

# **Fiscal Year (FY) 2018 Year-End Net Assets Overview**

## **February 1, 2019**

### **Board of Trustees**

#### **Budget, Finance & Investment Committee**

## **Summary**

**Net Assets** are defined to include all forms of net financial assets that are used for operations. Net Assets include cash, accounts receivable, and other liquid assets. Net Assets exclude balances of other major asset/liability categories reflected on the balance sheet such as plant and property, endowment principal, debt, and post-employment benefit obligations.

**Unrestricted Net Assets** are defined as Net Assets that do not have external conditions with respect to how they may be used. Unrestricted Net Assets originate from sources including tuition and fee revenue, the majority of the annual state appropriation, facilities and administrative cost recovery, and gifts and endowments designated as unrestricted.

**Restricted Net Assets** are defined as Net Assets that have a legal or regulatory obligation to be used for a particular purpose. Restricted Net Assets originate from sources including grants, contracts, and the majority of gifts and endowments.

Within the University's financial records, Unrestricted and Restricted Net Assets are divided into accounts that represent similar business activities or have a designated purpose. Over time, the administration has proposed, and the Board has approved, the creation of specific Unrestricted Net Asset accounts to be used for designated purposes; these are described in further detail below. Spending of Unrestricted Net Assets is generally determined by the administration as part of the annual budget process. Under board authority guidelines, the administration is required to obtain board approval in order to use certain Unrestricted Net Assets.

## **Unrestricted Net Assets**

### ***General Fund Net Asset Accounts***

**Accumulated Unit Reappropriations** represent accumulated operating net fund balances from prior fiscal years for academic units. The University's operating procedure allows for accumulated operating net fund balances to be managed within academic or administrative departments for multi-year projects. The approval of multi-year projects supporting strategic objectives of an academic unit is vested in the Provost, who evaluates unit plans and authorizes required spending for program development, faculty recruitment, or specialized equipment. During the budget review process, unit heads present their strategic plans for use of these assets in the current and succeeding three years. Use of these funds will follow the established request and approval process with the Provost.

**Other General Fund Net Assets** represent all Unrestricted Net Assets that are not Accumulated Unit Reappropriations and are not designated Unrestricted Net Asset accounts. This category includes other University operating net surpluses from prior fiscal years, proceeds from unrestricted gifts, self-insured risk reserves, and working capital.

#### *Other Unrestricted Net Asset Accounts*

**Treasury Operations Net Assets account.** This account receives funds from internal budget debt commitments and pays the debt service and related expenses associated with external University debt. Internal budget debt commitments paid into this account are structured to generate a modest annual surplus over payments out of the account for external obligations.

**Net Tuition Stabilization Fund account.** This account was created in order to provide the administration with resources to manage modest shortfalls in annual net tuition targets without seeking Board approval. If net tuition is below the target, these funds may be used by the administration to offset any shortfall. As defined in the Board resolution approving the account, funds used must be replenished within two years. This account was created in 2014 pursuant to Board approval on May 17, 2014.

**Capital Project Pre-Funding account.** This account was created to enable the administration to fund the early phases of major Board-approved capital projects, before external project funding (private gifts or debt) has been raised. This account was initially funded with \$10 million from the Treasury Operations account. This account was created in 2014 pursuant to Board approval on May 17, 2014.

**Loan Net Assets account.** This account represents the outstanding balance of student loan receivables associated with loans previously offered by the University; funds are unrestricted.

**Continuing and Distance Education Loan Fund account.** This account was originally established with funds from the Continuing Education Income/Expense fund. These funds are used to enable students to take courses in the summer when financial aid is not available to those who have accessed aid in the two previous semesters.

**Green Revolving Loan Net Asset account.** This account was established to allow the administration to fund internal energy efficiency projects with defined payback periods, and was originally funded with the transfer of \$13.0 million from Other General Fund Net Assets. This account was created in 2012 pursuant to Board approval on February 4, 2012.

**Income/Expense Activities Net Asset account.** This account supports the activities of an array of Income/Expense activities across the UVM campus. The balance includes a central allocation of \$1.0 million to serve as an internal reserve against extended poor performance within an individual income and expense activity. In a number of cases, income and expense accounting is subject to federal audit to assure that rates charged to grant activities include full cost accounting.

**Plant Net Asset account.** This account was authorized to fund costs associated with plant repair or improvement, and includes all reserves established in conjunction with capital building projects. The balance includes the facility renewal reserve from annual general fund transfers for the creation of long-term reserves to address major building systems repair and replacement. The balance also includes reserves for library capital improvements, equipment spending, and Residential Life balances set aside for future capital projects.

## **Restricted Net Assets**

**Accumulated Gift Net Asset account.** This account includes more than 700 separate restricted gifts used for donor-defined and University-accepted purposes, pursuant to gift agreements. These gifts, either because of donor intent or size, are not affiliated with the University's endowment. Balances are available for the defined purposes on an ongoing basis as long as funds are available.

**Accumulated Endowment Income Net Asset account.** This account consists of more than 800 separate restricted endowment-spending accounts to be used for donor-defined and University-accepted purposes, pursuant to endowment agreements. Funding for these accounts comes from the annual distributions from endowments. Balances are available for the defined purposes on an ongoing basis as long as funds are available.

## **Net Assets Spending Authority**

Spending authority over the various categories of Net Assets is linked to the nature of the asset, the legal or policy requirements connected to the category and the business unit within the University vested with the authority. The President and the Vice President for Finance and Treasurer are responsible, in conjunction with the Board pursuant to Board policies, to assure that spending authority is exercised appropriately across the entire University. As a part of the annual budget process, all academic units submit their proposed multiyear spending requirements and how available net assets would support those priorities. The Provost reviews these proposals and will either approve or amend the proposals as a part of the budget approval process. Spending against plans then requires a subsequent, specific request and authorization.

**Net Asset Balances as of June 30, 2018 and Encumbered amounts as of December 31, 2018**

	FY12	FY13	FY14	FY15	FY16	FY17	FY18 Unaudited	FY18 Encumbered amount	FY18 Unencumbered amount	Comments
<b>UNRESTRICTED</b>										
General Fund Net Assets										
Accumulated Reappropriations	23,181,480	24,714,268	26,085,346	27,717,123	28,650,545	39,322,261	73,227,083	73,227,083	0	Encumbered by administration (1)
Other General Fund Net Assets	37,621,218	29,686,018	17,140,598	15,873,404	19,099,860	23,208,223	25,304,985	12,653,062	12,651,923	Encumbered by administration (2)
Presidents Strategic Initiative Fund	0	0	0	4,577,537	4,577,537	2,142,847	2,096,635	1,263,374	833,261	Encumbered by BOT resolution (3)
General Fund Net Assets Total	<u>60,802,698</u>	<u>54,400,286</u>	<u>43,225,943</u>	<u>48,168,064</u>	<u>52,327,942</u>	<u>64,673,331</u>	<u>100,628,703</u>	<u>87,143,519</u>	<u>12,651,923</u>	
Treasury Operations Net Assets	12,028,758	13,521,613	13,928,327	14,382,669	14,875,219	14,011,790	13,717,360	12,600,000	1,117,360	Encumbered by BOT resolution (4)
Net Tuition Stabilization Fund			4,500,000	4,500,000	4,500,000	4,500,000	4,500,000		4,500,000	Encumbered by BOT resolution (5)
Capital Project Pre-funding Account	0	0	3,000,000	3,000,000	3,000,000	2,250,000		0	0	Encumbered by BOT resolution (6)
Loan Net Assets	7,152,878	4,590,078	2,471,739	3,080,897	3,326,107	5,234,370	5,557,579	200,000	5,357,579	Encumbered by administration (10)
Loan Fund Continuing & Distance Education	3,349,821	3,836,200	3,835,346	3,833,844	3,868,851	3,855,254	3,861,661	3,861,661	0	Encumbered by administration (7)
Green Revolving Loan Fund	0	13,000,000	12,891,498	12,977,248	12,644,310	11,941,596	9,886,207		9,461,875	Encumbered by BOT resolution (8)
Income/Expense Activities Net Assets	16,316,571	17,468,831	16,607,169	20,266,413	22,632,779	24,201,181	19,083,882	17,249,044	1,834,838	Encumbered by administration (9)
Plant Net Assets	41,105,856	46,360,253	57,389,563	57,575,905	79,419,089	67,844,524	83,909,976	83,909,976	(0)	Encumbered by administration (10)
<b>Total Unrestricted Net Assets</b>	<b><u>140,756,582</u></b>	<b><u>153,177,261</u></b>	<b><u>157,849,586</u></b>	<b><u>167,785,041</u></b>	<b><u>196,594,297</u></b>	<b><u>198,512,046</u></b>	<b><u>241,145,367</u></b>	<b><u>205,388,532</u></b>	<b><u>34,923,574</u></b>	
<b>RESTRICTED</b>										
Accumulated Gift Net Assets	20,889,502	15,097,851	16,630,889	12,889,212	10,214,239	10,363,929	15,349,899	10,363,929		
Accumulated Endowment Income Net Assets	13,856,329	14,942,198	14,527,180	14,398,181	15,604,755	16,351,378	15,634,815	16,351,378		
<b>Total Restricted Net Assets</b>	<b><u>34,745,831</u></b>	<b><u>30,040,049</u></b>	<b><u>31,158,069</u></b>	<b><u>27,287,393</u></b>	<b><u>25,818,994</u></b>	<b><u>26,715,307</u></b>	<b><u>30,984,714</u></b>	<b><u>26,715,307</u></b>		
<b>COMBINED</b>										
<b>Total Net Assets</b>	<b><u>175,502,413</u></b>	<b><u>183,217,310</u></b>	<b><u>189,007,655</u></b>	<b><u>195,072,434</u></b>	<b><u>222,413,291</u></b>	<b><u>225,227,354</u></b>	<b><u>272,130,082</u></b>	<b><u>232,103,839</u></b>	<b><u>34,923,574</u></b>	

**Notes**

- 1) Accumulated reappropriations are retained at the unit level pursuant to historical administration policy
- 2) Encumbered amount relates primarily to required operating/insurance reserves/steamline repair
- 3) Fund created by BOT resolution - President reports annually on its use
- 4) Treasury operations encumbrance related to BOT resolutions creating the internal bank (for debt service payments) - \$8.6 million for STEM and \$2 million for Residence Hall in the future
- 5) NTSF created by BOT resolution May 2014, \$4.5 million authorized
- 6) CPPFA created by BOT resolution May 2014, \$10.0 million authorized - \$7 million transferred to STEM via 2 BOT resolutions; \$2,250M reserved for Kalkin Hall expansion
- 7) This is Income/Expense Funding set aside to provide limited financial assistance for summer students in unique programs.
- 8) EERLF created by BOT resolution Feb 2012, \$13.0 million authorized
- 9) Encumbrances relate to over 200 internal income/expense programs
- 10) Encumbrances dictated by internal accounting policies