

**REVIEW OF THE ANNUAL FINANCIAL AUDITS
OF THE UNIVERSITY OF FLORIDA**

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INTRODUCTION

My comments refer to the Annual Financial Audits for the years ending June 30, 2003 through June 30, 2007 prepared by The Auditor General of the State Of Florida. The Tables included in this document were compiled from those documents. Any errors that might have existed in those documents may also be reflected in this Review.

FUNDAMENTALS OF FUND ACCOUNTING

In order to understand the overall financial condition of any institution of higher learning in the United States, one must be aware that the accounting principles applied to the finances of such an institution involve distinct, but interrelated, entities called “funds.” Each fund has a self-balancing set of assets, liabilities, and a fund balance. One must examine all of the funds of an institution in order to assess its financial status.

An analogy to fund accounting is the following. Suppose that your assets consisted of five bank accounts, each with \$10,000 in it as of a certain date. Your net worth, if you had no debts, would then be \$50,000 and would remain unaffected by moving funds from one bank account to another. Similarly, assets are often moved between funds of a college. Consequently, the Tables included in this document utilize the net assets in all of the funds of the University of Florida.

There are different types of funds. “Unrestricted” funds are those solely under the control of the institution’s governing board. These are the funds which allow the institution flexibility in addressing its various needs. Although there may be some “restrictions” placed on the use of unrestricted funds, these “restrictions” normally refer only to resolutions of the governing board which may be rescinded at any time by action of that board. While Endowment Funds are Restricted Funds, Funds Functioning as Endowment funds are Unrestricted funds since they have merely been designated Funds Functioning as Endowment by the Board of Trustees.

By contrast, “restricted” funds are resources which have external, legally binding restrictions placed upon their use. For example, a government grant (minus any indirect cost in the award, which can be treated as unrestricted revenue) can only be expended for the purpose for which it was awarded. Similarly, gifts sometimes carry legally binding stipulations restricting their usage. Thus, an institution’s administration and governing board are not at liberty to use restricted funds except for

stated purposes. However, in some cases, even these funds can be expended for activities which free up unrestricted funds.

Investment in Capital Assets Net of Related Debt are classified separately from Unrestricted and Restricted Funds and are considered to be resources generally not available for other uses by an institution.

You may wish to refer to Chapter 2, Fund Accounting, of the *Budget Handbook for Association Leaders in Higher Education Units*, which I wrote for the National Education Association. That Chapter expands upon the prior comments and illustrates them for a fictitious college.

REPORTING ENTITY

Pages 19 through 23 of the 2007 Financial Audit describe the University of Florida and its various component units. First there are two “blended component units”, the University of Florida Self-Insurance Program and the University of Florida Healthcare Education Insurance Company. They are included under the heading “University” in the Financial Statements rather than being listed separately as are the remaining categories of discretely presented component units.

There are three categories of discretely presented component units. First there are thirteen Direct Support Organizations, which are considered component units but which are presented separately from

the University in the Financial Statements. Their Net Assets are listed separately by me in my Table 1 Statement of Net Assets. On page 48 of the 2007 Financial Audit the Net Assets in each of these thirteen organizations is discretely listed as is the total for all thirteen, which I have used in my Table 1. The University of Florida Foundation, The University of Florida Research Foundation, and the University Athletic Association Inc. has more than 98% of the total net assets of all thirteen organizations as of June 30, 2007. “These legally separate, not- for- profit, corporations are organized and operated exclusively to assist the university to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold , invest and administer property and to make expenditures to or for the benefit of the University” (page 20 of the 2007 Financial Audit). Clearly we must examine the resources held by these organizations in addition to those held directly by the University to determine the overall financial condition of the University. Furthermore, that is the reason that these assets are included on the same page in each Audit as those of the University itself.

Second come the Health Science Center Affiliates. These are nine corporations closely affiliated with the University of Florida J. Hillis Miller Health Science Center (JHMHC). These are also considered component units of the University of Florida and their assets are also included annually on the same Statement of Net Assets in summary form. You can find the separate Asset values for each of these nine corporations on page 49 of the 2007 Financial Audit as well as the total for all these units which I used in Table 1.

Finally, there is the Shands Teaching Hospital and Others. They consist of Shands Teaching Hospital and Clinics, The Baby Gator Child Care Center, Inc. and the University Village Apartments. Individual assets for each appear on page 50 of the 2007 Financial Audit as well as the totals for all three combined (which appear in my Table 1).

Needless to say this is a far more complicated interlocking system of institutions than say one university and an affiliated foundation. I have reviewed the financial status of all four: The University, the Direct Support Organizations, the Health Science Center Affiliates, and Shands Hospital and Others in order to try to estimate the University's true financial condition.

UNIVERSITY OF FLORIDA STATEMENT OF NET ASSETS

First note that all of the fiscal data used for each fiscal year came from that year's Financial Audit even if a subsequent Financial Audit restated some of those numbers.

Table 1 presents the assets held by the University and each of the other three categories of component units as of June 30, the last day of each fiscal year. Under GASB (Government Accounting Standards Board) accounting there are 4 categories of net assets: Invested in Capital Assets, Net of Related Debt; Restricted Nonexpendable; Restricted Expendable and Unrestricted. While Net Assets for each of these category of component units is given in each Financial Audit, on page 23 of the 2007 Financial Audit it states that some of these institutions such as the University of Florida Foundation and Shands Teaching Hospital and Clinics, Inc., follow FASB (Financial Accounting Standards Board Rules) standards of accounting. Under FASB, Unrestricted funds = Unrestricted funds under GASB + Invested in Capital Assets Net of Related Debt under GASB. I point this out because I do not know to what extent the net assets presented for those institutions have been correctly changed from a FASB format to the GASB format used in the Financial Audits prepared by the Auditor General. Apparently the auditors have differentiated the FASB Unrestricted Funds into GASB Unrestricted Funds plus Invested in Capital Assets, but I do need to alert the reader that possible error(s) may be included in the data presented in the Financial Audits which were then incorporated into my Tables.

Also, "Some component units have a fiscal year different from June 30. Accordingly, amounts reported by the University as due from and to component units on the statement of net assets may not

agree with amounts reported by the component units as due from and to the University.” (see page 31 of the 2007 Financial Audit).

Referring now to my Table 1, we see that Invested in Capital Assets, Net of Related Debt has increased for the University of Florida from \$858,176,000 as of June 30, 2003 to \$1,226,499,000 as of June 30, 2007. One should note that the increase from \$1,060,169,000 as of June 30, 2005 to \$1,185,280,000 as of June 30, 2006 was due in part to an accounting adjustment that removed about \$51 million of accumulated depreciation from the University’s books (see page 27 of the 2006 Financial Audit). This huge increase of about \$368 million in the value of University capital assets has occurred even though the assets have been depreciated by over \$400 million over the 4 year period (see Table 4 which presents the depreciation used for the University each year). This means that the University has made huge investments in capital expenditures over that four year period. One can find the details on the additions to capital assets for fiscal 2006-07 on page 32 of the 2007 Financial Audit. The other three categories of Component Units have had only a modest increase in Invested in Capital Assets Net of Related Debt during the same time period.

Restricted Nonexpendable is the true endowment and one can see that while the University itself does not have any such funds, the Direct Support Organizations increased their endowment funds from \$582,959,000 as of June 30, 2003 to \$919,285,000 as of June 30, 2007 or by about \$337 million!

Restricted Expendable includes grants and contracts. The University increased this category of funds from \$421,778,000 as of June 30, 2003 to \$543,911,000 as of June 30, 2007. While this is substantial the Direct Support organizations increased their Restricted Expendable funds from \$192,329,000 as of June 30, 2003 to \$567,947,000 as of June 30, 2007 or by about \$375 million!

Finally we consider Unrestricted Funds. These are the most useful funds to talk about over the negotiating table since the administration normally has full discretion as to their use. The University had Unrestricted Funds of \$99,713,000 as of June 30, 2003. This decreased to \$81,296,000 on June 30, 2006

but then jumped to \$130,920,000 on June 30, 2007, an increase of almost \$50 million in one year! All of the other categories of component units also had significant increases in their Unrestricted Funds, with Shanda Hospital and Others growing from \$354,694,000 as of June 30, 2003 to \$664,641,000 as of June 30, 2007! While the growth in Unrestricted funds by these other entities are not all available for use by the University (and some of the assets listed as Unrestricted for these other entities might be incorrectly designated as per my cautionary note on page 7), some of these additional Unrestricted funds held by component units must be available. This means that the University of Florida has very large Unrestricted funds available to it for any purpose, including settling collective bargaining issues. The total bond principal debt outstanding for the University is only about \$112 million as of June 30, 2007 (see page 34 of the 2007 Audit). This is a modest amount for an institution with Total Net Assets of \$1,901,330,000 as of June 30, 2007. The capital projects as of June 30, 2007 to which a commitment has been made total \$263,612,322 of which \$73,116,735 had been completed by that date. (see page 41 of the 2007 Audit for the details).

OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

Table 2 presents the expenditures by functional classifications such as Instruction, etc. Note that one expense, depreciation, is not a cash outlay. It is simple reduction in the value assigned to capital assets. Hence the institution has those dollars. However, the expenditures for capital purchases do not appear under Operating Expenses. That is where much of the cash represented by depreciation was probably spent.

Note that on page 44 of the 2007 Audit it stated that when the primary mission of a department is instruction, all expenses of those departments are reported under the instruction classification even when some activities are for research or public service.

I converted the dollar amounts spent by category into percentage of the total Expenses in Table 3. I do not see any obvious trends except for a small decrease in the percentages for both Instruction and

Research over the period fiscal year 2003 to fiscal year 2007. Scholarships increase substantially in Fiscal 2004-05, but that may be related to two reporting changes made by the University in the 2004-05 fiscal year that resulted in a new non-operating revenue category, Federal and State Scholarship Grants of \$90.1 million. See page 6 of the 2005 Financial Audit for details.

As for the decrease in the percentage of Operating Expenses used for Instruction, in other budget analyses I have conducted a percentage decrease in Instruction has been due to one or more of the following: (1) a decrease in enrollments, (2) an increase in faculty teaching workloads, (3) an increasing use of lower cost faculty such as part –timers. You should inquire as to whether any of these has happened at the University of Florida.

REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Table 4 presents Revenues and Expenses for the University alone. Note that in this format the Operating Expenses are presented in Categories such as Personnel Services, rather than in the Functional Classification approach used in Tables 2 and 3. After Taking Operating Revenues minus Operating Expenses and then adding in Nonoperating Revenues (the largest being the state appropriation) the University had a positive net income of \$19,145,000 for fiscal 2003, \$41,757,000 for fiscal 2005, and \$69,908,000 for fiscal 2007 but a loss of \$40,409,000 for fiscal 2004 and \$45,397,000 for fiscal 2006. After adding in Capital Appropriations and Capital grants, contracts and gifts, the University of Florida reported an increase in Total Net Assets for the period of 5 years in Table 4 of about \$569 million! Note that this is larger than the increase in Net Assets from Table 1 for the University since Table 1 covers only four years of time, from June 30, 2003 to June 30, 2007.

In fiscal 2006, the loss before other Rev/Exp was due to a decrease in the Operating revenues from the fiscal 2005 year. “Two primary factors contributed to the decrease in revenues. First, while research awards to the University of Florida increased, the amount of deferred revenue increased over

the prior year. Second, while student tuition and fees increased, the scholarship allowances also increased, resulting in a net decrease in tuition of \$4.2 million.”

(page 8 of the 2006 Financial Audit). The grants and contracts categories decreased from the prior year by about \$56 million, more than the \$45 million loss for fiscal 2006 before other Rev/Exp.

What this indicates to me is that for at least the last three years the University of Florida has been doing well financially with its best year being fiscal 2007, when its net income before Other Rev/Exp was \$69,908,000, and after including those items its Increase in Net Assets was \$219,555,000!

On page 14 of the 2007 Financial Audit the Administration stated that the recent downturn in the state economy resulted in a reduction in the University’s 2007-08 appropriation of \$16.7 million. “To mitigate this reduction, a 5 percent increase in tuition and out-of-state fees for undergraduate courses was authorized beginning in Spring 2008. Beginning in the 2008-09 fiscal year , Florida law provides for undergraduate tuition to increase at a rate equal to the consumer price index and authorizes the establishment of an undergraduate tuition differential.” The Administration also stated that the University’s goals were to increase graduate school enrollments and focus on research. It projected growth in grants and contracts for the coming year.

CONCLUSIONS

The University of Florida is in excellent financial condition. Its Unrestricted Assets have increased from \$99,713,000 on June 30, 2003 to \$130,920,000 on June 30, 2007. Its Total Net Assets have increased from \$1,379,667,000 on June 30, 2003 to \$1,901,330,000 on June 30, 2007. All of its categories of Discretely Presented Component Units have also substantially increased their Unrestricted Assets and their Total Net Assets over this period of time.

TABLE 1**UNIVERSITY OF FLORIDA
STATEMENT OF NET ASSETS**

	30-Jun-03	30-Jun-04	As of 30-Jun-05	30-Jun-06	30-Jun-07
INVESTED IN CAPITAL ASSETS					
NET OF RELATED DEBT					
University	\$858,176,000	\$952,935,000	\$1,060,169,000	\$1,185,280,000	\$1,226,499,000
Direct Support Organizations	\$52,236,000	\$53,737,000	\$56,569,000	\$53,724,000	\$63,241,000
Health Science Center Affiliates	\$11,748,000	(\$2,248,000)	(\$1,238,000)	\$968,000	\$5,650,000
Shanda Hospital and Others	\$117,933,000	\$108,959,000	\$171,178,000	\$220,805,000	\$123,663,000
TOTAL REPORTING ENTITY	\$1,040,093,000	\$1,113,383,000	\$1,286,678,000	\$1,460,777,000	\$1,419,053,000
RESTRICTED NONEXPENDABLE					
University	\$0	\$0	\$0	\$0	\$0
Direct Support Organizations	\$582,959,000	\$669,293,000	\$730,371,000	\$820,654,000	\$919,285,000
Health Science Center Affiliates	\$0	\$0	\$0	\$0	\$0
Shanda Hospital and Others	\$1,113,000	\$1,136,000	\$1,140,000	\$155,000	\$289,000
TOTAL REPORTING ENTITY	\$584,072,000	\$670,429,000	\$731,511,000	\$820,809,000	\$919,574,000
RESTRICTED EXPENDABLE					
University	\$421,778,000	\$384,418,000	\$415,757,000	\$415,199,000	\$543,911,000
Direct Support Organizations	\$192,329,000	\$261,319,000	\$306,121,000	\$400,323,000	\$567,947,000
Health Science Center Affiliates	\$0	\$1,500,000	\$0	\$1,500,000	\$1,500,000
Shanda Hospital and Others	\$30,325,000	\$2,132,000	\$2,157,000	\$3,167,000	\$4,757,000
TOTAL REPORTING ENTITY	\$644,432,000	\$649,369,000	\$724,035,000	\$820,189,000	\$1,118,115,000
UNRESTRICTED					
University	\$99,713,000	\$85,810,000	\$93,162,000	\$81,296,000	\$130,920,000
Direct Support Organizations	\$128,120,000	\$136,591,000	\$126,998,000	\$117,443,000	\$140,817,000
Health Science Center Affiliates	\$59,924,000	\$100,273,000	\$101,297,000	\$110,656,000	\$108,415,000
Shanda Hospital and Others	\$354,694,000	\$468,393,000	\$504,044,000	\$549,673,000	\$664,641,000
TOTAL REPORTING ENTITY	\$642,451,000	\$791,067,000	\$825,501,000	\$859,068,000	\$1,044,793,000
TOTAL NET ASSETS					
University	\$1,379,667,000	\$1,423,163,000	\$1,569,088,000	\$1,681,775,000	\$1,901,330,000
Direct Support Organizations	\$955,644,000	\$1,120,940,000	\$1,220,059,000	\$1,392,144,000	\$1,691,290,000
Health Science Center Affiliates	\$71,672,000	\$99,525,000	\$100,059,000	\$113,124,000	\$115,565,000
Shanda Hospital and Others	\$504,065,000	\$580,620,000	\$678,519,000	\$773,800,000	\$793,350,000
TOTAL REPORTING ENTITY	\$2,911,048,000	\$3,224,248,000	\$3,567,725,000	\$3,960,843,000	\$4,501,535,000

TABLE 2
UNIVERSITY OF FLORIDA
OPERATING EXPENSES BY
FUNCTIONAL
CLASSIFICATION

CLASSIFICATION	Year ending				
	30-Jun-03	30-Jun-04	30-Jun-05	30-Jun-06	30-Jun-07
Instruction	\$439,789,000	\$458,093,000	\$489,427,000	\$534,863,000	\$548,535,000
Research	\$371,532,000	\$387,084,000	\$428,188,000	\$441,181,000	\$460,665,000
Public Service	\$105,047,000	\$115,089,000	\$143,414,000	\$134,959,000	\$151,812,000
Academic Support	\$90,825,000	\$103,713,000	\$101,635,000	\$109,949,000	\$116,585,000
Student Services	\$28,826,000	\$27,560,000	\$32,330,000	\$31,143,000	\$30,496,000
Institutional Support	\$96,941,000	\$82,231,000	\$120,987,000	\$95,643,000	\$106,589,000
Operation/Maintenance of Plant	\$70,439,000	\$70,297,000	\$80,380,000	\$90,644,000	\$104,633,000
Scholarships and Fellowships	\$9,877,000	\$19,607,000	\$41,930,000	\$47,390,000	\$53,469,000
Auxiliary Operations	\$86,123,000	\$80,220,000	\$99,000,000	\$139,243,000	\$129,969,000
Loan Operating Expenses	\$849,000	\$609,000	\$0	\$0	\$0
Depreciation	\$83,102,000	\$124,092,000	\$103,140,000	\$107,398,000	\$108,469,000
TOTAL OPERATING EXPENSES	\$1,383,350,000	\$1,468,595,000	\$1,640,431,000	\$1,732,413,000	\$1,811,222,000

TABLE 3
UNIVERSITY OF FLORIDA
OPERATING EXPENSES
IN PERCENTAGES OF TOTAL

Instruction	31.79%	31.19%	29.84%	30.87%	30.29%
Research	26.86%	26.36%	26.10%	25.47%	25.43%
Public Service	7.59%	7.84%	8.74%	7.79%	8.38%
Academic Support	6.57%	7.06%	6.20%	6.35%	6.44%
Student Services	2.08%	1.88%	1.97%	1.80%	1.68%
Institutional Support	7.01%	5.60%	7.38%	5.52%	5.88%
Operation/Maintenance of Plant	5.09%	4.79%	4.90%	5.23%	5.78%
Scholarships and Fellowships	0.71%	1.34%	2.56%	2.74%	2.95%
Auxiliary Operations	6.23%	5.46%	6.03%	8.04%	7.18%
Loan Operating Expenses	0.06%	0.04%	0.00%	0.00%	0.00%
Depreciation	6.01%	8.45%	6.29%	6.20%	5.99%
TOTAL OPERATING EXPENSES	100.00%	100.00%	100.00%	100.00%	100.00%

TABLE 4**UNIVERSITY OF FLORIDA
REVENUES, EXPENSES AND
CHANGES IN NET ASSETS**

	Year ended				
	30-Jun-03	30-Jun-04	30-Jun-05	30-Jun-06	30-Jun-07
OPERATING REVENUES					
Tuition and Fees Net	\$148,171,000	\$160,930,000	\$156,705,000	\$152,505,000	\$167,641,000
Federal Grants and Contracts	\$238,171,000	\$271,582,000	\$294,692,000	\$284,353,000	\$301,237,000
State and Local Grants	\$50,778,000	\$50,081,000	\$70,080,000	\$36,118,000	\$54,060,000
Nongovernmental grants/contracts	\$246,894,000	\$263,777,000	\$334,642,000	\$322,067,000	\$339,881,000
Sales of Auxiliary Operations	\$78,719,000	\$80,454,000	\$96,706,000	\$133,546,000	\$128,908,000
Sales Educational Departments	\$57,807,000	\$60,968,000	\$66,006,000	\$53,373,000	\$49,732,000
Interest on Loans	\$949,000	\$717,000	\$386,000	\$726,000	\$717,000
Other Operating Revenue	\$3,383,000	\$2,280,000	\$2,194,000	\$533,000	\$1,337,000
Total Operating Revenues	\$824,872,000	\$890,789,000	\$1,021,411,000	\$983,221,000	\$1,043,513,000
OPERATING EXPENSES					
Personnel Services	\$912,324,000	\$961,416,000	\$1,053,495,000	\$1,128,013,000	\$1,179,234,000
Supplies and Other Services	\$271,953,000	\$254,591,000	\$327,796,000	\$340,892,000	\$357,581,000
Utilities and Communications	\$42,509,000	\$49,842,000	\$51,133,000	\$63,884,000	\$69,796,000
Scholarships and Waivers	\$51,997,000	\$64,210,000	\$82,748,000	\$68,614,000	\$74,259,000
Depreciation	\$83,102,000	\$124,092,000	\$103,140,000	\$107,398,000	\$108,469,000
Self Insured Claims and Expenses	\$21,465,000	\$14,444,000	\$22,119,000	\$23,612,000	\$21,883,000
Total Operating Expenses	\$1,383,350,000	\$1,468,595,000	\$1,640,431,000	\$1,732,413,000	\$1,811,222,000
OPERATING INCOME (LOSS)	(\$558,478,000)	(\$577,806,000)	(\$619,020,000)	(\$749,192,000)	(\$767,709,000)
NONOPERATING REVENUES					
State Appropriation	\$531,843,000	\$549,048,000	\$557,086,000	\$596,314,000	\$702,289,000
Federal and State Scholarship Grants	\$0	\$0	\$90,111,000	\$97,013,000	\$106,187,000
Investment Income (Loss)	\$43,188,000	(\$1,088,000)	\$22,894,000	\$19,246,000	\$40,238,000
Interest on Capital Related Debt	(\$7,026,000)	(\$6,756,000)	(\$6,419,000)	(\$5,342,000)	(\$6,842,000)
Other Nonoperating Revenues	\$9,618,000	(\$3,807,000)	(\$2,895,000)	(\$3,436,000)	(\$4,255,000)
NET NONOPERATING REVENUES	\$577,623,000	\$537,397,000	\$660,777,000	\$703,795,000	\$837,617,000
Income(Loss) Before Other Rev/Exp)	\$19,145,000	(\$40,409,000)	\$41,757,000	(\$45,397,000)	\$69,908,000
Capital Appropriations	\$52,408,000	\$37,677,000	\$42,745,000	\$68,716,000	\$115,309,000
Capital Grants, Contracts, Gifts	\$29,620,000	\$46,228,000	\$67,201,000	\$43,008,000	\$38,874,000
Loss On Disposal of Assets	\$0	\$0	(\$5,778,000)	(\$4,662,000)	(\$4,536,000)
TOTAL OTHER REVENUES	\$82,028,000	\$83,905,000	\$104,168,000	\$107,062,000	\$149,647,000
INCREASE IN NET ASSETS	\$101,173,000	\$43,496,000	\$145,925,000	\$61,665,000	\$219,555,000

TABLE 4**OPERATING EXPENSES % TOTAL**

Personnel Services	65.95%	65.47%	64.22%	65.11%	65.11%
Supplies and Other Services	19.66%	17.34%	19.98%	19.68%	19.74%
Utilities and Communications	3.07%	3.39%	3.12%	3.69%	3.85%
Scholarships and Waivers	3.76%	4.37%	5.04%	3.96%	4.10%
Depreciation	6.01%	8.45%	6.29%	6.20%	5.99%
Self Insured Claims and Expenses	1.55%	0.98%	1.35%	1.36%	1.21%
Total Operating Expenses	100.00%	100.00%	100.00%	100.00%	100.00%