

An Analysis of the Financial Statements

of

**Fairfield University
Academic Years 1999-2003**

Prepared for AAUP

By

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Introduction

This report provides an analysis of the financial status of the Fairfield University for the years 1999 through 2003. The analysis contained in this report is based on information contained in the audited financial statements.

Traditionally, universities, like other non-profit organizations use a system of accounting known as “fund accounting.” The reason why universities used this system of accounting had 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 their profitability a means to monitor their performance in meeting their primary objective. Universities and other non-profit organization 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 was 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 was to ensure that funds are expended in the manner they were intended by donors or government entities it was difficult for faculty to look at a university’s financial statements and get a true picture of the university’s financial health. Although universities continue to use fund accounting they have in recent years changed the reporting structure in their annual financial statements so that they more closely resemble those used in the for-profit sector.

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 expenditures has traditionally been referred to as a change in fund balance. If a

university takes in more revenue than 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. With the transition to the new reporting system, which mirrors the reporting system used in the for-profit sector, changes in fund balances are referred to as a change in net assets.

Under the new reporting system universities and universities have three basic statements which summarize the financial position of the institution. The first statement is a Statement of Net Assets. This statement provides information on the assets and liabilities of the institution. The second statement is a Statement of Changes in Net Assets which shows the revenues and expenses of the institution. The final statement is a Statement of Cash Flows which provides information on changes in the cash holdings of the institution resulting from operations, investments and financing activities.

Apart from looking at absolute numbers, such as the increase or decrease in net assets, 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 Fairfield University about the financial status of their institution. The report contains three major sections. The first section will review the assets and liabilities of the university. The second section will examine the revenue and expenses of the university. The final section will summarize the findings of this report and draw conclusions about the financial status of the 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 are resources owned by 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. Table 1 shows the assets and liabilities of Fairfield University.

Table 1
Assets and Liabilities
For Year Ending June 30
thousands of \$

Assets	1999	2000	2001	2002	2003
Cash	\$ 416	\$ 763	\$ 3,003	\$ 3,591	\$ 3,709
Short-term investments	\$ 15,603	\$ 24,047	\$ 53,619	\$ 40,788	\$ 25,519
Deposits with trustees	\$ 17,262	\$ 59,560	\$ 14,792	\$ 8,914	\$ 8,914
Receivable for sale of investments	\$ -	\$ -	\$ -	\$ -	\$ 7,971
Accounts receivable	\$ 319	\$ 253	\$ 162	\$ 182	\$ 199
Student loans	\$ 2,220	\$ 2,196	\$ 2,299	\$ 2,355	\$ 2,430
Contributions receivable	\$ 22,819	\$ 18,871	\$ 36,255	\$ 31,147	\$ 21,852
Other assets	\$ 5,134	\$ 8,538	\$ 6,870	\$ 8,029	\$ 7,086
Investments	\$ 89,838	\$ 104,061	\$ 108,707	\$ 112,350	\$ 119,528
Land, buildings and equipment	\$ 85,128	\$ 122,184	\$ 159,675	\$ 187,681	\$ 198,032
Total Assets	\$ 238,739	\$ 340,474	\$ 385,383	\$ 395,037	\$ 395,240
Liabilities					
Accounts payable & accrued liabilities	\$ 6,631	\$ 9,933	\$ 12,076	\$ 8,756	\$ 9,111
Accrued compensation	\$ 5,810	\$ 6,197	\$ 6,898	\$ 6,983	\$ 7,217
Deferred revenue	\$ 3,709	\$ 5,814	\$ 8,478	\$ 7,948	\$ 8,029
Government grants refundable	\$ 2,009	\$ 2,000	\$ 2,046	\$ 2,156	\$ 2,136
Annuities payable	\$ 174	\$ -	\$ -	\$ -	\$ -
Long-term debt	\$ 45,860	\$ 113,347	\$ 112,015	\$ 127,924	\$ 125,528
Total Liabilities	\$ 64,193	\$ 137,290	\$ 141,512	\$ 153,767	\$ 152,021

Figure 1 shows the total assets of the Fairfield University. Total assets have been increasing reflecting the growth of both financial assets and physical assets i.e., growth of buildings and equipment. Assets increased substantially between 1999 and 2001 however, since 2001 the growth of assets has slowed. In 1999 the University had assets of \$238.7 million and by 2001 assets had increased to \$385.4 million an increase of 61.5 percent. Between 2001 and 2003 assets increased from \$385.4 to \$395.2 an increase of only 2.5 percent and between 2002 and 2003 assets increased only by about \$200 thousand.

The main reason for the slowdown in the growth of assets in 2002 and 2003 appears to be the declines in short-term investments and deposits held by trustees. Deposits held by trustees are usually funds which have been borrowed in order to finance construction activity. Thus the big increase in assets held by trustees in 2002 was associated with the increase in long term liabilities. As the University uses those funds to build new facilities it is expected that deposits with trustees would decline. These declines should be offset by increases in the value of plant and equipment and thus not have a significant influence on the overall financial position of the University. Therefore, the major explanation for the slowdown in the growth of assets is the decline in short-term investments.

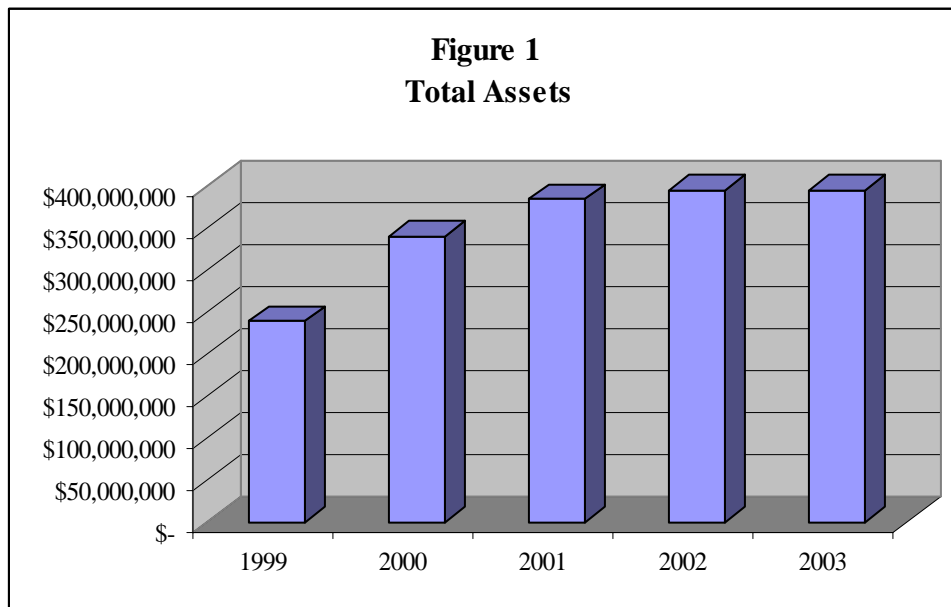
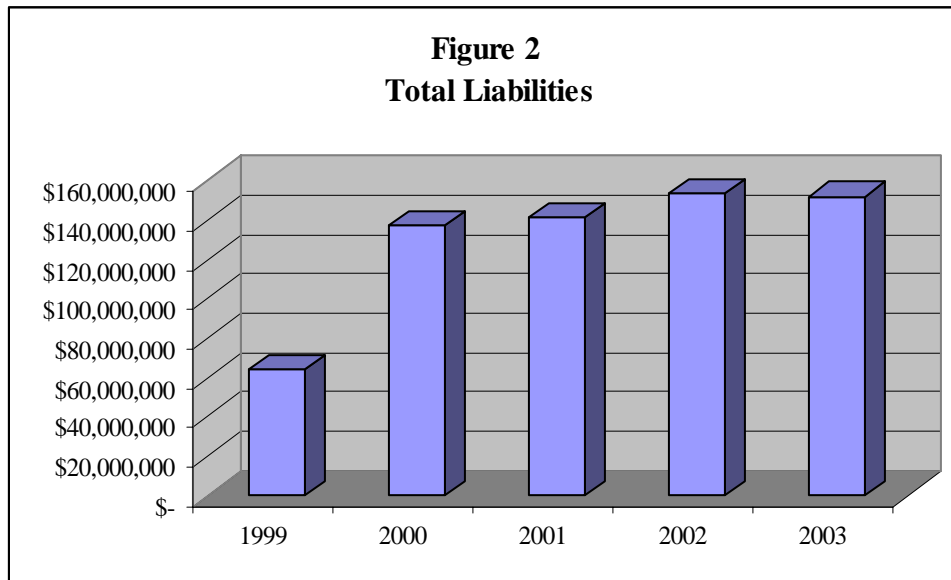


Figure 2 shows the total liabilities of the University. Total liabilities have increased substantially over the last five years. Most of the increase in liabilities occurred in 2000 when the University increased its long-term debt from \$45.8 million to \$113.3 million. Liabilities continued increasing in 2001 primarily because of increases in accounts payable and deferred revenue. Deferred revenue represents revenue received from tuition and fees that will not be spent until the following fiscal year. Thus changes in deferred revenue usually reflect timing issues and are generally not a cause for concern. Liabilities increased again in 2002 when the University increased its long-term

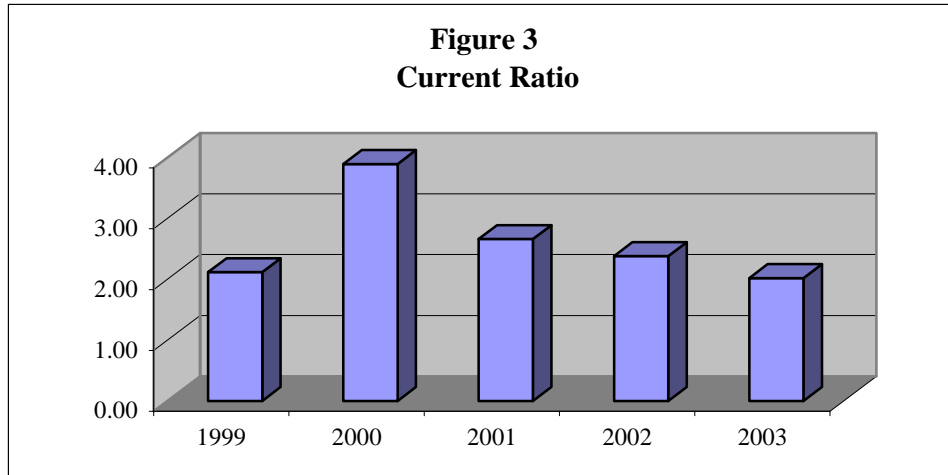
borrowing from \$112 million to \$127 million. Thus, the major factor behind the increases in liabilities has been the growth of long-term debt.



There are several ratios that can be calculated that reflect the financial health of an institution. Before looking at these ratios it is important to not that a single ratio does not provide sufficient information to judge the overall performance of a university. One can compare ratios with other universities provided that the data underlying the ratios is comparable. In this report the main use of ratios is to look at trends in financial performance.

The first of these ratios is known as the current ratio which is the ratio of current assets to current liabilities. The current ratio is a key indicator of liquidity. Figure 3 shows the ratio of current assets to current liabilities.

There are different ways of calculating this ratio. In some cases, the type of asset or liability determines whether it is current or non-current. Current assets are short term assets i.e., assets available in a year and current liabilities are short term liabilities due within a year. For example, cash is a short-term asset and accounts payable is a short-term liability. In some cases a type of asset can be divided between current and non current. For example, some portion of student loans are payable with in the year and would thus be considered a current asset. However, the portion of student loans not payable within a year is a non-current asset. For purposes of this report we have categorized cash, short term investments, deposits held by trustees, receivables from sale of investments, accounts receivable and other assets as current assets. All other assets are considered non-current. Current liabilities consist of all liabilities except long term debt which is a non-current liability.



The ratio of current assets to current liabilities increased from 1999 to 2000 and then declined between 2000 and 2003. The increase in 2000 was due primarily to the increase in deposits with trustees and this was probably associated with the increased borrowing in 2000. Similarly most of the decreases in 2001-2002 can be explained by declines in deposits held by trustees and the decrease in 2003 was due to a decline in short term investments. In 1999 the ratio was 2.11 indicating that the University had enough current assets to cover 211 percent of its current liabilities. In 2003 the ratio decreased to 2.02 indicating that the University had sufficient resources to cover 202 percent of its current liabilities. There is no exact target for a current ratio although clearly the number should be greater than one and probably not much greater than two. Too large a current ratio imposes an opportunity cost on a university.

The second ratio examined in this report is the ratio of total assets to total liabilities. This ratio reflects the debt of the University. The more debt the University has the greater its financial leverage. If a university is highly leveraged it will have to pay higher interest rates when it borrows and if there is a significant downturn in revenue a university may be forced to cut key programs in order meet its interest and principal payments. Figure 4 shows the ratio of total assets to total liabilities. This ratio declined between 1999 and 2000 and has been stable since 2000. Another key ratio that focuses on debt is the ratio of fixed assets to long term debt shown in Figure 5. This ratio decreased sharply in 2000 because of the increase in debt but has been trending upward since 2000. This means that since 2000 the value of the University's plant and equipment, net of accumulated depreciation has been increasing relative to the level of long-term debt.

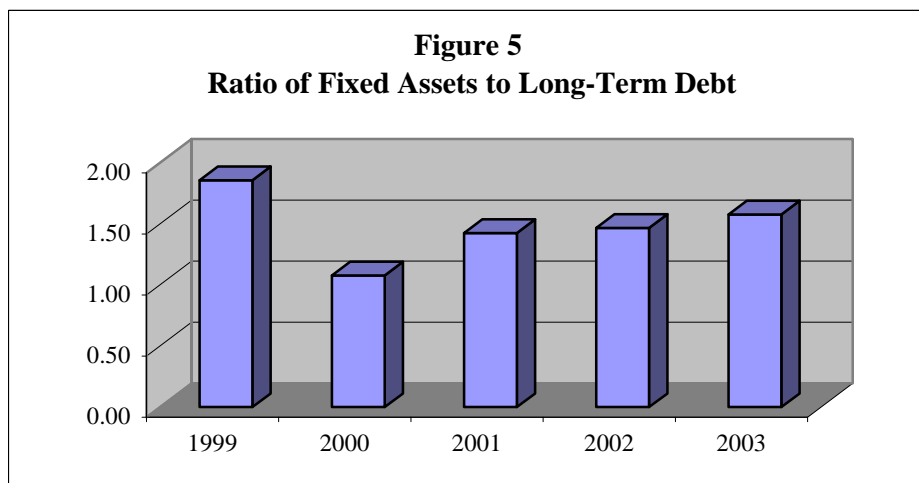
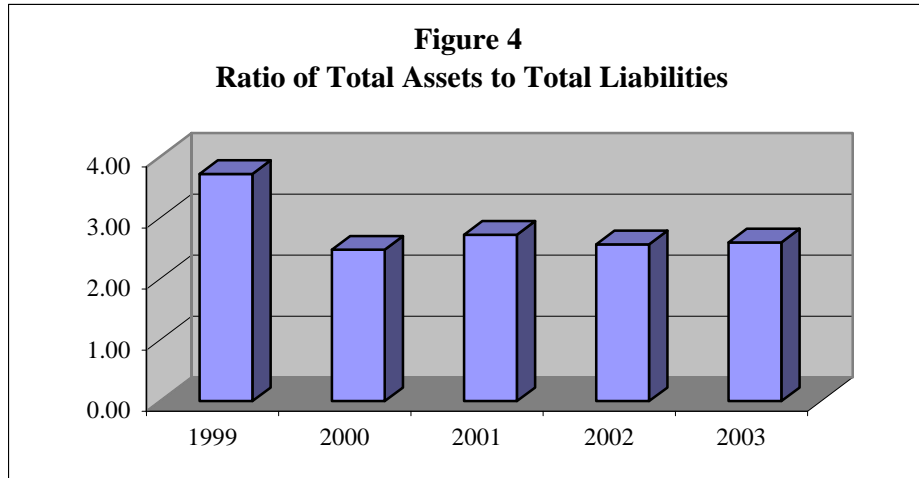


Table 2 shows the investments of the Fairfield University. Investments are listed at fair market value. In general the investments of the University have been increasing. The total value of investments increased approximately 33 percent between 1999 and 2003. Figure 6 shows the increase in investments.

**Table 2
Investments
for year ending June 30
thousands of \$**

	1999	2000	2001	2002	2003
Cash	\$ 2,397	\$ 545	\$ 807	\$ 211	\$ 235
U.S. Gov't and muncpl. Obligations	\$ 26	\$ -	\$ -	\$ -	\$ 1,523
Corporate bonds	\$ 1,821	\$ 1,455	\$ 1,548	\$ 1,528	\$ 11,124
Corporate stocks	\$ 9,499	\$ 11,065	\$ 10,835	\$ 11,725	\$ 1,728
Limited partnerships	\$ -	\$ 4,459	\$ 3,100	\$ 2,186	\$ -
Private Capital Programs	\$ 1,169	\$ -	\$ -	\$ -	\$ -
Investment funds	\$ -	\$ -	\$ -	\$ -	\$ -
Common fund - intermediate cash	\$ 19,825	\$ 20,272	\$ 25,982	\$ 23,791	\$ 27,984
Common fund - equities	\$ 29,818	\$ 31,628	\$ 32,572	\$ 39,771	\$ 38,437
Common fund- bonds	\$ 25,234	\$ 17,184	\$ 16,395	\$ 14,383	\$ 11,165
Vanguard - bonds	\$ -	\$ -	\$ -	\$ -	\$ 4,945
Equity Funds	\$ -	\$ 17,418	\$ 17,417	\$ 18,754	\$ 22,388
Other	\$ 49	\$ 36	\$ 52	\$ -	\$ -
Total Investments	\$ 89,838	\$ 104,061	\$ 108,707	\$ 112,350	\$ 119,528

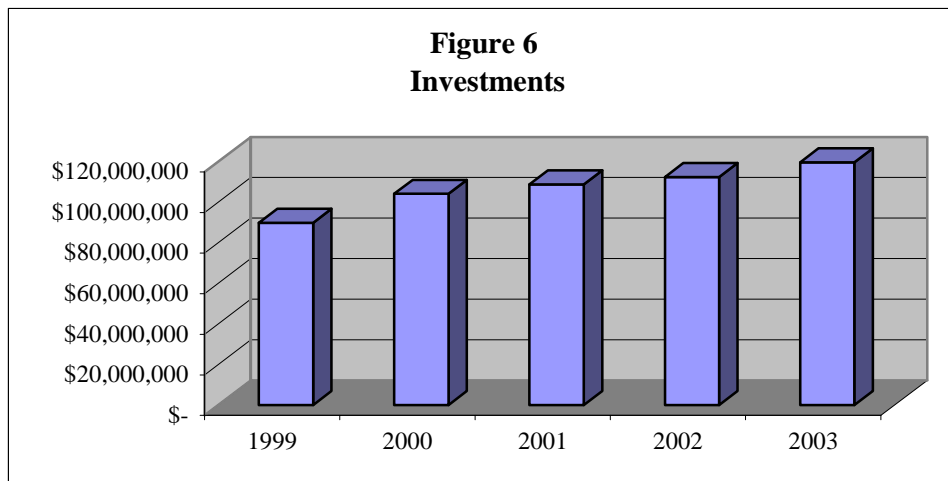
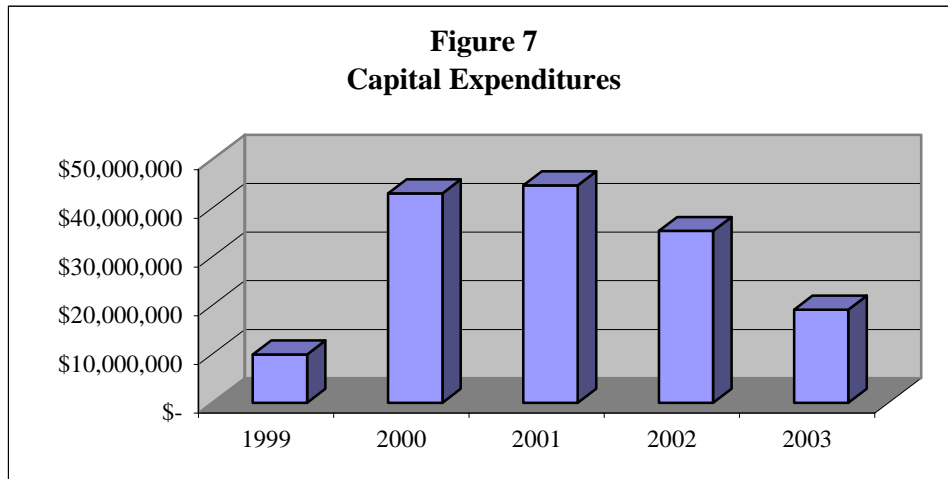
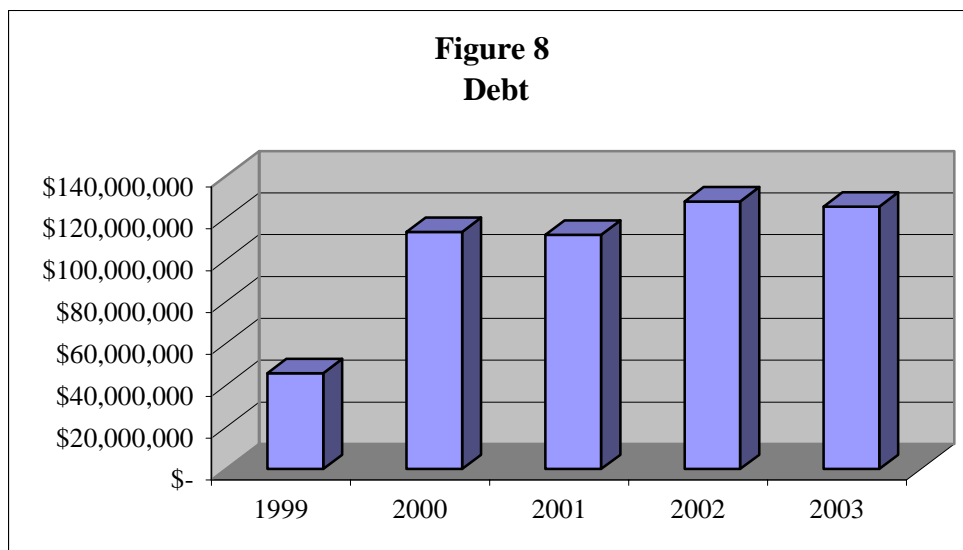


Figure 7 shows expenditures on capital from the Statement of Cash Flows. There was a sharp increase in capital expenditures in 2000 and 2001 and slightly lower levels of expenditures in 2002 and 2003. Over the five year period the University spent an average of \$30.4 million on the purchase of buildings and equipment.



To finance the capital expenditures the University has taken on significantly more debt. In 1999 had \$45.9 million in long-term debt and the University increased in debt to \$113.3 million in 2000 and again increased its debt to \$127.9 million in 2002. Figure 8 shows the increase in long-term debt.



Net Assets

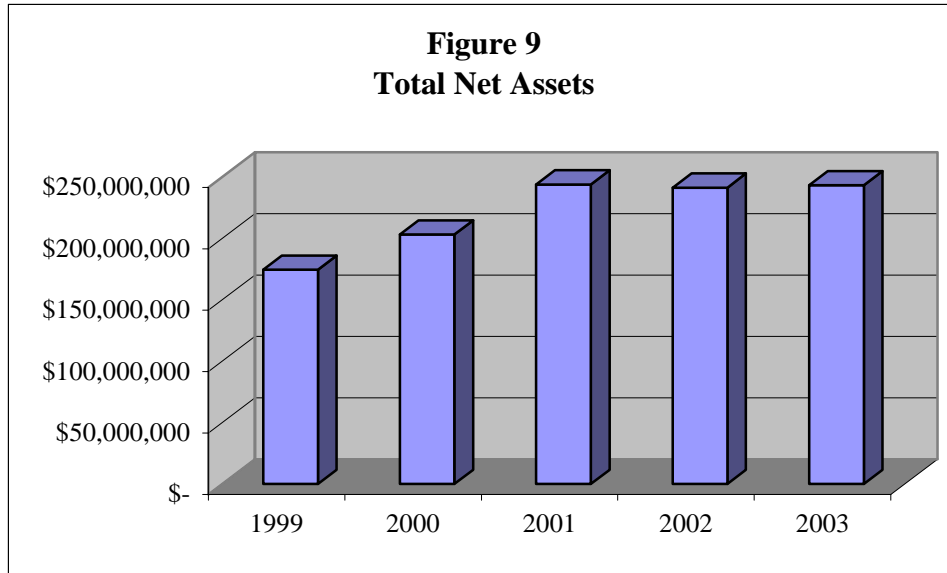
In for profit businesses the difference between assets and liabilities is referred to as owner's equity. In theory if a business were to sell off all of its assets and pay off all claims against the business the amount remaining would be the owner's claims on the business's resources. In a non-profit organization, the difference between assets and liabilities is referred to as a net asset. These net assets represent the wealth of the institution

Net assets represent the net accumulation of a university's assets minus its liabilities over a period of time. Large portions of these net assets consist of the value of land, buildings, books and journals and equipment owned by the university. In addition, to these real assets, universities also own financial assets such as stocks and bond, CDs and mutual funds. Finally, universities also generally hold small amounts of cash and money in checking and savings accounts.

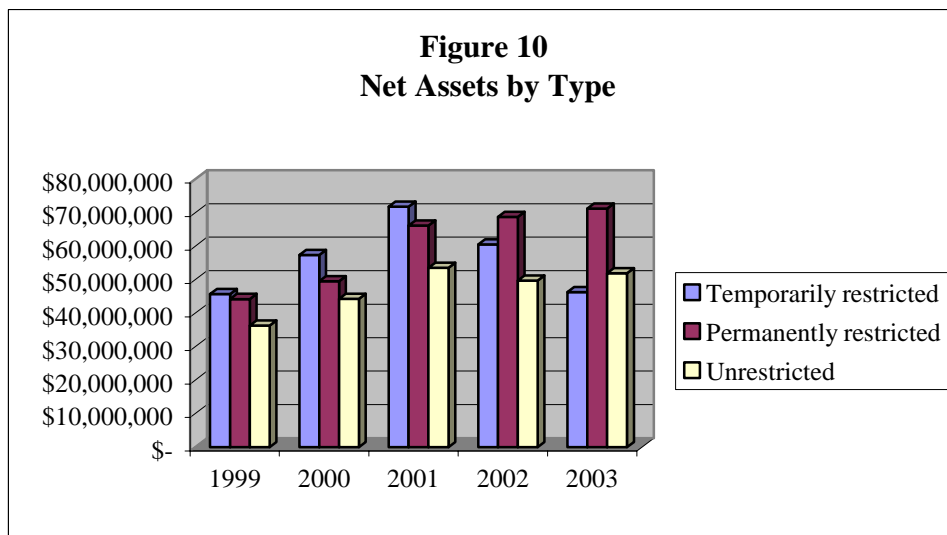
Net assets are shown in Table 3 and also in Figure 9. In the past, these net assets were referred to as fund balances. From 1999 to 2003 total net assets increased from \$174.5 million to \$243.2 million an increase of about 39 percent. This increase in net assets represents an increase in the University's wealth and this occurs when revenues exceed expenses or when the University receives donations for capital projects or donations that add to its endowment.

Table 3
Net Assets
For Year Ending June 30
thousands of \$

Net Assets	1999	2000	2001	2002	2003
Unrestricted					
Designated					
Special programs	\$ 3,558	\$ 3,208	\$ 3,563	\$ 3,201	\$ 3,129
Quasi-endowment	\$ 14,782	\$ 22,165	\$ 26,826	\$ 36,007	\$ 39,375
Plant repairs & replacement	\$ 15,758	\$ 18,884	\$ 23,129	\$ 10,561	\$ 9,464
Debt service reserve funds	\$ 2,172	\$ -	\$ -	\$ -	\$ -
Net investment in plant	\$ 48,268	\$ 52,001	\$ 52,443	\$ 62,231	\$ 73,716
Unrestricted Net Assets	\$ 84,538	\$ 96,259	\$ 105,961	\$ 112,000	\$ 125,684
Temporarily restricted	\$ 45,760	\$ 57,388	\$ 71,785	\$ 60,496	\$ 46,294
Permanently restricted	\$ 44,248	\$ 49,537	\$ 66,125	\$ 68,773	\$ 71,240
Total Net Assets	\$ 174,546	\$ 203,184	\$ 243,870	\$ 241,269	\$ 243,218
Total liabilities and Net Assets	\$ 238,739	\$ 340,474	\$ 385,383	\$ 395,037	\$ 395,240



Net assets are divided into three categories. The first category is unrestricted net assets consisting of assets which have no donor imposed stipulations. The second category is temporarily restricted net assets which are subject to donor stipulations that will expire with the passage of time. Finally, there is the category of permanently restricted net assets which are subject to donor imposed stipulations which must be maintained indefinitely by the University. Figure 10 shows the net assets by category.



While overall net assets increased Figure 10 shows that there are substantial differences in the categories. Unrestricted net assets increased from 1999 to 2001 and then declined slightly in 2002. Between 2002 unrestricted net assets increased slightly although they remained below their 2002 level. Temporarily restricted net assets increased sharply between 1999 and 2001 and then declined sharply between 2002 and 2003. In contrast, permanently restricted assets increased over the entire five year period.

For the most part the permanently restricted assets consist of the endowment of the University and while the University may not spend the principal in many cases it is free to spend some or all of the return earned on its endowment. In general, most universities establish policies that permit them to spend a certain percentage of the value of their endowment. In the case of Fairfield University, the Board of Trustees sets a rate each year allowing the University to spend a percentage of the average market value of endowment and quasi-endowment for the last three years. In recent years that percentage has been set at 5 percent. In establishing this policy the University lumps together its endowment which is permanently restricted and its quasi-endowment which is unrestricted.

Quasi-endowments are funds that universities set aside to be used as endowment although the universities are free to spend this money for any legal purpose. In many cases, faculty do not realize the difference between true endowments and quasi-endowments. The distinction between these two types of “endowment” is important because increases in quasi-endowments that are not the result of returns on investments come directly from operating funds. Figure 11 shows the growth of quasi-endowments at Fairfield University. During the period from 1999 to 2003 the quasi-endowment of the University grew by 166 percent compared to 66 percent growth in permanently restricted net assets i.e., the University’s true endowment. Since these funds are likely to earn the same rate of return when invested the fact that quasi-endowments grew more rapidly than true endowments implies that the University was setting aside significant resources each year to build its quasi-endowment.

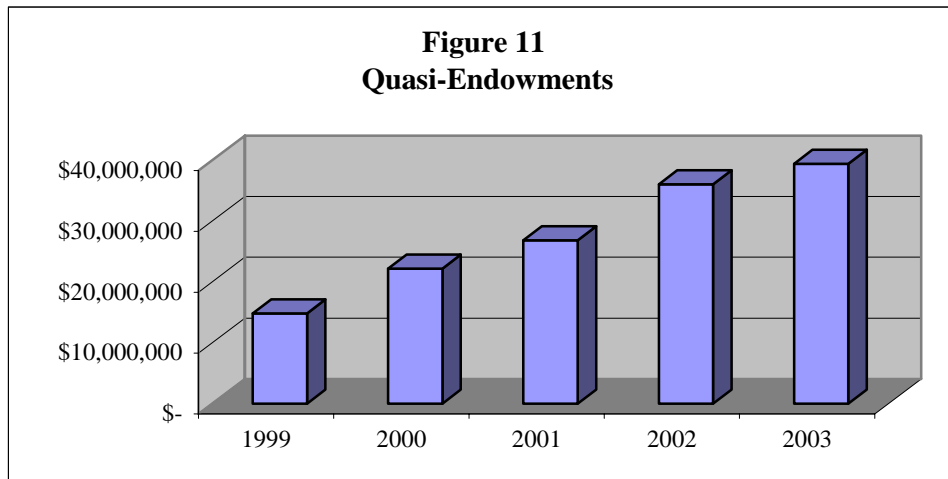
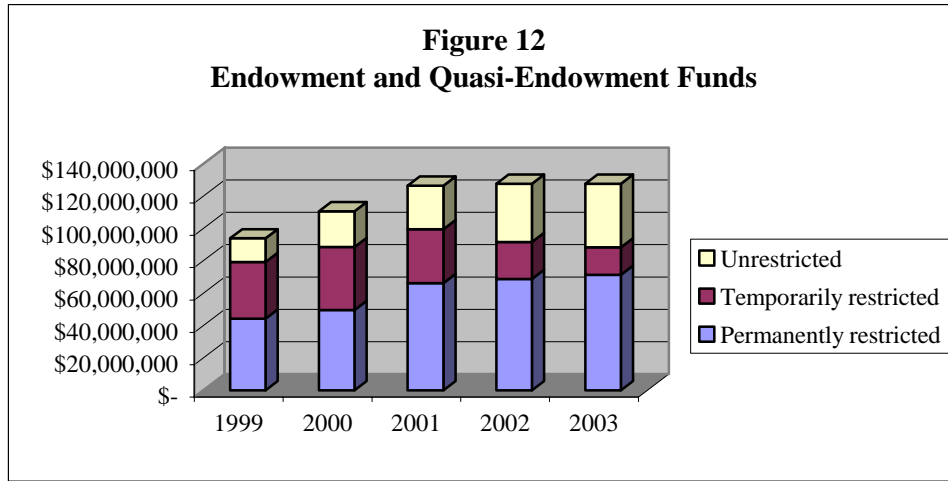
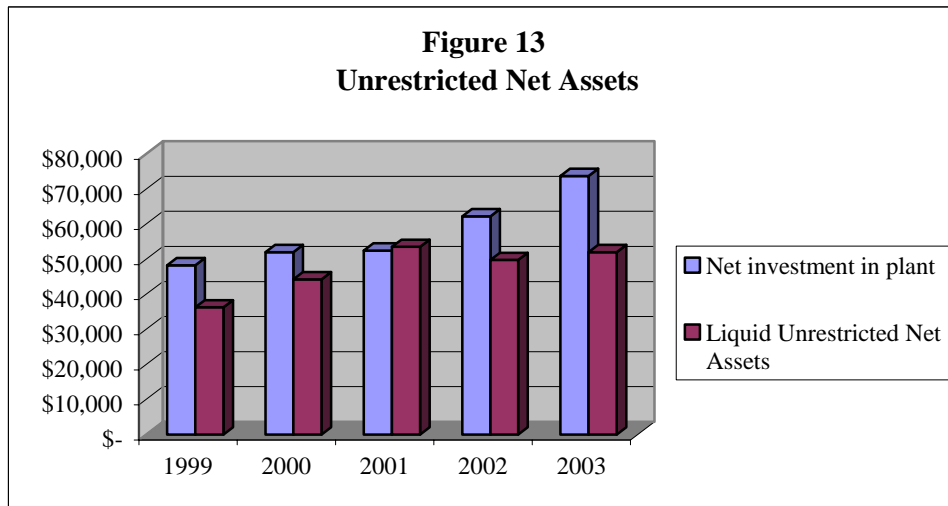


Figure 12 shows the increase in the Universities endowment and quasi endowment. There has been a growth in permanently restricted funds which represent true endowment. There has also been a growth in the quasi-endowments which are the unrestricted funds. The only significant decline is in the temporarily restricted funds which fell sharply in both 2002 and 2003. This trend in temporarily restricted funds is of

concern because as the restrictions are met these funds are released to the University and can become part of its operating fund.



If the increase in unrestricted 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. While private universities can buy and sell property, in general once they spend fund to put up buildings they are unlikely to sell these assets to generate funds, which could be used for other purposes. Thus, it is important to distinguish between increases in net assets which are liquid and increases due to increases in the value of physical assets.



In the case of Fairfield University net assets invested in plant increased from \$48.3 million to \$73.7 million from 1999 to 2003. Figure 13 shows the unrestricted net assets broken down into net assets invested in plant which are net of the related liability and accumulated depreciation and liquid net assets. As seen in Figure 5 net assets due to investment in plant have increased steadily. In contrast, unrestricted net liquid assets increased between 1999 and 2001 and then declined slightly.

Table 4
Land, Buildings and Equipment
for year ending June 30
thousands of \$

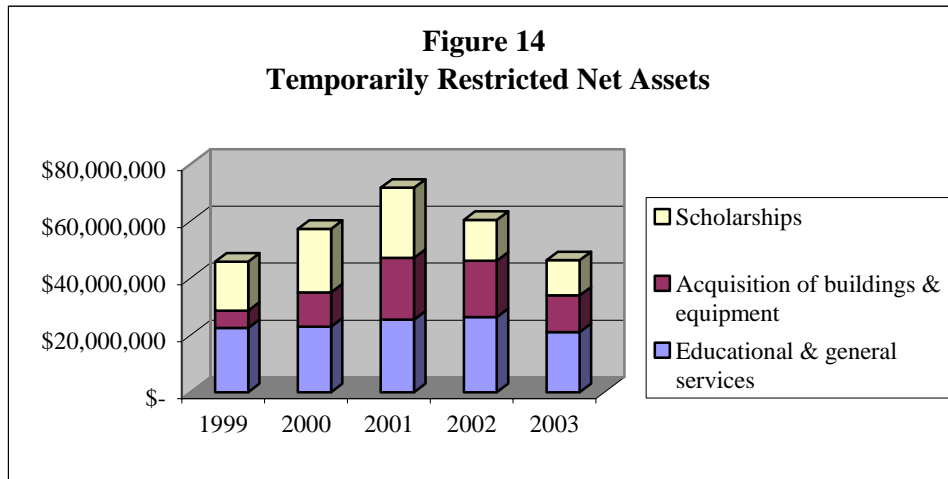
	1999	2000	2001	2002	2003
Land & improvements	\$ 4,978	\$ 5,153	\$ 5,376	\$ 5,376	\$ 5,519
Buildings	\$ 107,244	\$ 118,649	\$ 150,027	\$ 201,862	\$ 226,480
Equipment & library books	\$ 28,235	\$ 31,179	\$ 33,986	\$ 36,381	\$ 39,155
Construction in progress	\$ 4,045	\$ 32,315	\$ 42,497	\$ 23,545	\$ 15,079
less Accumulated depreciation	\$ (59,374)	\$ (65,113)	\$ (72,210)	\$ (79,483)	\$ (88,202)
Land, buildings & equipment, net	\$ 85,128	\$ 122,184	\$ 159,675	\$ 187,681	\$ 198,032

Finally, net investment in plant is the value of a university's physical plant including the value of the land, buildings, and equipment minus accumulated depreciation. For most businesses depreciation is a deduction from income that is taken for tax purposes. The calculation of depreciation is fixed by law and does not reflect the actual economic cost to a business. As businesses use buildings and equipment they wear out or become obsolete and need to be replaced. This is part of the cost of doing business and therefore should be reflected in financial statements. Recording depreciation does not necessarily mean that a business actually sets aside money for replacement and renewal. For profit businesses can borrow money from operating funds or issue new stock to raise money to replace an asset that is worn out or obsolete. Universities generally receive money to renew and replace assets through capital campaigns, borrowing or through state appropriations.

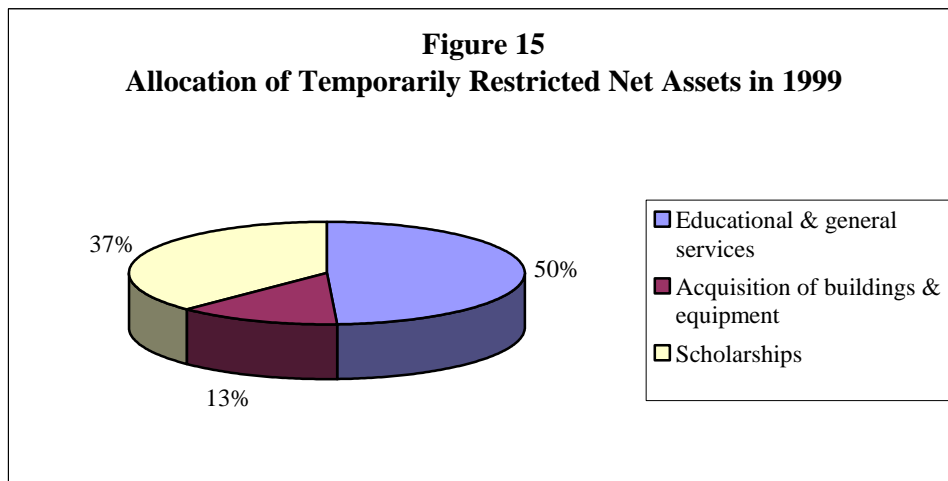
Table 4 shows the value of land, buildings and equipment for the University. There has been a significant increase in the value of buildings which is reflected in the level of construction in progress. Between 1999 and 2003 the University had an average of \$23.5 million of construction in progress.

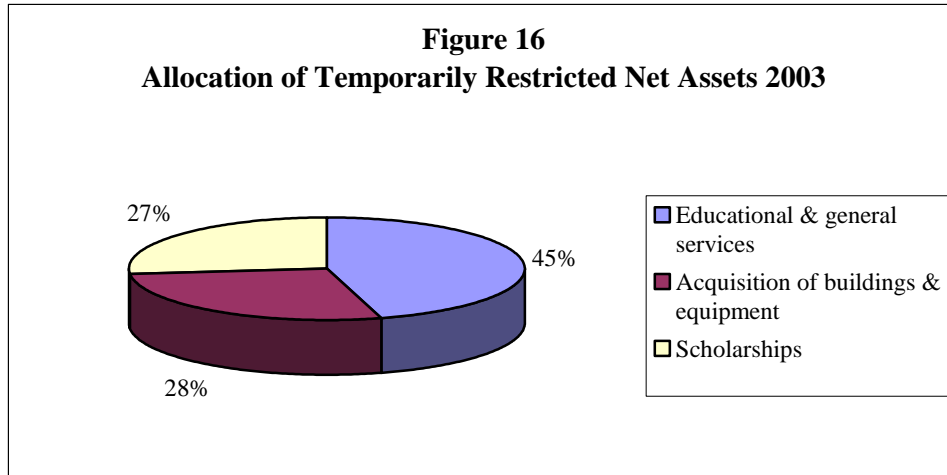
Next we look at temporarily restricted net assets. Figure 14 shows the temporarily restricted net assets of Fairfield University from 1999 to 2003. There was an increase in temporarily restricted increased from 1999 to 2001 and then decreased. The amount of

temporarily available funds available for educational and general services has been relatively stable. Most of the increase between 1999 and 2001 was due to increased funds for acquisition of buildings and equipment and scholarships. Likewise the decline since 2001 has largely been in scholarships and acquisition of building and equipment.

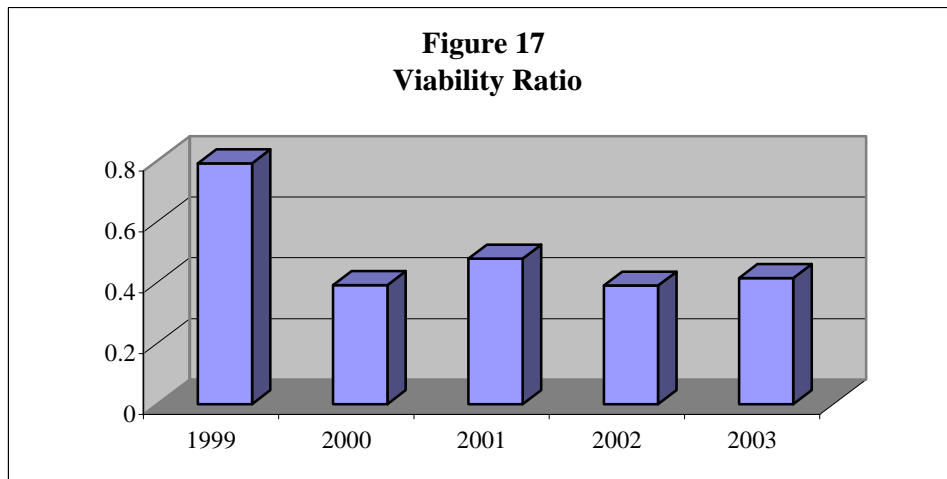


The change in the allocation of in temporarily restricted net assets is shown in Figures 15 and 16. The Figures show a reduction from 50 percent to 45 percent in the proportion of funds going to educational and general services and a reduction from 37 percent to 27 percent in the proportion of funds going to scholarships. These reductions have been offset by an increase from 13 percent to 28 percent in the proportion of funds available for acquisition of building and equipment.



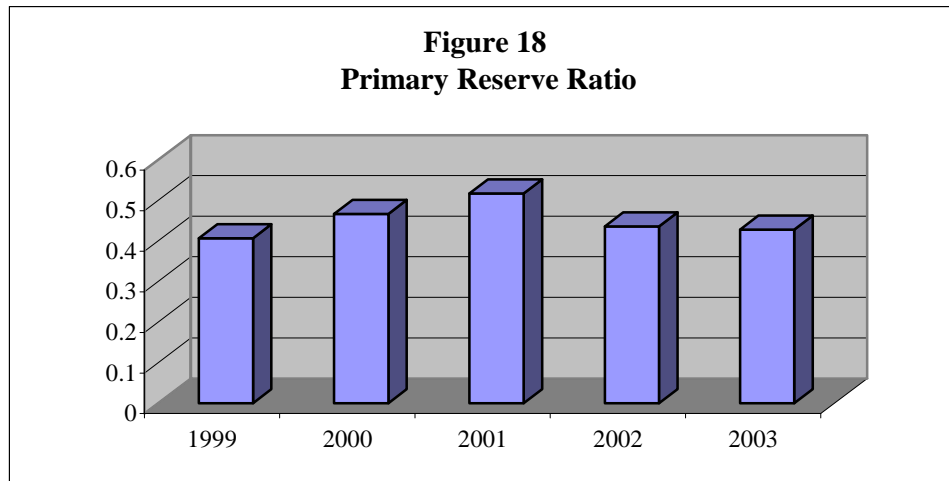


Finally we look at two additional ratios that are key indicators of financial health. The first is known as the viability ratio, which is the ratio of unrestricted net assets to long-term debt. The changes in Fairfield University's viability ratio can also be seen in Figure 17. The viability ratio decreased sharply between 1999 and 2000 but has remained stable over the remainder of the period from 2000 through 2003. In 1999 the viability ratio was 0.791, which meant that the University had sufficient unrestricted net assets to pay 79.1 percent of its long-term debt. In 2003 the viability ratio was 0.414 which meant the University had sufficient expendable net assets to pay 41.4 percent of its long-term debt. The primary reason for the decline in this ratio was the dramatic increase in debt that occurred in 2000.



The second ratio is the primary reserve ratio which is the ratio of unrestricted net assets to operating expenses. This ratio shows the ability of the University to meet its operating expenses from its unrestricted reserves. Figure 18 shows the primary reserve ratio for Fairfield University. The primary reserve ratio rose modestly as unrestricted

reserves rose more rapidly than operating expenses from 1999 to 2001. However, in 2002 and 2003 the ratio showed a moderate decline nearly returning to the 1999 level.



In summary, by 2001 the Fairfield University had net assets of \$368.9 million including \$51.9 million in unrestricted liquid net assets. Over the period examined in this report there was a significant increase in the wealth of the University.

What is the income and expenses of the University?

Revenues and Expenses

The flow of wealth into a university is, for the most part, referred to as revenue. For most private universities there are four major sources of revenue: 1) tuition and fees, 2) endowments, 3) grants and 4) sales. 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. These outflows are referred to as expenses. These expenses consist of wages, salaries and benefits as well as expenditures for purchases of goods and services from external vendors.

This flow of resources is accounted for in the Statement of Changes Net Assets, which is the closest thing that a university has to an income or profit and loss statement that would be found in a for profit business. In fact, the change in net assets is in many ways analogous to the concept of net income or profit that one would encounter in a for profit enterprise.

Table 5 shows the revenues, expenses and net income of the University from 1999-2003. The two major sources of revenue for the University are student tuition and fees and sales from auxiliary enterprises. Auxiliary enterprises would include revenue from housing, the bookstore, athletics and other activities that are not directly related to

the primary mission of the institution. Investment returns on Fairfield's endowment and net assets released from restriction are also important sources of revenue.

Table 5
Revenues, Expenses and Changes in Net Assets
for year ending June 30
thousands of \$

	1999	2000	2001	2002	2003
Operating Revenues					
Educational and general					
Tuition and fees	\$ 77,070	\$ 81,348	\$ 90,781	\$ 97,567	\$ 104,629
University sponsored financial aid	\$ (12,965)	\$ (13,236)	\$ (16,904)	\$ (18,823)	\$ (19,798)
Student financial aid funded by donors & government grants	\$ (4,114)	\$ (116)	\$ (4,448)	\$ (4,701)	\$ (4,383)
Net tuition and fees	\$ 59,991	\$ 63,996	\$ 69,429	\$ 74,043	\$ 80,448
Government grants & financial aid	\$ 2,426	\$ 2,162	\$ 2,360	\$ 2,245	\$ 1,977
Contributions	\$ 3,702	\$ 3,716	\$ 4,563	\$ 4,096	\$ 3,864
Investment return designated for current operations	\$ 1,937	\$ 2,117	\$ 2,747	\$ 3,520	\$ 3,626
Departmental & other revenues	\$ 3,180	\$ 3,171	\$ 3,483	\$ 3,718	\$ 3,712
Net assets released from restrictions	\$ 4,981	\$ 5,583	\$ 6,212	\$ 7,834	\$ 8,650
Total educational & general	\$ 76,216	\$ 80,745	\$ 88,795	\$ 95,457	\$ 102,277
Auxiliary Services	\$ 17,386	\$ 17,506	\$ 19,283	\$ 20,867	\$ 22,481
	\$ -	\$ -	\$ -	\$ -	\$ -
Total operating revenues	\$ 93,602	\$ 98,251	\$ 108,078	\$ 116,324	\$ 124,758

Table 5 (continued)
Revenues, Expenses and Changes in Net Assets
for year ending June 30
thousands of \$

	1999		2000		2001		2002		2003
Operating Expenses									
Educational and general services									
Instruction	\$ 32,746	\$	34,990	\$	37,966	\$	39,510	\$	41,706
Research	\$ 1,404	\$	1,467	\$	1,575	\$	2,867	\$	3,131
Public service	\$ 693	\$	799	\$	1,064	\$	1,326	\$	1,252
Academic support	\$ 9,394	\$	10,083	\$	12,101	\$	13,239	\$	14,475
Institutional support	\$ 16,567	\$	17,516	\$	18,908	\$	19,969	\$	20,415
Student services	\$ 14,340	\$	15,523	\$	15,905	\$	18,094	\$	18,985
Total educational & general	\$ 75,144	\$	80,378	\$	87,518	\$	95,003	\$	99,963
Auxiliary services	\$ 14,067	\$	14,568	\$	16,012	\$	19,327	\$	21,470
Total Operating Expenses	\$ 89,211	\$	94,946	\$	103,530	\$	114,331	\$	121,433
Increase in unrestricted net assets from operations	\$ 4,390	\$	3,305	\$	4,547	\$	1,993	\$	3,325
Non-operating activities									
Investment return less than amounts designated for current operations	\$ 1,676	\$	3,027	\$	-	\$	(1,721)	\$	(884)
Nonoperating net assets released from restriction	\$ 725	\$	5,389	\$	5,155	\$	5,767	\$	11,288
Extraordinary cost on extinguishment of debt	\$ (545)	\$	-	\$	-	\$	-	\$	-
Change in value of split-interest agreements	\$ -	\$	-	\$	-	\$	-	\$	(44)
Increase in unrestricted net assets	\$ 6,246	\$	11,721	\$	9,702	\$	6,039	\$	13,684

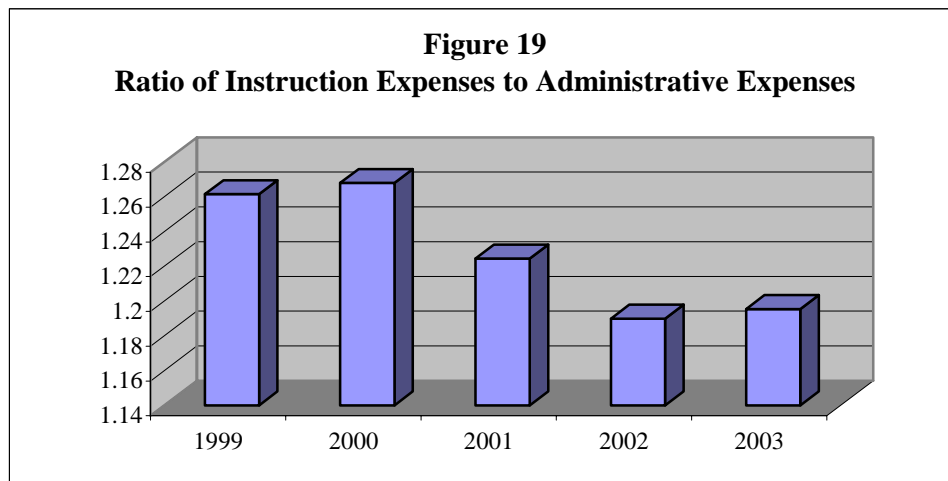
Table 5 (continued)
Revenues, Expenses and Changes in Net Assets
for year ending June 30
thousands of \$

	1999	2000	2001	2002	2003
Unrestricted Net Assets					
Total unrestricted revenues	\$ 89,752	\$ 95,695	\$ 101,866	\$ 108,490	\$ 116,108
Net assets released from restrictions	\$ 5,706	\$ 10,972	\$ 11,367	\$ 13,600	\$ 19,937
Total expenses & losses	\$ (89,211)	\$ (94,946)	\$ (103,530)	\$ (116,052)	\$ (122,361)
Increase in unrestricted net assets	\$ 6,246	\$ 11,721	\$ 9,702	\$ 6,039	\$ 13,684
Temporarily restricted net assets					
Temporarily restricted net assets	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	\$ 22,499	\$ 11,753	\$ 26,482	\$ 8,515	\$ 3,429
Investment income (loss), net	\$ 4,270	\$ 10,846	\$ (719)	\$ (5,578)	\$ 1,990
Gain on sale of land	\$ -	\$ -	\$ -	\$ -	\$ 317
Redesignation of nonoperating assets	\$ (11,000)	\$ -	\$ -	\$ -	\$ -
Net assets released from restrictions	\$ (5,706)	\$ (10,972)	\$ (11,367)	\$ (13,600)	\$ (19,937)
Reclassification of prior year's net assets	\$ -	\$ -	\$ -	\$ (625)	\$ -
Increase in temporarily restricted net assets	\$ 10,063	\$ 11,627	\$ 14,397	\$ (11,288)	\$ (14,202)
Permanently restricted net assets					
Redesignation of nonoperating assets	\$ 11,000	\$ -	\$ -	\$ -	\$ -
Contributions	\$ 6,349	\$ 5,289	\$ 16,588	\$ 2,024	\$ 2,895
Change I value of split-interest agreements	\$ -	\$ -	\$ -	\$ -	\$ (466)
Investment income	\$ -	\$ -	\$ -	\$ -	\$ 37
Reclassification of prior year's net assets	\$ -	\$ -	\$ -	\$ 625	\$ -
Increase in permanently restricted net assets	\$ 17,349	\$ 5,289	\$ 16,588	\$ 2,649	\$ 2,467
Increase (decrease) in net assets	\$ 33,658	\$ 28,637	\$ 40,687	\$ (2,601)	\$ 1,949
Net assets					
Beginning of year	\$ 140,888	\$ 174,546	\$ 203,184	\$ 243,870	\$ 241,269
End of Year	\$ 174,546	\$ 203,184	\$ 243,870	\$ 241,269	\$ 243,218

From 1999 to 2003 operating revenue increased from \$92.6 million to \$124.7 million an increase of about 33 percent. Revenue from tuition and fees increased about 35 percent while net tuition and fees increased 34 percent. The difference between these two numbers is accounted for by a 52 percent increase in University sponsored financial aid and a 6.5 percent increase in student aid funded by donors and government grants. In addition, revenue from auxiliary enterprises increased about 29 percent and there was also a significant increase in income from investment returns designated for current operations, which went up 87 percent.

Table 5 also shows the expenses of Fairfield University from 1999 to 2003. Total operating expenses increased from \$89.2 million to \$121.4 million an increase of approximately 36 percent. Expenses are broken down into several functional categories. Most important are the expenses for instruction which increased from \$32.7 to \$41.7 million, an increase of 27 percent. Administrative expenses, that is expenses for academic support and institutional support increased 54 percent and 23 percent respectively. Two other important expense categories were student services and auxiliary operations which increased by 32 percent 52.6 percent respectively.

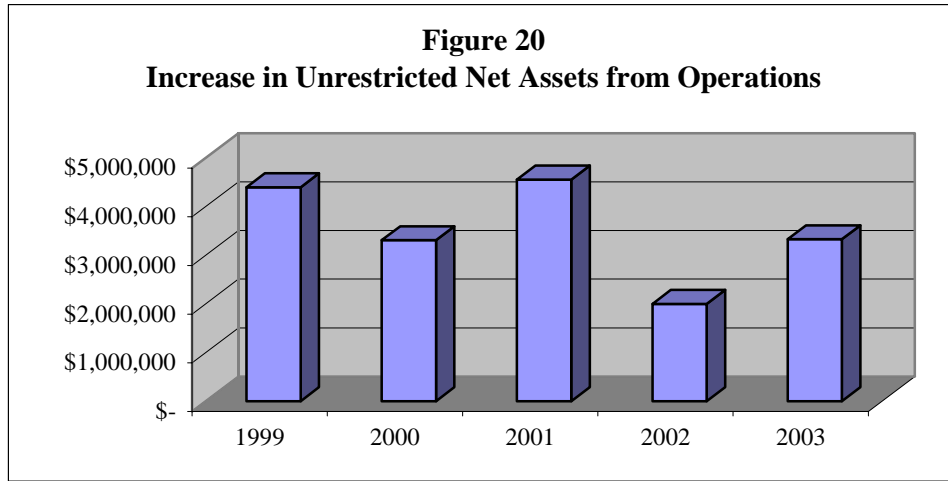
Figure 19 shows the ratio of instructional to administrative expenses at the University. This ratio exhibits a downward trend which means that administrative expenses at the University are rising more rapidly than expenses for instruction.



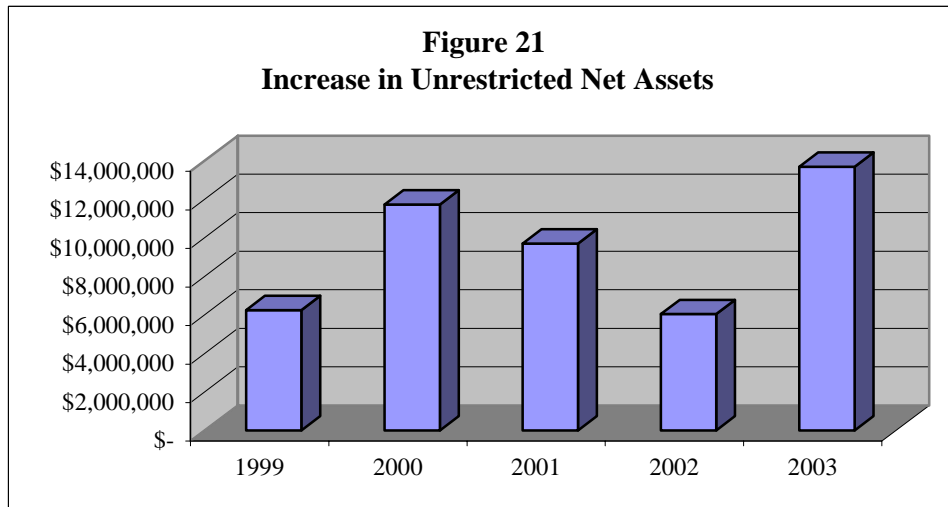
“Net Income”

Next we turn to the analysis of net income. Net income or profit is calculated by taking revenue minus expenses. There are several important measures of net income also referred to as the change in net assets. Figure 20 shows the change in unrestricted net assets from operations. In each of the five years examined in this report the University

showed an increase in unrestricted net assets from operations which means that revenues exceeded expenses.



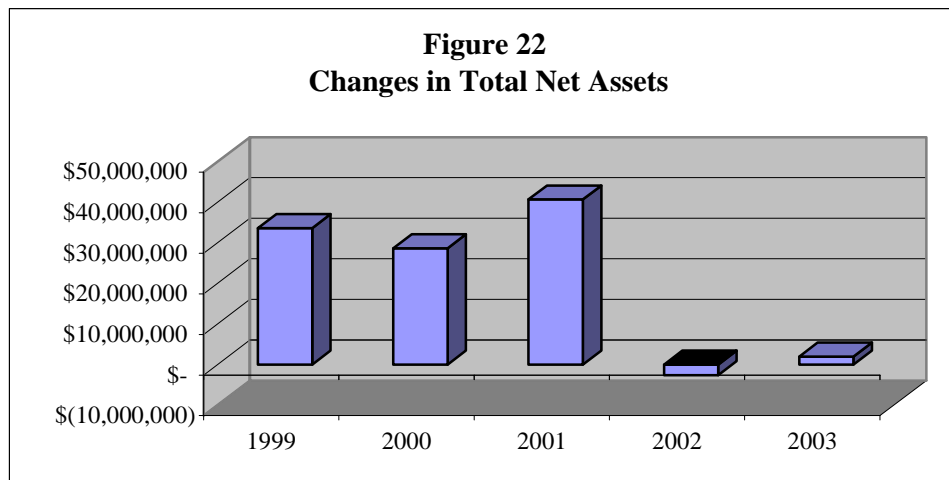
Probably the single most important number in Table 5 is the change in unrestricted net assets. This number includes the net income earned from operations and it also includes non operating revenue derived from the release of net assets from restriction and returns from investments not designated for current operations. Figure 21 shows the overall changes in unrestricted net assets which is the closest approximation to “net income” or profit in a for-profit enterprise. Figure 21 shows that the University’s “net income” varied between \$6 million and \$13 million.



In some respects the “net income” shown in Figure 21 may even understate the true earnings of the University. Although the University does not list depreciation as an

expense the beginning and ending values for net assets in Table 5 are the same as the levels of net assets shown in Table 3. The numbers in Table 3 for net assets represent the net assets of the University net of accumulated depreciation. Therefore, although the University does not list depreciation as an expense it is safe to assume that depreciation has been taken into account when arriving at the final change in net assets shown in Table 5. This is important because while depreciation may be a legitimate expense it is a non-cash expense which means that it does not result in an outflow of funds from the University.

Another indicator of financial health is the total change in net assets which includes not only the change in unrestricted net assets but also the changes temporarily restricted net assets and changes in permanently restricted net assets. Figure 22 shows the changes in overall net assets. In the years 1999-2001 the total changes in net assets were substantially more than the changes in unrestricted net assets. However, in 2002 the University actually showed a \$2.6 million dollar loss and in 2003 a surplus of only \$1.9 million. The discrepancy between the change in unrestricted net assets and the change in total net assets is due to sharp declines in temporarily restricted net assets. Most of the decline is explained by declines in contributions to temporarily unrestricted net assets. There is no explanation in the financial statements for the decline in contributions so it is impossible to tell whether this was just a temporary decline or something more permanent. When temporarily restricted funds are released from restriction they go into unrestricted net assets. If there is a decline in temporarily restricted net assets then in the future, the size of the funds released from restriction will decline. Since this is an important source of revenue for operations this decline in contributions clearly raises some concerns. However, without knowing more about the circumstances surrounding the decline in contributions it is not possible to say definitively that there has been a decline in the financial health of the institution.



Cash Flows

Although net income is an important indicator of an institution's financial health another key indicator is cash flow. The statement of cash flows is divided into three major categories. Cash flows from operations show all of the money flowing into the University as a result of its operations and all of the cash flowing out. In the operations category most of the inflows represent revenues and most of the outflows represent expenses. Thus, net cash flow from operations is similar to the change in net assets or "net income."

One of the crucial differences between net cash flow from operations and net income is depreciation. When calculating its expenses the University subtracts depreciation from its revenue to determine its net income. This deduction is an expense because the University has used up some of the assets causing their value to decline. Thus each year when the University presents its net assets and calculates the value of its plant it does so net of accumulated depreciation. While it is absolutely the case that depreciation is an expense it does not involve any cash flowing out of the University. Therefore, while depreciation lowers net income it does not lower cash flow and in fact this cash is available for the University to spend.

The second item in the cash flow statement shows cash flows from investments. Here the University shows certain inflows and outflows of cash which are neither revenues nor expenses. For example, the University shows the amount it spends on new buildings. While this represents an outflow of cash it is not an expense because expenses represent an asset being used up over time. Thus the expense of putting up a building is accounted for when the University depreciates the building as the asset is used up. If the University were to depreciate the asset and count the construction cost as an expense it would be double counting its expenses. Another major item in this category proceeds from the sale of investments which produces an inflow of cash and purchase of investments which produces an outflow of cash. The cash flow from investments is normally negative because the University is spending money on buildings and it normally purchases more in investments than it receives in proceeds. The fact that this number is negative does not imply that the University is in financial trouble. It is more a reflection of how the Trustees and the Administration have chosen to spend the University's assets in a given year.

The final category in the cash flow statement is cash flow from financing activities. Here one of the most important items is cash obtained from borrowing money. This represents an inflow of cash that is available to spend but once again it is not revenue. Resorting again to the example of an individual, if an individual goes to a bank and borrows money to buy a car they have cash to spend but they have not increased their income. A major outflow in this category is repayment of principle on loans. This represents an outflow but unlike interest payments, it is not an expense. It is not an expense because the expense is incurred when the loan is used to put up a building, which is then depreciated.

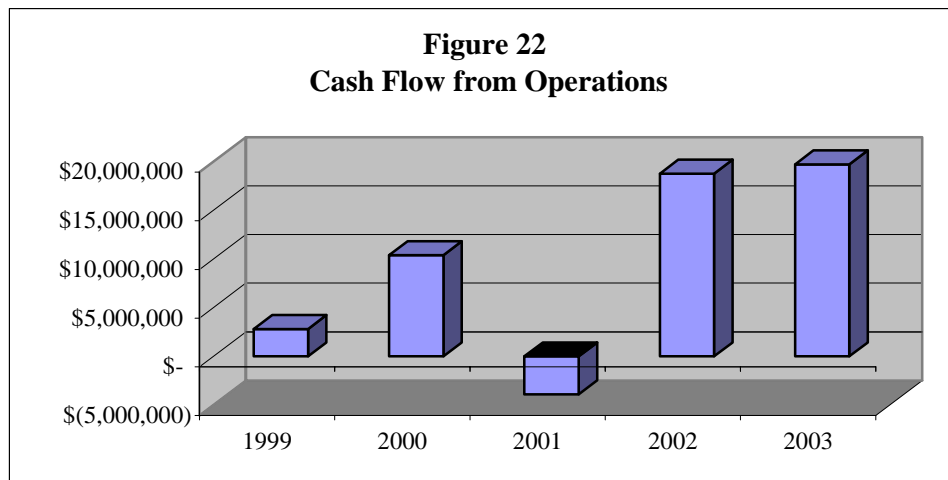
Table 6
Cash Flow
for year ending June 30
thousands of \$

	1999	2000	2001	2002	2003
Cash flows from operating activities					
Increase (decrease) in net assets	\$ 33,658	\$ 28,637	\$ 40,687	\$ (2,601)	\$ 1,949
Adjustments to reconcile changes in net assets to net cash provided by operating activities					
Depreciation & amortization	\$ 5,169	\$ 6,130	\$ 7,336	\$ 7,490	\$ 8,922
Extraordinary cost on extinguishment of debt	\$ 545	\$ -	\$ -	\$ -	\$ -
Contributions restricted for long-term investment	\$ (12,892)	\$ (11,897)	\$ (16,802)	\$ (8,373)	\$ (7,408)
Realized and unrealized gains on investments, net	\$ (3,043)	\$ (10,133)	\$ 4,639	\$ -	\$ -
Contributions of land	\$ -	\$ -	\$ -	\$ (925)	\$ -
Gain on Sale of land	\$ -	\$ -	\$ -	\$ -	\$ (317)
Realized and unrealized losses on investments, net	\$ -	\$ -	\$ -	\$ 9,287	\$ 91
Changes in operating assets & liabilities					
Short term investments	\$ (9,356)	\$ (8,444)	\$ (29,572)	\$ 12,831	\$ 15,270
Contributions receivable	\$ (13,922)	\$ 3,948	\$ (17,384)	\$ 5,109	\$ 9,295
Receivable from sale of investments	\$ -	\$ -	\$ -	\$ -	\$ (7,971)
Accounts receivable	\$ 74	\$ 66	\$ 91	\$ (20)	\$ (18)
Other assets	\$ (1,555)	\$ (3,519)	\$ 1,553	\$ (379)	\$ (111)
Accounts payable	\$ 3,810	\$ 3,515	\$ 2,844	\$ (3,234)	\$ (61)
Deferred revenues	\$ 328	\$ 2,105	\$ 2,664	\$ (530)	\$ 81
Government grants refundable-student loans	\$ -	\$ (9)	\$ 46	\$ 110	\$ (20)
Net cash provided by operating activities	\$ 2,816	\$ 10,400	\$ (3,898)	\$ 18,764	\$ 19,702

Table 6 (Continued)
Cash Flow
for year ending June 30
thousands of \$

	1999	2000	2001	2002	2003
Cash flows from investing activities					
Proceeds from sale of investments	\$ 20,729	\$ 29,958	\$ 22,758	\$ 24,418	\$ 25,149
Purchase of investments	\$ (32,128)	\$ (34,049)	\$ (32,042)	\$ (37,348)	\$ (32,417)
Purchase of buildings and equipment	\$ (9,911)	\$ (43,001)	\$ (44,643)	\$ (35,278)	\$ (19,070)
Proceeds from sale of land	\$ 29	\$ -	\$ -	\$ -	\$ 1,242
Issuance of student loans	\$ (287)	\$ (314)	\$ (454)	\$ (421)	\$ (497)
Proceeds from student loans receivable	\$ 293	\$ 338	\$ 350	\$ -	\$ -
Repayment of student loans	\$ -	\$ -	\$ -	\$ 365	\$ 422
Net Cash used by investing activities	\$ (21,275)	\$ (47,067)	\$ (54,031)	\$ (48,264)	\$ (25,172)
Cash flows from financing activities					
Proceeds from contributions restricted for:					
Investment in permanently restricted endowment	\$ 13,805	\$ 5,954	\$ 12,414	\$ 4,762	\$ 4,169
Investment for capital expenditures	\$ 3,279	\$ 5,943	\$ 4,388	\$ 3,612	\$ 3,239
Increase in government student loan program	\$ 45	\$ -	\$ -	\$ -	\$ -
(Increase) Decrease in deposits with trustee	\$ (15,086)	\$ (42,298)	\$ 44,769	\$ 5,877	\$ -
Net proceeds from long term borrowing	\$ 27,182	\$ 68,765	\$ -	\$ 17,913	\$ -
Proceeds from line of credit	\$ -	\$ -	\$ -	\$ -	\$ 650
Repayment of long term debt	\$ (1,269)	\$ -	\$ -	\$ (2,077)	\$ (2,469)
Retirement of long-term debt	\$ (9,987)	\$ (1,349)	\$ (1,402)	\$ -	\$ -
Decrease in annuities payable	\$ (90)	\$ -	\$ -	\$ -	\$ -
Net cash used by financing activities	\$ 17,879	\$ 37,014	\$ 60,168	\$ 30,087	\$ 5,589
Net Increase in Cash	\$ (579)	\$ 347	\$ 2,240	\$ 588	\$ 118
Cash at beginning of year	\$ 995	\$ 416	\$ 763	\$ 3,003	\$ 3,591
Cash at end of year	\$ 416	\$ 763	\$ 3,003	\$ 3,591	\$ 3,709

Table 6 shows the cash flow statement for Fairfield University. Looking first at net flows from operations we observe that between 1999 and 2003 Fairfield University had increases in cash from operations in every year except 2001. In 2001 there was actually a decline in cash balances due primarily to an extraordinarily large decrease in assets held as short term investments. There was also a decline in contributions receivable. Again there is not explanation in the financial statements regarding these declines but it appears that they were only temporary since cash flow from operations was \$18.7 million in 2002 and \$19.7 million in 2003. Over the five year period the average increase in cash from operations was about \$9.6 million and the average increase in unrestricted net assets was also about \$9.5 million. Figure 23 shows the cash flow from operations. In general, if 2001 is viewed as an aberration, it would appear that there is an upward trend in cash flow from operations.



Total Operations Ratios

Figure 23 shows the ratio, net income from operations ratio, which is the net income from operations divided by revenue from operations and approximates ratio of “net income to sales” in a for profit business. The ratios in Figure 23 closely parallel the change in net assets show in Figure 20. Although ratios in and of themselves are not necessarily meaningful, the pattern of and the overall levels in comparison to similar institutions can be meaningful. The net income ratio shows some volatility, although in general, there seems to be a downward trend over the last five years. Given the volatility, it is impossible to say whether this downward trend is really significant. The average rate of return over the five year period has been 3.3 percent which is a good rate of return for a university.

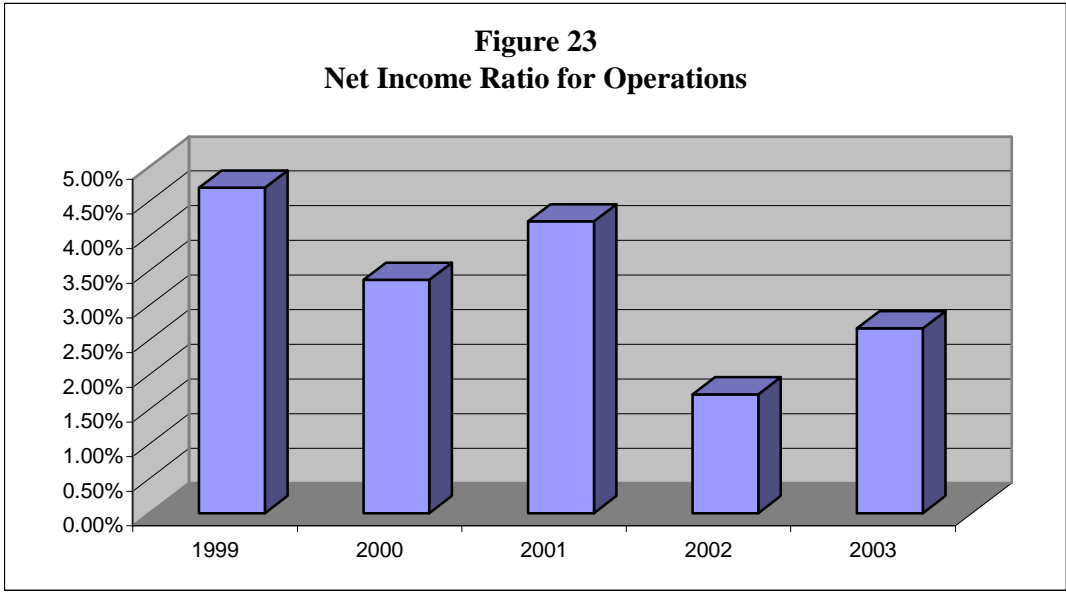
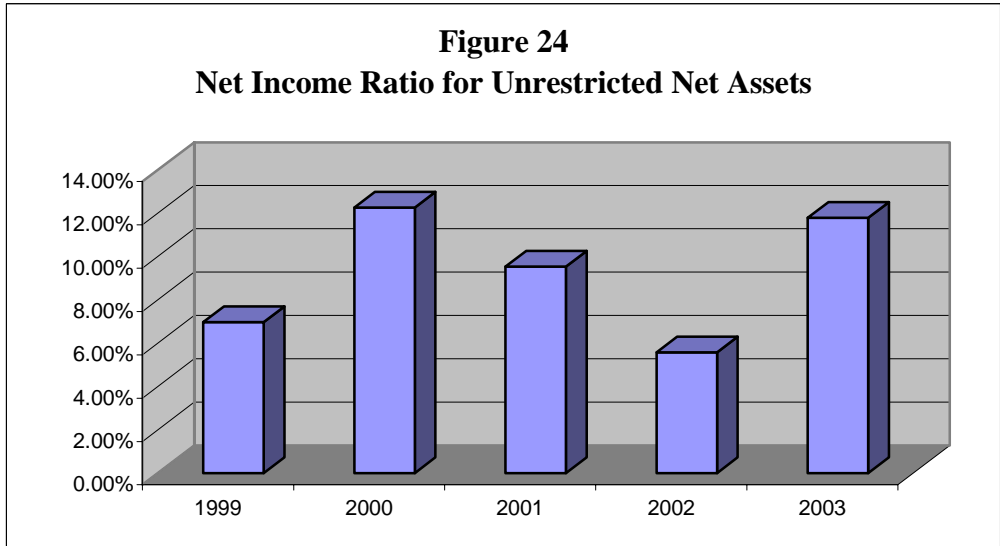
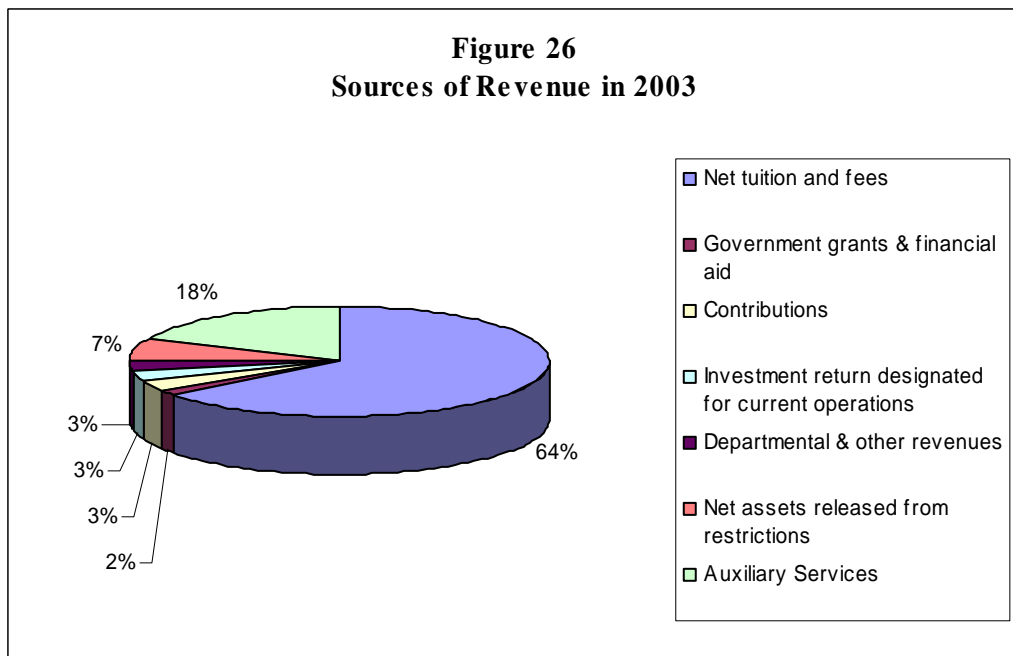
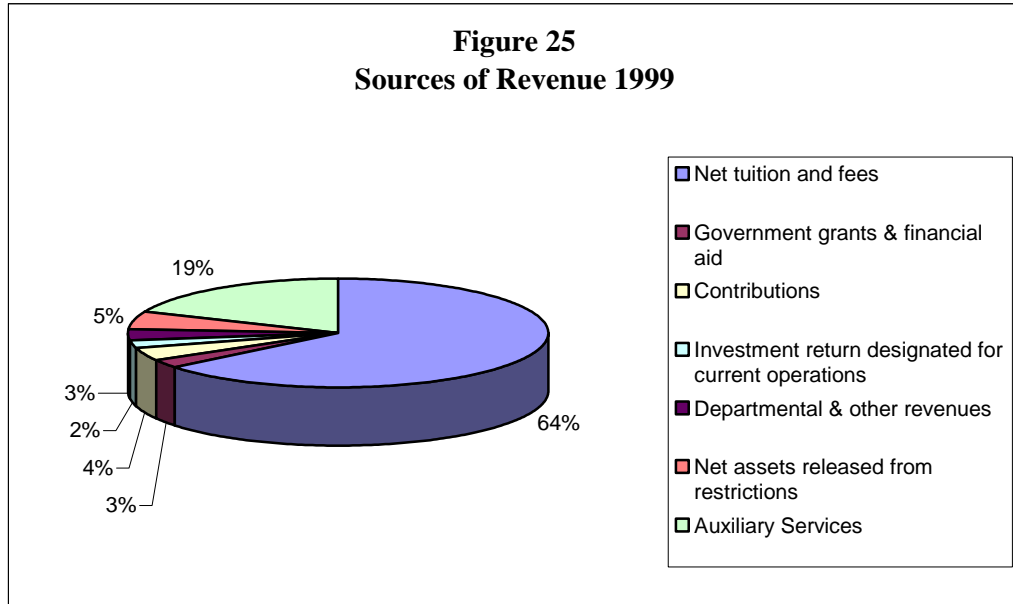


Figure 24 shows the net income ratio for unrestricted net assets which is the change in unrestricted net assets divided by unrestricted revenue. The rate of return on unrestricted net assets shows a slightly different pattern with the rate increasing in 2000 and then decreasing in 2001. In contrast the rate of return on operations decreased in 2000 and then increased in 2001. Over the last two years, however, the two rates have moved in the same direction.



Revenue Ratios

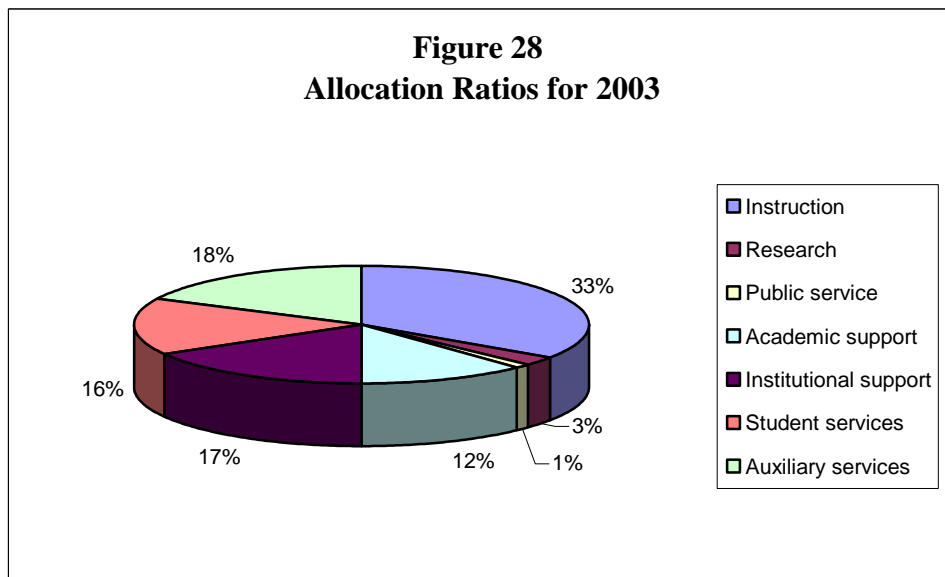
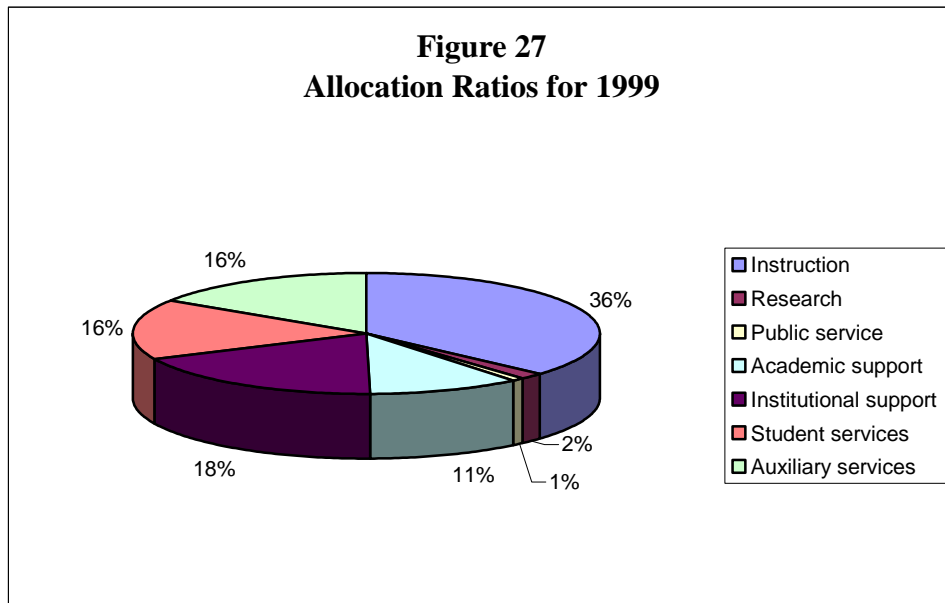
Figures 25 and 26 show the major sources of revenue in 1999 and 2003. The most important source of revenue to the University is net tuition which accounted for 64 of the University's revenue both in 1999 and 2003. The other major source of revenue is auxiliary operations. In 1999 auxiliary operations accounted for 19 percent of revenue and in 2001 it accounted for 18 percent of revenue.



In 1999 net assets released from restriction accounted for only 5 percent of the University's revenue and in 2003 this figure had risen to 7 percent. The other categories of revenue show some minor change but account for a relative small portion of the University's overall revenue.

Allocation Ratios

When most faculty want to understand spending priorities they look at annual budgets. Again, budgets are simply planning documents. The actual spending priorities of the University are clearly reflected in the actual expenditures.



Between 1999 and 2002 the proportion of expenses allocated for instruction decreased from 36 percent to 33 percent of total operating expenses. Auxiliary expenses went from 16 percent of total operating expenses to 18 percent of expenses. Although this change is not large it needs to be put in the context that auxiliary revenue as a share of total revenue declined over the same period. Clearly this means that the University should look carefully at its auxiliary operations. Spending on institutional support declined from 18 to 17 percent but this was offset by an increase in spending on academic support which increased from 11 to 12 percent of total expenses.

Conclusion

This report shows that the financial condition of Fairfield University has deteriorated slightly over the period 1999-2003. The 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 these three and then uses 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 scores presented in this report are based on a slight modification of the Ohio Board of Regents methodology to take into account the differences in financial reporting for public and private institutions.

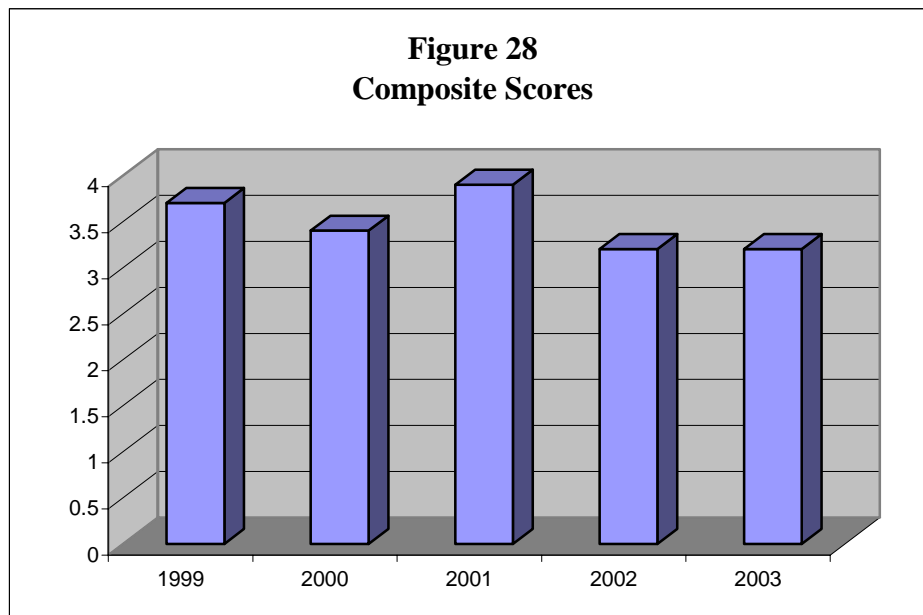
The first is the ratio is known as the viability ratio which for public universities is the ratio of expendable net assets to long-term debt. Since private universities do not report expendable net assets we have calculated the score using the ratio of unrestricted net assets to long-term debt. The second ratio is the primary reserve ratio. Again for public universities we take the ratio of expendable balances to expenses. In the case of private universities like Fairfield we have taken the ratio of unrestricted net assets to expenses. The net income ratio is the ratio of net income from operations to revenue from operations.

Table 7
Composite Scores
for year ending June 30

	1999	2000	2001	2002	2003
Viability Score	3	2	2	2	2
Primary Reserve Score	4	4	5	4	4
Net Income Score	4	4	4	3	3
Composite Score	3.7	3.4	3.9	3.2	3.2

Each of the above mentioned ratios is then scored on a scale of 0 to 5 using whole numbers 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 7 shows the composite scores and these same scores are also shown in Figure 28. In general there seems to be a very slight decline in the composite scores. Most of the decline is accounted for by the decline in the viability ratio. The viability ratio declined sharply between 1999 and 2000 but since then has been fairly stable. The major factor explaining this decline was the large increase in long-term debt which the University incurred in 2000. The other factor contributing to the decline in the composite score was the decline in the net income ratio.



Although the financial condition of the University has declined moderately this report shows that Fairfield University is in good financial condition. The University has assets of \$395.2 million and liabilities of \$152 million leaving net assets of \$243.2 million. About half of these net assets, which are the equivalent of “net worth” in the for profit sector, are unrestricted and of these unrestricted net assets about 40 percent are liquid.

The University depends heavily on tuition and fees and revenue from auxiliary operations both of which are enrollment driven. The University also relies on releasing funds from temporary restrict to fund current operations. In the past two years there has been a significant decline in contributions which may pose a problem for the University in the future. However, if the University increases its contributions and barring any major

declines in enrollment the University should continue to generate substantial positive changes in net assets and have positive cash flows in upcoming years providing the University with an opportunity to invest, not only in improving its plant and equipment, but also in improving its human resources.