Present: Terry Bradshaw (CALS), Thomas Chittenden (Faculty Senate President), Terri Donovan (RSEN), Teresa Cahill-Griffin (CNHS), Tony Julianelle (CEMS), Jane Knodell (CAS), Guillermo Rodriguez (CAS), Andrey Ukhov (GSB), Cory Teuscher (LCOM), Andrey Ukhov (GSB), Haley Woodside-Jiron (CESS)

Absent: Paul Philbin (LIB), Pending (SGA), Pending (LCOM), Pending (GSS)

Guests: Ryan Hargraves, Patricia Prelock

The meeting was called to order by chair Jane Knodell at 2:30pm via Microsoft Teams.

1. **Approval of November Minutes.** The minutes of November 2, 2020 were approved as written.

2. **Chair Update.** The FPPC is willing to take on any tasks assigned by Faculty Senate leadership around the university restructure and the proposed cuts in CAS.

3. **New Funding Model for RLC courses, Richard Cate.** The RLC follows the support center financial model. Residential learning communities and the credit hours for their courses follow the student to their home college. The cost for these courses would be centrally located and allocated back out to the units. The Provost is evaluating the way one course credit classes are being done and will report out this coming spring if there will be any changes.

4. **FY 22 Budget Update, Richard Cate.** Specific guidance has not gone out to the colleges around the budget as they are waiting for the January 15th application deadline. The general guidance is that colleges look at programs with low enrollments. In the fall they asked academic units that had projected deficits to look at ways they can structurally balance for FY22. Things look a tad better for FY22 than they did for FY21 but they can’t know for sure until the January 15th deadline to project undergraduate revenue. There is fear a tuition increase in the current atmosphere will lose more revenue by loss of students than they would gain with the increased tuition. The university has cut the budget every year for the last 12 years, using one-time money does not help balance the budget. That money runs out and the problem of the budget has not been solved. There is no evidence that things are going to improve and there will most likely continue to be budget cuts going forward. Using the 34 million raining day fund will only help if the issue is a one-time issue, not a continuing one.

Demystifying UVM Foundation

Prepared based on publicly available Financial Statement released by the Foundation.

Preliminary Analysis
Prepared by
Andrey Ukhov
Associate Professor of Finance, Grossman School of Business

Disclaimer(s)


• Financial statements are prepared in accordance with principles of financial accounting. Financial accounting is different from managerial accounting, and “translation” is needed.

• Author’s general view: A well managed, accountable to faculty, and fully transparent fundraising and endowment management activities are critically important for long-term vitality of a University.
The University of Vermont and State Agricultural College Foundation, Inc.

- **Date of inception:** March 14, 2011
- Created “to secure and manage private support for the benefit of the University of Vermont. The Foundation is a component unit of the University of Vermont.”
- Net assets of the Foundation are classified into the following **three categories**:
  - **Unrestricted net assets** represent the portion of expendable funds that are available for support of the operations of the Foundation.
  - **Temporarily restricted net assets** consist of contributions that have been restricted by the donor for specific purposes or are time restricted.
  - **Permanently restricted net assets** consist of contributions that have been restricted by the donor that stipulate the resources be maintained permanently, by permit the Foundation to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

**Fundraising**

- The Foundation assesses a **5% fee** on all monetized unrestricted and restricted gifts received, as determined by the Foundation’s Board of Directors.
- The Foundation provides much of the development functions for the University of Vermont.
- **Comment:** Fundraising is also performed outside of the Foundation (the Deans, faculty involvement). The cost of these efforts is not reflected in Foundation’s financial statements.
  - Contributions, including unconditional promises to give, are recognized as revenues in the period received.
  - Contributions of assets other than cash are recorded at their estimated fair value.
  - Contributions to be received after one year are discounted at the appropriate rate commensurate with the risks involved.
Mental Model: A Goose That Lays Golden Eggs

• Four key variables:
  • [1] The cost of feeding the goose (UVM to Foundation)
  • [2] Sent from Foundation to UVM
  • [3] The growth in previously laid eggs (Rate of return on the Endowment, after all fees)
  • [4] New eggs laid (Gifts raised)

• Creation of Foundation: An Excellent Long-Term Initiative.

• A non-trivial task: Determining these four variables from financial statements.

Four Key Variables

• [1] The cost of feeding the goose (UVM to Foundation annual support)
• [2] Sent from Foundation to UVM (from Endowment plus current use gifts to UVM General Fund)
• [3] New eggs laid (Gifts raised)
• [4] The growth in previously laid eggs (Rate of return on the Endowment, after all fees)

• Important Variables
  • Number of employees (not reported) & compensation
  • Understanding Fees charged

Figuring Out Salaries / Wages

• The Foundation contributes 10% of salaries for each regular staff member who voluntarily contributed a minimum of 2% of pre-tax earnings to 403(b) retirement plan. Started in 2012, with $442,787 contribution.
• These contributions are reported. Can use this information to calculate implied salary:
  • 0.1 * Salaries = Reported Contribution
  • Salary = (Reported Contribution) / 0.1
• This is a lower approximation of the salaries and wages.
• In 2015 the Foundation started to report more info on salaries.
Salaries: 2012 - 2020

% Change in Salaries

% Change Calculated Salaries  % Change Reported Compensation
Cash Flows Between UVM and Foundation

500 mil, 5 mil / year
Asset = 5/0.05 = 100mln

What is the Benchmark? (1)

- What is the expected pattern of cash flows to the Foundation vs Flows from the Foundation Endowment to UVM?
- A simple model. Every year UVM pays Foundation $1 for fundraising.
- Every year Foundation raises $5 in new funds for the Endowment
- Payout from the Endowment is 5% per year, in perpetuity (forever).
  - Every $5 in the Endowment Principle produce $0.25 in annual payout.
- What will the pattern of cash flows look like?
  - The expenses stay fixed at $1 per year
  - The payout from the Endowment grows, because each year new assets are expected to be added to the Endowment.
- With flat annual expenses, annual payout is increasing, because new funds raised every year add to the endowment principal.
  - You are paying fixed amount for increasing payouts.

What is the Benchmark? (2)

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<th>PAYOUT @ 5%</th>
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</table>
What is the Benchmark? (3)

INCREMENTAL VIEW
Cash Flows Between UVM and Foundation
University Support vs. Change in Distribution

Remaining Questions

• Other forms of UVM support for Foundation
  • Foundation Rents from UVM. Is the rent $1 per year? Total subsidy?
  • Periodically, Foundation borrows from UVM at 0% interest (3.5-4% + 1%). Total subsidy?

• There are asset transfers from UVM to Foundation

• Structure of the Endowment
  • Total Endowment = UVM Endowment + Foundation Endowment
  • What % of the Endowment is unrestricted funds?

• Endowment investment performance (annual returns)?
• Investment management fees charged to the endowment?
Other Transfers: UVM to Foundation

• In 2013: $1,615,090 post retirement benefit obligation (Foundation Retirement Health Savings Plan). This “relieves the University of any further post-retirement health benefit liability for the Foundation staff or retirees.”

• In 2015: [p. 15] UVM Foundation leases office space at 411 Main Street, Burlington, VT, and at 61 Summit Street, Burlington, VT.
  • These properties owned by the University. What is the rent that the Foundation pays to UVM?

• In 2015: [p. 15] Foundation entered into the credit facility (no borrowing during FY2015): “A term loan note with the University of Vermont to borrow up to $2,700,000. The term loan note is free from interest and from annual fee.” No borrowing against this facility as of June 30, 2015 and 2016.

• 2015 [p. 20]. As of June 30, 2015, UVM Foundation has a payable of $12,626,187 due to the University of Vermont.

Other Transfers: UVM to Foundation (2)

• As of June 30, 2016, UVM Foundation has a payable of $9,350,937 due to the University of Vermont.

• As of June 30, 2017, UVM Foundation has a payable of $8,213,850 due to the University of Vermont.

• In 2017, there was borrowing activity by the Foundation, from the banks (collateralized), and from UVM (collateralized by a pledge).

• Foundation borrows from UVM at 0% interest.

• Foundation leases office space from UVM with undisclosed rent (could be $1 per year).

Notes: 2011 (1st Year)

• Fundraising expenses incurred: $510,999.00

• The Foundation’s Endowment: consists of 1 individual donor restricted fund established for a specific purposes for a total value of $199,500.

• The University of Vermont paid $2.1 million to support Foundation in its operations
Andrey presented early findings from his research on the Foundation’s financial statements.

6. **Funding for Proposed New Entry-Level Doctorate in Occupational Therapy, Dean Thomas.** The FPPC is not interested in the curriculum of this proposal. That part of the proposal has been reviewed by the Faculty Senate CAC. The FPPC is interested in the funding. How will the $656,000 needed to start this program be funded.

- The first two years the Provost’s office will provide $200,000.
- CNHS has a $50,000 dollar gift that will be used/
- CNHS has other gift funds of about $200,000 that can be directed to this.
- CNHS has 108 funds that can also be used to support this.
- CNHS general funds but that is not a great option at this time.
- They have an MOU that where this program can lend itself to online programs that might have an interest in and can draw on that $500,000 arrangement.

The FPPC does not take a position on the proposal, this will move the full Faculty Senate for approval at the December meeting.

7. **New Business.** Please send any new agenda items to Jane.

The FPPC meeting was adjourned at 3:36pm. The next meeting of the FPPC will take place on January 11, 2020 via Microsoft Teams.