

**UNIVERSITY OF MASSACHUSETTS**

**AMHERST•BOSTON•DARMOOUTH•LOWELL•WORCESTER**

**MINUTES OF THE MEETING OF THE  
COMMITTEE ON ADMINISTRATION, FINANCE AND AUDIT**

**Thursday, October 23, 2003; 8:00 a.m.**

**Board Room**

**One Beacon Street – 26<sup>th</sup> Floor  
Boston, Massachusetts**

**Committee Members Present:** Chair Dubilo; Vice Chair Karam (via conference call); Trustees Giblin, McCarthy, Mahoney, Marcalo and Rainey

**Committee Members Absent:** Trustee Moes

**University Administration:** President Wilson; General Counsel O'Malley; Vice Presidents Julian, Lenhardt, Chmura and Gray; Chancellors Lombardi, Gora and MacCormack; Mr. Marquis, Associate Treasurer; Ms. Wilda, University Controller; Mr. O'Riordan, Budget Director; Vice Chancellors for Administration and Finance Hatch, MacKenzie, Zekan and Goodwin; Deputy Chancellor Stanton; Mr. Harrison, Director of Auditing

**Faculty Representatives:** Professor O'Connor, Professor May, UMASS Amherst; Professor Schwartz, UMASS Boston; Professor Carter, UMASS Lowell

Chair Dubilo convened the meeting at 8:04 a.m. and welcomed Trustee Carolina Marcalo to her first meeting of the Committee. The first item on the agenda was **Consideration of Minutes of the Prior Meeting of the Committee.**

It was moved, seconded and

**VOTED:** To approve the minutes of the July 24, 2003 meeting of the Committee.

Under the **Chair's Report**, Chair Dubilo reviewed the agenda items and reported that the University's finances continue to be monitored during this difficult time. The University has lost nearly \$150 million in state dollars or 30% and more than 8% of total University revenues.

Quality remains high and enrollments remain steady. We have another endowed chair being considered bringing the number to 45, up from 4 in 1995. Our donors continue to show great confidence with the University.

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The next item was the **President's Report**. President Wilson reported that despite our financial situation, the University continues to achieve its core mission of excellence in teaching and research due to the creative and bold leadership on our campuses including Chancellors and faculty, Board members, central office and staff members. We will continue to work with the Governor's office and the Legislature towards a resolution of the contract situation.

President Wilson reported that he has heard from the Legislature, business leaders, parents, students, and faculty and there is strong support for the University. He thanks Vice President Lenhardt and his staff for their work on the additional funds to the Capital Plan. The Governor, the Senate and the House are working on economic development plans designed to promote innovative technology strategies in every region in the state; an investment in UMASS research is a prerequisite for any regional strategy.

President Wilson also reported that the University has received over \$45 million in recent federal grants. There was \$11 million awarded to the Donahue Institute to deliver technical assistance to the Head Start agencies in New England. UMASS Online has generated over \$10 million in revenue and 12,000 enrolled in the program.

The challenges ahead include \$80 million in budget cuts; \$140 million over the last two years. We are losing employees and faculty members due to budget cuts and the recent early retirement package. The Commonwealth faces a \$1.9 billion deficit for the next fiscal year.

The next item was the **Vice President's Report**. Vice President Lenhardt reported that the University has entered into a contract with a single office supply vendor – WB Mason - this will offer a large amount of savings. We have also had an offer from a procurement supply vendor to review all our procurement activities and offer a cost sharing proposal. DCAM is currently working with the University in the area of energy conservation projects at Lowell and Amherst and master planning activities are going on at Dartmouth and Worcester for a variety of other issues.

Mr. O'Riordan is helping to staff the Board of Higher Education Task Force on Tuition, Fees and Financial Aid. Chair Fey has appointed Vice President Lenhardt as the University's official representative on that Task Force.

Vice President Lenhardt also reinforced President Wilson's remarks; the operating budget and financial report will reflect the difficult efforts on the campuses to stabilize their cash and equity while continuing the capital investment program.

Vice President Lenhardt finished his report by noting the turn around on the Dartmouth campus-operating budget. The Worcester campus' successful revenue

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enterprises have brought up the University as a whole. The University's debt situation continues to be very favorable and we have the capacity to move on.

Trustee McCarthy had a question about the single vendor for University supplies and if that had gone out to bid. Vice President Lenhardt responded that there had been a very elaborate bid process spanning 3-4 months including interviews with different vendors.

The next item for discussion was the **FY2003 Financial Report**. Ms. Wilda provided the following information:

- In FY2002 the operating margin was 2.0%; for FY2003, 1.2%; FY2003 had projected a decrease of -2.6% - but aggressive cost cutting played a role in the positive indicator;
- The University's financial cushion was 14.7% in FY2002 and 17.1% in FY2003;
- Debt Service to Operations: 3.6% in FY2002 and 4.5% in FY2003;
- Endowment per Student: FY2002 \$2,876; FY2003, \$3,050; there are currently aggressive fund raising activities on each campus;
- Current ratio; FY2002 1.2, in FY2003, 1.1; the University is able to meet current debt and meet its obligations when due.

Ms. Wilda concluded her report by reporting the financial condition of the University is stable and that this was the first audit conducted by the People Soft system.

Vice President Lenhardt informed the Committee that the Financial Report would come back to the Committee with the Auditors and the Management Letter for action.

The next item for action was **FY2004 University Operating Budget**. Mr. O'Riordan reported the following:

- Since FY2001 \$128 million or over 26% have reduced the state appropriation for general operations to the University;
- There has been a significant impact on the University due to the early retirement programs; in December of 2001 the program led to a total of 940 employees leaving the system; the FY2004 state budget included a second early retirement incentive, the impact not expected to be clear until January of 2004.
- The University settled contracts with its major units prior to FY2002, to date the supplemental funding has not been funded; the budgets does not include revenues or spending associated with these wage increases.
- The University's capital plan is estimated at over \$1 billion; in FY2004, mandatory transfers for debt service are projected at \$60 million; The majority of funds goes towards instruction, research, public service and libraries.

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Looking ahead, Mr. O’Riordan reported that the projected FY2005 state budget deficit will be between \$1.5 and 2.0 billion. The University must continue to seek revenues from non-state sources and continue to reduce and reallocate spending to further the teaching, research and public service mission.

There was a question about using the grant and research money for operating budget expenses. It was reported that people generally do not give money for those reasons.

It was moved, seconded and

**VOTED:** To recommend that the Board accept the following report:

The FY2004 University Operating Budget, as contained in Doc. T03-071.

The first item for action was **FY2003 Treasurer’s Investment Report**. Vice President Lenhardt reported that the Investment Sub Committee would be meeting in the near future to review the performance results of the University’s investment strategy.

Associate Treasurer Marquis began the report by commenting on the investment objectives that include:

- Preservation of capital – an operating cash portfolio returning dollar for dollar;
- Adequate portfolio liquidity – the ability to meet the cash flow needs of the campuses;
- Market level yield – seeking out the highest levels of yield while managing principal preservation;
- Manage risk – managing interest rate and reinvestment risk;
- Marketability of securities – purchase securities that are marketable and easily traded in the market.

Some of the highlights from Mr. Marquis’ report included:

- Institutional Money Market funds have held their value while corporate bonds and agency paper lagged as yields fell quickly lower;
- The June 30 overnight funds were paying about 1.25% while the two year Treasury stood at 1.30%;
- Because of the continued slide in rates the University has maintained a short portfolio that does not risk principal erosion when rates start to increase;
- FY2003 – the fixed income portfolio returned 2.7%. This return compared favorably to the Commonfund Short Term Fund return of 1.64%;
- Trust Fund Interest is the net earnings resulting from the investments in the portfolio; earnings from the portfolio over the past two years have decreased while

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funds under management have increased; it is expected that Trust Fund Interest will again decrease next year to a level below \$10,000,000;

•Equities comprise 15% of the total equity portfolio as of June 30, down from 19.1% from last year; the return on the equity component the operating cash strategy was slightly positive for the year ended 6/30/2003. The one year return was a positive .4%. As of 9/30/03 the equity funds have returned a positive 16.8%, since the beginning, the equity strategy has returned 5.60% of an annualized basis as of 9/30/03.

Trustee Mahoney commented on the need for the equity component to the portfolio. There is a highly qualified Investment Committee within the Foundation taking equity risks and that this should be a fixed income portfolio only. Vice President Lenhardt responded that the Investment Sub Committee will review this issue.

It was moved, seconded and

**VOTED:** To recommend that the Board accept the following report:

The FY2003 Treasurer's Investment Report, as contained in Doc. T03-069.

The next item for action was **Establishment of Named Professorship, UMASS Worcester**. Deputy Chancellor Stanton reported that Jack and Shelley Blais have agreed to fund the Blais University Chair in Molecular Medicine with a pledge of \$2.5 million to be paid in 2008. Before the redeemed pledge can generate endowment income, Mr. and Mrs. Blais will provide \$100,000 per year in cash gifts to meet the purposes of the endowment.

It was moved, seconded and

**VOTED:** To recommend that the Board take the following action:

In accordance with sections 1A(e) and 11 of Chapter 75 of the General Laws, to establish an endowed professorship in molecular medicine at the University of Massachusetts Worcester to be known as the **Blais University Chair in Molecular Medicine**. (Doc. T03-066)

The next item was the **Declaration of Official Intent Relative to the Financing of a Vessel, UMASS Boston**. Vice Chancellor MacKenzie reported that the Boston campus is requesting to make expenditures on the construction and acquisition of a vessel that will provide a larger, more modern and better equipped boat which will provide better services including trips around the island and providing opportunities in connection with the new campus center.

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There was discussion about the Boston campus cutting its ties with a private sector operator due to their limited business plan. The Boston campus intends to run more trips for a longer period during the day. The new plan includes a business plan that will support the strategic and financial goals of the campus.

It was moved, seconded and

**VOTED:** To recommend that the Board take the following action:

That the University reasonably expects to incur debt to reimburse expenditures, including expenditures made within the last 60 days, temporarily advanced from internal funds or internal loans for the design, construction and acquisition of a vessel at the Boston campus, the maximum principal amount of debt expected to be issued for such project, including for reimbursement purposes, being \$900,000. (Doc. T03-072)

The next item was **Student Housing Lease Program, UMASS Dartmouth.** Chancellor MacCormack reported that enrollment on the Dartmouth campus is outpacing the availability of student housing. The current dormitory facilities are in need of renovations and the Dartmouth campus is requesting approval to enter a ground lease with the UMASS Foundation or another appropriate company for the purpose of entering into an agreement with a private housing development company to design, finance and build a student housing project.

There was a discussion concerning leasing the dormitories and paying the rental costs through student housing fees. Financially it will avoid costly borrowing on the part of the campus and will keep student housing fees stable.

It was moved, seconded and

**VOTED:** To recommend that the Board take the following action:

That the Board of Trustees authorizes the Dartmouth Campus to enter a ground lease with the University of Massachusetts Foundation or other appropriate 501(c)(3) organization for the purpose of engaging a private firm to design, finance, build and manage a student housing project. The project schedule may include a multi-year phased construction schedule. (Doc. T03-073)

Trustee Karam then signs off from the meeting.

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The next item was **Audit Reports**. Mr. Harrison reported on the **Purchase Card Program Review, UMASS Amherst, UMASS Worcester and President's Office and University Audit Activity Report**.

The review of the **Purchase Card Program** was planned and funded directly by the Audit department. The review was limited to the agreed upon procedures contracted with the external audit firm and was not intended to be an audit of every aspect of the purchase card program. The Boston, Dartmouth and Lowell campuses are under a similar review and will be reported on at the next meeting.

It was noted that this program is very well monitored and well run by each pro card administrator. It was also pointed out that Worcester has an aggressive use of this program.

Mr. Harrison briefly discussed the **Audit Activity Report**. The State Audit Office published the results of the Parking Garage and Transportation Trust Funds Report, UMASS Boston: their recommendations related to improving control over allocated funds that support the garage and parking; the review did find adequate control over revenues.

The State Audit Office also published their report of the UMASS Lowell financial operations review. There was one recommendation in regard to Chapter 647 reporting that requires immediate reporting of all unaccounted shortages and thefts.

Mr. Harrison then listed some of the audit reports expected in January of 2004.

It was moved, seconded and

**VOTED:** To recommend that the Board accept the following Audit Reports:

1. Purchase Card Program Review, UMASS Amherst, UMASS Worcester, President's Office (Doc. T03-068)
2. University Audit Activity Report (Doc. T03-067)

Chair Dubilo thanked the staff from the President's Office and the financial staff members from the campuses for their efforts during these difficult times and states his belief that we are up to the challenges that lie ahead.

Chair Dubilo also thanked Vice Chancellors David MacKenzie and Susan Goodwin as this is their last Committee meeting.

The meeting was adjourned at 10:05 a.m.

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Barbara F. DeVico  
Secretary to the Board of Trustees