

**An Analysis of the Financial Statements
of
University of Northern Colorado
Fiscal Years 1999-2003**

Prepared for AAUP

By

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Introduction

This report provides an analysis of the financial status of University of Northern Colorado for the fiscal years 1999 through 2003. The analysis contained in this report is based on information contained in the audited financial statements and other information that appears in the Annual Financial Reports of the University for the aforementioned years.

Universities, like other non-profit organizations use a system of accounting known as “fund accounting.” The reason why universities use this system of accounting has to do with their purpose as an institution of higher learning. The goal of for-profit businesses is to earn a profit. Thus, their financial statements are designed to allow stockholders and others concerned with profitability a means to monitor performance.

Universities and other non-profit organizations have an entirely different purpose. Universities are established as institutions of higher learning primarily to create and disseminate knowledge. Universities receive a significant portion of their funding from donors and governmental entities. These funds are often given with certain restrictions and conditions. The primary purpose of fund accounting is to provide trustees, who are legally responsible for running universities, the information to monitor the funds that come into the institution and make sure that they are expended for their intended purpose.

Since the primary purpose of fund accounting systems is to ensure that funds are expended in the manner they were intended by donors or government entities it is difficult for faculty to look at a university’s financial statements and get a true picture of the university’s financial health. Most often, faculty are misled by looking only at a university’s budget. A budget is just a financial plan. However, institutions have no legal obligation to spend money in accordance with their budget. For example, a budget may show that money has been allocated for a certain number of faculty positions. However, administrations routinely leave faculty positions vacant and are thus able to spend the money that has been budgeted for faculty positions for other purposes. To get a true picture of a university’s finances one must look at the actual financial statements, which represent the actual revenues and expenditures of the university. Evaluating a university’s finances by looking at its budget would be the equivalent of evaluating the performance of a for profit company by looking at its business plan.

In a in a for-profit business, revenues come into the business through the sale of goods and services. In the process of producing goods and services firms incur costs. The difference between revenues and costs represents the firm’s profit or loss. This profit or loss is one of the primary indicators of how the firm is performing. Non-profit organizations such as universities take in revenue in the form of tuition dollars, donations and governmental support. In the process of carrying out the mission of the institution they incur expenses. The difference between the revenues that come into a university and its expenses is known as a change in fund balance. If a university takes in more revenue then it expends there is a positive increase in fund balances. Conversely, if the expenses

exceed the revenues there is a decrease in fund balances. Increase or decreases in fund balances are one of the prime indicators of how a university is performing financially.

Beginning in 2002 there were some important changes in the way universities report on their financial status due to the implementation of GASB 43 and 35. Due to the changes in financial reporting what had been referred to as a change in fund balances is now referred to as a change in net assets. This change in net assets (formerly the change in fund balances) is one of the prime indicators of how a university is performing financially.

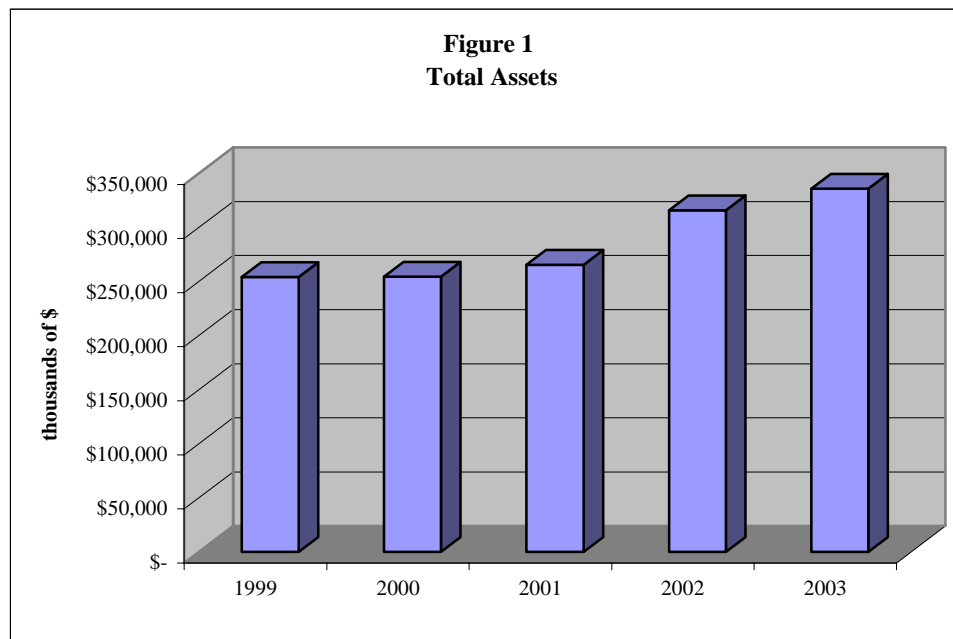
Apart from looking at absolute numbers, such as the increase or decrease in net assets (fund balances), this report will also calculate certain ratios, which are indicators of financial performance. These ratios can be used to look at the historical performance of the institution. In addition, these ratios can also be used to compare one institution to another institution, assuming that most institutions use generally recognized accounting procedures as set forth in Audits of Colleges and Universities a publication of the American Institute of Certified Public Accountants. However, caution should be exercised particularly at lower levels of detail because of differences in reporting.

The purpose of this report is to help educate faculty at University of Northern Colorado about the financial status of their institution. The information provided in this report is provided solely for educational purposes. Every effort has been made to ensure that the information in this report is accurate. Any errors or misstatements are purely unintentional and the author accepts no responsibilities for any damage that may result.

What is the Wealth of the University?

Assets and Liabilities

An asset is something that an institution owns that is expected to provide a benefit in the future. Assets can be divided into two classes: real assets such as classrooms, laboratories, computers, library books and journals etc., and financial assets such as cash that can be used to make student loans and finance current operations, and investments in financial instruments such as endowments which can be used to generate income to defray certain expenses or be liquidated during a period of a financial crisis. Liabilities are claims on an institution's resources.



In 1999 University of Northern Colorado had total assets of \$ 254.2 million and the University's assets increased slightly in 2000 and 2001 and then increased substantially in 2002 and 2003. In 2003 total assets for the University of Northern Colorado were \$355.7 million. Thus, over the five year period considered in this report the University's assets increased by about 40 percent.

Figure 1 shows the total assets of University of Northern Colorado. Total assets have been increasing reflecting the growth of both financial assets and physical assets i.e., growth of buildings and equipment. Table 1 shows the Statement of Net Assets for University of Northern Colorado. The data reported in the financial statements for 1999-2001 are not consistent with the data reported in 2002-2003 because of the change in reporting format required by GASB 34 and 35. Therefore, Table 1 attempts to create a consistent series to allow us to compare assets, liabilities and net assets over the entire five year period.

Table 1
Assets, Liabilities and Net Assets
for year ending June 30
thousands of \$

	1999	2000	2001	2002	2003
Assets:					
Cash on hand and in banks:					
Cash	\$ 198	\$ 467	\$ 165	\$ -	\$ -
Cash on deposit with State Treasurer	\$ 22,950	\$ 26,412	\$ 27,234	\$ -	\$ -
Cash/Investment with Custodian	\$ 17,444	\$ 2,328	\$ 1,423	\$ -	\$ -
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 56,698	\$ 60,217
Accounts Receivable:	\$ -	\$ -	\$ -	\$ -	\$ -
Tuition, fees and services, net	\$ 3,763	\$ 3,593	\$ 3,835	\$ -	\$ -
Intergovernmental	\$ 273	\$ 391	\$ 388	\$ -	\$ -
Other	\$ 538	\$ 637	\$ 1,055	\$ -	\$ -
Receivables	\$ -	\$ -	\$ -	\$ 4,615	\$ 5,015
Loans receivable, net	\$ 8,436	\$ 8,192	\$ 8,184	\$ 7,991	\$ 8,075
Inventories	\$ 1,876	\$ 1,910	\$ 1,681	\$ 1,020	\$ 766
Other current assets	\$ 2,481	\$ 2,640	\$ 2,370	\$ -	\$ -
Other assets	\$ -	\$ -	\$ -	\$ 2,893	\$ 2,463
Due from other funds	\$ 200	\$ 99	\$ 330	\$ -	\$ -
Land and improvements	\$ 8,475	\$ 9,530	\$ 11,001	\$ 15,291	\$ 16,471
Building and improvements	\$ 118,451	\$ 130,248	\$ 157,298	\$ 183,731	\$ 207,273
Leasehold improvements	\$ 502	\$ 502	\$ 495	\$ 495	\$ 495
Construction in progress	\$ 19,864	\$ 31,383	\$ 10,888	\$ 11,933	\$ 10,594
Equipment	\$ 24,417	\$ 10,759	\$ 11,349	\$ 11,131	\$ 11,358
Other fixed assets	\$ -	\$ -	\$ 843	\$ 843	\$ 843
Library books	\$ 24,346	\$ 25,521	\$ 26,883	\$ 27,704	\$ 29,054
Adjustment	\$ -	\$ -	\$ -	\$ (8,497)	\$ (16,925)
Total assets	\$ 254,216	\$ 254,612	\$ 265,421	\$ 315,849	\$ 335,699
Liabilities:					
Accounts payable	\$ 4,850	\$ 4,132	\$ 4,615	\$ 2,629	\$ 2,172
Accrued liabilities	\$ 3,228	\$ 2,802	\$ 1,947	\$ 2,630	\$ 10,163
Due to other funds	\$ 200	\$ 99	\$ 330	\$ -	\$ -
Deferred credits	\$ 4,817	\$ 5,127	\$ 5,280	\$ 5,730	\$ 6,807
Capital lease obligations	\$ 1,370	\$ 1,149	\$ 471	\$ 209	\$ 1,641
Bonds and notes payable, net	\$ 44,883	\$ 43,671	\$ 42,398	\$ 61,163	\$ 60,261
Accrued compensated absences	\$ 2,566	\$ 2,764	\$ 2,676	\$ 2,748	\$ 2,838
Other liabilities	\$ 1,092	\$ 1,238	\$ 1,538	\$ 4,218	\$ 4,166
Total Liabilities	\$ 63,007	\$ 60,982	\$ 59,255	\$ 79,326	\$ 88,048
Total Net Assets	\$ 191,209	\$ 193,630	\$ 206,165	\$ 236,523	\$ 247,651
Total Liabilities & Net Assets	\$ 254,216	\$ 254,612	\$ 265,421	\$ 315,849	\$ 335,699

The numbers reported in Table 1 for 1999-2001 are as reported in the financial statements. The numbers for 2002 and 2003 have been adjusted to make them consistent with earlier years. First data in 2002 and 2003 are reported as being current or non-current assets and liabilities. Table 1 consolidates current and non-current assets and liabilities so they are consistent with the reporting of assets and liabilities from earlier years. Second, investment in plant is reported net of accumulated depreciation for 2002 and 2003. As a result it appears as if there has been a significant decline in assets and in the net assets of the institution. However at the same time the University also reports an increase in liabilities and an increase in net assets. To make this numbers comparable to earlier years we have added accumulated depreciation to the value of assets in Table 1 for 2002 and 2003.

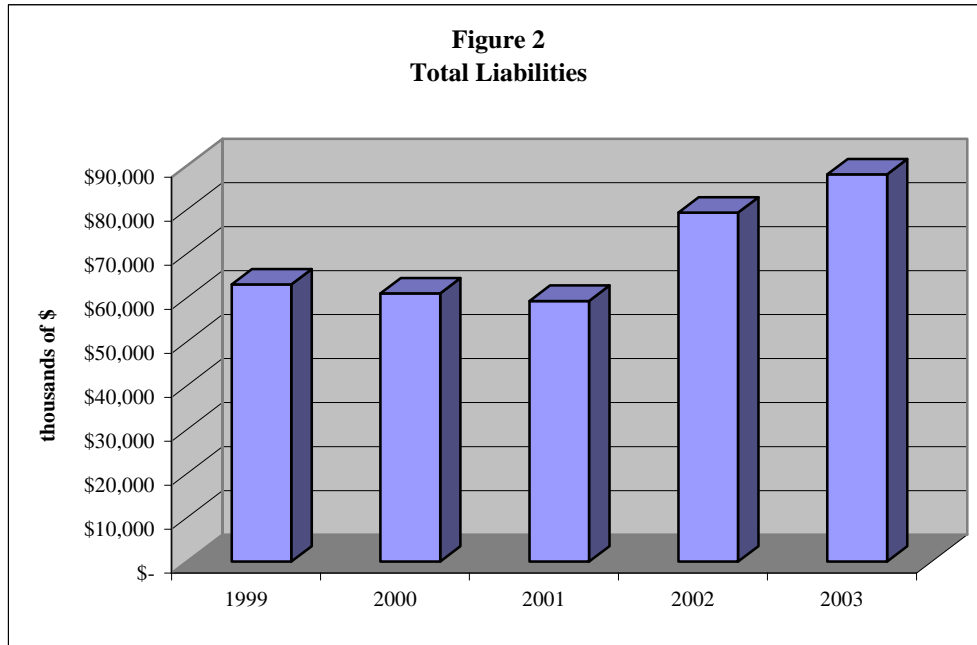
If one simply adds accumulated depreciation to the net invested in plant in the 2002 and 2003 financial statements the value of total assets would be \$324.3 million and \$352.6 million respectively. In a statement of net assets, assets minus liabilities equal net assets and therefore the change in net assets must be equal to the change in assets minus the change in liabilities. In theory if one adds accumulated depreciation to the value of assets it should also be added to net invested in plant to give a number for net invested in plant that is consistent with pre 2002 financial statements.

If assets had been valued in the same way in 2002 and 2003 as they had been earlier, the value of assets and hence the net invested in plant would be higher because the University would not have subtracted depreciation. At the same time, adjusting the level of net assets should not in theory affect the change in net assets. In fact the change in accounting method should have no affect on liquid assets but only on net assets invested in plant. With assets of \$324.3 million and liabilities of \$79.3 million the University would have net assets of \$245 million. This would imply an increase in net assets of \$38.8 million rather than the reported increase in net assets of \$30.3 million. In order to get an estimate of assets that is consistent with the reported change in net assets we have introduced an adjustment factor to reduce the value of assets and the value of net invested in plant so that they are consistent with increase net assets of \$30.3 million in 2002 and \$11.1 million in 2003.

One of the obvious changes in the statement of net assets between 2001 and 2002 was the significant increase in cash. Cash and cash equivalents increased from \$28.8 million to \$56.7 million in 2002 and then to \$60.2 million in 2003. According to the Management Discussion and Analysis (MDA) most of the increase in 2002 was due to an increase in restricted cash which represents unused cash from the sale of bonds. However, in 2003 restricted cash declined and current cash and cash equivalents increased from \$37.3 million to \$45.8 million. This increase is not explained in the 2003 MDA and although the University does state that it implemented a variety of spending restriction and instituted a hiring freeze to reduce the outflow of operating cash.

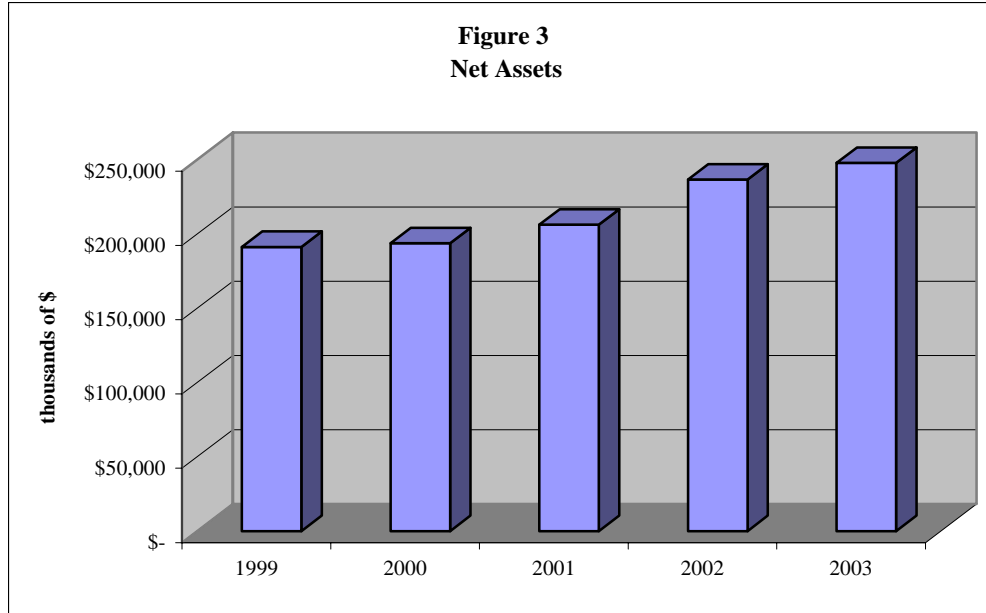
Figure 2 shows the total liabilities of the University. Liabilities decreased from \$63 million to \$59.3 million between 1999 and 2001. However, in 2002 there was a significant increase in liabilities due to the sale of bonds. Thus in 2002 liabilities

increased to \$79.3 million. In 2003 long term liabilities decreased but total liabilities increased to \$88 million primarily due to an increase in accrued liabilities.



Net assets are the difference between assets and liabilities and represent the wealth of the institution. Therefore net assets are an important indicator of the financial health of an institution. In the past, these net assets were referred to as fund balances. There has been a significant increase in the net assets of the institution as seen in Figure 3.

Total net assets increased from \$ 191.2 million in 1999 to \$247.7 million in 2003. In 2002 the University reported net assets of \$142.5 million where as Table 1 shows net assets of \$236.5 million. However, in the 2001 financial statements the University reported net assets of \$206.2 million. Thus it would appear that that there has been a significant decline in net assets although the University reports an increase in net assets of \$30.4 million. Again this seeming inconsistency is due the restatement of the value of assets due primarily to the counting of accumulated depreciation in the 2002 financial statements.



The increase in total net assets of the University represents an increase in wealth for the University. However, state universities often receive two pots of money. One consists of capital funds for building and renovation and the other consists of operating funds for example state subsidy. Money that is received for capital projects is often times restricted and cannot be used for operating i.e., paying for salaries and benefits. Thus, while it can appear that a university is increasing its wealth and should have more resources available to expend for operations, this may not be the case.

If the increase in total net assets is exclusively due to increases in the value of land, buildings and equipment the increase in wealth while real does not give the university added flexibility with respect to operations. To the extent that a university uses funds it generates through operations to purchase land, building and equipment it can decide to reallocate these funds for alternative uses. However, to the extent that it uses capital funds from the state or from private sources for purchases of land, buildings and equipment it is limited and cannot reallocate that money for other purposes. Also once universities purchase land and put up buildings they are unlikely to sell these assets to generate funds, which could be used for other purposes. However, it should be noted that even when buildings are constructed using capital funds there are clear implications for operating budgets in the future. As universities increase their square footage they will be required to spend additional funds on maintenance and utilities thereby increasing their operating expenses.

Figure 4 shows several key ratios. These key ratios are also reported in Table 2. First is the ratio of current assets to current liabilities. Current assets consist of unrestricted cash and cash equivalents, inventories, receivables and pledges due within a year, investments that mature within one year and other short term assets. Assets such as restricted cash and cash equivalents and restricted investments, unrestricted investments

that mature in more than one year, receivables and pledges deemed collectable in more than one year and plant and equipment are non-current assets. Current liabilities are all liabilities payable within one year as well as deferred revenues which consist primarily of tuition collected in one fiscal year that pays for services offered in a subsequent fiscal year. Liabilities that are not due during the current year are non-current liabilities.

Table 2
Ratios of Assets to Liabilities
for the year ending June 30

	1999	2000	2001	2002	2003
Current Ratio	2.60	2.75	2.93	3.12	2.35
Non-Current Ratio	4.39	4.57	4.98	4.17	4.32
Fixed Assets to Debt	4.24	4.64	5.10	3.95	4.19
Total Assets to Total Liabilities	4.03	4.18	4.48	3.98	3.81

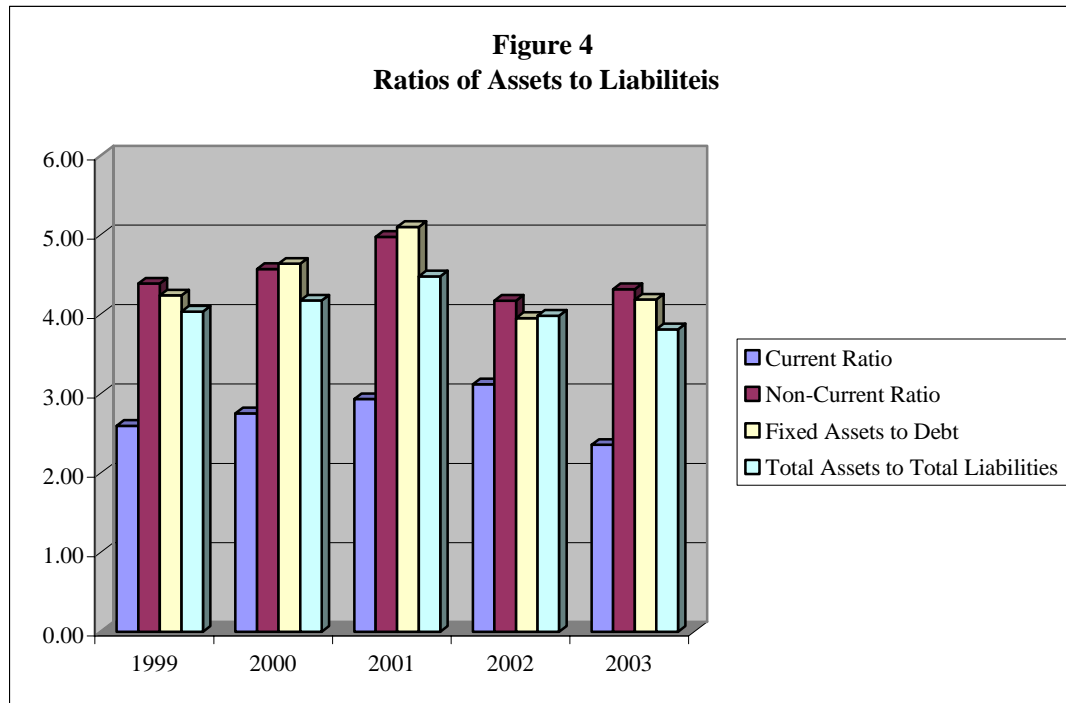
With the new reporting structure the mandated by GASB 34 and 35 institutions must divide assets and liabilities into current assets and liabilities and non-current assets and liabilities. However, before 2001 no such division was required. Thus to calculate the ratio for 2002 and 2003 we use the reported current assets and liabilities. For the years 1999-2001 we take the ratio of the assets to the liabilities reported in the Current Fund (restricted and unrestricted) and the Loan Fund which assumes that all assets and liabilities in these funds are short-term because they represent the operating funds for the institution. This means that the ratios for 2002 and 2003 clearly the most accurate and not strictly comparable to the ratios for previous years.

The ratio of current assets to current liabilities increased from 2.6 in 1999 to 3.12 in 2002 and then declined to 2.35 in 2003. A current ratio of 2.35 implies that the University has current assets to cover 235 percent of its current liabilities. There is no exact target for a current ratio although clearly the number should be greater than one and not much greater than two. Too large a current ratio imposes an opportunity cost on a university.

Figure 4 also shows the ratio of non-current assets to non-current liabilities. Non-current assets and liabilities are calculated by subtracting current assets and liabilities from total assets and liabilities. The ratio of non-current assets to non-current liabilities increased from 1999 to 2001 and then decreased between 2001 and 2002 before rebounding slightly in 2003. In 1999 it was 4.39 and in 2003 it was 4.32. Thus while there has been some movement over the five year period this movement has not resulted in any significant change in the Non-Current ratio.

Another indicator of financial health is the ratio of fixed assets to long-term debt, which is also shown in Figure 4. Again this ratio follows the same pattern as the non-current ratio and the major factor causing it to decrease in 2002 was the increased borrowing of the University.

The last indicator is the ratio of total assets to total liabilities. Again the pattern here mirrors the pattern of the non-current ratio and the ratio of fixed assets to debt since these are the largest components of making up total assets and total liabilities.



Most state universities list investments on their statement of net assets. However, in Colorado it appears as if all such investments must be made by the Colorado State Treasurer. Therefore, this report contains no analysis of the University's investments.

Table 3 shows the total debt as well as interest and principal payments. From 1999 until 2001 the University's debt was declining. However, in 2002 the University received \$48.3 million in proceeds from the sale of debt. At the same time, it made principal payments of \$29.9 million resulting in an increase in debt of \$18.4 million. In effect the University increased the net amount it borrowed by \$18.4 million and refinanced some of its earlier debt presumably to take advantage of lower interest rates. In this respect, the principal payment made in 2002 is an anomaly and does not reflect the normal amount of principal payments made by the University. In 2003 the amount of debt held in the form of bonds and notes declined slightly but this was more than offset by an increase in capital lease payments resulting in a slight increase in total debt. Figure 5 shows changes in long-term debt.

**Table 3
Debt and Debt Service
for year ending June 30
thousands of \$**

	1999	2000	2001	2002	2003
Capital lease obligations	\$ 1,370	\$ 1,149	\$ 471	\$ 209	\$ 1,641
Bonds and notes payable, net	\$ 44,883	\$ 43,671	\$ 42,398	\$ 61,163	\$ 60,261
Total Debt	\$ 46,253	\$ 44,820	\$ 42,869	\$ 61,372	\$ 61,902
Principal paid on capital debt	\$ 1,678	\$ 1,483	\$ 2,027	\$ 29,931	\$ 1,052
Interest on indebtedness	\$ 962	\$ 960	\$ 1,975	\$ 2,152	\$ 2,343

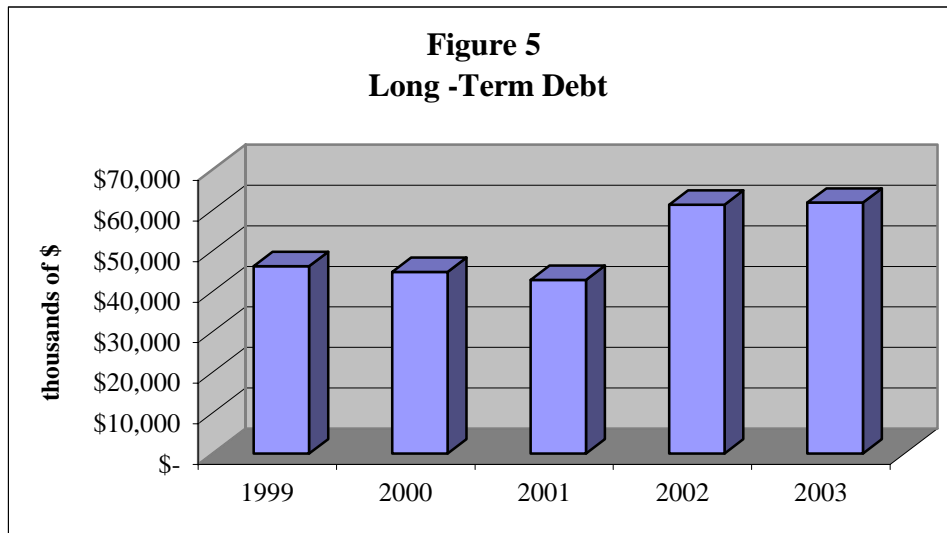
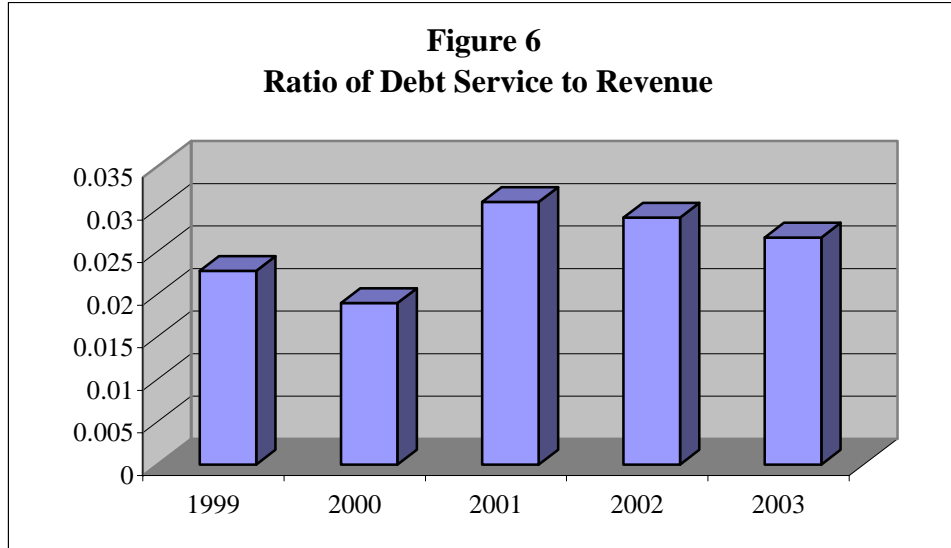


Table 3 also shows principal and interest payments. Generally, interest payments for University of Northern Colorado have been increasing. In 1999 interest payments were \$962 thousand and by 2003 interest payments had increased to \$2.3 million. It is difficult to discern any pattern in principal payments. Apart from 2002 which was clearly an unusual year due to the refinancing of part of the University's debt, principal payments have averaged about \$1.6 million.



One measure of the ability of an institution to meet its debt payments is the ratio of debt service to revenue. Figure 6 shows that the ratio of debt service to revenue declined from 1999 to 2000 and then increased in 2001. The figure for 2002 would of course be distorted by the large principal payment made due to the refinancing of earlier debt. The ratio shown in Figure 6 was calculated using the average principal payment. Although the ratio of debt service to revenue has been higher since 2001 it has generally been declining. A decline in this ratio means that the University has increased its ability to make principal and interest payment which indicates that with respect to meeting its debt payments, the University has improved its financial position.

Table 4
Plant and Equipment
for year ending June 30
thousands of \$

	1999	2000	2001	2002	2003
Land and improvements	\$ 8,475	\$ 9,530	\$ 11,001	\$ 15,291	\$ 16,471
Building and improvements	\$ 118,451	\$ 130,248	\$ 157,298	\$ 183,731	\$ 207,273
Leasehold improvements	\$ 502	\$ 502	\$ 495	\$ 495	\$ 495
Construction in progress	\$ 19,864	\$ 31,383	\$ 10,888	\$ 11,933	\$ 10,594
Equipment	\$ 24,417	\$ 10,759	\$ 11,349	\$ 11,131	\$ 11,358
Other fixed assets	\$ -	\$ -	\$ 843	\$ 843	\$ 843
Library books	\$ 24,346	\$ 25,521	\$ 26,883	\$ 27,704	\$ 29,054
Adjustment	\$ -	\$ -	\$ -	\$ (8,497)	\$ (16,925)
Total	\$ 196,056	\$ 207,943	\$ 218,756	\$ 242,631	\$ 259,162

Table 4 shows the University's investments in plant and equipment. The numbers in the table represent the original cost as opposed to market value or replacement cost.

These numbers show the value of plant and equipment without subtracting depreciation in 2002 and 2003 to make the numbers comparable to previous years. Again the adjustment number is to insure that in the balance sheet assets equal liabilities plus net assets. The numbers show a steady increase in the value of plant and equipment when valued at cost.

Total Net Assets

In for profit businesses the difference between assets and liabilities is referred to as owner's equity. In theory if a business were to sell off all of its assets and pay off all claims against the business, the amount remaining would be the owner's claims on the business's resources. In a non-profit organization, the difference between assets and liabilities has traditionally been referred to as a fund balance. However, after implementation of GASB 34 and 35 the difference between assets and liabilities are now referred to as net assets.

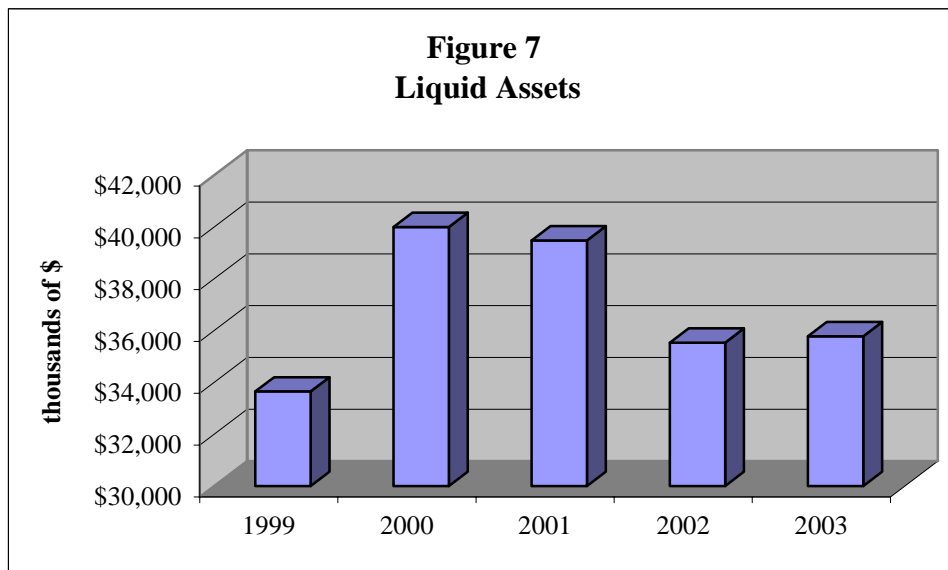
Net assets represent the net accumulation of a university's assets over a period of time. A large portion of these net assets consist of the value of land, buildings, books and journals and equipment owned by the college. Beginning in 2002 with GASB 34 and 35 universities are required to show accumulated depreciation on their balance sheets for certain real assets such as buildings and some equipment. Taking into account accumulated depreciation significantly reduces the net assets of an institution. For example, in 2001 the University reported having \$166.6 million in net plant assets and in 2002 the University reported having on \$107 million in net assets invested in plant. Thus it would appear that there had been a decline in the net assets of the University. However, at the same time the 2002 financial statement shows a beginning balance of as of June 30, 2001 of \$210.4 million for the total cost of fixed assets and an ending balance on June 30, 2002 of \$251.1 million in the total cost of fixed assets. This means that the value of the University's fixed assets increased by \$49.7 million. Of course net assets are net of debt and the University increased its debt in 2002 by about \$18 million. Subtracting out the \$18 million would mean an increase in net fixed assets of \$31.7 million. Therefore the reported decline in the value of net assets invested in capital between 2001 and 2002 is due primarily to the fact that in 2002 the University subtracted accumulated depreciation from the value of certain depreciable assets. Clearly this bookkeeping change did not in any way reduce the actual wealth of the institution.

For private companies depreciation represents the cost of "using up" plant and equipment. However, in universities most of the buildings and a significant part of the equipment is paid for by governmental appropriations or private gifts. Thus universities have a source of financing replacement of worn out buildings and equipment that is not available to private business.

In addition, to these real assets, universities also own financial assets such as stocks and bonds, CDs and mutual funds. Finally, universities also generally hold small amounts of cash and money in checking and savings accounts. These financial assets

would not include cash that has been accumulated as a result of claiming depreciation on plant and equipment.

Figure 3, presented earlier in this report, shows total fund balances also referred to as net assets for University of Northern Colorado. Once a university invests money in its physical plant it is unusual for it to sell that asset. Thus, if a university changes its priorities and accordingly wishes to change its asset allocation it would most likely reallocate its non-plant assets. For that reason, Figure 7 shows the University's net assets excluding investment in plant i.e., liquid net assets. In 1999 University of Northern Colorado had liquid assets of \$33.7 million and by 2003 this figure had risen slightly to \$35.8 million. However, Figure 7 generally shows that liquid net assets have been declining since 2000.



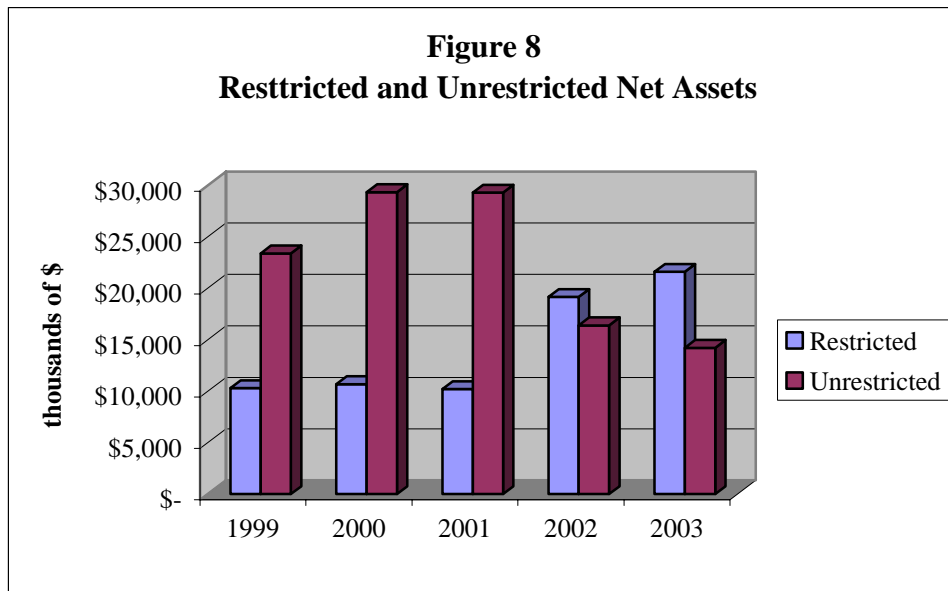
Restricted and Unrestricted Net Assets

Restricted net assets are assets net of related liabilities held by the University that are designated for specific purposes by external entities, either government agencies or private donors. Unrestricted net assets are assets net of related liabilities that can be spent at the discretion of the institution. Clearly, unrestricted net assets give universities more flexibility than restricted net assets. However, one should not assume that just because an asset is restricted that it cannot be used for reallocation. For example a university may be spending a significant amount of unrestricted funds on scholarships and then replaces those funding with endowed scholarships. In this case, there would be no change in unrestricted funds but there would be an increase in restricted funds. However, the unrestricted funds that were being used for scholarships have now been freed up and are available for reallocation.

Table 5
Restricted and Unrestricted Net Assets
for year ending June 30
thousands of \$

	1999	2000	2001	2002	2003
Restricted	\$ 10,286	\$ 10,674	\$ 10,191	\$ 19,153	\$ 21,579
Unrestricted	\$ 23,369	\$ 29,331	\$ 29,295	\$ 16,386	\$ 14,206
Net Invested in Plant	\$ 157,555	\$ 153,625	\$ 166,679	\$ 200,984	\$ 211,866
Total	\$ 191,209	\$ 193,630	\$ 206,165	\$ 236,523	\$ 247,651

Table 5 shows the net assets divided into restricted and unrestricted funds. From 1999 to 2001 restricted assets remained essentially flat and unrestricted assets increased although all of the increase was between 1999 and 2000. In 2002 there was an increase in restricted net assets. It is likely that some of this increase, and therefore some of the decrease in unrestricted net assets, was due to changes brought about by GASB 34 and 35. However, even if all the change in restricted net assets was due to GASB 34 and 35 there still would have been a decline in unrestricted net assets of about \$3.9 million. In 2003 there was another decline in unrestricted net assets of about \$2.1 million while restricted assets increased by about \$2.4 million. Figure 8 shows the restricted and unrestricted assets of the University.



Expendable Net Assets:

In addition to dividing net assets between restricted and unrestricted, net assets can also be categorized as expendable or non-expendable. Expendable net assets consist of assets that legally could be used for operations or plant expenditures. Non-expendable net assets are funds that would not be spent for operations, for example the endowment fund. Before GASB 34 and 35 universities, including University of Northern Colorado presented their balance sheets by fund group. Universities generally have five fund groups: current funds, loan funds, endowment and similar funds, plant funds and agency funds. Endowment funds generally have three categories: endowment, quasi-endowments and term endowments, life income and annuity funds. Plant funds are generally divided into four categories unexpended plant funds, funds for renewal and replacement, funds for the retirement of indebtedness and investment in plant net of debt. Given these categories expendable balances are normally calculated by taking the sum of current funds, quasi-endowments, unexpended plant funds, funds for renewal and replacement, and funds for the retirement of indebtedness.

Table 6 shows expendable and non-expendable net assets. Expendable net assets at the University have increased from 1999-2000 and then declined slightly in subsequent years. In 1999 expendable net assets were \$33.2 million and reached \$40 million by 2000 before declining to \$35.2 million by 2002. In 2003 expendable balances rebounded ever so slightly reaching \$35.5 million. Non-Expendable net assets at the University of Northern Colorado are extremely small. Non-Expendable net assets should consist of the University's endowment. Non expendable net assets increased in 2000 and again in 2001 before declining in subsequent years. Figure 8 shows expendable and non-expendable net assets.

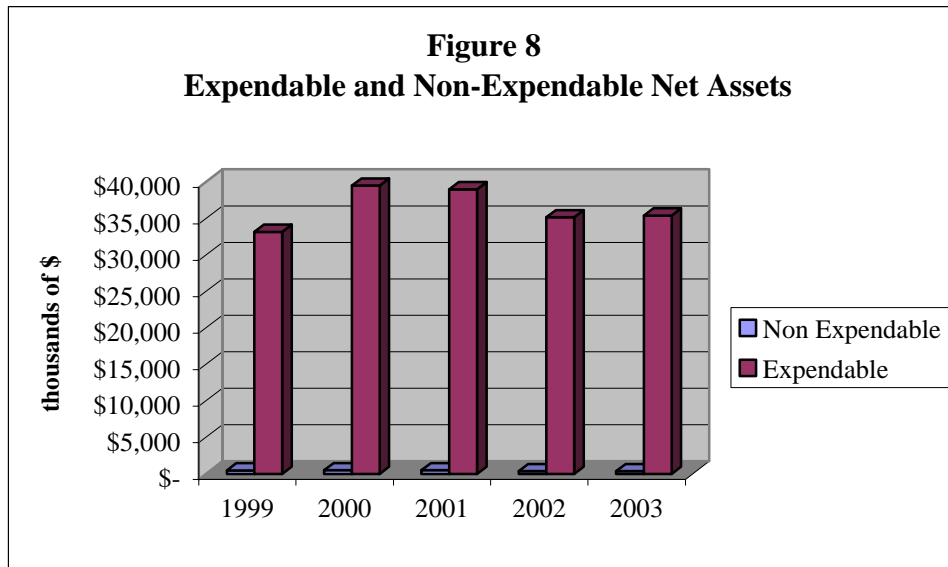
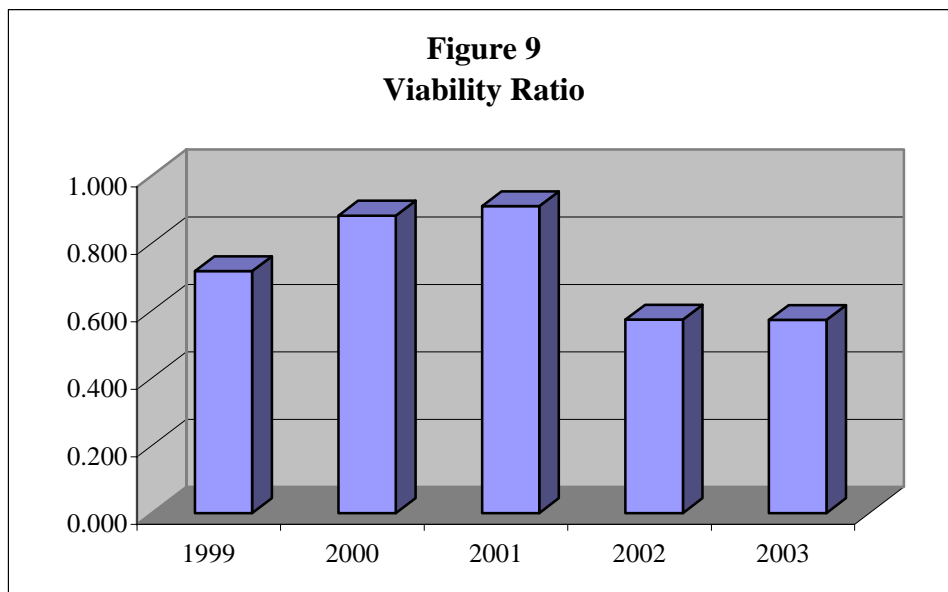
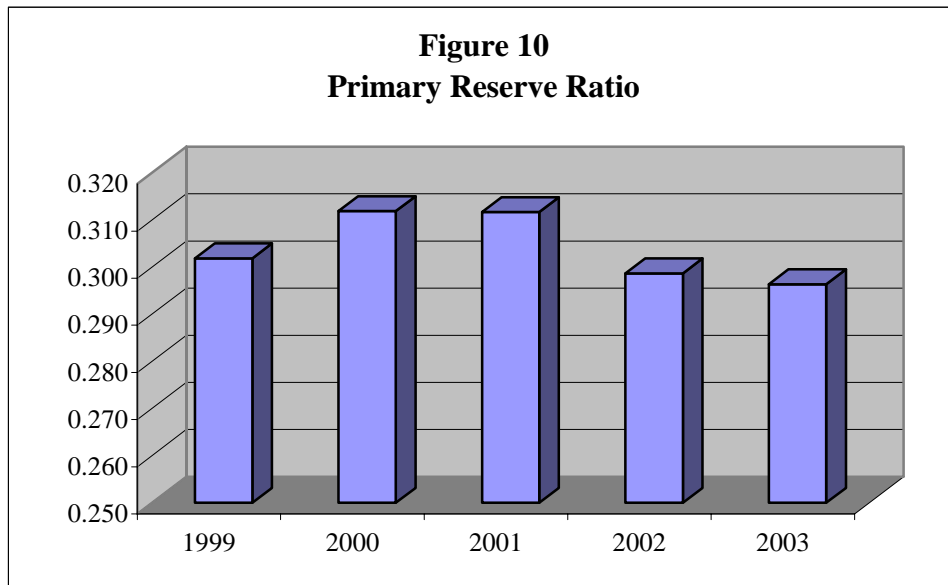


Table 6
Expendable and Non-Expendable Net Assets
for year ending June 30
thousands of \$

	1999	2000	2001	2002	2003
Non Expendable	\$ 492	\$ 497	\$ 498	\$ 382	\$ 382
Expendable	\$ 33,162	\$ 39,508	\$ 38,989	\$ 35,158	\$ 35,403
Liquid Assets	\$ 33,654	\$ 40,005	\$ 39,487	\$ 35,539	\$ 35,785
Debt	\$ 46,253	\$ 44,820	\$ 42,869	\$ 61,372	\$ 61,902
Expenses	\$ 109,859	\$ 126,678	\$ 125,096	\$ 117,715	\$ 119,460
Ratios:					
Viability Ratio	0.717	0.881	0.909	0.573	0.572
Primary Reserve Ratio	0.302	0.312	0.312	0.299	0.296

Table 6 also shows two ratios, which are commonly calculated as indicators of financial health. The first is known as the viability ratio, which is the ratio of expendable net assets to long-term debt. The viability ratio increased from 1999 to 2001 and then declined in 2002 and 2003. The primary reason for the decline was the growing indebtedness of the University. In 1999 the viability ratio was 0.717, which meant that the University had sufficient expendable net assets to pay 71.7 percent of its long-term debt. In 2003 the viability ratio was .572 which meant the University had sufficient expendable net assets to pay 57.2 percent of its debt. The changes in University of Northern Colorado's viability ratio can also be seen in Figure 9.





The second ratio presented in Table 6 is the primary reserve ratio, which measures the ratio of expendable net assets to expenses. In the past this ratio was calculated by dividing expendable balances by current fund expenditures and mandatory transfers. However, with GASB 34 and 35 and the new reporting format, which eliminated the current fund reporting the ratio is now calculated by dividing expendable balances by expenses. The primary reserve ratio shows a pattern of increasing slightly between 1999 and 2001 and then declining slightly in 2002 and 2003. A primary reserve ratio of 0.296 implies that the University has enough expendable net assets to meet 29.6 percent of its operating expenses.

In summary, in 2003 University of Northern Colorado reported having 153.6 million in net assets. However, to compare net assets to previous years we have estimated that net assets were \$247.7. The difference between the two numbers is solely due to differences in net assets invested in capital as opposed to differences in liquid assets. In 2002 the University had \$35.8 million in liquid assets. These liquid assets were divided between \$35.4 million in expendable net assets and \$381.5 thousand in non-expendable funds. In general, an analysis of the University's Statement of Net Assets suggests that since 1999 the University has experienced a moderate decline in its financial flexibility due primarily to increases in debt and decreases in liquid net assets.

What is the income and expenditures of the University?

Net Income

The flow of wealth into a university is referred to as revenue and other additions. For most state universities there are five major sources of revenue: 1) tuition and fees, 2) state subsidy, 3) grants, gifts and contracts, 4) sales which include fees collected by

auxiliary enterprises such as dormitories and bookstores and 5) endowments. In order for a university to carry out its mission it is necessary for it to purchase certain resources, which represent an outflow of resources from the university. This outflow is referred to as expenditures and other disbursements. These expenditures and disbursements consist of wages, salaries and benefits as well as expenditures for purchases of goods and services from external vendors.

In the past, this flow of resources was accounted for in the Statement on Changes in Fund Balances, which was the closest thing that a university had to an income or profit and loss statement that would be found in a for profit business. In fact, the change in total fund balances was in many ways analogous to the concept of net income or profit that one would encounter in a for profit enterprise. There were, however, some subtle differences in fund accounting compared to accounting in for profit businesses. These differences showed up in the way that certain capital expenditures and debt repayment were treated in fund accounting as well as how depreciation and appreciation of physical assets were treated in fund accounting. Another unique feature of fund accounting was the treatment of financial aid. A final unique feature of fund accounting was the use of inter-fund transfers.

Before GASB 34 and 35 when universities provided students with stipends, tuition grants, fellowships and other forms of financial aid they recorded this as an expenditure in the Statement of Changes in Fund Balances or the Statement of Changes in Current Funds. The university treated the granting of financial aid as if they had written a check to a student who then used that money to pay for tuition and fees. To counterbalance the fact that universities counted financial aid as an expense they also added it to the revenue side where it showed up as part of tuition and fees. In for profit business accounting a discount would not be considered an expense. Rather it would be treated as a reduction in revenue. To get a true picture of actual revenues and expenses student aid should be subtracted from tuition and fees and from auxiliary revenues, in which case, it would not be counted as an expense. With the implementation of GASB 34 and 35, aid that does not flow directly to students will now be treated as a reduction in revenue and only that portion of student aid that goes directly to students will be treated as an expense.

Another example of how fund accounting differed from for profit accounting relates to the way in which universities treated capital additions. Before GASB 34 and 35 the Statement of Changes in Fund Balances treated capital grants from the state as revenue. If the state gives an institution money to construct a building this is not actually revenue. When the university spends that money for construction it is not an expense. The reason it is not considered as an expense is that the building wears out over a period of time. The cost of using a building should be taken into account by deducting depreciation. To count construction costs as an expense and then to depreciate a building would be double counting. Business accounting rules require that expenses be recognized when they are incurred which is the case of a building is over the life of the asset. GASB 34 and 35 now requires that universities count depreciation as an expense.

When a university is required to show depreciation as an expense it reduces net income in comparison to earlier years. However, faculty should not be misled by the decline in net income caused by counting depreciation as an expense. While depreciation may be a cost, it is important to remember that it does not represent an outflow of cash from the institution.

Before GASB 34 and 35 the Statement of Changes in Fund Balances actually listed revenues and other additions. It also listed expenditures and other deductions. To get a true picture of actual revenues and expenses for the years 1999-2003 one should eliminate the non-expense portion of student aid, expenditures on plant, indirect costs recovered, matured annuity and life income funds and retirement of debt from both the revenue and the cost side. While these adjustments do not affect the change in net assets (the net income of the university) they do give a better picture of the actual revenues and expenses of the University.

Table 7 shows the consolidated position of the University for the years 1999-2003. For 1999-2001 in Table 7 we report as tuition and fees as the total of tuition and fees reported in the Statement of Changes in Fund Balances minus 0.69 of total student aid. We have also subtracted 9 percent of student aid from sales from auxiliaries leaving 22 percent of student aid as an expense. This provides a picture of revenues that is more compatible with the definitions of revenue used in the 2002 and 2003 financial statements in light of the changes required by GASB 34 and 35. In addition, we have also subtracted indirect costs recovered, additions to plant facilities and retirement of indebtedness. For 2002 and 2003 we calculate total revenue as total operating revenues, plus total non-operating revenues. Under GASB 34 and 35 all state universities will show operating losses because state appropriations are classified as non-operating revenues. However, state appropriations are a form of revenue for state universities and we count state appropriations for operations as part of the University's total revenue.

For 1998-2001 in Table 7 we report as total expenses the total expenditures and other deductions plus non-capitalized expenditures minus expended for plant facilities, debt retirement, indirect costs recovered, and 78 percent of student aid. When universities show plant additions in both the revenue and expense side of the ledger they are double counting. When subtracting plant addition from the expense side one should add non-capitalized expenses and subtract capital expenditures from current funds. However, the University of Northern Colorado does not break out non-capitalized expenditures for plant and expenditures from current funds. The row "adjustment of expenditures" takes into account this adjustment and insures that when you take revenues minus expenses the change in net assets is unaffected. Total expenses for 2002 and 2003 are calculated by taking the sum of operating and non-operating expenses.

Table 7
Revenues, Expenses and Change in Net Assets
for the year ending June 30
thousands of \$

		1999		2000		2001		2002		2003
Operating Revenue										
Student tuition and fees, net	\$	29,156	\$	30,503	\$	30,800	\$	32,160	\$	35,066
State appropriations	\$	41,066	\$	43,960	\$	46,733	\$	42,352	\$	36,975
Federal grants and contracts	\$	8,604	\$	8,120	\$	8,196	\$	10,682	\$	11,733
Federal grants and contracts, received as sub recipient	\$	326	\$	520	\$	672	\$	-	\$	-
State and local grants and contracts	\$	421	\$	2,917	\$	3,030	\$	6,074	\$	6,008
Private gifts, grants and contracts	\$	737	\$	2,895	\$	2,707	\$	2,282	\$	2,315
Investment Income	\$	1,808	\$	1,579	\$	2,615	\$	3,194	\$	2,725
Unrealized gain (loss) on investments	\$	2	\$	-	\$	(1)	\$	-	\$	-
Sales and services of educational activities	\$	2,755	\$	2,446	\$	2,325	\$	2,490	\$	2,735
Sales and services of auxiliary enterprises	\$	28,502	\$	30,237	\$	30,375	\$	26,346	\$	27,329
Interest on loans receivable	\$	355	\$	379	\$	394	\$	-	\$	-
Other revenue and additions	\$	2,326	\$	1,204	\$	1,889	\$	2,358	\$	2,464
Total operating revenue	\$	116,058	\$	124,760	\$	129,736	\$	127,939	\$	127,350
Nonoperating Revenues										
Capital appropriations	\$	5,132	\$	4,066	\$	7,666	\$	27,372	\$	10,476
Capital grants and gifts	\$	306	\$	274	\$	229	\$	267	\$	2,291
Special Item - Sale of KUNC license	\$	-	\$	-	\$	-	\$	1,260	\$	-
Total Nonoperating Revenues	\$	5,438	\$	4,340	\$	7,895	\$	28,899	\$	12,767
Educational and general Expenses										
Instruction	\$	39,257	\$	40,462	\$	45,368	\$	48,053	\$	50,428
Research	\$	1,913	\$	1,826	\$	1,847	\$	2,207	\$	2,464
Public Service	\$	2,582	\$	2,789	\$	1,916	\$	1,396	\$	1,200
Academic Support	\$	14,505	\$	15,650	\$	16,162	\$	12,091	\$	11,863
Student Services	\$	12,874	\$	13,301	\$	13,744	\$	13,583	\$	14,292
Institutional Support	\$	7,612	\$	6,997	\$	6,243	\$	9,049	\$	7,427
Operation & maintenance of plant	\$	6,401	\$	7,060	\$	7,183	\$	8,496	\$	8,946
Scholarships and fellowships	\$	2,448	\$	2,483	\$	2,670	\$	2,633	\$	2,942
Total Educational and general expenses	\$	87,591	\$	90,569	\$	95,132	\$	97,507	\$	99,562

Table 7
Revenues, Expenses and Change in Net Assets
for the year ending June 30
thousands of \$
Continued

	1999	2000	2001	2002	2003
Auxiliary enterprises expenditures	\$ 20,847	\$ 21,749	\$ 21,329	\$ 17,866	\$ 17,537
Loan cancellations and write-offs	\$ 241	\$ 209	\$ 26	\$ -	\$ -
Refunded to grantors	\$ 0	\$ -	\$ -	\$ -	\$ -
Interest on indebtedness	\$ 962	\$ 960	\$ 1,975	\$ 2,152	\$ 2,343
Disposal of plant facilities	\$ 3,300	\$ 16,723	\$ 7,249	\$ 190	\$ 18
Realized Loss on Deb	\$ (16)	\$ -	\$ -	\$ -	\$ -
Other expenditures & deductions	\$ 221	\$ 165	\$ 189	\$ -	\$ -
Adjustment for Expenditures	\$ (3,287)	\$ (3,697)	\$ (804)	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 109,859	\$ 126,678	\$ 125,096	\$ 117,715	\$ 119,460
Net Income	\$ 6,199	\$ (1,919)	\$ 4,640	\$ 10,224	\$ 7,890
Net Income minus depreciation	Na	Na	Na	\$ 1,458	\$ (1,638)
	\$ -	\$ -	\$ -	\$ -	\$ -
Increase in Net Assets	\$ 11,637	\$ 2,421	\$ 12,535	\$ 39,123	\$ 20,656
Increase in Net Assets minus depreciation	Na	Na	Na	\$ 30,357	\$ 11,128

Also in the 2000 financial statement, the Statement of Revenues, Functional Expenditures and Changes in Fund Balances lists \$4,065,889 as a student fee under unexpended plant funds. I am assuming that this is a mistake and that this was really the capital appropriation received by the University for 2000 since in no other year is there such a fee and in every other year there is some sort of capital appropriation. If you included that number in student fees and tuition it causes a spike in this number in 2000 and this seemed improbable.

It should also be noted that in the 2001 financial statements that in the Statement of Revenues, Functional Expenditures and Changes in Fund Balances there are two errors involving the calculation of net increases (decreases) in fund balances. The first is in current unrestricted funds. The financial statement lists total revenues and additions of \$118,450,766 and total expenditures, deductions and transfers as \$113,493,204 but shows a net increase in the fund balance of \$14,957,562 when the actual change in the fund balance was \$4,957,562 a discrepancy of \$10 million. There is also an error in the calculation of the net increase in fund balances in the endowment and similar funds where total revenues and other additions are listed at \$27,748 and total expenditures,

deductions and transfers are listed at \$24,828 but the report states that the net increase in the fund balance was \$72,920 when in reality the increase was \$2,920.

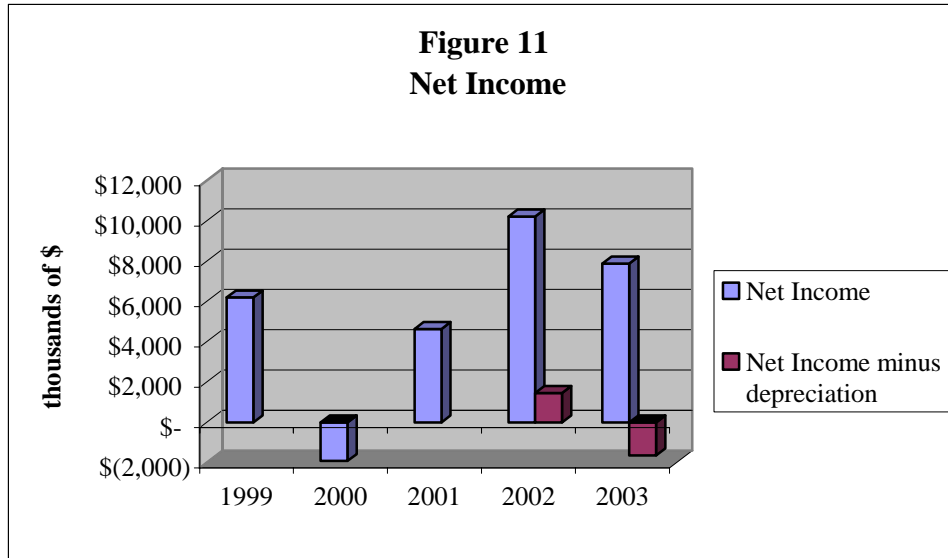
Table 7 separates operating and non-operating revenue. The major difference in these categories is that non-operating revenue tends to be one time money that is often earmarked for projects usually capital projects. It comes from state capital appropriations and gifts. This money is not a regular source of revenue and therefore cannot be used for operating purposes. Operating revenue, on the other hand, is a more regular source of revenue and can be used to finance operating costs.

Since 1999 total operating revenue is up by 9.73 percent although from its high point in 2001 it is actually down by 1.84 percent. The decline since 2001 is most likely the result of reductions in state appropriations although it is also possible that some of the decline in revenue shown in Table 7 is a result of the implementation of GASB 34 and 35. Net tuition and fees revenue increased 20 percent since 1999. Over the entire five year period state appropriations are down 10 percent, but are down 20 percent from their high point. Some of the losses in state appropriation have been made up for by increases in revenue from grants and gifts although clearly these increases have not completely filled the gap left by declining state appropriations.

Total expenses are up 8.74 percent from 1999 although are down by 5.9 percent since 2000. Instructional expenses have risen 28.5 percent, spending on operations and plant maintenance is up almost 40 percent and scholarships and fellowships are up almost 20 percent. Spending on academic support is down 18 percent and spending on institutional support is down 2.5 percent.

Net income is defined as the difference between operating revenues and total expenses and is equivalent to profit in a private business. Universities, like all organizations, need to earn profit in order to accumulate reserves to deal with unforeseen contingencies and to allocate fund for expansion and replacement of facilities. However, the amount of profit that universities need for these purposes and exactly how the profits should be used is a matter of policy.

We have calculated net income in two ways. First without taking into account depreciation which makes the net income in 2002 and 2003 comparable to net income in earlier years. Second, we have calculated net income for 2002 and 2003 taking into account depreciation. Not taking into account depreciation, in each of the five years from 1999 to 2003, the University had a positive net income in every year except 2000. Over the last five years the University has had an average net income of \$5.4 million. When one takes into account depreciation in 2002 and 2003 the University had a net income of \$1.4 million in 2002 and a loss of \$1.6 million in 2003. Figure 11 shows the trend in net income.

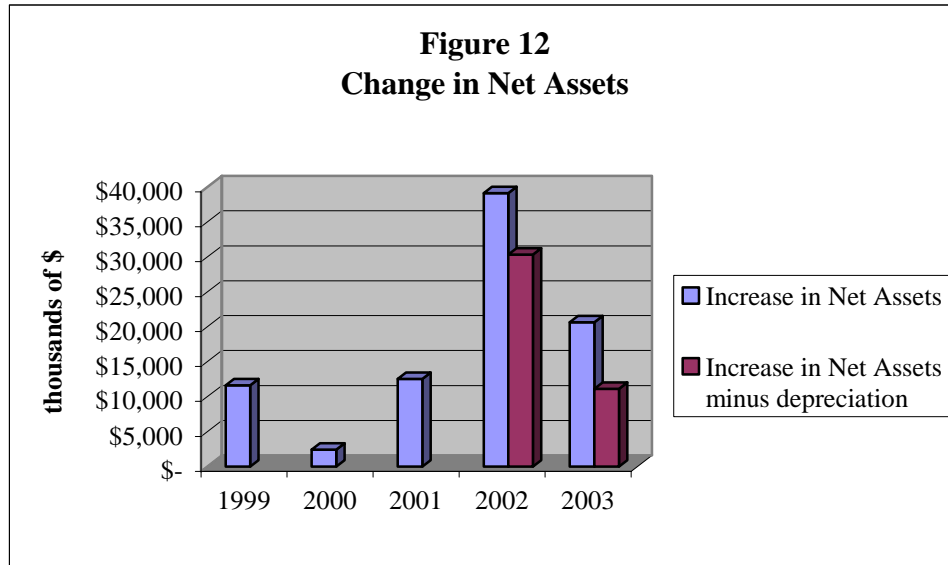


Depreciation is an expense and therefore it reduces net income. It is important to remember, however, that depreciation is a non-cash expense so that no money actually flows out of the University when it incurs this expense. In theory, depreciation represents wear and tear on plant and equipment and allows firms to set aside funds to renew and replace equipment and buildings when they are worn out. However, universities, including University of Northern Colorado, receive a significant portion of capital funding in the form of a separate capital appropriation from the state. Moreover, universities also conduct capital campaigns to raise money from donors to finance renovations and new construction. In this respect, they differ markedly from private businesses that must raise money either through borrowing or the sale of stock. Thus in the context of a university while depreciation is technically an expense, in reality, it is a vehicle for raising cash. In any given year, this cash is available for the University to spend. Thus the reduction in net income in 2002 is a paper reduction and the loss in 2003 is a paper loss.

This treatment of depreciation is reflected in the University's cash flow statement for 2002 and 2003 (Before 2002 the University was not required to present a cash flow statement). In 2002 the University showed \$28.9 million in net cash outflows for operations but had \$42.5 million in net cash inflows from non-capital financing activities principally non-capital state appropriations. Thus in 2002 the University had a net inflow of cash from operations of 13.5 million according to its 2002 cash flow statement. In 2003 it had a net outflow of cash for operations of \$21.1 million and a net inflow from non-capital financing activities of \$37 million resulting in a net inflow of cash from operations of \$15.9 million.

The change in net assets is the difference between total revenue and total expenses and is also shown in Table 7 and also in Figure 12. The principle difference between net income and the change in net assets is that the change in net assets also includes revenue in the form of capital appropriations from the state and from private

gifts. Again we show the change in net assets before and after depreciation. The change in net assets before depreciation in 2002 and 2003 makes the change in net assets comparable to earlier years before the University started calculating depreciation. Clearly as shown in Figure 12 the University has had a increase in it net assets or its wealth in each of the last five years.



One of the issues brought up frequently by administrations is that a great deal of the money that flows into universities is designated for capital projects and therefore cannot be spent for operations. In fact this issue was discussed earlier in this report. It is for this reason that we separate net income which comes from operations from the change in net assets which includes money for capital projects.

Total Operations Ratios

Figure 13 shows the net income ratio for the University from 1999 to 2003. The Net income ratio is calculated by taking the net income and dividing by total operating revenues. The first ratio is the net income ratio not taking depreciation into account. The average rate of return over the last five years has been about 5 percent. Figure 13 also shows the dramatic effect of taking depreciation as an expense. After taking into account depreciation the rate of return for the University was only 1.14 percent in 2002 and was a negative 1.29 percent in 2003.

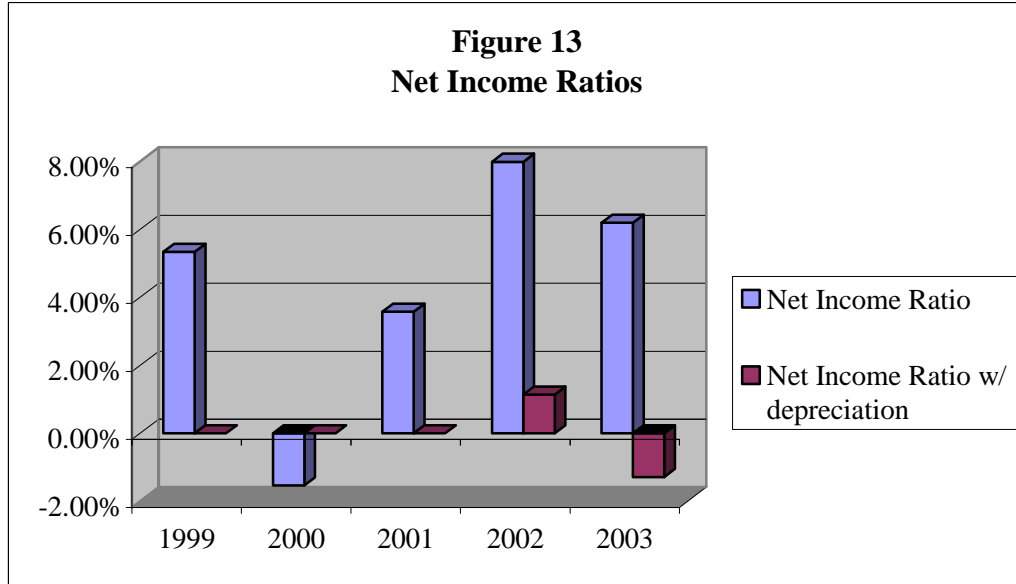
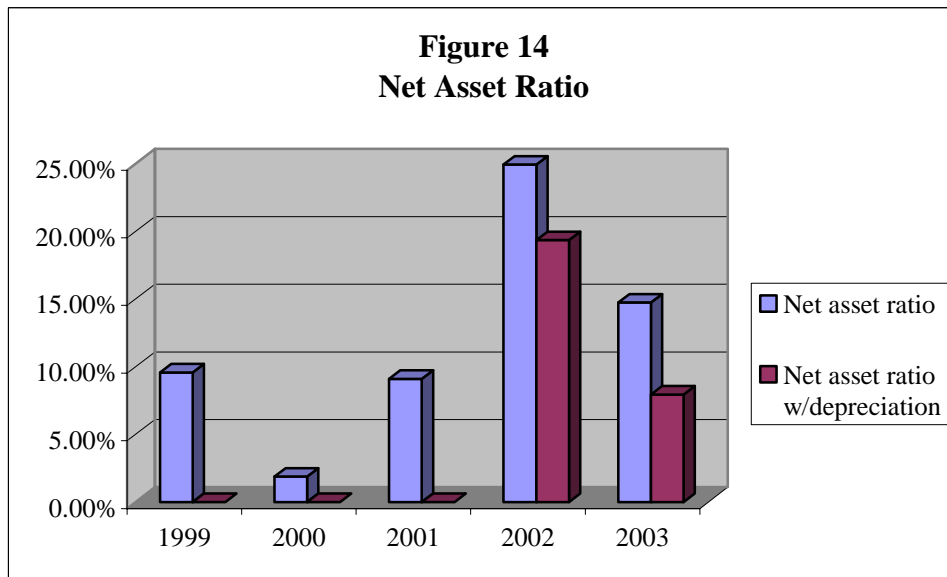


Figure 14 shows the net asset ratios. These ratios are defined as the change in net assets divided by total revenue (operating and non-operating). In the case of the net asset ratio every year shows a positive return for the University.



One of the major reasons for the fluctuations in net income and the net income and net asset ratios is the disposal of plant facilities. The major drop in net income and therefore the net income and net asset ratios in 2000 is explained almost entirely by a dramatic increase in disposal of plant facilities in 2000. Just as there are one time revenue sources there are also one time type expenses. In addition, while the University needs to show disposal of assets as an expense it is again not clear that this represents an outflow of resources from the University and moreover, the University probably has

some control over the timing of this expense. If the total expense for disposal of assets had been spread evenly over the five year period the net income ratio would have show less fluctuation. Figure 15 contrasts that actual net income ratio with the adjusted income ratio where the adjusted ratio uses the average cost of disposal of plant over five years. This clearly points out that the only reason for the loss in 2000 was the disposal of assets expense which was unusually large in 2000.

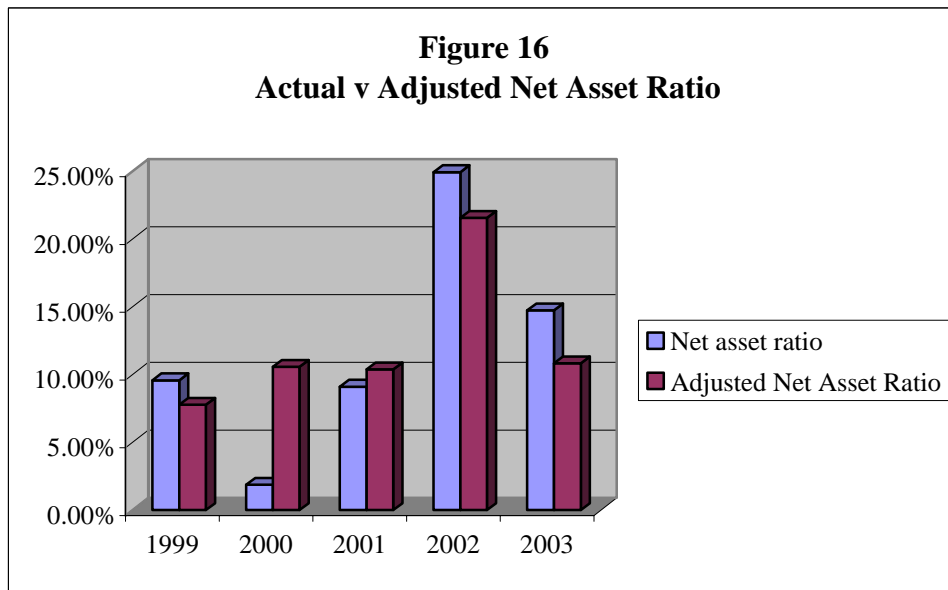
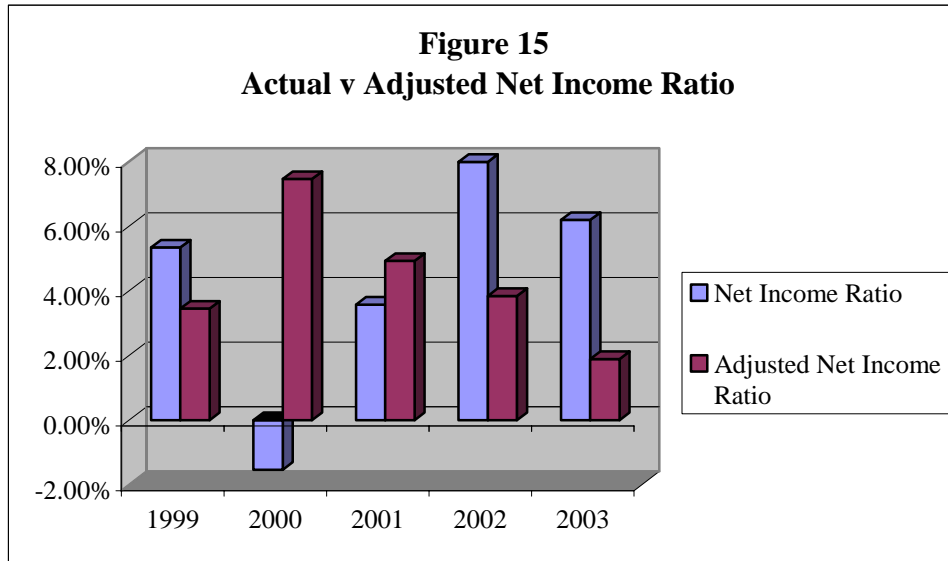


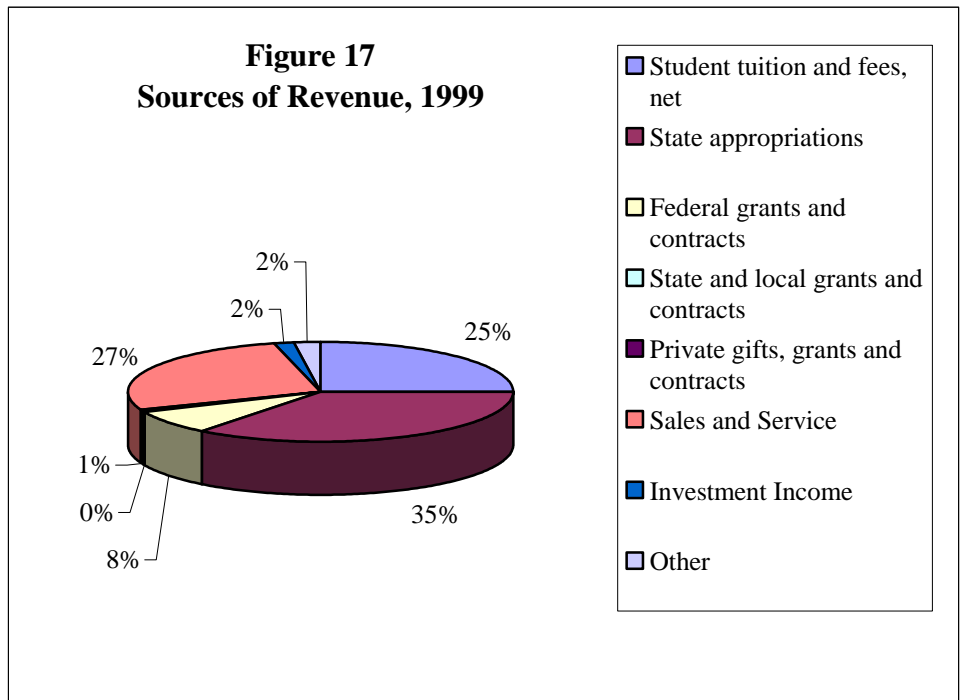
Figure 16 shows the same adjustment to the net asset ratio. Again this shows that the downward fluctuation in the net asset ratio in 2000 was caused mainly by the unusually large disposal of plant expense in 2000. The spike in the net asset ratio in 2002

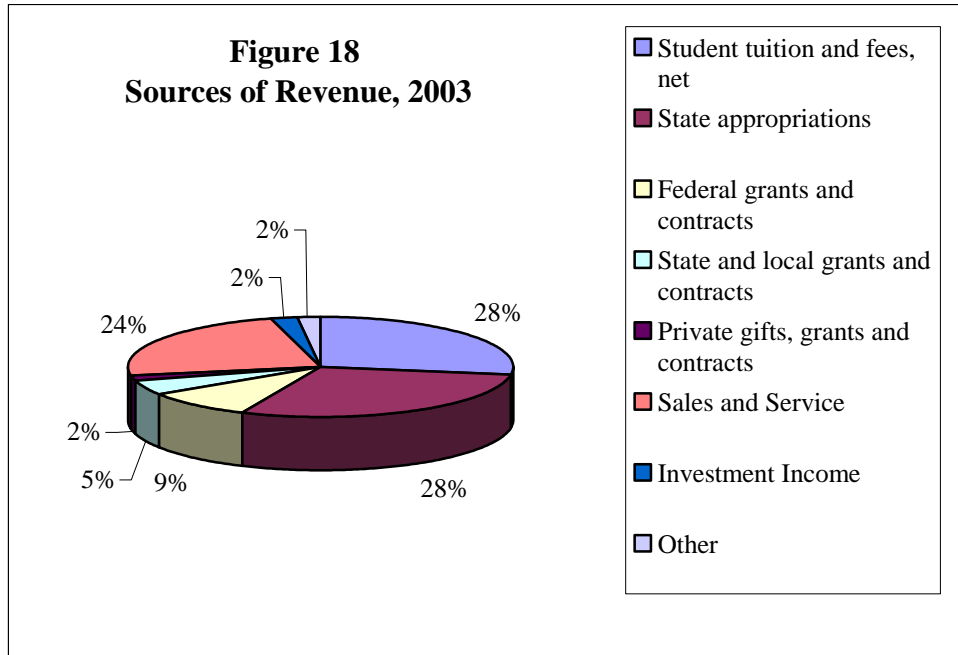
was in part caused by the unusually high capital appropriation 2002. It is interesting to note that while the State of Colorado was cutting the operating appropriation in 2002 and 2003 it dramatically increased the capital appropriation for the University. From 1999 through 2001 the average capital appropriation was \$5.6 million and in 2002 the state appropriated \$27.3 million almost 5 times the average of the previous three years and in 2003 it appropriated \$10.4 million almost twice the average of the years 1999-2001.

In conclusion, although the University of Northern Colorado has experienced some fairly substantial cuts in state appropriations for operations it has generally had a positive net income. The University also has had a positive cash flow for operations in 2002 and 2003 and its overall cash flow taking into account not only operations but its financing activities and investments has also been positive in 2002 and 2003. Finally, in each of the last five years the University has had a positive increase in its net assets.

Sources of Revenue:

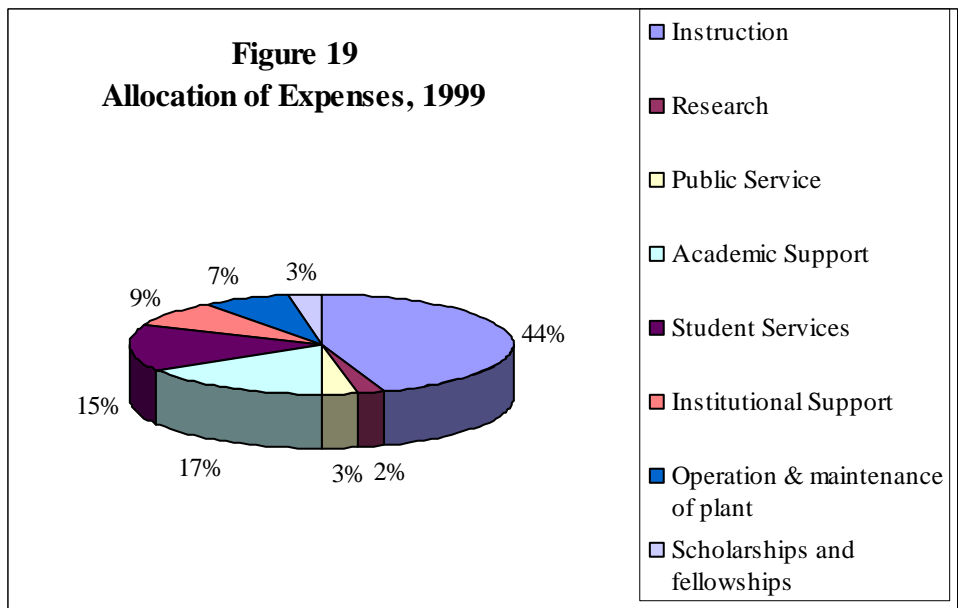
The Income ratios in Figures 17 and 18 show the major sources of revenue for the University for FY 1999 and 2003. In 1999 the largest single source of revenue for University of Northern Colorado was state appropriations followed sales and service and then by tuition. By 2003 the tuition was the largest single source of revenue reflecting the cuts in state appropriations for operations. In 1999 tuition accounted for 25 percent of operating revenues and state appropriations accounted for 35 percent of operating revenues. By 2003 tuition accounted for 28 percent of revenues and state appropriations accounted for only 28 percent of operating revenues. Sales and service have also declined as sources of revenue going from 27 percent in 1999 to 24 percent in 2003.

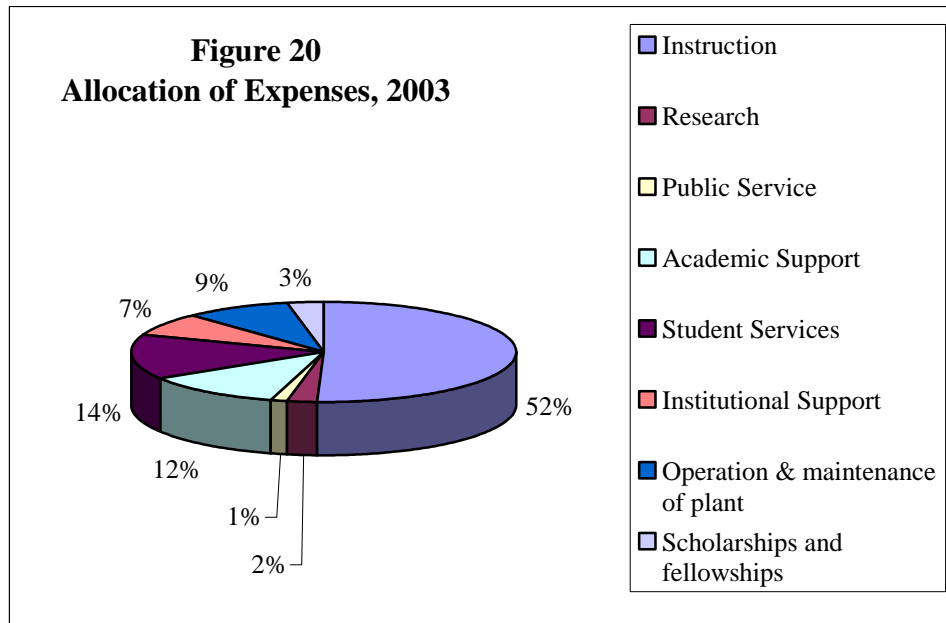




Allocation of Expenses

Figures 19 and 20 show how expenses are allocated at University of Northern Colorado for both 1999 and 2003. The largest single expense is spending on instruction. Spending for instruction increased from 44 to 52 percent of operating expenses.





The other area that increased its share of operating expenses was operation and maintenance of plant which increased from 7 percent to 9 percent between 1999 and 2003. Institutional and academic support along with public service all declined as a proportion of operating expenditures.

Conclusion

This report shows that the financial condition of University of Northern Colorado may have deteriorated slightly in the period 1999-2003. The changes in University's financial condition can be summarized by looking at three key ratios. These ratios are often used by bond rating agencies to assess the credit worthiness of an institution. The Ohio Board of Regents has developed a methodology to assign scores to these three and then use a weighted average of those scores to create a composite index indicating the financial health of an institution (<http://www.regents.state.oh.us/financial/sb6.html#Methodology>).

The first ratio is known as the viability ratio, which is the ratio of expendable balances to long-term debt. The second ratio is the primary reserve ratio, which measures the ratio of expendable balances to expenses. (Alternatively before GASB 34 and 35 the primary reserve ratio was calculated as the ratio of expendable balances to current fund expenditures and mandatory transfers.) Before the implementation of GASB 34 and 35 the final indicator was the "net income" ratio, which was defined as current fund revenues and additions, minus current fund expenditures and mandatory transfers, divided by current fund revenues and additions. The methodology for calculating composite scores has changed because "net income" as defined above can no longer be calculated from data in the financial statements. Under the new methodology the net asset ratio which is the change in net assets divided by total revenues (operating and non-operating) is substituted for the "net income" ratio.

Scores for each of the three ratios are whole numbers from 0 to 5 with 5 being the highest score. A weighted average of these scores is then used to calculate a composite index that reflects the bond rating that would be given to an institution. These bond ratings reflect the overall financial health of the institution.

Table 8
Composite Scores
for year ending June 30

	1999	2000	2001	2002	2003
Viability Score	3	3	3	2	2
Primary Reserve Score	4	4	4	4	4
Net Asset Score	5	3	5	5	5
Composite Score	3.9	3.5	3.9	3.6	3.6

Table 8 shows the individual scores for each ratio and composite scores for University of Northern Colorado from 1999 to 2003. The scores for most of the indicators have been fairly stable. The viability score has deteriorated slightly reflecting the increased borrowing that occurred in 2002. Although there have been changes in both the primary reserve ratio and the net income ratio these changes have not been substantial and thus the primary reserve score and the net asset score have generally remained stable.

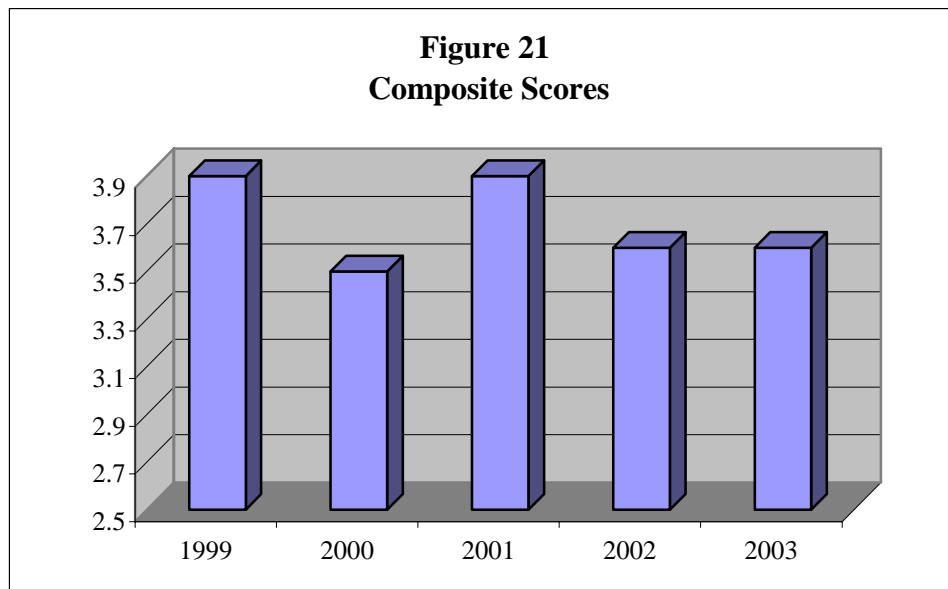


Figure 21 provides a graphical view of the composite scores for the period 1999-2003. The composite score declined in 2000, then increased in 2001. Then it declined slightly in 2002 and remained stable in 2003. In Ohio the Board of Regents uses a score of 1.75 or less for two consecutive years to trigger a status of fiscal watch. Clearly the composite scores of the University of Northern Colorado put it well above this threshold. Overall, the graph paints a picture of a university whose financial condition may have deteriorated slightly but remains in good financial condition.

The Management Discussion and Analysis (MDA) in the 2003 Financial Report, notes that the University is expecting a State appropriation of only \$33.6 million in 2004 which is \$3.4 million less than was appropriated in 2003. The MDA also points out that enrollments have remained strong and that in 2003 the University implemented a series of spending restrictions and instituted a hiring freeze. Since the University had a fairly substantial net income (before depreciation) and positive operating cash flow in 2003 the steps that have been taken thus far seem sufficient to maintain the financial position of the University. Clearly, the University faces certain challenges in the future given the decline in resources provided by the State. However, the University is not in a financial crisis and should be able to meet these challenges by developing a comprehensive plan to enhance revenues and control the growth of costs.