... 

While this past year was extremely trying, we can report that it was, in the end, not as bad a year financially as we first thought. After the final accounting of the year was complete, we ended with a small budget surplus of about $200,000. The remarkable recovery in the Annual Fund and the savings in Utilities helped to offset the one-time cost of the Voluntary Separation Plan and the unrealized capital losses in the Operating Investment Income. Thanks to the trustee initiative of May, the Annual Fund ended above our estimates of this past winter. Enrollment and Financial Aid were on budget as were most other areas of operations. With the endowment results described more fully below, we had an overall outcome that was much better than first feared last fall. ...

While it does not affect the budget outcome for FY 2009, perhaps the happiest surprise of year-end was that the endowment ended well above all of our previous estimates, with a FYTD return of -16.4% as of June 30. Where we had forecast a year-end endowment market value of $433 M, we instead ended with a year-end value of $517 M. Moreover, the market rally since July 1 appears to give us hope that our estimate of a 0% return for the current year is at least not optimistic. All of this puts a new light on the five-year budget model that we last reviewed with you in May. Beginning with the actual values for July 1, and assuming the same returns of zero % for FY 2010 and 9% for FY 2011 that we assumed earlier, we would now project that the forecast spending for FY 2011 and FY 2012 will be within the Investment Policy spending limits, i.e., not more than 5.75% of the prior September 30 value, instead of over that limit as previously forecast. All of this is to say, as I observed at the May Board meeting, the impact of being down 30% this year was much more than a single-year event, and conversely, the impact of a better result and only being down 16.4% is also larger than a single year.

While many of the changes to reduce the operating cost base of the College are difficult for individual faculty and staff, we felt they were necessary to balance the budget. Among the campus constituency and trustees, the one initiative that is perhaps the most difficult is the proposed one-week furlough. The campus has dealt reasonably well with the other aspects of our very difficult budget including no salary increases, benefit reductions and reductions in work force, but the notion of losing a week’s pay is at least unpopular and, for some, very traumatic.

Given how much better the results of this past year were, we believe it is reasonable to propose revisiting the necessity of this further sacrifice on the part of all of the staff and faculty of the College. If we were to eliminate the furlough we would need to add approximately $1 M of revenue to the budget. You will remember that we took approximately $3 M of revenue out of the budget approved in February when we revised it in May. Adding back a portion of this
decrease in the form of endowment income would be the most appropriate way to address this issue. While we were concerned that the proposed payout for FY 2010 would be high (nearly 7%) of the current June 30 value, the endowment policy is based on the prior September 30 value with a maximum of 5.75%. On the basis of the actual September 30, 2008 value, the endowment payout for FY 2010 would not have needed to be reduced to the level we proposed and you approved in the budget. With the actual June 30 value now known, it is clear that the budgeted payout is much below 7% on that basis, while remaining well below the policy limits on a September 30 basis. A comparison of these endowment values and associated payouts is shown below…

<table>
<thead>
<tr>
<th>Endowment Payout</th>
<th>Approved Budget</th>
<th>New Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>$28,734,000</td>
<td>$29,756,000</td>
<td></td>
</tr>
<tr>
<td>% of Prior Sept. 30 Value</td>
<td>5.03%</td>
<td>5.25%</td>
</tr>
<tr>
<td>% of Prior June 30 Value</td>
<td>6.98%</td>
<td>6.07%</td>
</tr>
</tbody>
</table>

In light of this, we are now recommending that you authorize an increase in the approved endowment spending for the current year sufficient to fund the savings projected from the furlough and thus to enable us to cancel the furlough before it is implemented. Specifically, we are recommending that you authorize an increase in the endowment unit dividend for Fiscal Year 2010 from $0.7300 to $0.7620 per share. This will result in an estimated $1,022,000 of additional endowment revenue available for the budget and will be used to cover the cost of ongoing salaries that will not be reduced by the planned furlough…

The Budget approved in May 2009 for FY 2010 also included an expectation of reductions in staffing that would result in budget savings for the current FY 2010 year and beyond. While we have achieved our intended savings for the current year through the Voluntary Separation Program, we achieved about 83% of our intended longer-term goal, leaving us short an estimated $176,000 in FY 2011. With the higher base for endowment going forward, it is most likely that we would not need to force further staff reductions and thus could also announce the end to further layoffs or reductions in force. This assumption is included in the attached forecasts, which still reflect surpluses in each of those future years.

Finally, the approved FY 2010 budget included a reduced expectation about the Annual Fund performance. While we do not believe we can necessarily repeat the stellar performance of this past year’s end, we do believe that we will be above this earlier and somewhat pessimistic estimate. The increased Annual Fund income is important to anticipate, but we are not yet ready to budget commitments against it, so we are recommending that we include it in the revised income, but that we simultaneously increase the budgeted contingency to reflect no net change from this item…

We expect to take up the budget again this fall as we begin our normal planning for the next year, in this case FY 2011. At that time, we will reassess the long-term impact of all of these changes and develop a priority list of potential changes if the situation is markedly different – either positively or negatively – from what we had estimated last spring…