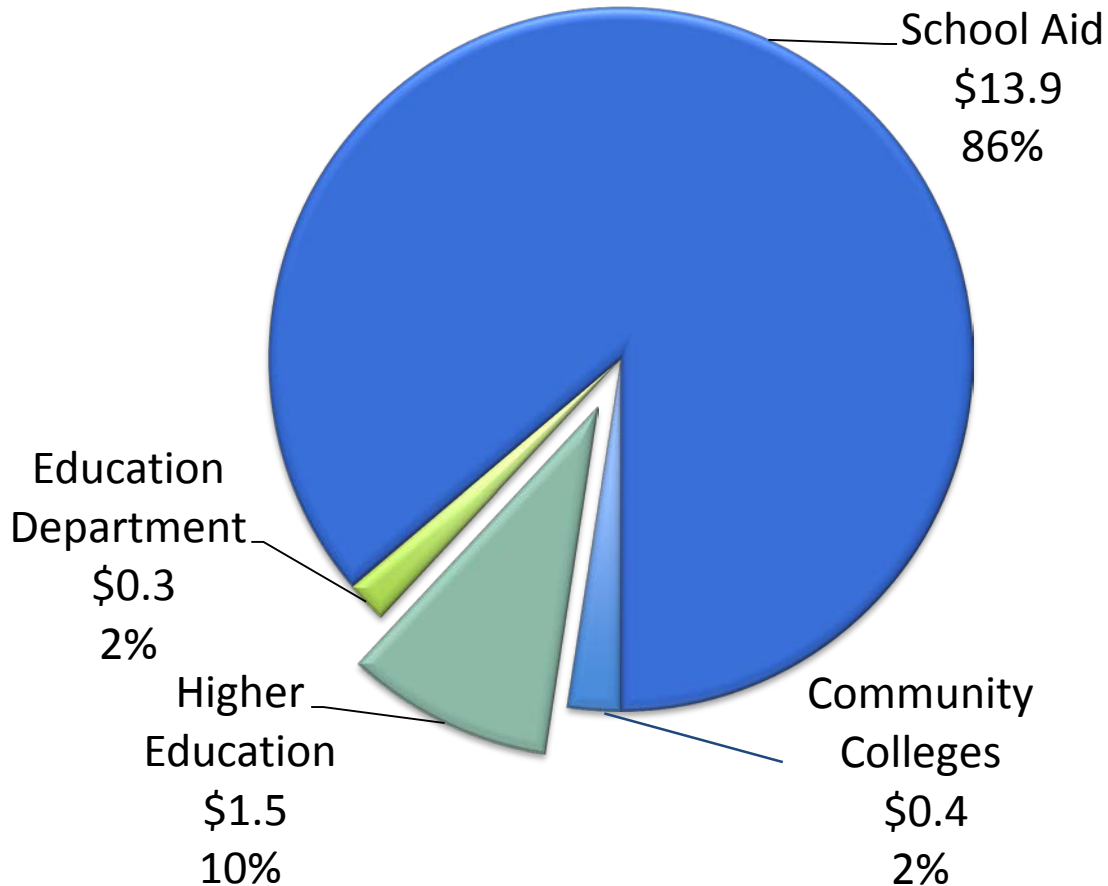
Michigan Budget Priorities

One-Year (2016) and Ten-Year (2006-2016) Change in State Appropriations from State Resources



State of Michigan Spending

FY 2016 Education Budget \$16.1B

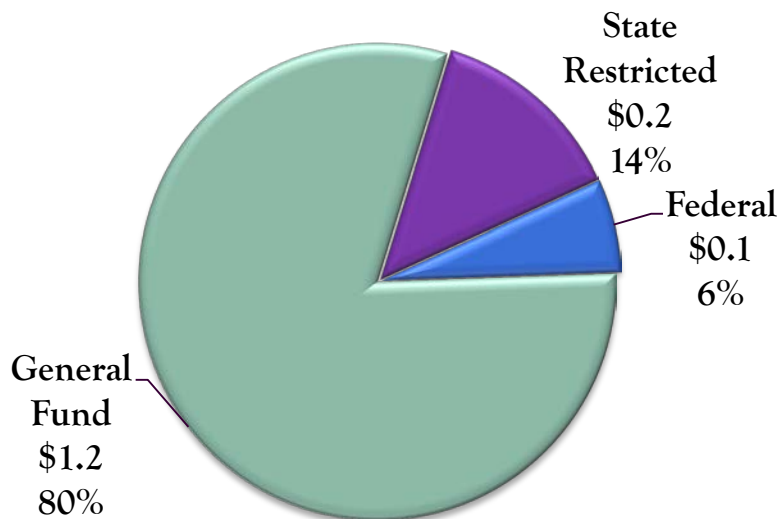


2015-16

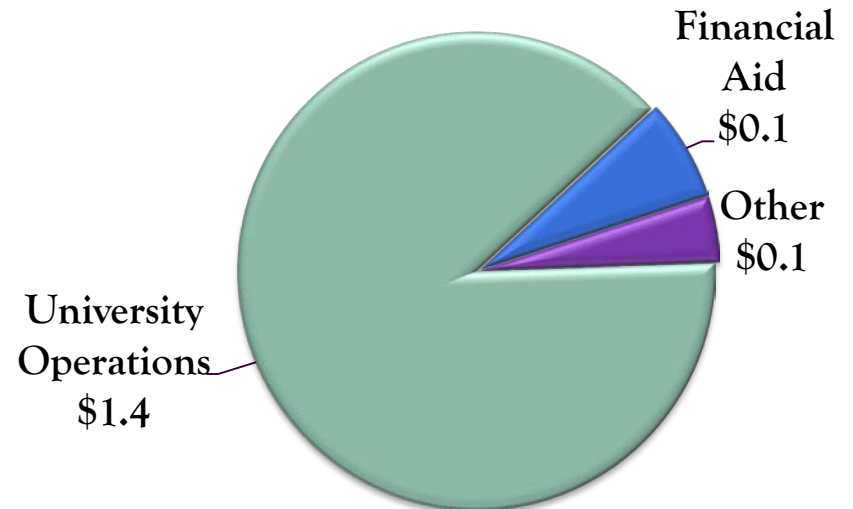
Higher Education Appropriations - \$1.5 B

(Billions of Dollars)

Source of Funds



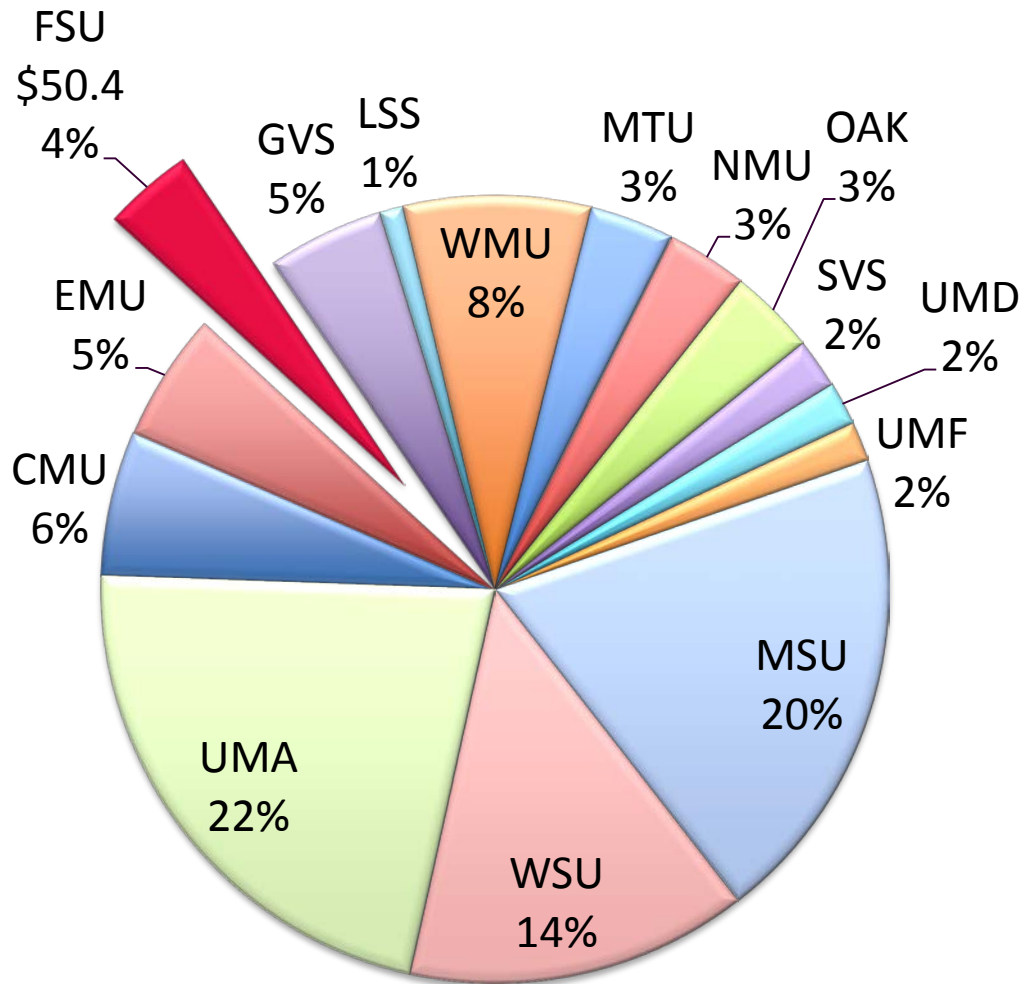
Use of Funds



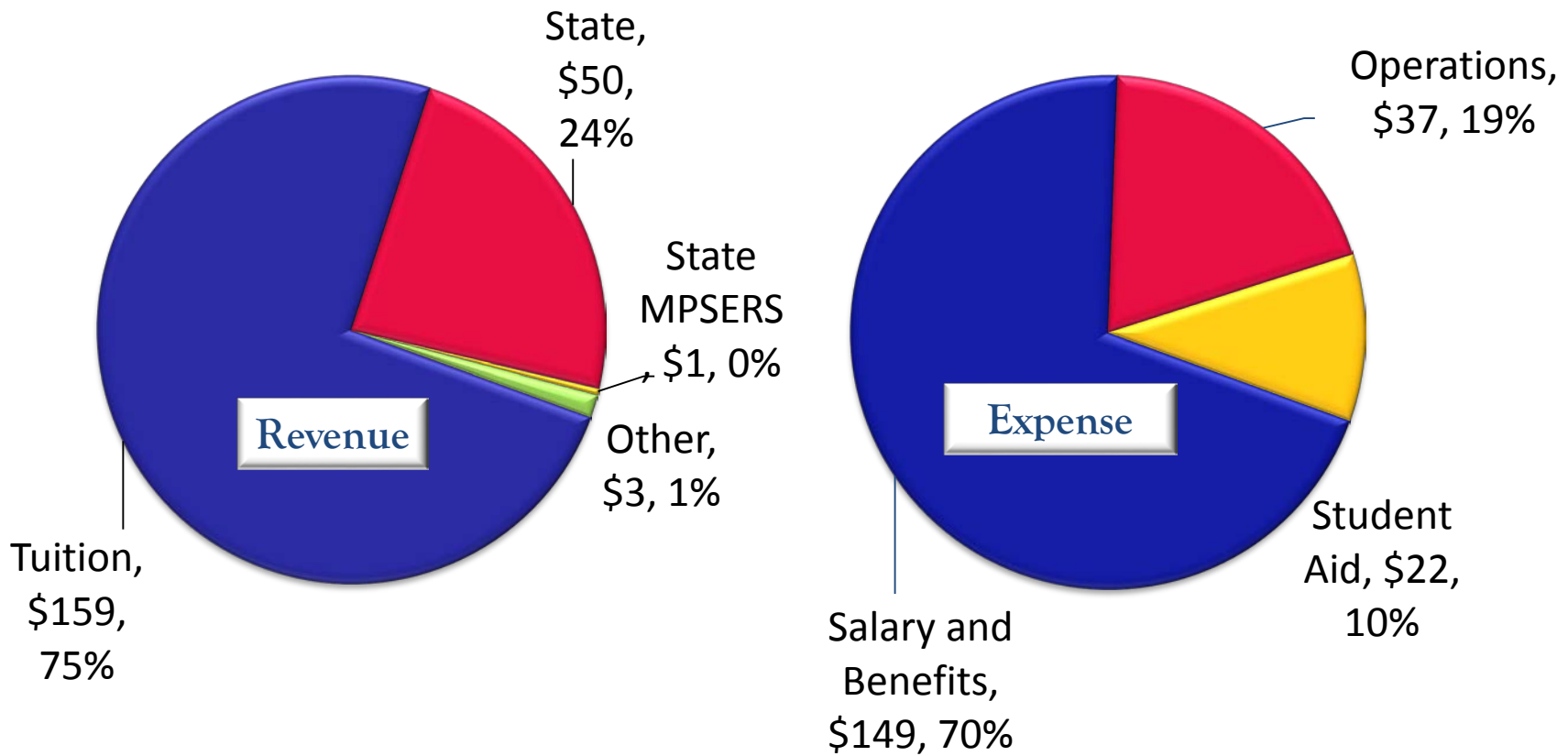
Michigan University Funding Models

- Various models have been used by Michigan to allocate university appropriations
 - Political/Incremental
 - Formula Funding
 - Beginning with FY 2012-13 – Performance Funding
 - Performance funding – 6 measures
 - Critical Skills Undergraduate Degrees/Certificates
 - Research and Development Expenditures
 - Four measures scored against Carnegie Peers
 - Six-Year Graduation Rate
 - Total Degree Completions
 - Institutional Efficiency
 - Percent of Students Receiving a Pell Grant
 - Requirement to not increase tuition more than 3.2%
 - Non-compliance – 1 university in FY15; 2 universities in FY16
 - FY 2015-16 Higher education budget included a \$20.6 million (1.5%) increase distributed through performance funding model

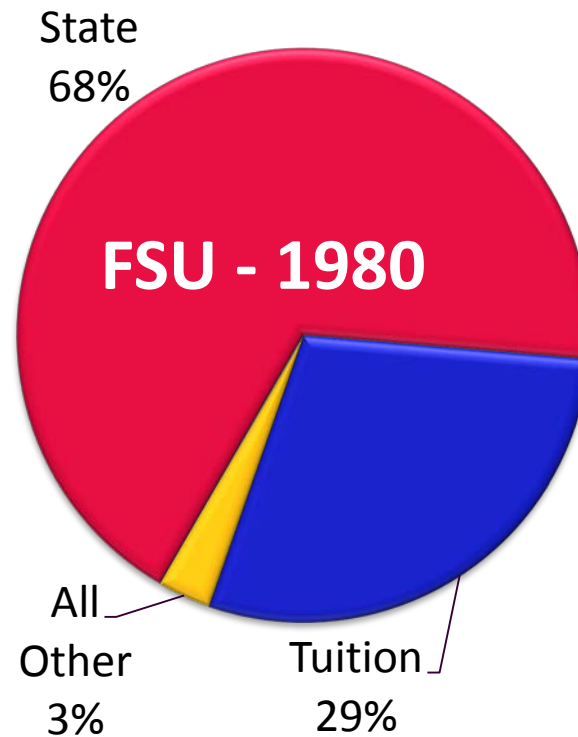
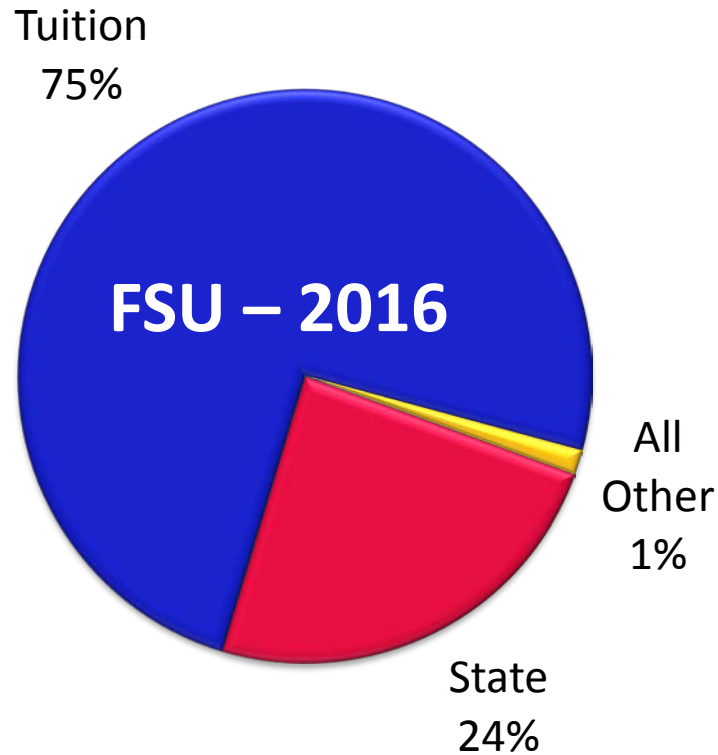
2015-2016 \$1.4 B University Operating Appropriations



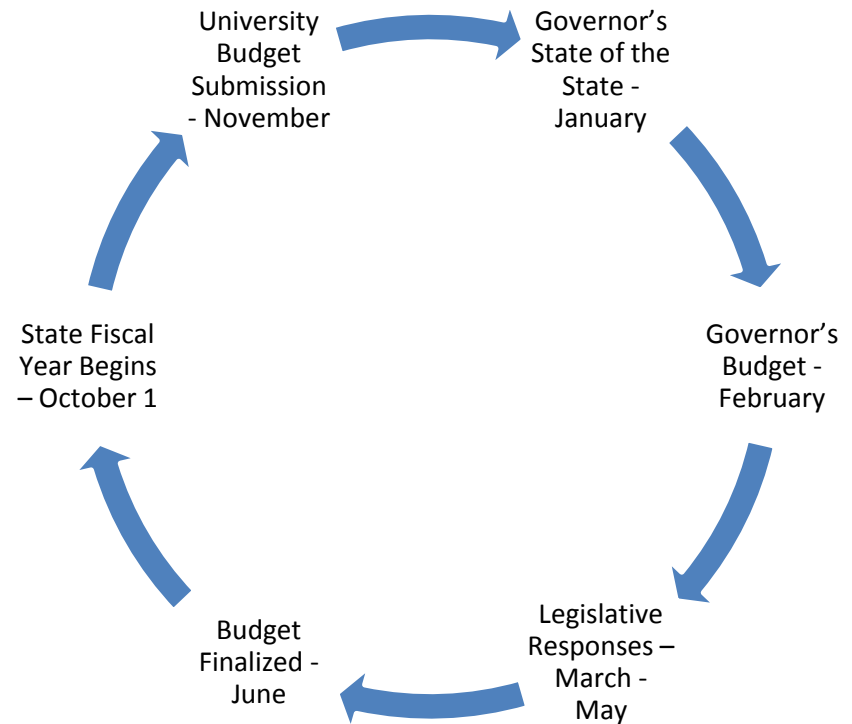
Ferris' FY 16 General Fund Operating Budget - \$213 Million



FSU General Fund Revenue Perspective

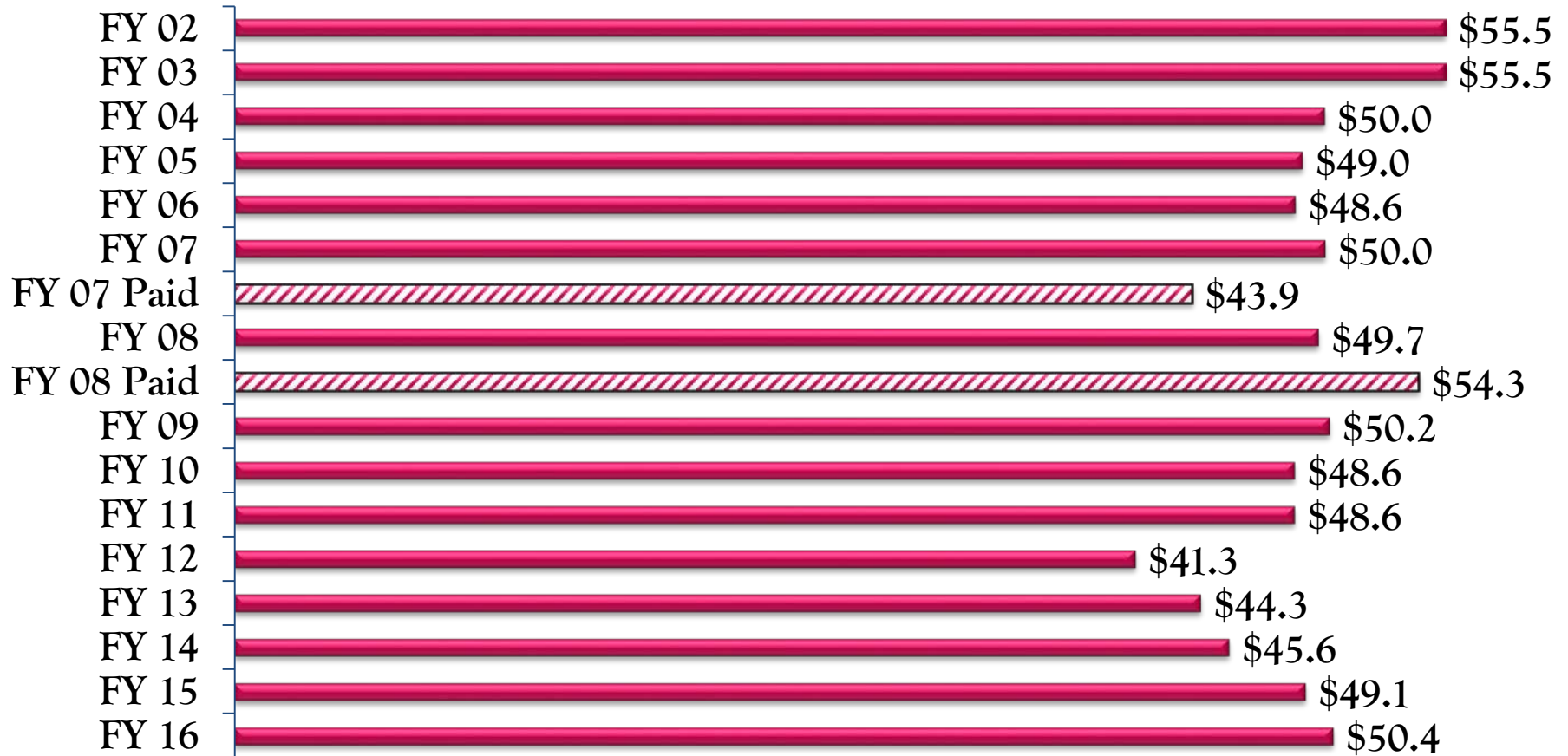


State Appropriation Process



Appropriation History

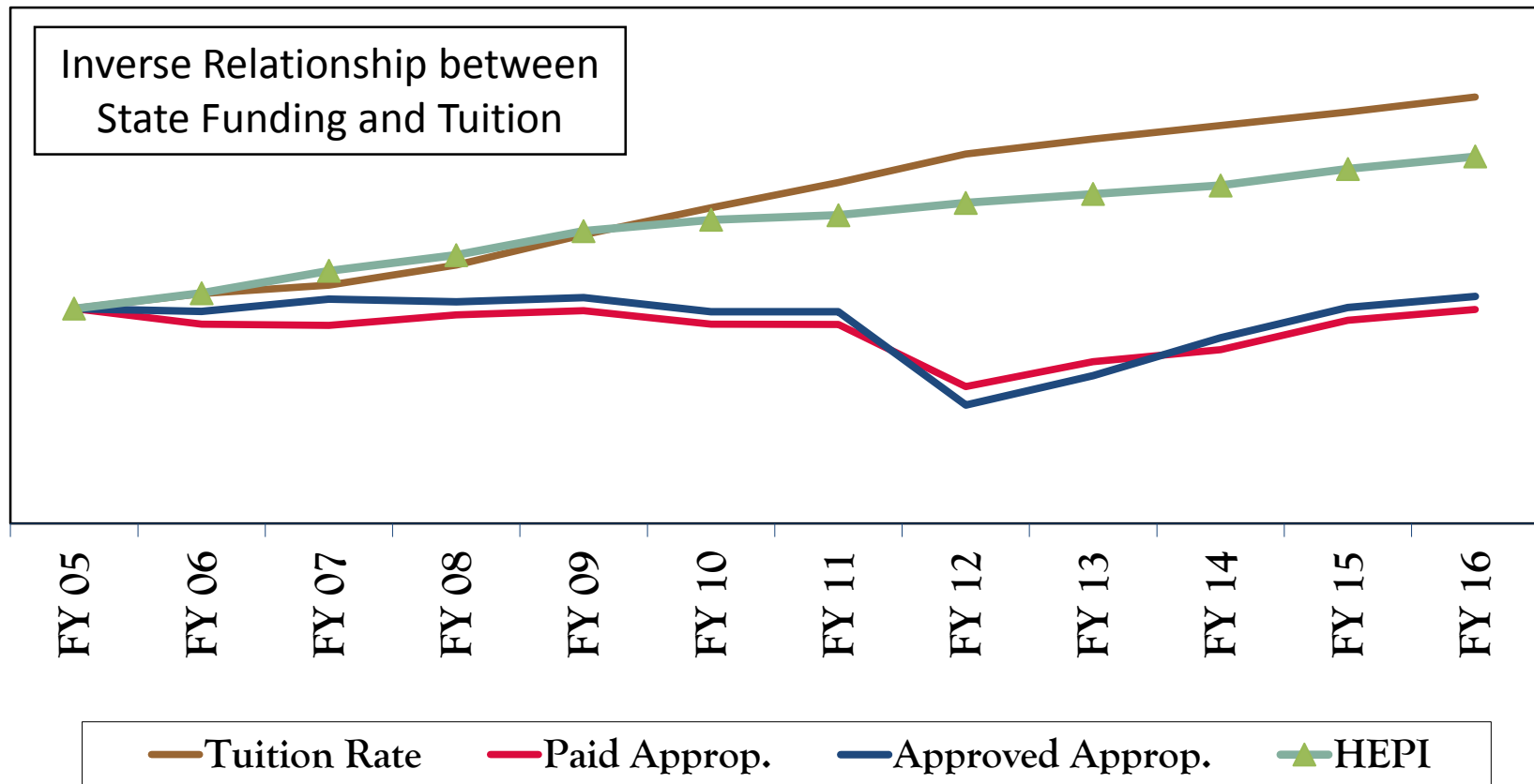
Financial Statement Amounts – Base Appropriations



Appropriation Instability

- Between FY 2002 and 2012, Ferris' State base operating appropriation was reduced by \$14.2M (25.6%)
 - University cut costs to offset
 - Mid-Year FY 2007 \$6.1M (12.5% of the FY 07 total) was delayed or eliminated
 - All but \$844k later repaid
 - FY 2008 approved at \$300k less than the initial FY 2007 appropriation
 - FY 2009 1% increase
 - FY 2010 3% decrease – Federal Stimulus
 - FY 2012 15% decrease – largest in history
 - Lowest appropriation since 1992
- FY 2013 and beyond increases – Performance Funding
 - FY13 8.8%; FY14 10.4%; FY15 7.6%; FY 16 2.6%
 - FY16 still below 2002 level

FSU State Funding and Tuition Rate Rate of Change



State and Tuition Combined Resources Per Student

- Student enrollment is a major driver to institutional budgets
- While Ferris was experiencing State funding reductions, enrollment was increasing
 - Additional challenges exist when more students are supported with reduced resources
- House Fiscal Agency report of December 2013 analyzed State and tuition revenue support per student from FY 01 to FY 14

Michigan Public University

Change in State Appropriations per Student

FY 2001 to 2014 Projected

	Annualized	Cumulative
Ferris State	-3.7%	-38.6%
UM-Flint	-3.7%	-38.4%
Oakland University	-3.4%	-36.5%
UM-Ann Arbor	-3.2%	-34.0%
Grand Valley State	-2.9%	-31.8%
Michigan State	-2.9%	-31.5%
Average	-2.7%	-29.9%
Saginaw Valley State	-2.6%	-29.1%
Wayne State	-2.5%	-28.2%
UM-Dearborn	-2.4%	-27.1%
Northern Michigan	-2.4%	-27.1%
Michigan Tech	-2.0%	-23.4%
Central Michigan	-1.9%	-22.1%
Eastern Michigan	-1.8%	-20.8%
Western Michigan	-0.9%	-11.3%
Lake Superior State	0.5%	6.8%

Source: House Fiscal Agency State Appropriations, Tuition, and Public University Operating Costs – December 2013

Michigan Public University

Change in Tuition and Fees Revenue per Student

FY 2001 to 2014 Projected

	Annualized	Cumulative
UM-Ann Arbor	5.4%	98.2%
Ferris State	6.2%	117.4%
UM-Dearborn	7.1%	143.6%
Northern Michigan	7.2%	147.0%
Grand Valley State	7.3%	149.0%
Average	7.3%	149.6%
Saginaw Valley State	7.4%	153.8%
UM-Flint	7.5%	155.1%
Oakland University	7.6%	159.5%
Lake Superior State	7.7%	162.4%
Michigan Tech	7.8%	166.5%
Central Michigan	8.1%	174.7%
Michigan State	8.2%	179.2%
Western Michigan	8.6%	192.0%
Wayne State	9.1%	209.0%
Eastern Michigan	9.2%	213.1%

Source: House Fiscal Agency State Appropriations, Tuition, and Public University Operating Costs – December 2013

Michigan Public University

Change in Total Resources per Student

FY 2001 to 2014 Projected

	Annualized	Cumulative
Ferris State	2.4%	36.0%
Northern Michigan	2.4%	36.8%
UM-Ann Arbor	2.8%	43.4%
Wayne State	2.9%	44.3%
Average	3.5%	56.6%
Michigan Tech	3.5%	56.8%
UM-Flint	3.6%	59.0%
Saginaw Valley State	3.7%	60.7%
Michigan State	3.8%	62.0%
Oakland University	4.0%	66.2%
UM-Dearborn	4.1%	69.0%
Grand Valley State	4.2%	70.1%
Central Michigan	4.4%	75.0%
Lake Superior State	4.4%	76.0%
Western Michigan	4.6%	80.3%
Eastern Michigan	4.8%	84.3%

Source: House Fiscal Agency State Appropriations, Tuition, and Public University Operating Costs – December 2013

FSU Budget Today

- Strong – balanced – representative of the priorities of the University
- State performance funding aligns well with Ferris mission
- Flexible

State Budget Today

- State economy improving slowly
 - Total employment increasing at rate of 1.6% - slightly above national level
 - Unemployment has declined to match the national average of 5% in October

FY 2016-17 State Budget

- Modest revenue growth
- Cost pressures continue – particularly focusing on unfunded pension liabilities; roads; tax cuts; education
- Michigan business leaders lobbying for significant investment in education
- Performance funding and tuition restraint

FSU Planning Challenges

- Enrollment
 - Fewer Michigan high school graduates
 - Perceived value of higher education vis-a-vis student debt
 - Competition (e.g. community college baccalaureate degrees)
- State higher education expectations
 - Increase number of State residents with degrees
 - Tuition restraint
- Reverse State disinvestment in universities and in students
- Continue to address high levels of student debt

Web Reference

- This presentation
 - <http://www.ferris.edu/htmls/administration/president/budget-office/information.htm>
- Most Recent Budget Forum
 - <http://www.ferris.edu/HTMLS/administration/president/budget-pres/forums/2015Fall-Budget-Forum-with-sticky-notes.pdf>
- Dashboard
 - <http://fsuiws2:6700/idashboards/?guestuser=guest>
- Financial Statements
 - <http://www.ferris.edu/finance/>
- Budget Management Policy
 - <http://www.ferris.edu/htmls/administration/buspolletter/financial/BudgetManagementPolicy.pdf>
- Business and Special Expense Policy
 - <http://www.ferris.edu/HTMLS/administration/buspolletter/financial/BP1510-Business-and-Special-Expense-Policy.pdf>
- Transportation and Travel Policy
 - <http://www.ferris.edu/HTMLS/administration/buspolletter/financial/transportation-travel.pdf>
- Strategic Planning
 - <http://www.ferris.edu/htmls/administration/president/strategic/index.htm>

Thank You for your Attention!



Questions?

Leadership Exercise

