



**MONTANA UNIVERSITY SYSTEM**  
**Office of the Commissioner of Higher Education**

2500 Broadway ♦ PO Box 203101 ♦ Helena, Montana 59620-3101 ♦ (406)444-6570 ♦ FAX (406)444-1469

**TO:** BOARD OF REGENTS  
**FROM:** LAURIE NEILS, DIRECTOR OF BUDGET AND ACCOUNTING  
**DATE:** MAY 7, 2004  
**RE:** UPDATE ON FISCAL YEAR 2003 REPORTED NEGATIVE FUND BALANCES

We asked three of our campuses to update the Board concerning the fiscal year 2003 negative fund balances they reported in September. Their analysis is attached.

As a recap, the following negative fund balances were reported in September 2003:

| Campus        | Fund Name                | 6/30/03 Balance                                | Comment         |
|---------------|--------------------------|--|-----------------|
| MSU Bozeman   | General Operating        | \$(50,873)                                     | Report attached |
| MSU Bozeman   | Athletics-Desig          | (40,366)                                       | Report attached |
| MSU Bozeman   | Shakespeare in the Parks | (151,453)                                      | Report attached |
| MSU Northern  | General Operating        | (57,349)                                       | Report attached |
| MSU Northern  | Deficit Clearing         | (109,466)                                      | Report attached |
| MSU Northern  | Inform. Tech. Serv       | (87,109)                                       | Report attached |
| MSU Northern  | Auxiliaries              | (288,449)                                      | Report attached |
| UM Missoula   | Central Reserves         | Clearing account-no report required            |                 |
| UM Western    | PE Building Oper.        | Entry not posted until July-no report required |                 |
| UM Western    | Payroll accrual          |  |                 |
| UM Western    | Plant Fund-Ret of Debt   | Accrued interest expense-no report required    |                 |
| UM Helena COT | General Operating        | (327,891)                                      | Report attached |
| UM Helena COT | Cafeteria Fund           | (8,141)  | Report attached |
| UM Helena COT | Community Ed Fund        | (112,900)                                      | Report attached |

April 15, 2004

Ms. Laurie O. Neils  
Director of Budget and Accounting  
Office of the Commissioner of Higher Education  
PO Box 203101  
Helena MT 59620-3101

VIA E-MAIL

Dear Laurie:

As required by Regents' Policy 901.11, I have attached an updated discussion regarding MSU's fiscal year 2003 negative fund balances, as reported at the September 2003 Regents' meeting.

If you have questions or require further information, please contact me at 994-7508. Thank you.

Sincerely,  
Laura Humberger  
Controller

**Account Name: MSU Bozeman**  
**General Operating**  
**Fund Group: Current Unrestricted**

**Purpose of Account:**

To record revenues and expenses for all of the University's current unrestricted general operations that are funded through the state appropriation of general funds, millage, tuition, and interest earnings.

**History of Deficit Spending:**

The Fiscal Year End balance of this account, for the past five years, is as follows:

|      |             |
|------|-------------|
| FY99 | 721,180     |
| FY00 | (330,172)   |
| FY01 | (1,864,100) |
| FY02 | 1,009,702   |
| FY03 | (50,873)    |

During FY03, the General Operating Fund borrowed \$200,000 from Auxiliary Enterprises to renovate the Graduate Fine Arts facility. This required that a loan payable be recorded against the fund. This record of a loan payable is the only reason that the General Operating Fund reflects a deficit.

***May 2004 Update:***

MSU expects to have a positive fund balance as of June 30, 2004.

**Account Name:** MSU Bozeman  
Athletics  
**Fund Group:** Current Designated- 43ATH

**Purpose of Account:**

To record revenues and expenses for that portion (approximately 50%) of the Intercollegiate Athletics operating budget which is not part of the University's General Operating budget. The funding sources for this account include ticket sales, student athletic fee, NCAA distributions, corporate sponsorships, and Booster contributions.

**History of Deficit Spending:**

The Fiscal Year End balance of this account, for the past five years, is as follows:

|      |           |
|------|-----------|
| FY99 | 13        |
| FY00 | (38,717)  |
| FY01 | (565,633) |
| FY02 | 116,906   |
| FY03 | (40,366)  |

***May 2004 Update***

At the November, 2003 Regents meeting, MSU reported approximately \$440,000 in negative balances, which included the \$40,366 deficit shown above as well as an operating shortfall in the state-funded portion of athletics. To reflect all athletics operations, all sources of funding are aggregated in the Athletics report to Regents and in all NCAA reports.

The deficit reduction plan enacted during FY02 has not been entirely successful. While revenues are largely on target, certain costs have varied considerably as compared with plan. As President Gamble indicated to the Regents in March, the FY04 operating deficit could be as large as that of FY03.

A team has been assembled, and is currently developing a revised financial plan. This plan, as well as an update on the FY04 balance, will be presented to Regents at the July, 2004 meeting.

**Account Name:** MSU-Bozeman  
Shakespeare in the Parks

**Fund Group:** Current Designated- 43SSVC  
Current Restricted Gift- 42GIFT

**Purpose of Account:**

To record operations of the Shakespeare in the Parks program.

**History of Deficit Spending:**

|      | <b>Current Designated- 43SSVC</b> | <b>Current Restricted Gift- 42GIFT</b> |
|------|-----------------------------------|--|
| FY99 | (109,015)                         | -                                      |
| FY00 | (138,770)                         | -                                      |
| FY01 | (147,762)                         | -                                      |
| FY02 | (3,836)                           | 22,479                                 |
| FY03 | 16,190                            | (151,453)                              |

The Shakespeare in the Parks program is a seasonal operation. Funds are expended throughout the year, while fundraisers are conducted primarily in the summer. It is the timing of receipts and disbursements which continues to contribute to a negative fund balance.

The University requires Shakespeare in the Parks to maintain a positive balance as of each December 31, due to the seasonal nature of their operation.

**May 2004 Update**

Shakespeare in the Parks was granted a one-month extension as compared with its solvency plan, and brought its fund balance positive as of January 31<sup>st</sup>. Expenditures for the Spring and Summer have begun, and a negative fund balance is again expected as of June 30.

**To:** Laurie Neils, Director of Budget and Accounting  
Office of the Commissioner of Higher Education

**From:** D.J. Whitaker, Assistant Dean Fiscal & Plant Operations  
University of Montana - Helena College of Technology

**Date:** April 18, 2004

**RE:** Policy 901.11 - Status of Negative Fund Balance

Current analysis of the funds reported as having negative fund balances at fiscal year-end 2003 indicates that the University of Montana - Helena College of Technology will be within the solvency plan presented in the November report to the Board of Regents. The following funds were reported as having negative balances at fiscal year-end 2003:

Current Unrestricted Operating (**411000,412000,415100,4100GP and 4100HR**)

The net fund balance for all Current Unrestricted Operating funds including the GAAP accounts in Banner was a negative \$327,891 at fiscal year-end 2003. The non-GAAP balance reported in the CHE Report 102 was a negative \$3,660. These balances included \$331,894 of compensated absences.

**History:**

- At FYE 1999 the negative balance was estimated at \$96,392 including \$64,744 from VTI payouts (cash borrowed from Missoula). An action plan to eliminate this negative balance was submitted by Chuck Jensen in a memo dated July 25, 2000 which included leaving revenue “on the table” of approximately \$23,765 for fiscal years 2001 through 2003; \$13,124 in fiscal year 2004 and \$6,124 in both fiscal years 2005 and 2006.

**Current Status:**

- With the progress made on this account in fiscal year 2003 and current year projected revenues and expenditures, the campus should be able to eliminate the negative balance that is not related to compensated absences by fiscal year-end 2004.

Auxiliary Funds (**442000, 4400GP and 4400HR**)

The auxiliary fund as a whole (Cafeteria, Bookstore and Rental Property) continues to maintain a positive fund balance, however the Cafeteria function continues to operate at a loss for fiscal year 2004.

**History:**

- The Cafeteria fund is used to account for revenue and expenditures related to the operation of the food service at the Donaldson and Airport campus buildings and the revenue from vending machines. The cafeteria is the only auxiliary area with an actual negative fund balance of \$8,141. This balance represents a \$14,687 reduction in the deficit of this fund from fiscal year-end 2002 to fiscal year-end 2003. Fiscal year 2003 was the first year the cafeteria was operated under the University of Montana food service program as a self-operating function instead of contracting with a third party provider. The initial analysis at year-end 2003 indicated that with some adjustments the

service would become self-supporting and eliminate the remaining negative fund balance over the next three fiscal years.

**Current Status:**

- The changes implemented in the current year in conjunction with \$16,000 of transfers from the bookstore in fiscal year 2004 will eliminate the negative fund balance by FYE 2004. It is anticipated that additional adjustments in the food service program will minimize or eliminate the need for transfers from the bookstore beginning in fiscal year 2005.

**Designated (432200, 432300, 433200, 4300GP and 4300HR)**

The designated fund as a whole remains positive, however the community education account continues to be negative.

**History:**

- The community education fund is used to account for the revenues and expenditures related to the program that delivers training courses and instruction to state and other community entities. The negative balance of \$112,913 combines all activities related to community education including cost of providing SABHRS training, State Training, fire and protective services workshops and other non-credit generating community education. The net negative fund balance has been due primarily to reductions in SABHRS and other state training requests in the past few years related to state agency budget reductions. The permanent faculty and staff within the state training program have been eliminated during fiscal year 2004.

An agreement with the state to provide upgrade training for both the HR and financial modules resulted in initial costs to the campus in fiscal year 2003 that were recovered as the training was delivered in the current year. The SABHRS upgrade training for HR and Finance was the final series that the UM-Helena College of Technology will deliver for the state. Each continuing education offering is reviewed to determine the viability of the program.

**Current Status:**

- The upgrade training has occurred and the net revenue from that process will reduce the approximate \$112,900 negative balance by an estimated \$26,500 for a remaining negative balance of \$86,400. Net revenues from other designated fund accounts in the amount of \$7,000 and use of the campuses indirect cost recovery balances of \$60,000 will allow for transfers to eliminate an additional \$67,000 of the negative balance in the current fiscal year. The remaining \$19,400 negative balance will be addressed with similar transfers in fiscal year 2005 from indirect cost recoveries and net revenues of the designated resale accounts.

**TO:** Laurie Neils  
Director of Budget and Accounting

**FROM:** Chuck Jensen            Carrie Molitor  
Vice Chancellor            Controller

**DATE:** May 3, 2004

**SUBJECT:** MSU-Northern midyear update on Negative Fund Balances

Attached is MSU-Northern's midyear update on Negative Fund Balances for Fiscal 2004. As indicated, General Operating, Deficit Clearing, ITS and auxiliaries are all scheduled to follow the approved reduction plans

If I can be of further assistance, please let me know.

Montana State University-Northern  
**Midyear Negative Fund Balances Report for Fiscal Year End 2004**

**Account Name:**       **General Operating**  
**Fund Group:**       **Current Unrestricted**

**Purpose of Account:**

To record revenues and expenses for all of the University's current unrestricted general operations that are funded through the state appropriation of general funds, millage, tuition, and interest earnings.

**History of Deficit Spending:**

The Fiscal Year End balance of this account, for the past five years, is as follows:

FY99 (280,881)  
FY00 (141,131)  
FY01 (116,466)  
FY02 ( 86,349)  
FY03 ( 57,349)  
**FY04 ( 28,349) Projected FYE balance**

The account has gone from a negative balance of \$280,881 in FY99 to a negative balance of \$57,349 in FY03. The negative balance was caused by early retirement incentives paid to employees and general fund expenditures exceeding revenue in past fiscal years.

**Solvency Plan:**

The campus plan is to reduce this negative fund balance to \$87,446 (a \$29,000 reduction) at the end of FY02. General fund has been budgeted this fiscal year and will continue to be budgeted in future years to meet the goal of reducing the negative fund balance in the four fiscal years

FY 2002 Update: Negative fund balance has been reduced by \$30,117. The campus will continue to reduce the negative fund balance in FY2003 by \$29,000.

FY 2003 Update: Negative fund balance has been reduced by \$29,000. The campus will continue to reduce the negative fund balance in FY2004 by \$29,000.

**FY2004 Midyear Update:** Northern is scheduled to continue to follow the approved negative fund balance reduction plan and reduce the negative fund balance by \$29,000 at the end of fiscal year 2004.

Montana State University-Northern  
**Midyear Negative Fund Balances Report for Fiscal Year End 2004**

Account Name: Deficit Clearing (Formerly Great Falls and Computer Services)  
Fund Group: Current Designated

**Purpose and History:**

This account was created as part of our FY2001 negative fund reduction plan. We transferred the negative fund balances from two accounts - Great Falls designated and Computer Center designated accounts into this designated account in order to identify and monitor progress.

**History of Deficit Spending:**

The Fiscal Year End balance of these combined accounts, for the past six years, is as follows:

|             |   |
|-------------|---|
| FY98        | (301,588)   |
| FY99        | (271,609)   |
| FY00        | (233,764)   |
| FY01        | (183,466)   |
| FY02        | (146,466) the new designated "deficit clearing" account |
| FY03        | (109,466)   |
| <b>FY04</b> | <b>( 72,466) Projected FYE balance</b>                  |

**Solvency Plan:**

As planned in last years negative fund report, these two negative accounts were transferred to one account so the progress of the reduction could be monitored.

MSUN is committed to reducing the negative fund balances from these two accounts. The campus goal is to reduce this balance by \$37,000 a year for the next five fiscal years (FY2002-FY2006)

FY 2002 Update: Negative fund balance has been reduced by \$37,000. The campus will continue to reduce the negative fund balance in FY03 by \$37,000.

FY 2003 Update: Negative fund balance has been reduced by \$37,000. The campus will continue to reduce the negative fund balance in FY04 by \$37,000.

**FY2004 Midyear Update:** Northern is scheduled to continue to follow the approved negative fund balance reduction plan and reduce the negative fund balance by \$37,000 at the end of fiscal year 2004.

Montana State University-Northern  
**Midyear Negative Fund Balances Report for Fiscal Year End 2004**

Account Name: Information Technology Services (ITS)  
Fund Group: Current Designated

**Purpose and History:**

To record revenue and expenses related to ITS. Sources of revenue include internal recharges and general fund allocations.

**History of Deficit Spending:**

FY 2002 was the first year this account has had a negative fund balance due to operations of the Information Technology Services (ITS) Department.

The Fiscal Year End balance of this account, for the past two years, is as follows:

FY02 (116,151)

FY03 ( 87,109)

**FY04 ( 58,109) Projected FYE balance**

This negative fund balance is due to a misunderstanding between ITS and the business office in the way telephone recharges were handled during FY2002. ITS's understanding was that telephone costs were being recharged to other department's operating budgets. The business office was recharging telephone activity to other department's budgets but unfortunately, recharges for general funded operations were being recharged to a central account which was part of ITS. Because of this, ITS was operating under the assumption that telephone cost were being distributed to other operating budgets when in reality, telephone costs for general funded departments were being charged against ITS's budget. This error was not realized until we began our fiscal year-end close out process.

**Solvency Plan:**

The campus goal is to reduce this balance by \$29,000 a year for the next four fiscal years (FY2003-FY2006).

FY 2003 Update: Negative fund balance has been reduced by \$29,042. The campus will continue to reduce the negative fund balance in FY04 by \$29,000.

**FY2004 Midyear Update:** Northern is scheduled to continue to follow the approved negative fund balance reduction plan and reduce the negative fund balance by \$29,000 at the end of fiscal year 2004

Montana State University-Northern  
**Midyear Negative Fund Balances Report for Fiscal Year End 2004**

Account Name: Auxiliaries  
Fund Group: Auxiliaries

**Purpose and History:**

To record revenues and expenses for all the University's auxiliary functions, which are funded through sales and service, student fees and interest earnings.

**History of Deficit Spending:**

During FY2002 the auxiliary operations recorded an operating loss of \$346,770 that resulted in a negative fund balance of \$117,382. In FY2003 the operating loss was \$171,067 resulting in a negative fund balance of \$288,449. In both fiscal years the majority of the loss has occurred in our housing and food service operations. In FY2003 housing lost \$56,725, food service lost \$82,318 and other auxiliary operations lost \$32,024.

The fiscal year end balance of this account for the past six years, is as follows:

|             |  |
|-------------|--|
| FY98        | \$174,204                                |
| FY99        | \$169,222                                |
| FY00        | \$229,050                                |
| FY01        | \$229,388                                |
| FY02        | (\$117,382)                              |
| FY03        | (\$288,449)                              |
| <b>FY04</b> | <b>(\$240,449) Projected FYE balance</b> |

**Solvency Plan:**

As proposed in the November 18, 2003 memo to the Regents from President Gamble, MSU – Northern's goal is to reduce this balance by \$48,000 a year for the next six fiscal years (FY2004-FY2008).

**FY2004 Midyear Update:** Northern is scheduled to continue to follow the approved negative fund balance reduction plan and reduce the negative fund balance by \$48,000 at the end of fiscal year 2004. **Fiscal Note:** Our food and housing auxiliaries operations have seen an increase in revenues of approximately \$109,000 over last year. Restructuring and retirement of debt has resulted in approximately \$60,000 less in debt service expense this fiscal year. These changes combined with other expenditure reductions have put us in a situation where we are projecting to breakeven with our auxiliary operations for the year. We have identified other revenues to meet our obligation to reduce the negative fund balance. Our Auxiliary operations will continue to be a challenge for this campus. This administration is faced with an infrastructure that was allowed to deteriorate over the last two decades. We will continue to work with the Bozeman campus to identify ways to enhance our services and facilities.