An Updated Analysis of the Financial Statements

of

The University of Akron
Academic Years 2002-2014

Prepared for AAUP

By

Rudy Fichtenbaum
Professor of Economics
Department of Economics
Wright State University
Dayton, OH 45435

(937) 775-3085

rfichtenbaum@sbcglobal.net

Introduction

This update provides an analysis of the financial status of the University of Akron for the years 2002 through 2014. Due to space limitations the tables in this report, for the most part, have data for the years 2009 through 2014. However, the graphs will generally have data for the years 2002-2014, updating my last report that ended looking at data through 2009. The year 2002 is the first year the University of Akron adopted the new GASB 34 reporting standards and thus data from 2002-2014 is reported in a consistent format. Most of the data for the years 2002-2008 is contained in my 2008 report and my 2009 update. 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 as well as information from the Integrated Post-Secondary Educational Data System (IPEDS) for the aforementioned years.

Most businesses have a goal of earning profit for stockholders. Thus, the financial statements of most businesses are designed to allow stockholders and others concerned with profitability a means to monitor the performance of the business in question.

Universities and other non-profit organizations ostensibly have an entirely different purpose. Universities, in particular, are institutions of higher learning established 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. Consequently universities use a system of fund accounting. 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 a university expends funds in the manner they were intended by donors or government entities, it has been difficult for faculty to look at a University's financial statements and get a true picture of the university's financial health. In the past, financial statements for universities were broken down into various fund groups. In effect, each fund group had its own financial statements and universities could move money between funds making it difficult to understand whether universities had revenues in excess of expenses or whether expenses exceeded revenues. In 2002, public universities changed their financial statements so that they more closely resemble those in for profit businesses. One might argue that this new reporting format is a reflection of the growing corporatization of universities, which are increasingly being run more and more like for profit enterprises. However, one of the benefits of the new reporting format is that it is now easier for faculty to understand the financial status of their institutions.

Historically, most universities have had some sort of a faculty budget oversight committee as part of faculty governance institutions. Many of the functions of these budget oversight committees have been taken over by collective bargaining agents at institutions where faculty members have opted to engage in collective bargaining. However, whether an institution has collective bargaining or a traditional budget oversight committee, faculty at most institutions focus on the annual budget of the institution.

Often, looking only at a university's budget misleads faculty members. Budgets are normally based only on the current fund and since universities have the ability to transfer money from one fund to another looking at the current fund does not give a true picture of a university's finances. Figure 1 below shows the structure of college funds.

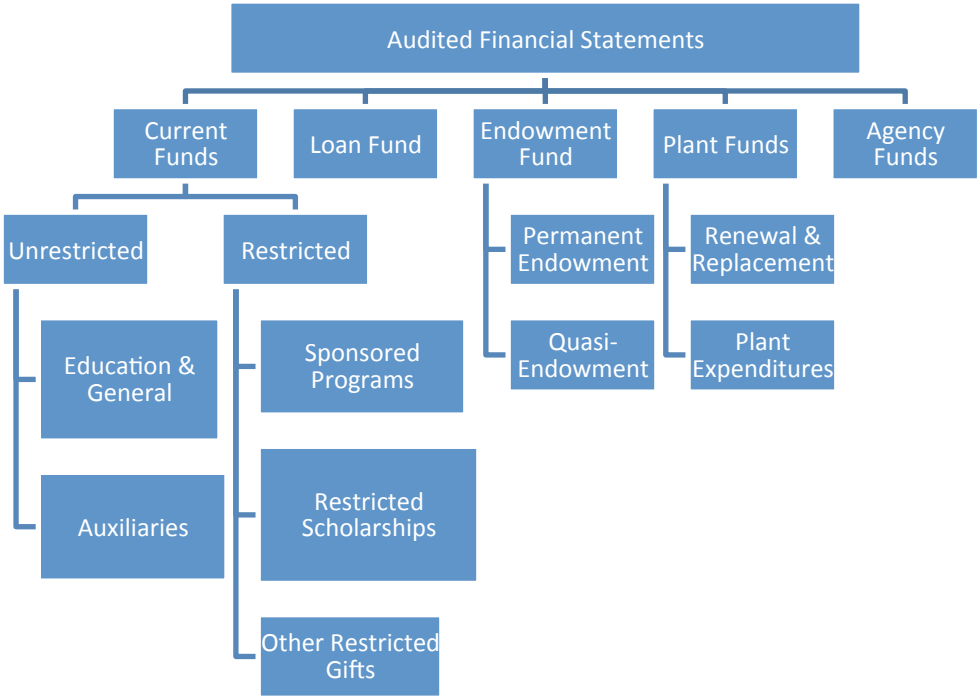


Figure 1.

In addition, 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, in any given year a certain number of faculty members leave institutions either to take jobs elsewhere or to retire. Consequently in any given year a certain number of positions that are budgeted are vacant. Therefore what a university budgets for faculty salaries and benefits is not necessarily what they actually spend on salaries and benefits. As a result, some percentage funds for budgeted positions either gets spent elsewhere or accumulates and becomes part of a university's net assets. Budgets also depend on making projections regarding enrollment and assumptions about raises and the general rate of inflation. Changing any of these assumptions can drastically alter a budget. Finally, almost all budgets are balanced and this creates the impression that colleges spend every

dollar of revenue that they take in. This is far from true for most universities. In general, most universities will have balanced budgets but in most years they will also have revenues that are in excess of expenses.

To get a true picture of a university's finances one must look at the actual financial statements, which present the actual revenues and expenses of a 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. Universities, as non-profit organizations, take in revenue in the form of tuition dollars, donations and governmental support. In the process of carrying out the mission of their institution, universities also incur expenses. The difference between the revenues and expenses is known as the change in net assets. If a university's revenue exceeds its expenses there is an increase in net assets. Conversely, if the expenses exceed the revenues there is a decrease in net assets. Increases or decreases in net assets are one of the prime indicators of how a university is performing financially.

Financial data is reported either as a stock (a level) or flow (a change). A stock is a snapshot taken at a particular point in time. For example the amount of money in your savings account is a stock. Flows are measurements that tell us about changes overtime as we move from one level to another. Flows always have a time dimension. For example, income is a flow because it is measures the number of dollars we receive per year.

Universities have three main financial statements. First there is a balance sheet or a statement of net assets. Balance sheets have three main components: assets, liabilities and net assets. Assets are things of value owned by a university. Liabilities are claims against a university and net assets are the difference between assets and liabilities. Net assets represent the wealth of the institution. All of the items on a balance sheet deal with stock concepts and represent a snapshot of the university at a point in time. Thus, the first part of this report will provide an analysis of the University's balance sheet.

The second major financial statement is the statement of revenues, expenses and changes in net assets. Another name for this statement would be an income statement. This financial statement shows how a university's finances are changing over a period of time, namely a fiscal year that normally runs from July 1 to June 30 of the following year. This statement deals with flows and measures how a university's revenues and expenses are changing over time. Fiscal years are always associated with the calendar year in which the fiscal year ends. So for example, from July 1, 2013 to June 30, 2014 is known as fiscal year 2014.

There is a relationship between stocks and flows or between the balance sheet and the statement of revenues, expenses and changes in net assets. For example, if revenues are greater than expenses then there will be an increase in net assets. This means that if you take the net assets at the beginning of a year on the balance sheet and add the change

in net assets from the statement of revenues, expenses and changes in net assets you will get the net assets at the end of the year which are shown on the balance sheet. The second part of this report will provide and analysis of the University's statement of revenues, expenses and changes in net assets. The following equation shows the relationship between the two statements:

The change in net assets = revenue – expenses = change in assets – change in liabilities.

In 2011 GASB 63 introduced the term net position and change in net position, which has now taken the place of net assets and change in net assets. The difference is relatively minor and like many institutions, the University of Akron did not adopt GASB 63 until 2013. In this report, we will use the two terms interchangeably. The net position is the difference between (assets + deferred outflows of resources) minus (liabilities + deferred inflows of resources). Deferred outflows are consumption of net assets by a college that is applicable to a future reporting period. Deferred inflows are acquisition so of net assets applicable to a future reporting period.

Deferred outflows and inflows generally involve the use of derivatives. A derivative is a financial instrument that derives is value from some underlying asset. Anytime a financial asset is created there is always an offsetting liability. The most common derivative used in higher education is something known as an interest rate swap. This is an agreement where two parties one with a loan that has a variable rate of interest and the other with a loan that has a fixed rate of interest agree to a series of payments that allow them to swap interest payments. So the person with a variable rate loan agrees to make a series of fixed interest payments and the person with the fixed rate loan agrees to make a series of variable rate interest payments.

The third financial statement is the statement of cash flows. Universities use a system of accrual accounting, which means they book revenues when they earn them and book expenses when they are incurred. However, recognizing revenue is not always the same as collecting cash. For example, a university may send a bill to a student for tuition but not immediately collect the money that is owed. This shows up on a university's balance sheet as an increase in accounts receivable and is booked on the statement of revenues, expenses and changes in net assets, as revenue. While the university shows an increase in revenue, it does not actually have more cash. Hence the role of the cash flow statement is to show the inflows and outflows of cash. The third section of this report will provide an analysis of the University's cash flow statement.

In providing an analysis of each of these financial statements it is important to look at trends such as the increase or decrease in net assets. In addition, this report will also calculate certain ratios, which are indicators of financial performance. There are a number of different types of ratios that can be used to evaluate the performance of colleges and universities. There are revenue and expense ratios, liquidity ratios, solvency ratios, activity ratios and margin ratios. 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, or to certain standards that have been established in the field of higher education. However, caution should be exercised when comparing one institution to another because of differences in reporting.

The purpose of this report is to help educate faculty at the University of Akron 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.

The Balance Sheet

A balance sheet (statement of financial position or statement of net assets) is a snapshot of the university or college's financial position on the last day of the fiscal year. Generally fiscal years begin on July 1 and end on June 30 and when a fiscal year is referred to, the number refers to the calendar year in which a particular fiscal year ends. A balance sheet has two sides and represents a balance between assets on the left side and liabilities and changes in net assets on the right side. The equation that summaries a balance sheet is Assets = Liabilities + Net Assets. The basic structure of the balance sheet is illustrated in Figure 2 below.

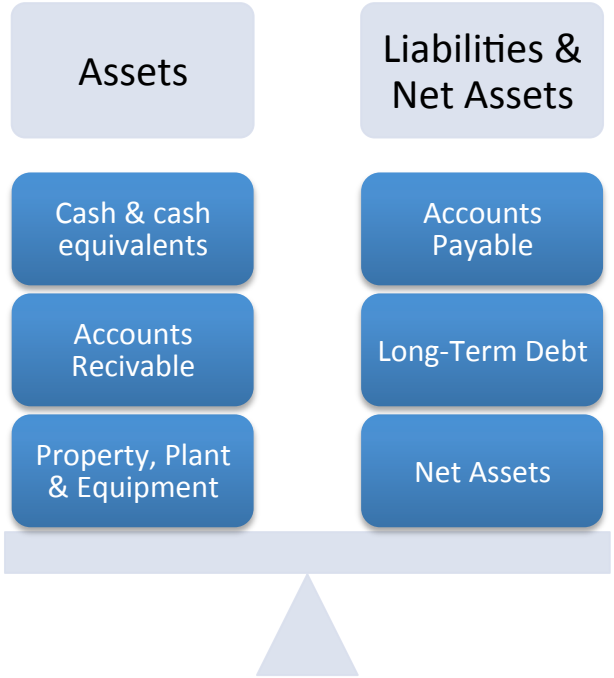


Figure 2.

Assets

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. Assets increase as resources are obtained and decrease as assets are disposed of or used up.

A university or college's assets can be divided into current and non-current assets. Current assets consist of assets that will be converted to cash or used up during the course of a year. The major items that comprise current assets are cash and cash equivalents, short-term investments, accounts receivable, notes receivable and inventories.

Cash and cash equivalents consist of physical cash, checking accounts and short-term investments such as certificates of deposit, government securities and money market mutual funds. Accounts receivable represent are amounts that are owed to a college or university for services provided (e.g. tuition, room and board) and are generally reported net of allowances for doubtful accounts, which are amounts the college or university expects that it is unlikely to collect. Notes receivable are amounts owed by other entities such as grants or loans receivable i.e., money that is owed to the university or college by granting agencies or for loans. Inventories at colleges and universities generally consist of publications and general merchandise.

Non-current assets consist of accounts receivable, notes receivable, long-term investments, endowment investments and capital assets, all assets that will not be converted to cash or used up during the current year. Capital assets are recorded at historical cost (the amount you paid for the item, or the amount it cost to build the capital asset), measured net of accumulated depreciation. Depreciation is a way of allocating the cost of fixed assets over the useful life of those assets. It is an expense and therefore it reduces the net assets of a college. Whether this diminution of net assets represents a real decline in the wealth of an institution is questionable. For private companies, depreciation represents the allocation of the cost of purchasing plant and equipment. However, at universities and colleges, a significant portion of buildings and equipment are paid for by governmental appropriations or private gifts. Thus, universities and colleges have a source of funding for purchasing fixed assets that is not available to for profit businesses. Depreciation is an expense that will show up on the income statement, but unlike other expenses it does not represent an outflow of cash from the college or university.

Table 1 shows assets and deferred outflows for the University from 2009-2014 and Figure 3 shows assets and deferred outflows from 2002-2014.

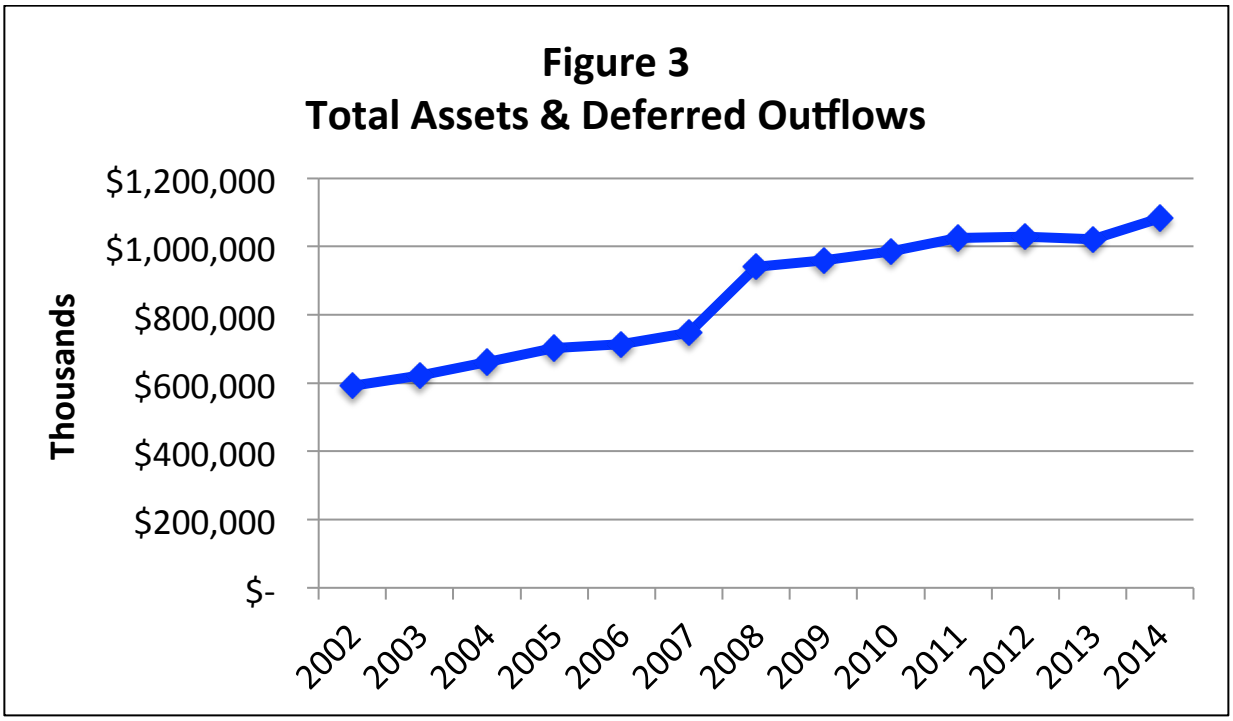


Table 1 Assets and Deferred Outflows Thousands of $ For year ending June 30						
	2009	2010	2011	2012	2013	2014
ASSETS						
Current assets:						
Cash and cash equivalents	$2,507	$323	$40,481	$11,363	$11,744	$11,801
Pooled investments	$83,268	$104,989	$86,037	$129,249	$147,639	$150,652
Investments held in trust by others	$7,137	$6,937	$8	$10,486		
Accounts receivable, net	$27,738	$29,331	$26,615	$32,144	$34,085	$32,318
Pledges receivable, net	$488	$452	$288	$154	$92	$161
Student notes receivable, net	$2,105	$2,196	$1,946	$1,773	$1,566	$1,564
Accrued interest receivable	$1,086	$785	$642	$631	$755	$402
Inventories	$955	$900	$939	$987	$768	$787
Prepaid expenses and deferred charges	$5,488	$5,554	$3,382	$3,796	$3,930	$4,252
Total current assets	**$130,772**	**$151,467**	**$160,338**	**$190,583**	**$200,580**	**$201,937**
Noncurrent assets:						
Restricted ash and cash equivalents	$21,525	$35,077	$9,539	$6,211	$3,103	$2,753
Restricted investments	$124,827	$48,443	$55,574	$44,553	$11,170	$46,486
Endowment investments	$42,229	$48,170	$57,165	$53,115	$58,692	$68,158
Other investments (held in trust)	$1,501		$40,874		$9,573	$9,320
Pledges receivable, net	$748	$452	$241	$159	$86	$195
Notes receivable, net	$9,900	$10,356	$9,728	$8,900	$8,426	$8,885
Prepaid expenses and deferred charges	$5,625	$5,373	$5,471	$5,219		
Capital assets, net	$621,530	$686,230	$686,801	$720,823	$710,002	$727,461
Total non-current assets	$827,886	$834,101	$865,393	$838,980	$801,052	$863,257
Total assets	**$958,658**	**$985,568**	**$1,025,731**	**$1,029,564**	**$1,001,633**	**$1,065,194**
Deferred Outflows						
Deferred amount on bond refunding's					$20,098	$18,861
Total Assets & Deferred Outflows	**$958,658**	**$985,568**	**$1,025,731**	**$1,029,564**	**$1,021,730**	**$1,084,055**

Between 2002 and 2014 there were significant increases in assets. In 2002 total assets were $590.9 million. Total assets and deferred outflows increased to $1.1billion, an average annual increase of 5.2% a year. (Between 2002 and 2012 total assets and total assets plus deferred outflows were equivalent.) As is evident from Figure 3, the growth of total assets was fairly stable between 2002 and 2007, increasing at an average annual rate of 4.8 percent. Then during 2008 there was a sharp jump in total assets – an increase of 26 percent in one year. Since 2009, the increase in total assets and deferred outflows has moderated increasing at an average annual rate of 2.5%. In fact, from 2011 to 2013 total assets and deferred outflows were essentially flat (they actually decreased slightly in 2013) but this was followed by a significant increase in 2014.

The University's assets can be divided into current and non-current assets. Current assets consist of assets that will be used up during the course of a year. The major items that comprise current assets are cash and cash equivalents, accounts receivable, inventories, deposits and prepaid expenses. Non-current assets are tangible assets that will last longer than a year or financial assets that will be held more than a year. The major items in this category are investments, endowment and capital assets along with some receivables.

Current assets have been growing at a fairly steady rate following a decline between 2002 and 2003, due to a decline in investments held in trust. However, since that time, current assets have grown from $74.4 million in 2003 to $201.9 million in 2014. The average annual growth rate in current assets between 2003 and 2014 was 9.5% and between 2009 and 20014 current assets grew at an average annual rate of 9.1%. Current assets make up about 19% of total assets and deferred outflows. The largest component of current assets is pooled investments, which have increased from $20.6 million to $150.7 million an average annual grow of 19.8% between 2002 and 2014. Since 2009 pooled investments have grown at an average annual rate of 12.6%.

Non-current assets consist largely of cash and investments along with capital assets, net of accumulated depreciation. From 2002 through 2014 non-current assets have grown at an average annual rate of 5.6%. However, since 2009 the average annual growth rate has been 0.9%, so growth of non-current assets has slowed in the last 6 years.

Figure 4 shows the fair market value of investments for the University of Akron. . It appears that there was a dramatic decline in the value of these investments between 2002 and 2003. However, this apparent decline was due primarily to a sharp decline funds held in trust by others. Since funds held in trust by others generally result from investing money that has been borrowed for the purpose of capital expenditures one expects a decline in this category of investment. Between 2003 and 2009 the value of investments increased from $103.4 million to $259 million in 2009 an average annual growth of 16.5%. With the financial crisis and the stock market crash the value of investments declined to $208.5 million in 2010. Some of the losses in the value of investments were recovered in 2011 and in 2014 the value of investments finally surpassed the pre-crisis high of 2009, reaching $274.6 million.

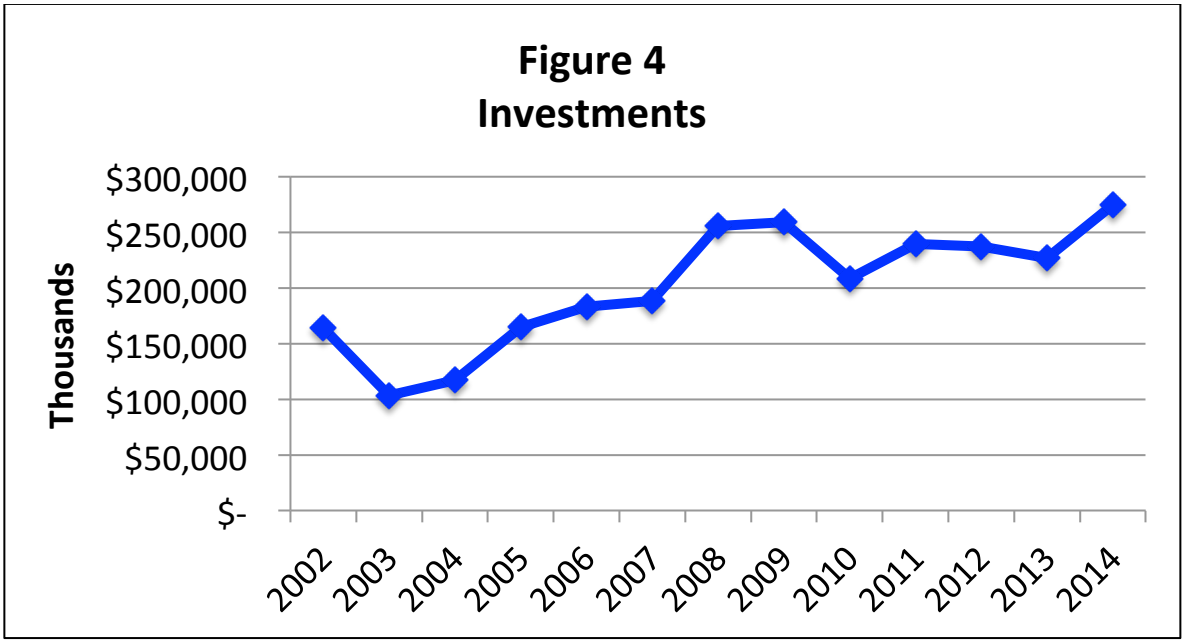


Table 2 and Figure 5 shows the book value of capital assets for the University. Most of the growth in the value of capital assets comes from buildings and improvements and infrastructure. Capital assets are valued at historic costs. The book value of capital assets increased from $373.5 million in 2002 to $727.5 million in 2014. Net value is the gross value minus accumulated depreciation. Although the gross value of capital assets has continued to increase the net value has been flat in the last three years. This implies that the value of capital assets did not grow as rapidly as accumulated depreciation.

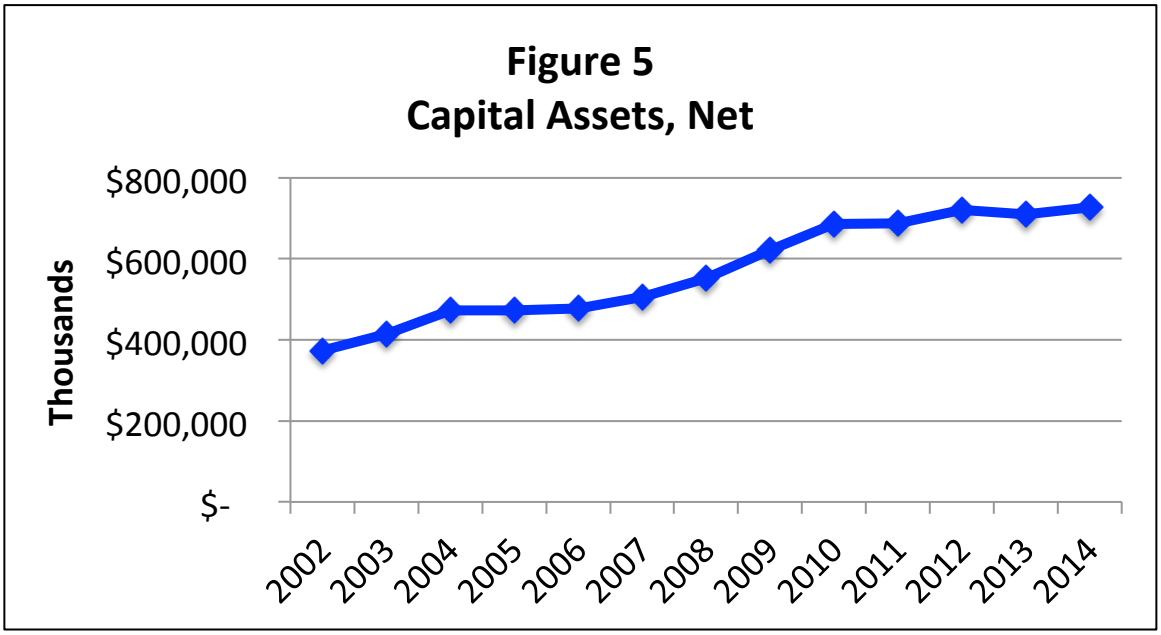
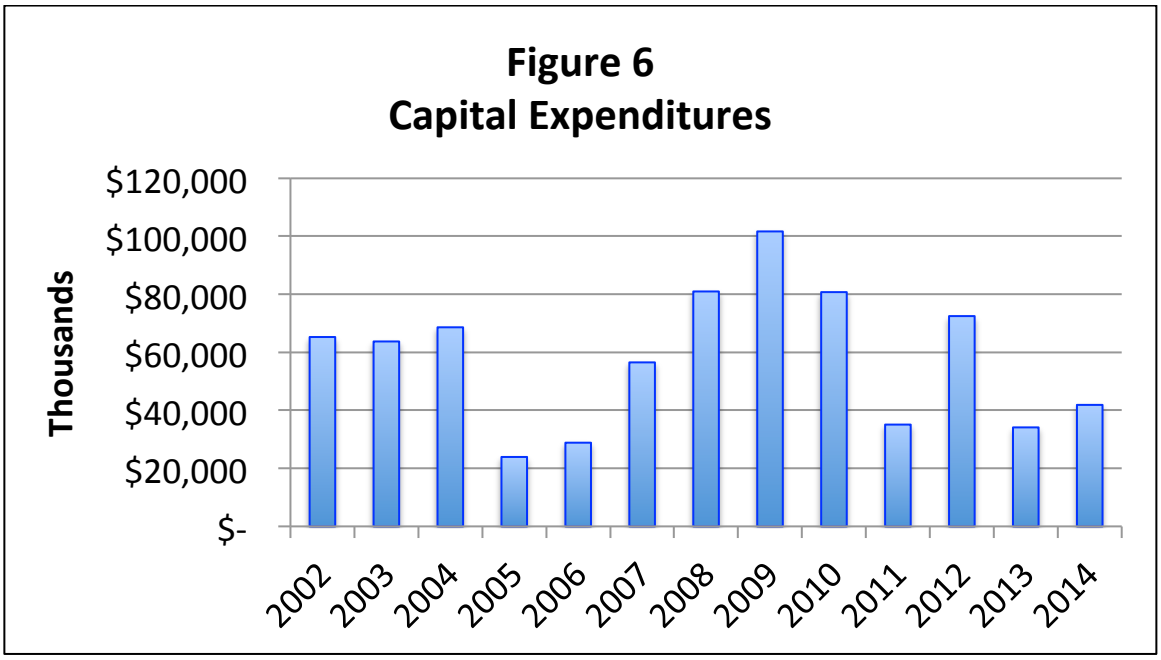
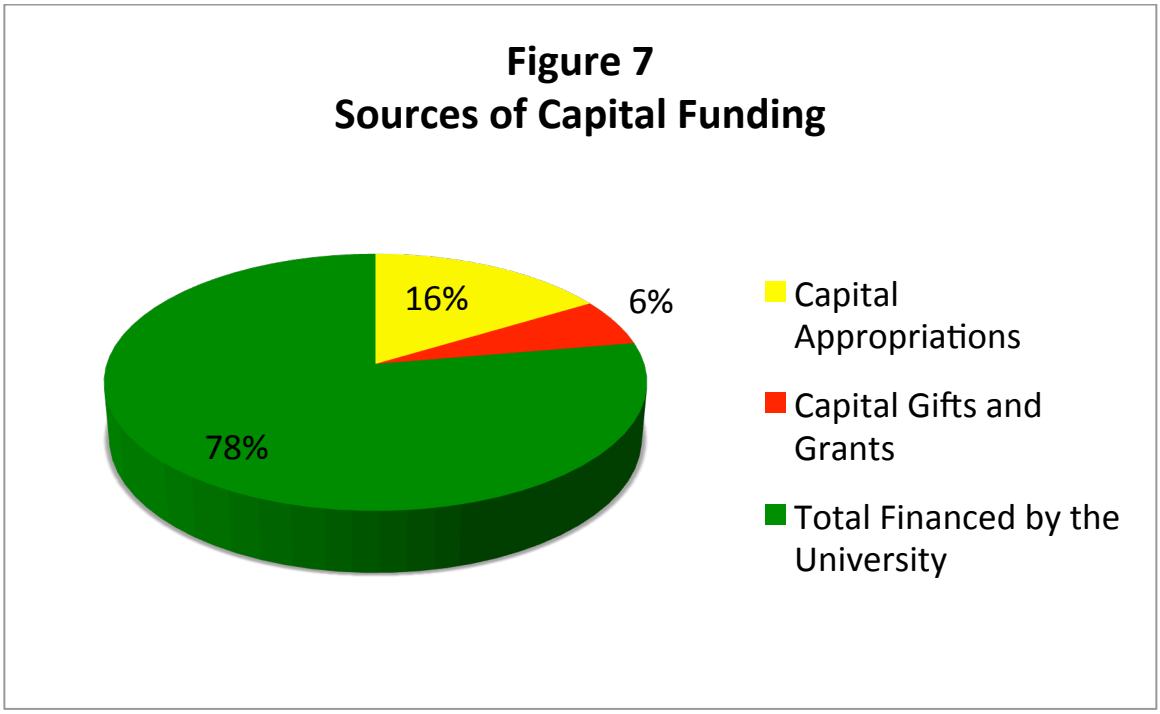


Table 2 Capital Assets, Net Thousands of $ For year ending June 30						
	2009	2010	2011	2012	2013	2014
Non-depreciable capital assets:						
Land	$35,765	$37,376	$39,108	$39,661	$39,661	$39,661
Historical collections	$4,399	$4,680	$4,297	$4,431	$4,558	$4,587
Construction in progress	$97,861	$69,559	$24,712	$59,234	$5,771	$3,584
Total non-depreciable capital assets	$138,026	$111,614	$68,117	$103,326	$49,990	$47,832
Depreciable capital assets:						
Land improvements	$45,364	$46,558	$46,537	$48,091	$48,449	$49,480
Buildings	$646,217	$750,361	$816,874	$834,849	$902,959	$927,985
Infrastructure	$15,356	$19,394	$20,695	$22,097	$23,228	$46,415
Equipment, furniture and books	$119,386	$126,742	$122,873	$130,745	$125,310	$118,981
Total depreciable capital assets	$826,324	$943,056	$1,006,980	$1,035,782	$1,099,945	$1,142,861
Total capital assets	**$964,350**	**$1,054,670**	**$1,075,097**	**$1,139,108**	**$1,149,935**	**$1,190,693**
Less accumulated depreciation:						
Land improvements	$22,648	$23,640	$25,241	$26,912	$28,204	$29,381
Buildings	$239,905	$259,618	$276,611	$299,076	$318,594	$343,068
Infrastructure	$6,214	$6,478	$7,481	$8,550	$9,637	$10,106
Equipment, furniture and books	$74,053	$78,704	$78,963	$83,746	$83,498	$80,678
Total accumulated depreciation	$342,820	$368,440	$388,296	$418,285	$439,933	$463,232
Capital assets, net	**$621,530**	**$686,230**	**$686,801**	**$720,823**	**$710,002**	**$727,461**

Figure 6 shows the major capital expenditures undertaken by the University of Akron in the years 2002-2014. These figures come from the Cash Flow statements. Over the thirteen-year period, from 2002-2014, the University spent a total of $753.6 million for the purchase of capital assets, which is an average of $58 million per year.



The University financed these capital expenditures from a combination of capital appropriations, capital grants and gifts and University funds. University funds are obtained either by borrowing, thereby obligating the University to make interest and principal payments on debt or through the use of funds accumulated over a period of time when revenues were greater than expenses. As shown in Figure 7, of the total amount spent on capital projects from 2002-2014, 16% came from the state, 6% came from capital gifts and grants and the remaining 78% came from the University.



Liabilities

Liabilities are claims on an institution's resources (alternatively, *liabilities* are present obligations to sacrifice resources or future resources that an institution cannot get out of). Liabilities can also be divided in current and non-current liabilities. Current liabilities consist of liabilities that are due within a year. The non-current liabilities consist primarily of post employment benefits, capitalized lease obligations and long-term debt obligations that are due in more than one year. Examples of current liabilities are accounts payable, deferred revenue and the current portion of long-term liabilities. Accounts payable represent claims of other businesses or institutions for goods and services. Deferred revenue is revenue, which has been received for services that will be supplied at a future date i.e., in the next fiscal year (such as collective tuition revenue before the term starts). The current portion of long-term debt is the amount an institution expects to pay during the current year. Examples of non-current liabilities long-term debt, which consists of bonds, notes and capital leases as well as compensated absences and post-retirement health benefits. Compensated absences are liabilities for vacation and sick leave.

Table 3
Liabilities
Thousands of $
For year ending June 30

	2009	2010	2011	2012	2013	2014
Current liabilities:						
Accounts payable	$22,973	$14,067	$5,121	$4,770	$7,854	$4,369
Accrued liabilities	$21,889	$21,283	$23,620	$23,269	$22,613	$22,023
Accrued interest payable	$9,210	$9,019	$280	$10,477	$9,564	$9,312
Unearned income	$32,023	$30,413	$25,867	$23,744	$24,161	$22,729
Deposits	$1,223	$1,727	$1,518	$1,862	$1,811	$2,114
Current portion of long-term liabilities	$15,753	$35,542	$19,571	$15,010	$16,322	$20,881
Total current liabilities	**$103,072**	**$112,052**	**$75,976**	**$79,133**	**$82,327**	**$81,426**
Noncurrent liabilities:						
Refundable federal student loans	$11,768	$11,785	$11,665	$11,671	$11,756	$11,772
Long-term liabilities	$419,029	$413,490	$441,492	$431,162	$439,482	$494,966
Total non-current liabilities	**$430,797**	**$425,276**	**$453,158**	**$442,832**	**$451,238**	**$506,738**
Total liabilities	**$533,869**	**$537,327**	**$529,134**	**$521,965**	**$533,565**	**$588,164**

Figure 8 and Table 3 show the total liabilities of the University. Total liabilities increased substantially from $262.6 million in 2002 to $588.2 million in 2014, an average annual increase of 7%. However, between 2009 and 2014, total liabilities increased at an average annual rate of 2%, so the growth of liabilities has slowed over the last 6 years.

Current liabilities have moved up and down since 2002 but over the entire period from 2002 through 2014 basically remained stable. Non-current liabilities, however, have been increasing. From 2002 to 2014 non-current liabilities grew at an average annual rate of 9.1%. More recently, the growth rate has slowed, increasing at an average annual rate of 3.3% between 2009 and 2014.

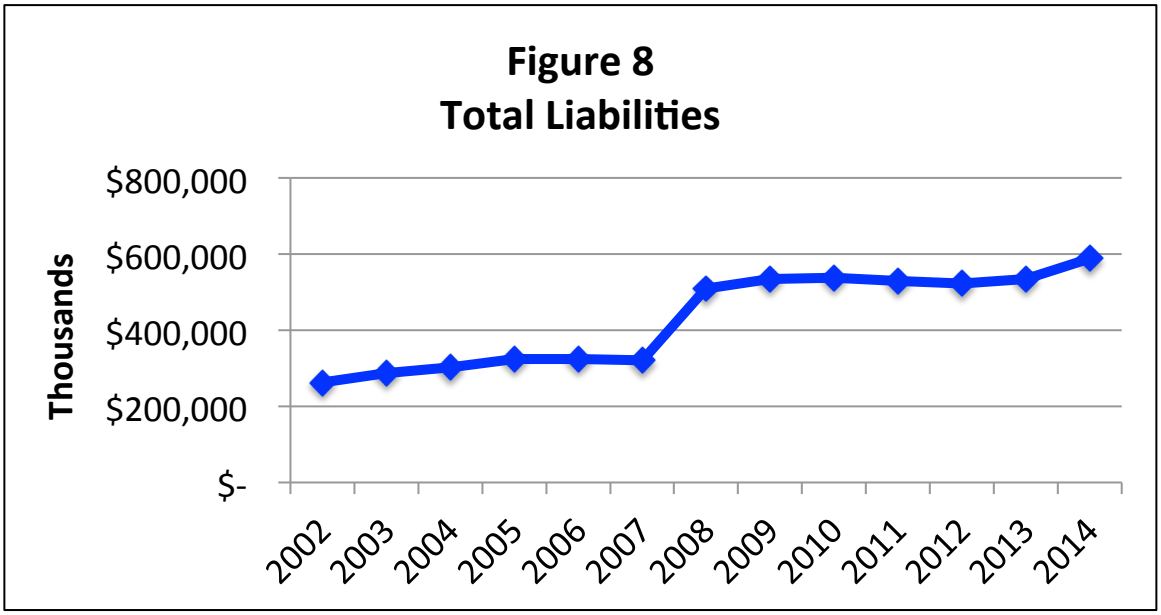


Table 4 shows the long-term liabilities of the University. Long-term liabilities accounts for the lion's share of non-current liabilities, and most of these non-current liabilities consist of debt, made up of notes, bonds and capital leases of the University. The long-term debt of the University increased from $188.8 million in 2002 to $495 million in 2014. Since 2009 long-term liabilities have moved up and down driven largely by movements in debt. The University's debt decreased between 2009 and 2010 from $420.0 million to $406.8 million. In 2011, debt increased to $434.6 million and then declined steadily to $412.5 in 2013. In 2014, debt increased, reaching an all time high (since 2002) reaching $486.3 million, due primarily to debt associated with the Campus-Wide Energy Efficiency and Conservation project. The final component of long-term liabilities is the liability associated with post-retirement benefits, which grew rapidly in the first three years that the University was required to report on these liabilities. From 2009 through 2014 this liability grew at an average annual rate of 19.2% but since 2011 it has grown at a much lower rate, increasing at an average annual rate of 6.7% Figure 9 shows the debt of the University.

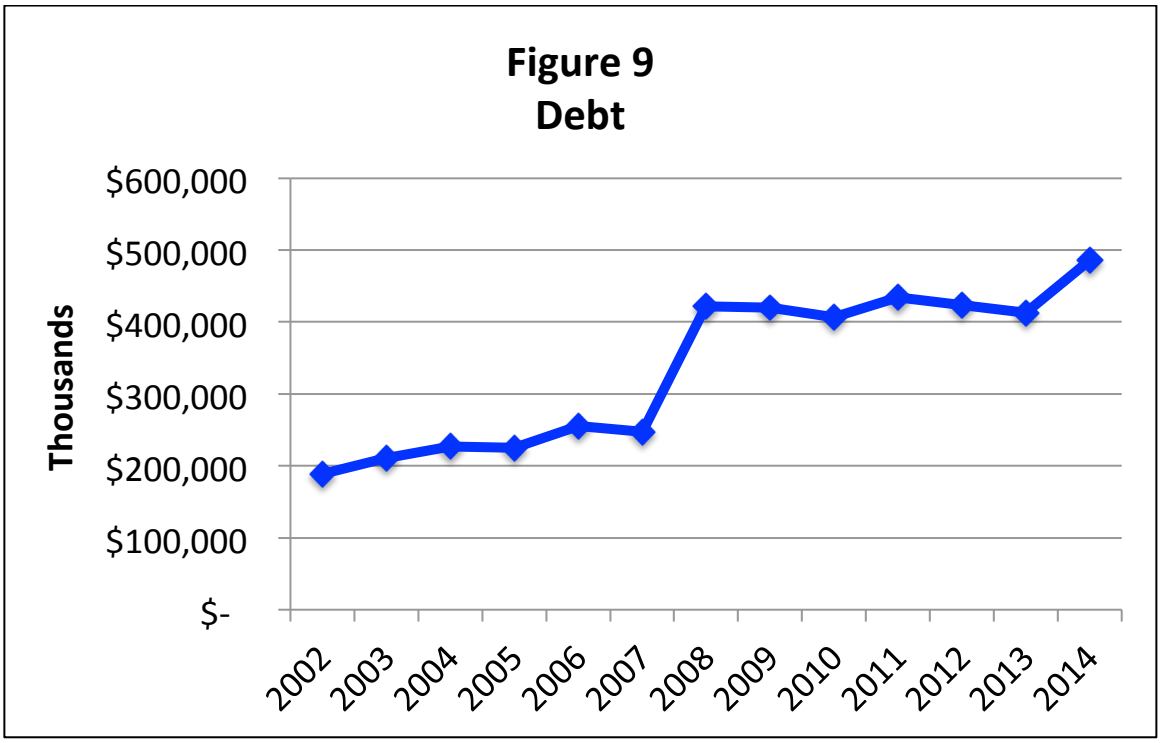


Table 4 Long-term Liabilities Thousands of $ For year ending June 30						
	2009	2010	2011	2012	2013	2014
Sick Leave	$6,473	$6,718	$6,911	$7,733	$8,096	$8,716
OPEB Liability	$8,315	$12,407	$16,498	$17,992	$19,688	$20,029
Debt	$419,995	$406,772	$434,582	$423,429	$412,525	$486,250
Long Term Liabilities	**$434,783**	**$413,490**	**$441,492**	**$431,162**	**$420,621**	**$494,966**

Figure 10 shows several key ratios for the years 2002-2014. These key ratios are also reported in Table 5. 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. Current liabilities include all liabilities payable within one year as well as deferred revenues, which consist primarily of tuition collected in one fiscal year to pay for services offered in a subsequent fiscal year.

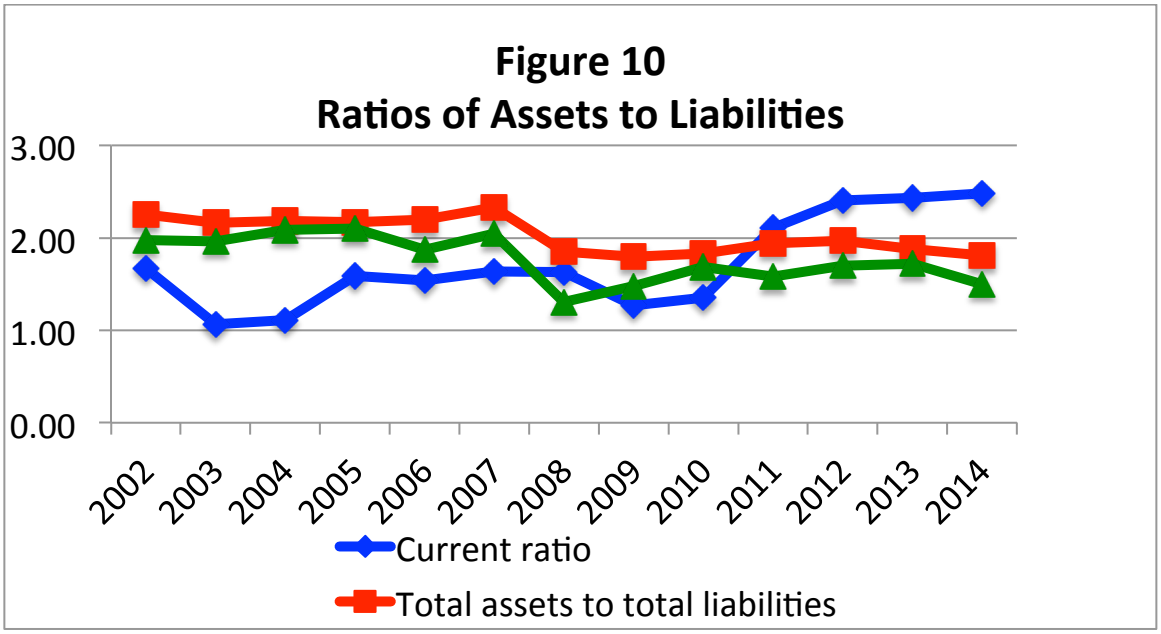
The ratio of current assets to current liabilities decreased from 2002 to 2004 and then increased in 2005. Between 2005 and 2008 the current ratio was stable. It declined in 2009 and rose slightly in 2010 and then continued rising between 2011 through 2014. In 2014 the University had enough current assets to cover 249% of its current liabilities. Normally this ratio is greater than 1 and less than 2.5, so it is safe to conclude that the University's current ratio is in the normal range. It should be noted that too large a current ratio imposes an opportunity cost on a university. Under normal circumstances a university can earn a higher rate of return on long-term investments than it can earn by holding cash and cash equivalents.

Table 5
Asset to Liability Ratios
For year ending June 30

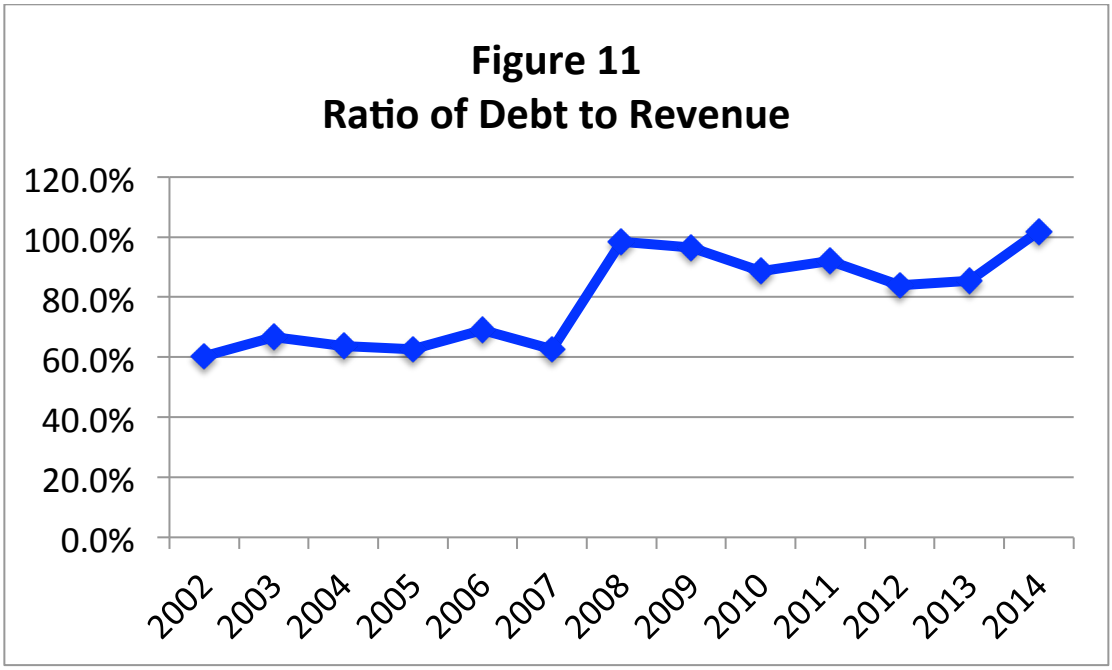
	2009	2010	2011	2012	2013	2014
Current ratio	1.27	1.35	2.11	2.41	2.44	2.48
Total assets to total liabilities	1.80	1.83	1.94	1.97	1.88	1.81
Long-term assets to debt	1.48	1.69	1.58	1.70	1.72	1.50

Figure 10 also shows the ratio of total assets to total liabilities. From 2002 to 2006, the ratio remained essentially flat. There was a modest rise in the ratio in 2007 and then a significant decrease in the ratio in 2008. Since 2009 the ratio has been stable having a value of 1.81 in 2014.

Another indicator of financial health is the ratio of fixed assets to long-term debt, which is again shown in Figure 10. Between 2002 and 2007 this ratio was stable. It declined in 2008 and then rose in 2009 and 2010. The ratio was fairly stable from 2010 through 2013 and then declined to 1.50 in 2014.



Rising levels of debt per se are not necessarily a problem. One indicator of the burden of debt on an institution is the ratio of debt to revenue. Figure 11 shows that the ratio of long-term liabilities (debt) to operating and non-operating revenue. Between 2002 and 2007 the ratio of debt to revenue was fairly stable. The ratio increased dramatically in 2008 and then trended down until 2013. In 2014 the ratio increased to about the same level as it was in 2008.



Net Assets

In for profit businesses, the difference between assets and liabilities is referred to as owner's equity or stockholder'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 are referred to as net assets. Since net assets are the difference between assets and liabilities, they represent the wealth of an institution. Therefore, net assets are an important indicator of the financial health.

There are three general categories of net assets:

1. Net Assets Invested in Capital Assets
2. Restricted Net Assets (these are often broken down into expendable and non-expendable net assets; see below for a discussion).
3. Unrestricted Net Assets

Net assets represent the net accumulation of a college's assets 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 a university. Universities are required to show accumulated depreciation on their balance sheets for certain real assets such as buildings and some equipment. An increase in net assets means that a university has increased its wealth and conversely a decrease in net assets implies that a university's wealth has decreased.

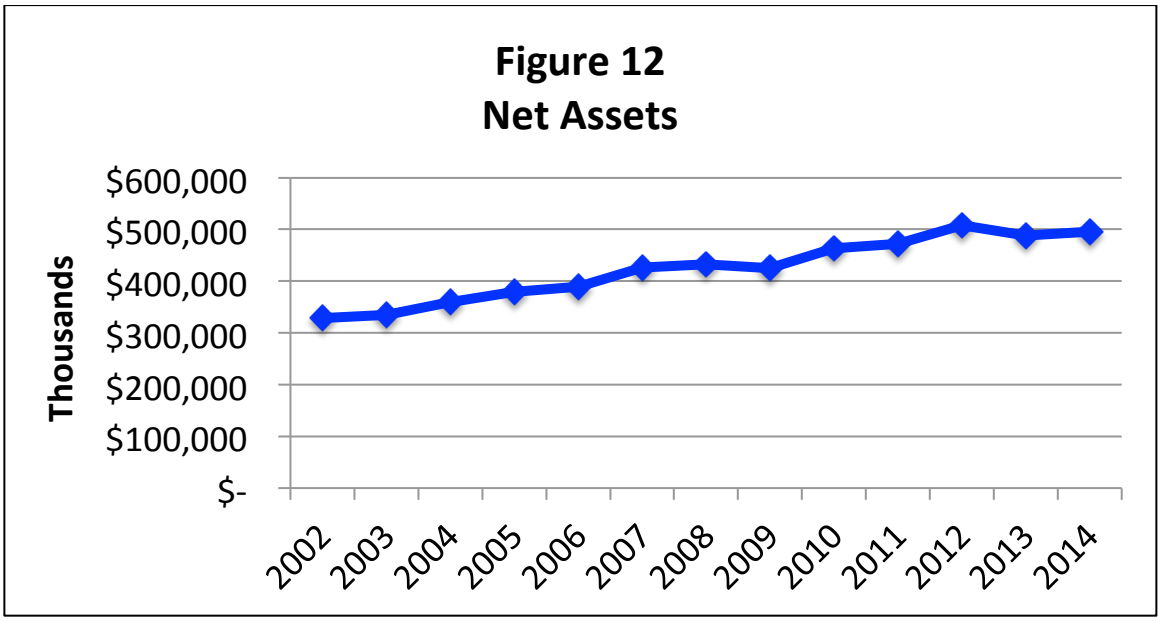
Wealth can be divided into two categories: financial net assets or tangible net assets. Financial assets are pieces of paper (or contracts) that represent ownership or claims on tangible assets outside of the college. In contrast, tangible assets are the land, buildings, equipment and library books owned by a university. A university's wealth can increase either because it has more real (tangible) assets or because it has more financial assets. In many cases, the purchase of tangible assets is financed partially by state capital appropriations or by gifts. An increase in state capital appropriations or gifts for capital increases the wealth of an institution. However, the capital funds universities receive from the state or private donors are generally restricted and cannot be used for operations i.e., paying salaries and benefits.

In addition, to these tangible assets, universities and colleges 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.

Table 6
Net Assets
Thousands of $
For year ending June 30

	2009	2010	2011	2012	2013	2014
Invested in capital assets, net of related debt	$308,702	$307,344	$300,224	$320,624	$303,084	$295,032
Restricted:						
Nonexpendable:						
Endowment	$26,785	$29,743	$21,835	$25,824	$23,583	$24,093
Expendable:						
Research & gifts	$27,030	$26,769	$29,912	$31,048	$30,624	$32,316
Loans	$893	$899	$728	$757	$789	$818
Endowment				$18,108	$24,911	$32,314
Capital projects		$16,558	$8,476	$2,182	$8,205	$8,741
Debt service	$1,549	$770	$28	$28	$28	$37
Unrestricted	$59,829	$81,515	$110,790	$109,028	$96,942	$102,540
Total Net Assets	**$424,789**	**$463,598**	**$471,993**	**$507,599**	**$488,165**	**$495,891**

The net assets of the University are also shown in Table 6 and in Figure 12. In the past, these net assets were referred to as fund balances. There has been a significant increase in the net assets of the University as seen in Figure 12. Net assets have increased from $328.4 million in 2002 to a high of $507.6 million in 2012. In 2013 net assets declined to $488.2 million and then rose again to $495.9 million in 2014. Since 2009 the net assets have increased at an average annual rate of 3.1%.



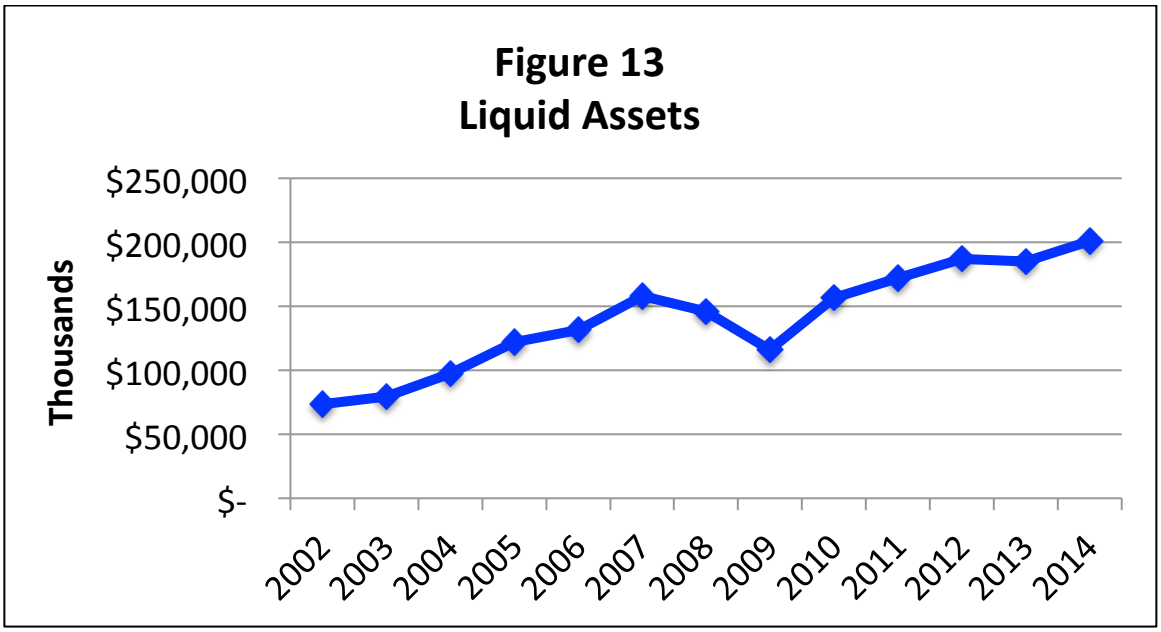
An increase in net assets means the University has increased its wealth and conversely a decrease in net assets implies that the University's wealth has decreased. An increase in a university's net assets occurs when revenues exceed expenses. An increase in net assets also occurs when a university receives funding from the state to finance capital projects, when it receives private funding for capital projects, and when it receives contributions to its permanent endowment.

However, wealth can be divided into two categories: financial wealth or tangible wealth. Tangible wealth consists of the physical assets of an institution net of the debt owed on those assets. In addition, universities often receive funds that are restricted either by donors or government to be used to purchase tangible assets including construction and renovation of buildings. These restricted funds cannot be used for operating expenses, e.g., paying for salaries and benefits. However, not all funds used for the purchase of tangible assets are restricted. In many cases, universities accumulate funds by running an operating surplus and then choose to use these funds to purchase tangible assets. These are unrestricted funds and they can be used to pay salaries and benefits. Thus, it is important to distinguish between the various types of net assets.

If an 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 a university or college added flexibility with respect to operations. Once a university or college invests money in its physical plant it is unusual for it to sell that asset. If a university or college changes its priorities and accordingly wishes to change its asset

allocation it would most likely reallocate its non-plant assets. Thus, liquid net assets also are an indication of how well a university or college can react to unforeseen financial emergencies. The term liquid refers to the ease with which an asset can be converted into cash.

Figure 13 shows the liquid net assets of the University. Liquid net assets increased from $73.3 million in 2002 to $157.9 million in 2007. In the following two years, liquid net assets dropped, falling to $116.1 million. By 2010 almost all of the losses were recouped and liquid net assets rose to $156.2 million. Liquid net assets continued to rise until 2012 when they reached $187 million. In 2013, there was a slight decrease in liquid net assets and followed by an increase in 2014 when liquid net assets reach $200.9 million. Over the entire period from 2002 through 2014 liquid net assets have increased at an average annual rate of 8.8% and since 2009 the have risen at an average annual rate of 11.6%.



Restricted and Unrestricted Funds

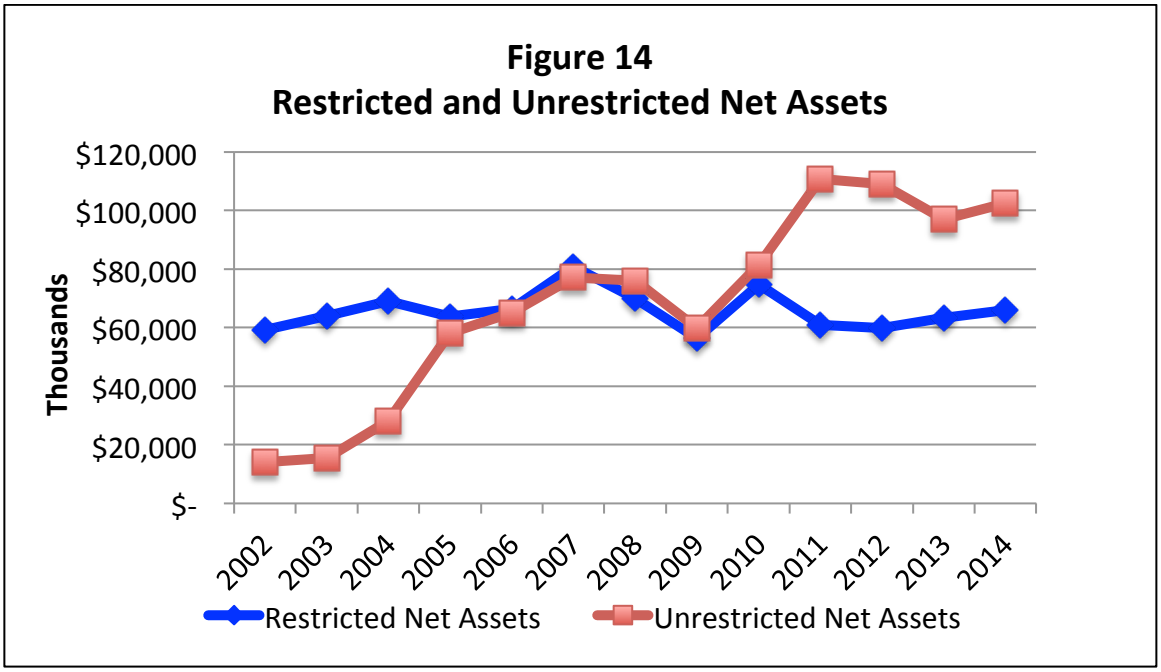
Universities also divide their net assets into restricted and unrestricted net assets. Restricted net assets are assets net of related liabilities held by a university or college that are designated for specific purposes by external entities, either government agencies or private donors. Unrestricted 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 replace that funding with endowed scholarships. In such a 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 are now available for reallocation.

The same can be said for capital appropriations. Capital appropriations before they are spent are a restricted net asset. They cannot be spent to fund other expenses. However, in the absence of these restricted funds, the University would have to spend unrestricted funds for investment. Thus one way of viewing restricted funds is that they either free up unrestricted funds for other uses or that in their absence the University would forgo the activities funded by restricted funds.

An institution can use unrestricted net assets for any lawful purpose. Many universities claim that the Board of Trustees or management has designated all or most unrestricted net assets for specific purposes. Some of these designations may result from funds being collected by special fees. This type of statement is misleading in the sense that all of the designated fees are the result of board or management policy and that policy can be changed. Few institutions have funds that are undesignated. The point that faculty need to understand is that current policies with respect to unrestricted net assets reflect the priorities of the governing board and/or management and may not reflect the priorities of faculty. While faculty cannot collectively bargain over the specific designation of unrestricted net assets, collective bargaining can cause the governing board or management to change its priorities resulting in the reallocation of these funds.

Also shown in Table 3 are the restricted and unrestricted net assets. Figure 14 shows restricted and unrestricted net assets. Unrestricted net assets have increased from $14.1 million in 2002 to $102.5 million in 2014, an average annual growth of 18%. In 2008 and 2009 there were declines in unrestricted net assets, which were probably due to the stock market crash associated with the Great Recession. Unrestricted net assets recovered in 2010 and continued to grow rapidly until 2011. There were modest declines in unrestricted net assets in 2012 and 2013 and an increase in 2014. Since 2009 unrestricted net assets have grown at an average annual rate of 11.4%.



Restricted net assets have fluctuated but have not grown substantially since 2002. In 2002 restricted net assets were $59.2 million and by 2014 they had only risen to $66 million, an average annual increase of 0.9%.

Expendable Net Assets:

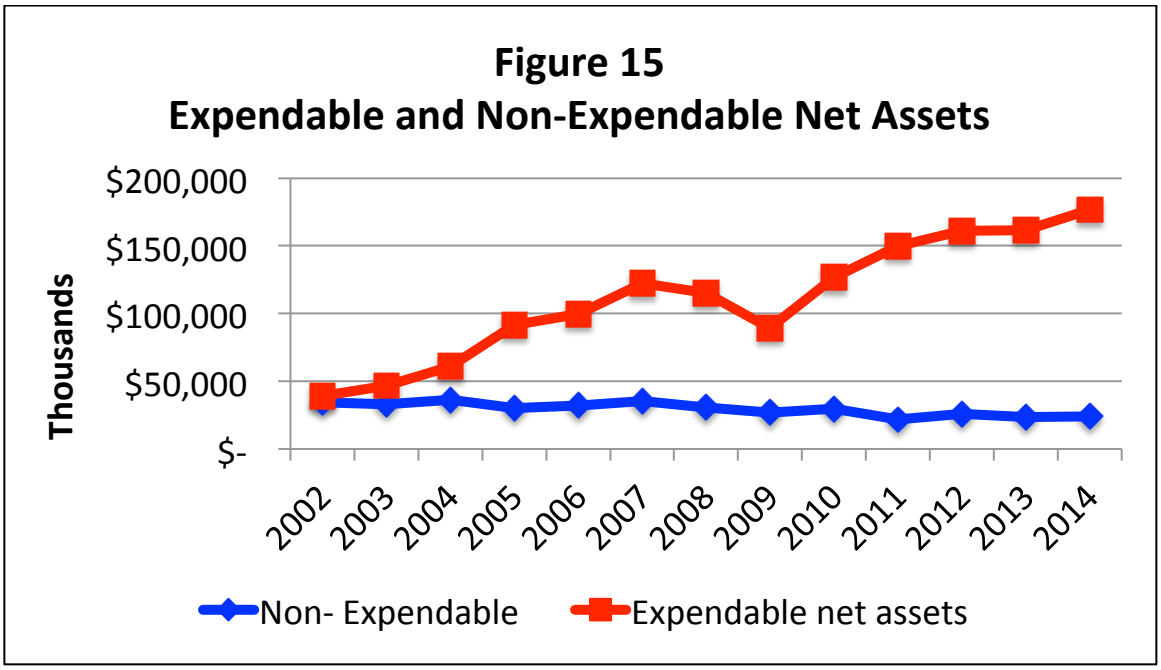
At public institutions, in addition to dividing net assets between restricted and unrestricted, net assets can also be categorized as expendable, non-expendable and invested in capital assets. Expendable net assets consist of assets that legally could be used for operations or plant expenditures. Expendable net assets consist of expendable restricted net assets and unrestricted net assets. Expendable restricted net assets are subject stipulations by external entities that can be met by actions taken by colleges or fulfilled by the passage of time. Examples of restricted expendable funds are grants and restricted gifts or sinking funds set aside to make debt payments. Again these expendable funds are a measure of liquidity i.e., the ability to deal with unforeseen financial emergencies. As a result, expendable net assets are often referred to as reserves. Non-expendable net assets are funds that would not be spent for operations, for example the corpus of the endowment fund.

Table 7 and Figure 15 show expendable and non-expendable net assets. Expendable net assets increased from $39.0 million in 2002 to $176.8 million in 2014, with most of the increase coming from an increase in unrestricted net assets. From 2002 to 2014 expendable net assets grew at an average annual rate of 13.4% and since 2009 they have grown at an average annual rate of 14.6%.

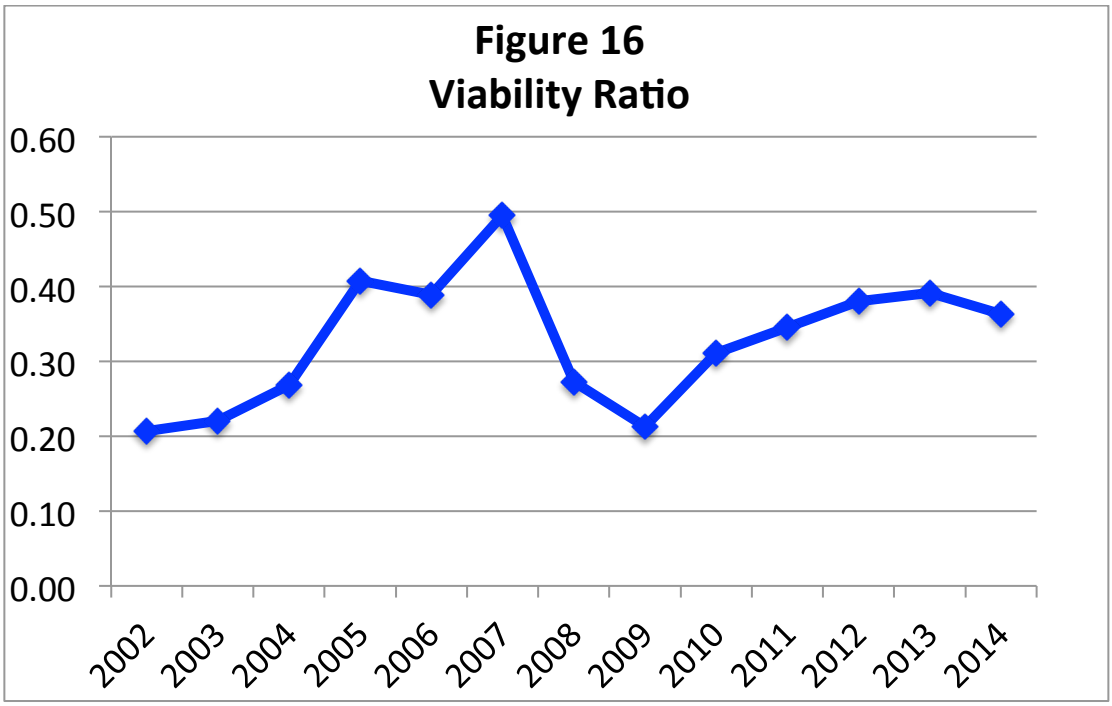
Table 7 also shows two commonly calculated ratios that are indicators of financial health. In fact, these are two of the three ratios that the Ohio Board of Regents calculates to assess the financial health of universities in Ohio in accordance with Senate Bill 6.

Table 7
Expendable and Non-Expendable Net Assets
Thousands of $
For year ending June 30

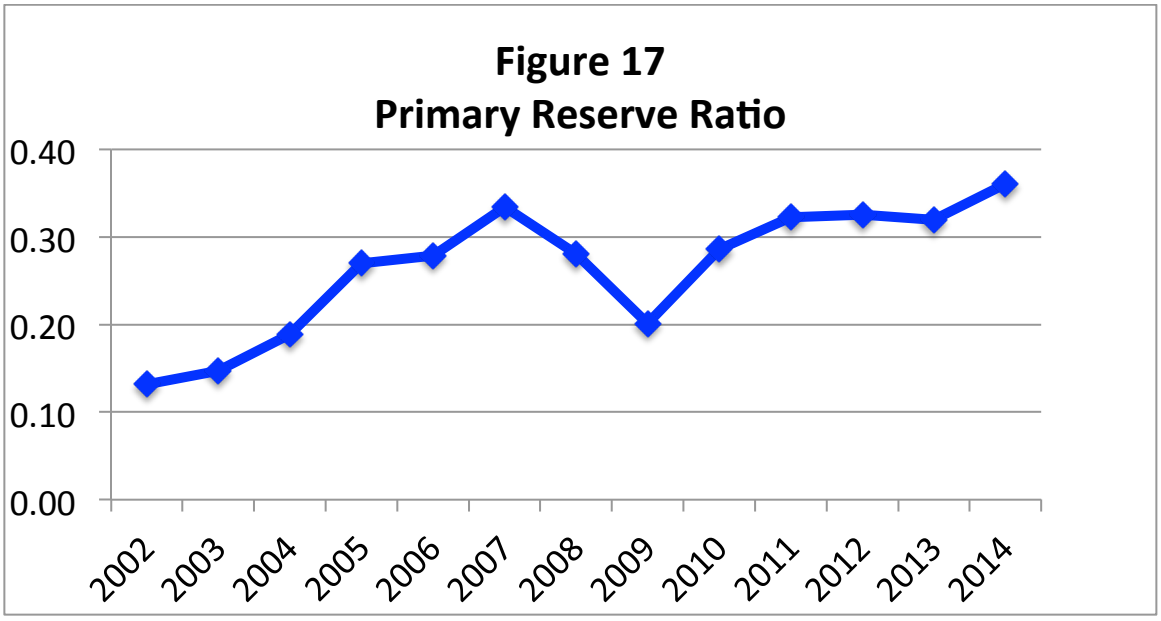
	2009	2010	2011	2012	2013	2014
Non-Expendable	$26,785	$29,743	$21,835	$25,824	$23,583	$24,093
Expendable	$89,301	$126,511	$149,934	$161,151	$161,498	$176,766
Liquid Assets	$116,086	$156,254	$171,768	$186,974	$185,081	$200,859
Debt	$419,995	$406,772	$434,582	$423,429	$412,525	$486,250
Operating Expenses & interest payments	$443,959	$442,297	$464,734	$494,952	$504,824	$489,964
Ratios:						
Viability Ratio	0.21	0.31	0.35	0.38	0.39	0.36
Primary Reserve Ratio	0.20	0.29	0.32	0.33	0.32	0.36



The first is the ratio is known as the viability ratio, which is the ratio of expendable net assets to long-term debt. Viability ratios are shown in Figure 16 In 2002, the viability ratio was 0.206, which meant that the University had sufficient expendable net assets to pay 20.6 percent of its long-term debt. (This ratio is slightly higher than the published Senate Bill 6 ratio because the published ratio uses total long-term liabilities rather than debt in the denominator. The difference between long-term liabilities and long-term debt is sick leave liability, which should not be included in the denominator). This ratio improved in both 2003 and 2004 reaching 0.268 in 2004. This ratio continued to rise reaching 0.495 in 2007. In 2008 and 2009 the ratio declined sharply, with most of the decline being caused by the decline in expendable net assets. Between 2009 and 2013 the viability ratio rose and then declined slightly in 2014. The decline in 2014 was primarily the result of the additional debt taken on by the University. This viability ratio is a little on the low side. In 2013 (the latest year available) among the 13 universities listed on the Ohio Board of Regents Web site, the University of Akron ranked 12th in the state in terms of its viability ratio, just below the University of Cincinnati and Cleveland State University.



The second ratio presented in Table 7 is the primary reserve ratio, which measures the ratio of expendable net assets to operating expenses plus interest payments. Primary reserve ratios are shown in Figure 17. This ratio increased from 2002 to 2007, and then declined in 2008 and in 2009. Since 2009 this ratio has for the most part been rising and in 2014 it was 0.36 Among the 13 universities listed on the Ohio Board of Regents Web site for 2013, the University of Akron ranked 9th in the state in terms of its primary reserve ratio. In 2014, expendable net assets were enough to cover 36 percent of operating expenses or enough to cover more than 4.3 months of operating expenses. With respect to operating expenses this is a fairly high level of reserves.



In summary, by 2014 the University of Akron had total net assets of $495.9 million with $200.9 million in liquid assets. Liquid assets as a percentage of net assets increased from 22.3% in 2002 to 40.5% in 2014. These liquid assets were divided between $176.8 million in expendable funds and $24.1 million in non-expendable funds. Since 2009 the current ratio has improved and other measures of assets to liabilities have been stable. Two key indicators, the primary reserve ratio and the viability ratio have risen since 2009. The viability ratio is still on the low side but the primary reserve ratio is fairly high. The main area of concern with respect to the University's balance sheet is the level of debt. The University took on a significant amount of debt in 2008 and again in 2014 and the University's debt to revenue ratio has been rising.

The Income Statement

The second major financial statement is the statement of revenues, expenses and changes in net assets or the statement of activities. This financial statement shows how the a college or university's finances are changing over a period of time, namely a fiscal year that normally runs from July 1 to June 30 of the following year. Again, fiscal years are always associated with the calendar year in which the fiscal year ends. So for example, from July 1, 2013 to June 30, 2014 is known as fiscal year 2014. This statement deals with flows and measures how the college or university's revenues and expenses are changing over time. Figure 18 shows the basic structure of the statement of revenues, expenses and changes in net assets.

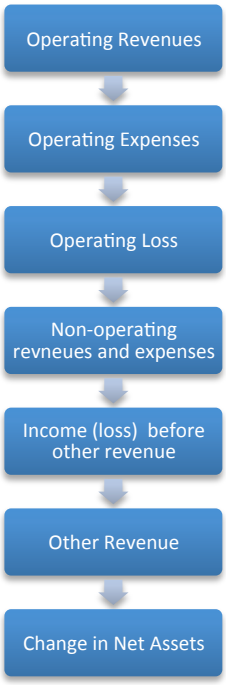


Figure 18.

There are two ways of keeping track of revenues and expenses. The cash method is the one most of us are familiar with. Using the cash method if a paycheck were deposited in a person's checking account on January1, 2014 for work done in December of 2013, it would have been considered income for 2014. Similarly if a person purchased a good or service and paid for it in December 23, 2013 but the good or service delivered on January 5, 2014 it would have been considered an expense incurred in 2013.

Most businesses, including universities, account for revenues and expenses, using the accrual method of accounting. This means they book revenues and expenses in the year the good or service is delivered, which may differ from the year when cash is received. For example, a paycheck received on January 1, 2014 for work performed in December of 2013 would count as revenue in 2013. Similarly, the expense paid for in 2013 for a service delivered in 2014 would count as an expense in 2014, because that is when the good or service was delivered. Accrual accounting is used because it provides a more accurate picture of a university's financial situation.

Revenue is the inflow of resources to a university for the services it provides. Revenues at public universities are divided into "operating revenues" and "non-operating" revenues. Operating revenues come primarily from student tuition and fees. Other sources of operating revenues are grants and contracts, sales, and auxiliaries. Sales occur when a university provides some sort of a service to the community and charges for offering that service. Auxiliaries are operations that generate revenue that are unrelated to the core mission of a university such as parking, intercollegiate athletics, running a student union, food service or running a bookstore. Non-operating revenues include state appropriations, gifts and investment income. Recently, GASB has started counting Pell Grants as non-operating revenue, so at a number of institutions it appears that operating revenue from Federal grants declined. However, this reclassification has no effect on a university's bottom line; it simply involves moving a portion of federal grants and contracts to another section of the income statement (Statement of Revenues, Expenses and Change in Net Position).

When looking at investment income great care must be taken. Investment income includes interest and dividends but it also includes capital gains and losses. Investments are valued at "fair market" value, which means when stock or bond prices go up the value of an institution's investments go up and when stock or bond prices go down the value of an institution's investments go down. In most cases, large swings in the value of investments are due to unrealized gains or losses, meaning that they are paper gains or losses. For that reason, when calculating "net income" for universities many bond rating services subtract the value of investment income and add 4% of the value of investments taken over a three-year rolling period. These paper gains or losses are often quite large, but they do not give us any insight into the financial operations of an institution.

Expenses for the most part represent an outflow of resources from a university (costs incurred). There are operating and non-operating expenses. Operating expenses include instructional expenses, expenses for public service, administrative services such as academic support and institutional support, plant operations and maintenance, scholarships and fellowships, expenses for auxiliary operations and depreciation. Operating expenses can be listed by functional categories such as those discussed above or they can be listed as natural categories such as wages and benefits or purchases of goods and services. It is often the case that the "natural classification," which contains personnel costs, are not reported in the main financial statements, but are reported in the notes to the financial statements. Non-operating expenses consist primarily of interest paid on debt.

The difference between operating revenues and operating expenses is known as the operating loss. In publicly funded or assisted colleges the difference between operating revenues and operating expenses will always be negative. This is because public institutions of higher education rely on state appropriations and Pell grants, which are not counted as part of operating revenue. This is simply an accounting quirk. If an administrator claims that a university is running an operating loss, faculty members should be aware of the fact that virtually all public institutions run operating losses and these losses, in and of themselves, are meaningless.

The difference between non-operating revenues and non-operating expenses is known as net non-operating revenues. The sum of operating losses and net non-operating revenues is known as income (loss) before other revenue and can be thought of as "net income." Net income can be an important indicator of how well a university is performing financially.

However, there are three other major sources of revenue for universities. These are capital appropriations, capital grants and gifts and additions to permanent endowments. These sources of revenue are restricted and either the corpus (principal) cannot be spent or the funds are earmarked specifically for capital projects and as such cannot be used to support salary and benefits directly. Nevertheless, when colleges receive capital appropriations and gifts, it frees up funds generated through operations which otherwise would have to be used to support capital projects. Therefore, funding for capital projects, whether by state appropriation or by gift, is an important source of revenue.

Unfortunately, capital appropriations and gifts tend to be lumpy (high in some years, very small in others) and so it may be difficult to count on them as part of a regular revenue stream. However, most universities have a fairly good idea of a certain minimum level of increases in their permanent endowment as well as capital appropriations and gifts and can factor these revenues into their spending plans.

The sum of Income (losses) before other revenue ("net income") along with capital appropriations and gifts and increases to permanent endowment is equal to the increase or decrease in net assets. The change in net assets is in effect the bottom line for a college in a given year. If there is an increase in net assets the flow of revenue into the university has been greater than expenses and if there is a decrease in net assets the university has experienced a loss.

A final issue that demands our attention in trying to understand revenues and expenses is the treatment of non-cash expenses such as depreciation. Historically (pre GASB-34), universities did not account for depreciation of fixed assets. Therefore, at the end of a fiscal year if revenues and other additions exceeded expenditures, universities experienced an increase in "fund balances." An increase in fund balances was the equivalent to an increase in net assets except that net assets also account for depreciation.

When colleges or universities purchase a fixed asset that will be used over a long period of time, the amount of money they spend on construction is not considered an expense on the income statement. What universities do is to break up the money they spend on construction and renovation by allocating that expenditure over a fixed period of time. The amount of time depends on the particular type of asset being purchased. The expenditure on a building is typically allocated as an expense over a 30-year period. The allocation of this expenditure over a period of time is known as depreciation. Thus, depreciation is a way of allocating the cost of fixed assets over the useful life of those assets. It is an expense and therefore it reduces the net assets of a university.

Each year when a college or university calculates the value of its net assets invested in plant and equipment is subtracts the depreciation for that year. The sum of all the depreciation that has been subtracted is known as accumulated depreciation. Often people have the impression that depreciation is a way of funding future investments i.e., that accumulated depreciation somehow represents a savings account or reserves for future investments and the use the term "funding depreciation." There is no such thing as funding depreciation. It is the case, that colleges and universities can set aside unrestricted funds that are designated for future investment in plant and equipment but this has nothing to do with depreciation per se.

To pay for new investments for-profit businesses, use retained earnings (reserves accumulated from past profits), issue new stock to shareholders or borrowing by selling bonds. Like colleges and universities when they put up a new building there is a large expenditure of cash but again since the fixed asset is going to last a long period of time this large outlay of cash is not considered an expense. As is the case with a college or university, the business divides this expenditure over the useful life of the asset by depreciating the asset. Thus for a business depreciation is an expense, which reduces its net income. Since there is a relationship between expenses on the income statement and liabilities on the balance sheet, whenever expenses go up there will be an increase in liabilities and hence a decline in net assets.

However, in the case of a university, whether this diminution of net assets represents a real decline in the wealth of an institution, in the same way as it represents a decline in wealth in a for-profit company, is questionable. The main difference between the way capital is financed in universities and in for-profit businesses is that universities receive a portion of the cost of purchasing capital assets from state capital appropriations and from private gifts. In that sense, one could argue that depreciation overstates the cost of capital assets for universities in comparison to for-profit businesses.

Other non-cash expenses can also distort the actual health of an institution. In a for profit business it is more important that any post-retirement benefits be funded by assets. Post-retirement benefits are a liability because a business or institution has promised to pay these benefits in the future. As long as the benefits are not too large relative to overall expenses and the institution or business continues to exist it can meet its obligations from current expenses. This is a pay as you go situation. However, if a business or institution were to go bankrupt having not set aside sufficient assets to meet future claims (liabilities) then retirees would loses some or all of their retirement benefits. However, no public institutions of higher education have gone bankrupt since they started offering post retirement benefits and many have post-retirement benefits that are totally unfunded i.e., no assets have been set aside to meet future obligations. Forcing public institutions to abandon pay as you go is simply a pretense for cutting public pensions and post retirement health benefits.

Table 8 Revenues, Expenses and Change in Net Position Thousands of $ For year ending June 30						
	2009	2010	2011	2012	2013	2014
Operating revenues:						
Net Student tuition and fees	$176,843	$189,066	$197,508	$228,828	$221,219	$218,424
Federal grants and contracts	$13,533	$17,000	$19,924	$22,079	$21,960	$21,275
State grants and contracts	$9,363	$7,224	$6,959	$6,329	$7,105	$7,893
Local grants and contracts	$758	$701	$754	$496	$656	$338
Private grants and contracts	$12,109	$8,547	$7,476	$10,144	$8,508	$9,691
Sales and services	$12,281	$13,494	$14,572	$14,789	$13,583	$9,868
Auxiliary enterprises	$47,905	$50,955	$56,207	$52,983	$51,237	$53,535
Other sources	$1,006	$991	$816	$569	$519	$1,320
Total operating revenues	**$273,797**	**$287,978**	**$304,217**	**$336,217**	**$324,789**	**$322,343**
Operating expenses:						
Educational and general:						
Instruction and departmental research	$134,676	$136,009	$142,092	$164,777	$167,581	$166,553
Separately budgeted research	$21,695	$24,196	$23,640	$30,043	$35,129	$34,135
Public service	$20,182	$17,778	$16,551	$15,323	$13,909	$9,478
Academic support	$34,608	$33,788	$36,063	$35,119	$38,647	$35,058
Student services	$13,468	$13,212	$14,029	$14,492	$14,506	$13,921
Institutional support	$56,854	$49,607	$48,030	$53,246	$52,999	$54,590
Operation and maintenance of plant	$27,780	$25,763	$25,548	$25,533	$25,639	$23,574
Scholarships and fellowships	$27,814	$34,951	$37,290	$31,352	$26,469	$25,279
Auxiliary enterprises	$57,345	$59,367	$63,458	$66,965	$67,885	$66,367
Depreciation	$31,539	$32,539	$37,183	$38,909	$41,572	$39,282
Loss on disposal of property	$1,397	$205	$1,292			
Total operating expenses	**$427,358**	**$427,415**	**$445,175**	**$475,758**	**$484,336**	**$468,237**
Operating loss	**$(153,560)**	**$(139,437)**	**$(140,958)**	**$(139,540)**	**$(159,547)**	**$(145,894)**

Table 8 Continued Revenues, Expenses and Change in Net Position Thousands of $ For year ending June 30						
	2009	2010	2011	2012	2013	2014
Non-operating revenues & expenses						
State appropriations	$107,665	$95,836	$95,959	$96,759	$97,020	$97,877
Federal Grants	$22,941	$34,424	$43,035	$42,298	$38,945	$34,475
Federal Fiscal Stabilization Funds	$-	$15,244	$15,664			
Gifts	$4,908	$6,370	$7,073	$7,870	$6,355	$6,720
Investment Income	$1,076	$8,418	$12,047	$1,794	$7,628	$19,896
Interest on debt	$(16,601)	$(14,882)	$(19,558)	$(19,194)	$(20,488)	$(21,727)
Transfer of workers' compensation liability to State of Ohio						
Distributions to the University	$12,267	$14,006	$16,176	$11,934	$13,210	$12,873
Other non-operating revenues (expenses)	$(360)	$(1,092)	$(2,556)	$(213)	$(106)	$(237)
Net non-operating revenues	$131,896	$158,324	$167,839	$141,248	$142,565	$149,876
Income (loss) before other changes	$(21,665)	$18,887	$26,881	$1,707	$(16,982)	$3,982
OTHER CHANGES	$-	$-	$-	$-	$-	$-
State capital appropriations	$11,369	$17,029	$4,215	$8,082	$2,478	$3,180
Capital gifts and grants	$2,101	$1,904	$1,478	$954	$208	$281
Additions to permanent endowments	$339	$989	$424	$258	$139	$283
Total other changes	$13,809	$19,922	$6,118	$9,294	$2,824	$3,745
Increase in net assets	$(7,856)	$38,809	$32,999	$11,002	$(14,157)	$7,726
NET ASSETS						
Net assets - beginning of year	$432,644	$424,789	$463,598	$496,597	$502,323	$488,165
Net assets - end of year	$424,789	$463,598	$496,597	$507,599	$488,165	$495,891

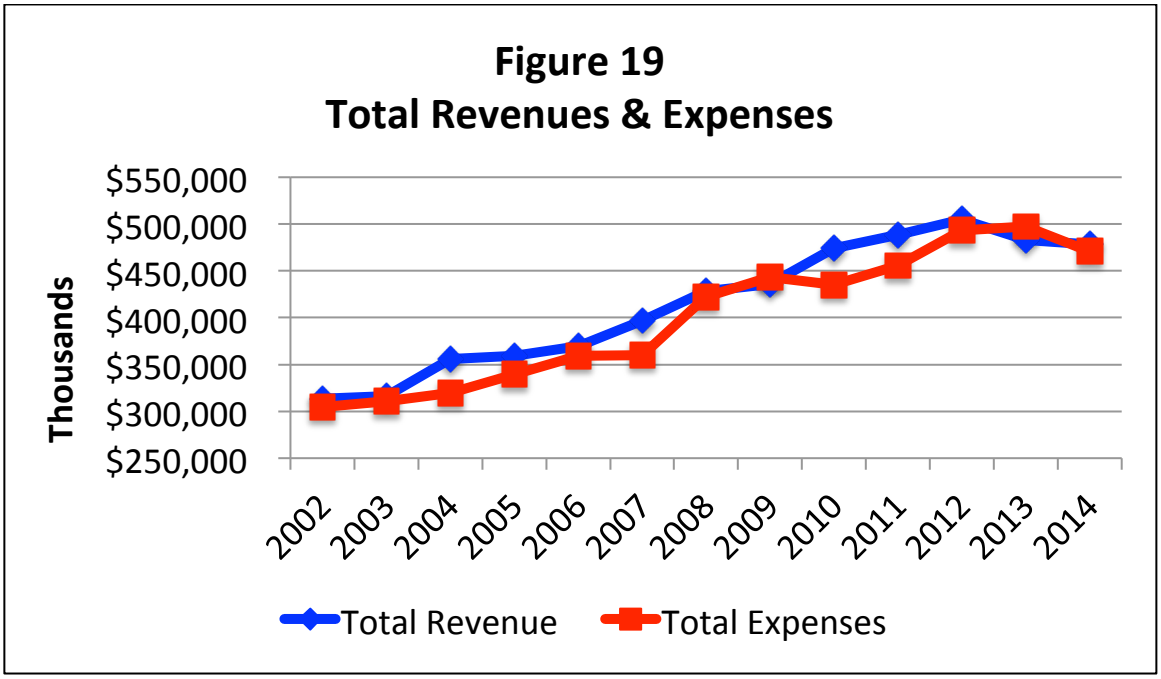
Total Revenue and Total Expenses

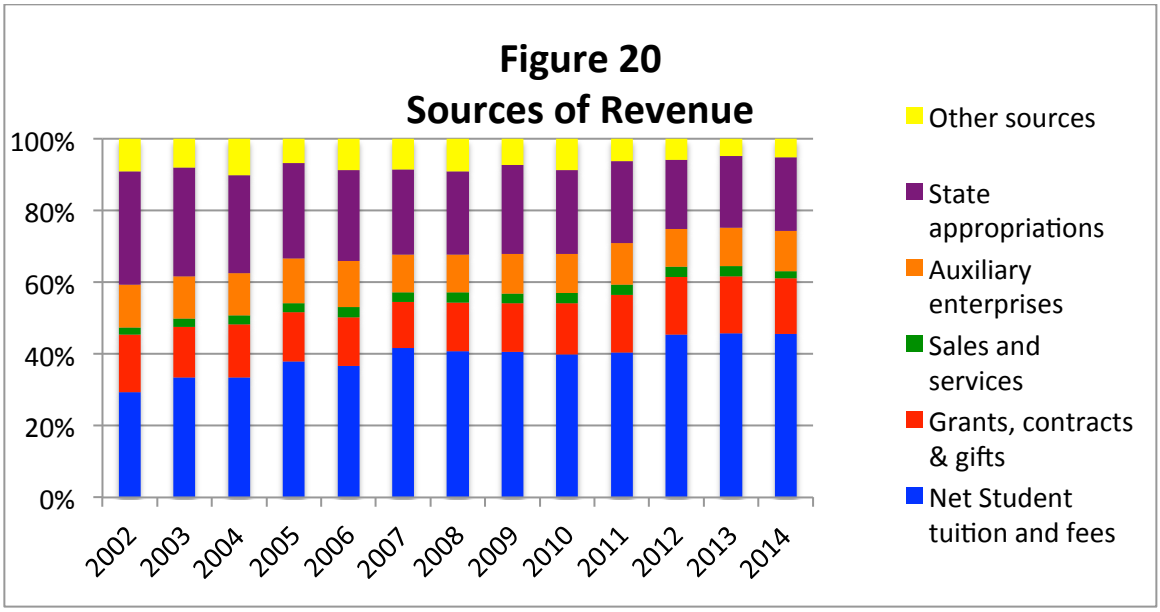
Table 8 shows the consolidated position of the University for the years 2009-2014. Figure 19 shows total revenue and total expenses for the University. (The lower end of the graph has been scaled to start at $250 million to make it easier to see the distinct lines in the graph). Total revenue rose between 2002 and 2012. Although it tends to be somewhat unusual, total revenue actually declined in 2013. In 2014, total revenue was up slightly although the level was still below total revenue for 2012.

Total expenses have generally risen with a few important exceptions. Between 2006 and 2007 total expense were virtually flat, rising by only $600,000. Between 2009 and 2010 total expense actually declined by about $8 million. Finally total expenses declined by about $27 million in 2014. In the first two cases, 2007 and 2010, expenses were either virtually flat or declining, while total revenue was increasing. In 2014, there was a small increase in total revenue but in the previous year, total revenue had declined by about $21 million. Presumably the decline in expenses was in response to declining revenues the previous year although the cuts in expenses were about $6 million greater than the cuts in revenue.

Revenues

Figure 20 shows the major sources of revenue for the University. Between 2002 and 2014 operating revenues for the University increased from $175.1 million to $322.3 million, an average annual increase of 5.2 %. Since 2009 operating revenues have increased at an average annual rate of 3.3%. The most important source of operating revenue is tuition and fees. The tuition and fees shown in Table 8 are net of scholarships. In 2002, tuition was $91.8 million and by 2014 it had risen to $218.4 million, an average annual increase of 7.5 %. It is important to remember that increases in tuition can be driven by both tuition rates as well as enrollments.





Under GASB 34 & 35 state appropriations are not treated as operating revenue, although clearly they are one of the most important sources of revenue to fund the operations of a public university. Figure 21 shows state appropriations from 2002-2014.

In 2002, state appropriations were greater than tuition and fees at $99.5 million. However, by 2007 state appropriations had declined to $93.9 million. In 2008, there was a substantial increase in state appropriations with state appropriations rising to $99.1 million, just shy of the 2002 level. In 2009, the University received another substantial increase in state appropriations, which rose to $107.7 million. In 2010 state appropriations declined but that decline was more than offset by the Federal fiscal stimulus, so total state appropriations, including the stimulus, rose to $111.1 million. Since 2010 state appropriations have been trending upward slightly, although with the loss of the Federal stimulus money the actual level of state support in 2014 is about the same as it was in 2004.

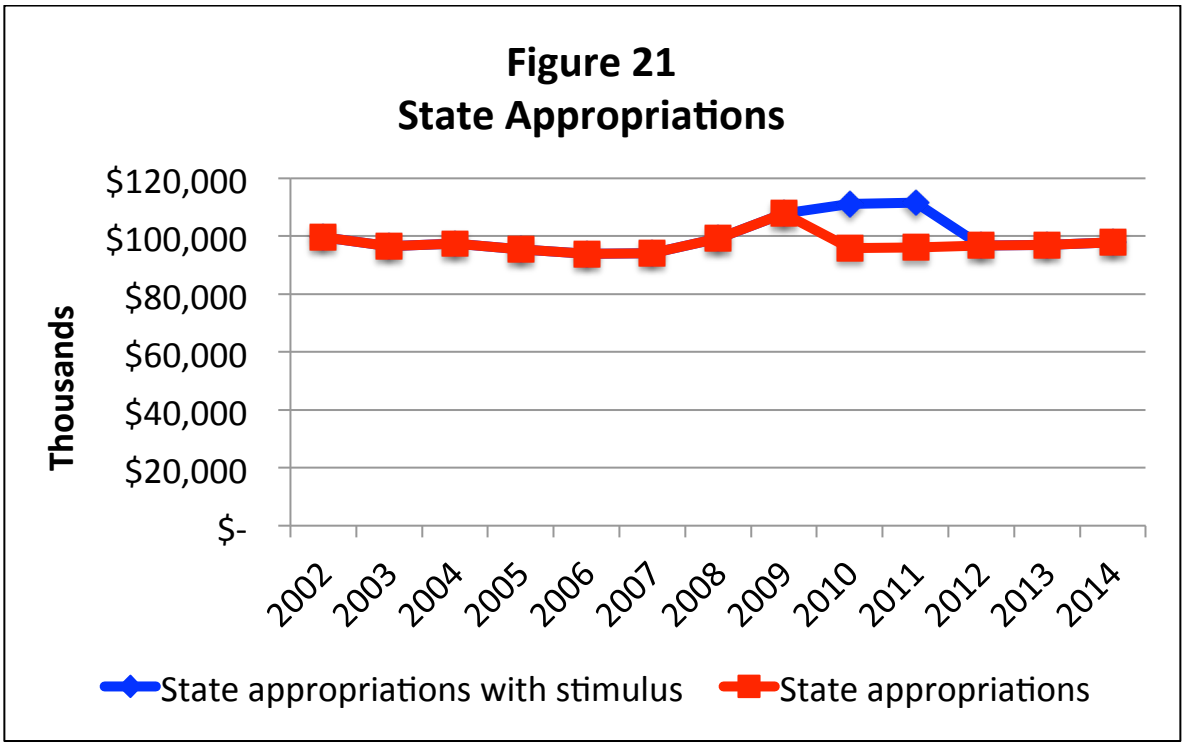
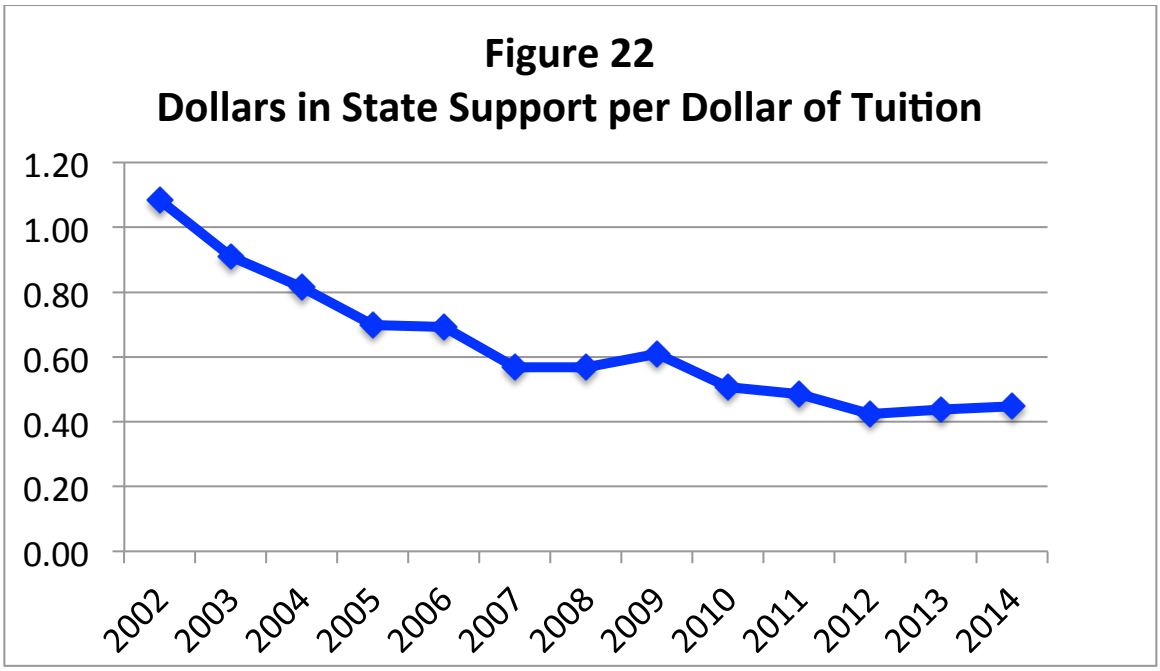
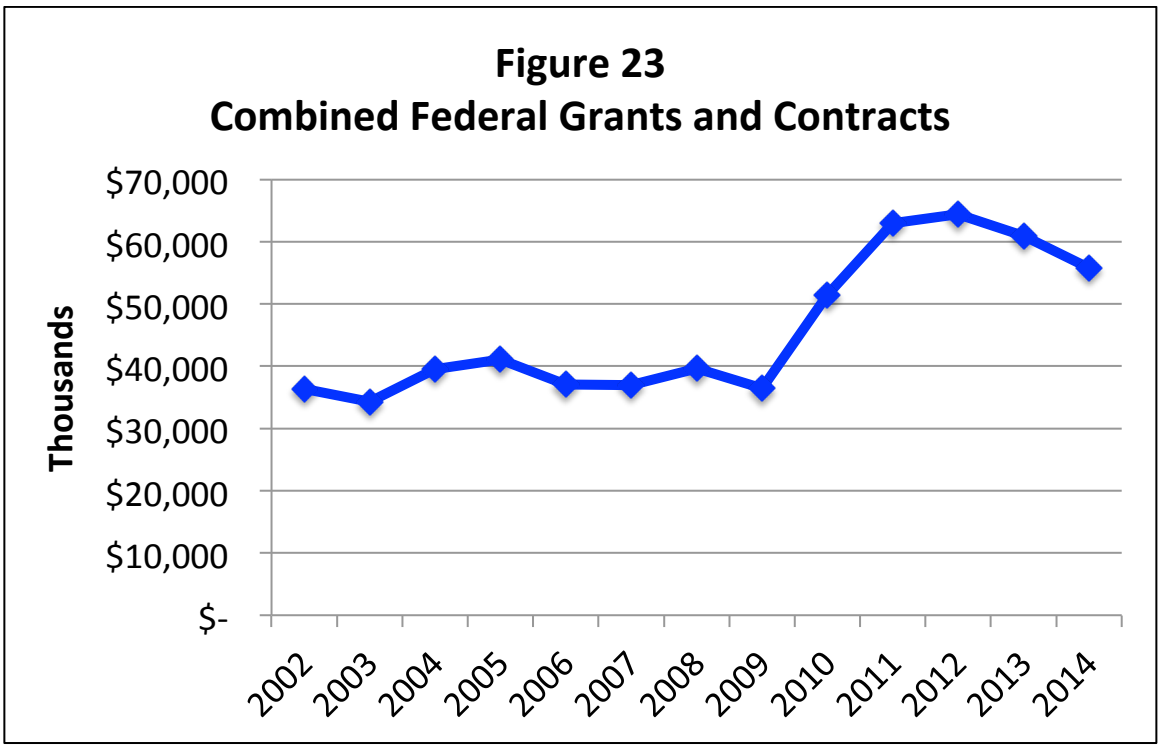


Figure 22 shows the relative decline in state support from 2002-2014. For every dollar of tuition revenue in 2002 the University received $1.08 from the state. By 2008 for every dollar of tuition the University received just $0.57. However, in 2009 the University received $0.61 in state appropriations for each $1 of tuition. Between 2009 and 2012 the ratio of state dollars to tuition resumed its decline reaching a low of $0.42 in 2012. This ratio rose slightly in 2013 and 2014 ending at $0.45 in 2014. But in general, what we observe is a relative decline in public support for the University.



Another important source of revenue for the University is Federal grants and contracts. Federal grants and contracts show up in two places on the statement of revenues, expenses and change in net position. They show up under operating revenue as well as under non-operating revenue. In 2008, some Federal grants, including Pell grants were reclassified from being operating revenue to non-operating revenue. This led the University in its 2008 financials statement to restate Federal grants and contracts for 2007.

To get a better picture of what has happened to Federal grants and contracts over time, Figure 23 shows all Federal grants and contracts for the University from 2002 to 2014. The graph reveals that between 2002 and 2009 the total level of Federal grants and contracts did not change substantially. However, from 2009 to 2012 there was a dramatic increase in Federal grants and contracts, which increased from $36.5 million to $64.4 million. However, in 2013 and 2014 Federal grants and contracts declined and were only $55.8 million in 2014. The declines in 2013 and 2014 were in non-operating funds, which are mainly Pell grants, and student loan funds, as opposed to research dollars.



Another important source of revenue comes from auxiliary operations. Revenue from auxiliary operations increased from $37.2 million in 2002 to $47.9 million in 2009, an average annual increase of 3.7 percent. Auxiliary revenue continued increasing in 2010 and 2011 reaching $52.9 million in 2011. But then in 2012 and 2013 auxiliary revenue declined and was $51.3 million in 2013 before increasing to $53.5 million in 2014. Over the entire period from 2002 though 2014 auxiliary revenue has grown at an average annual rate of 3.1% and since 2009 it has grown at an average annual rate of 2.2%.

In addition to revenues from auxiliaries, revenues from sales and services were also fairly substantial. In 2002 revenues from sales and services were $6.3 million and increased substantially reaching $14.8 million in 2012. However, in the following two years there was a precipitous decline in this revenue and in 2014 it was just $9.9 million.

Expenses

On the expense side, operating expenses increased from $287.1 million in 2002 to $468.2 million in 2014, an average annual increase of about 4.2%. However, since 2009 the growth of operating expenses has slowed dramatically, increasing at an average annual rate of just 1.8%.

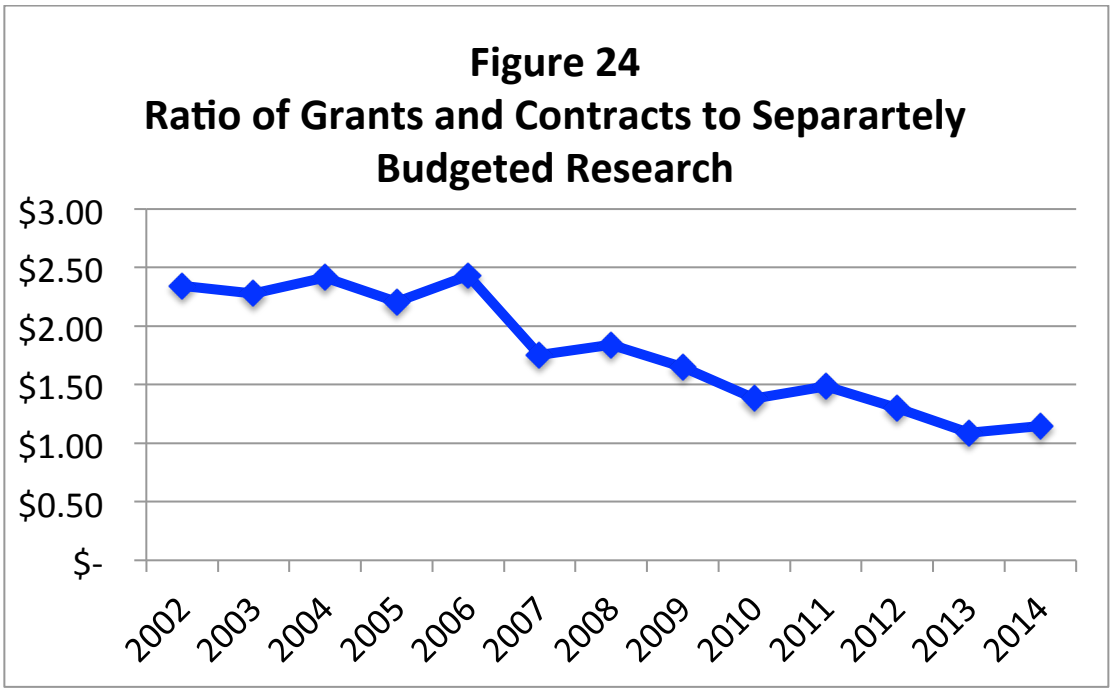
During the same timeframe (2002-2014): (a) instruction and department research rose from $100.9 million to $166.5 million, an average annual increase of about 4.3%; (b) separately budgeted research increased from $16.8 million to $35.1 million, an average annual increase of 6.1%; (c) spending on student services was essentially flat, increasing from $12.3 million in 2002 to $13.9 million, an average annual increase of 0.9%; (d) spending on academic support increased from $23.9 million to $34.6 million, an average annual increase of 3.2%; and (e) spending on institutional support increased from $32.5 million to $54.6 million, an average annual increase of 4.4%. Spending on operation and maintenance of plant increased at an annual rate of 2.7%, spending for auxiliary enterprises rose at an average annual rate of 6.7%, and spending on scholarships and fellowships rose at an average annual rate of 3.1%.

However these changes in spending, over the period 2002-2014, mask some of the changes in spending since 2009. Table 9 shows the growth rates in spending from 2002-2009, 2009-2014 and 2002-2014.

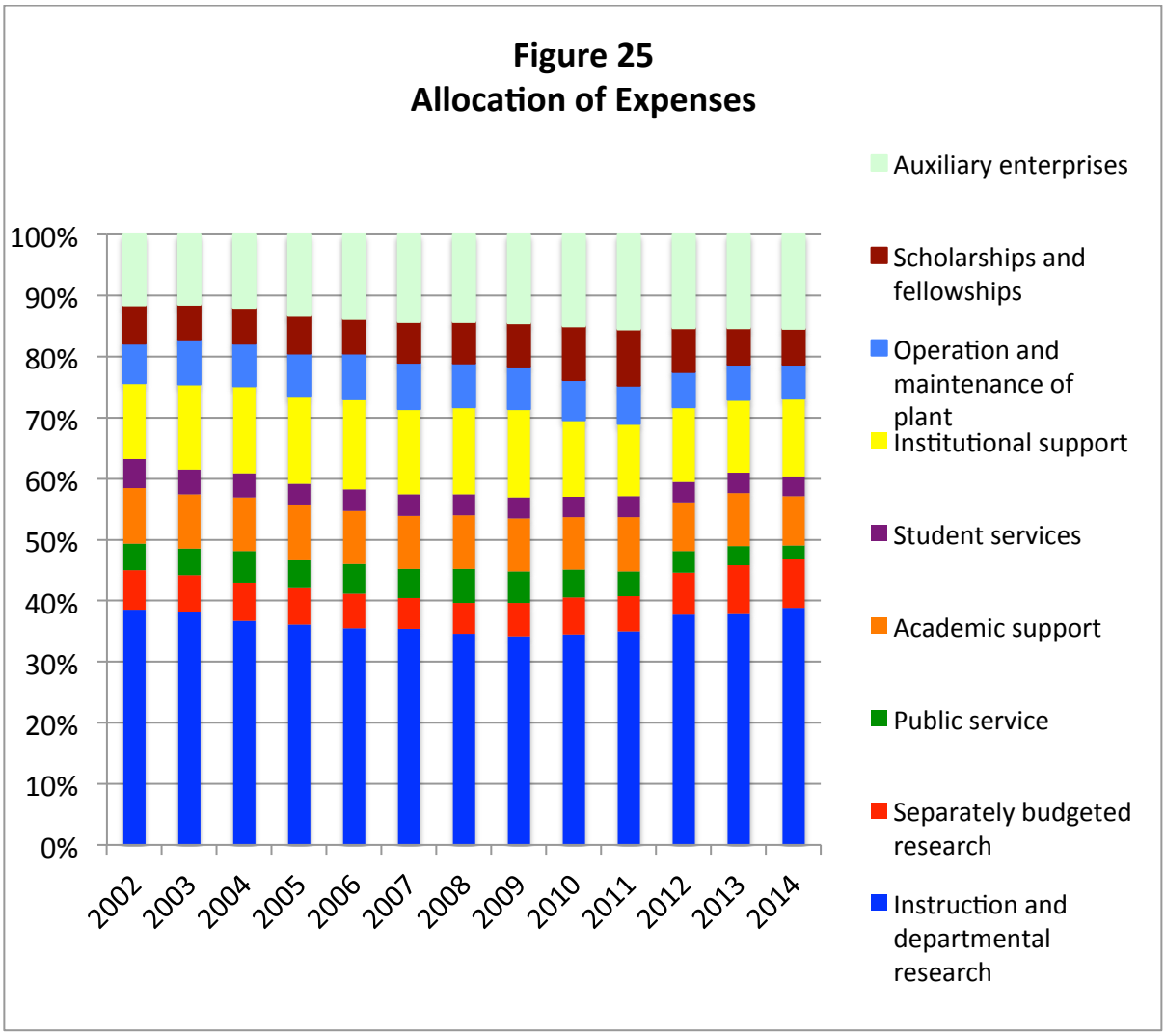
Clearly since 2009 the University has increased spending on separately budgeted research at a rate that exceeds the growth in grants and contracts. Figure 24 shows the ratio of total grants and contracts to separately budgeted research. In 2002, the University had $2.34 for every dollar it spent on separately budgeted research compared to $1.15 in 2014.

Table 9
Growth Rates in Spending

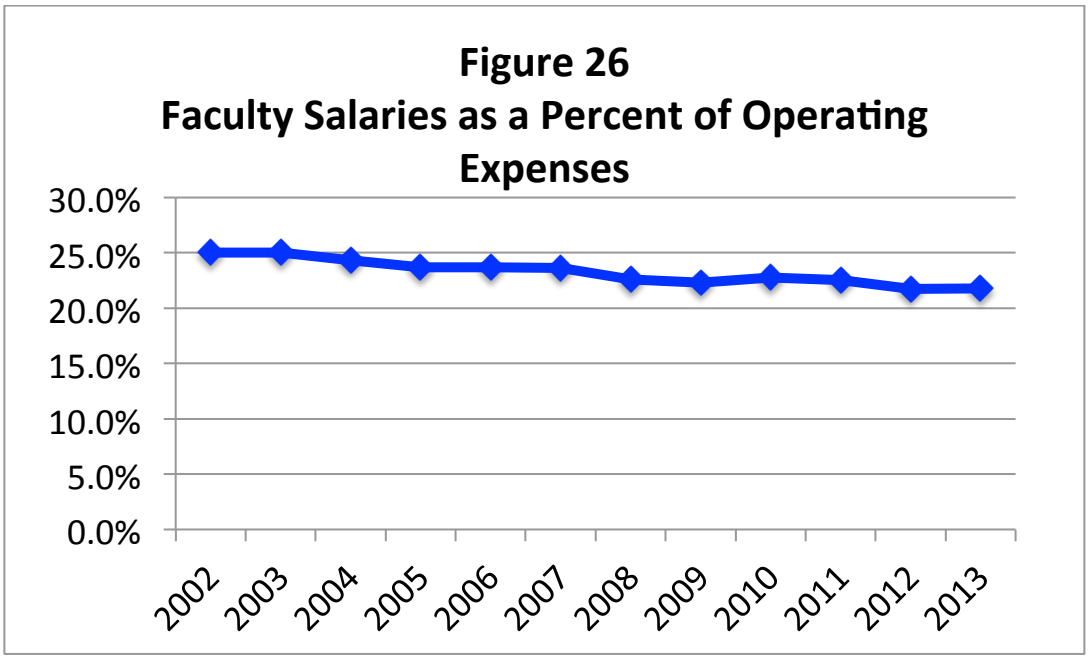
	2002-2009	2009-2014	2002-2014
Instruction and departmental research	4.2%	4.3%	4.3%
Separately budgeted research	3.7%	9.5%	6.1%
Public service	8.5%	-14.0%	-1.5%
Academic support	5.4%	0.3%	3.2%
Student services	1.1%	0.7%	0.9%
Institutional support	8.3%	-0.8%	4.4%
Operation and maintenance of plant	7.2%	-3.2%	2.7%
Scholarships and fellowships	7.9%	-1.9%	3.7%
Auxiliary enterprises	9.5%	3.0%	6.7%



There was a substantial increase in public service spending between 2002 and 2009 but clearly this spending was dramatically scaled back between 2009 and 2014. Spending for institutional support, operation and maintenance of plant, auxiliaries and academic support were all increasing rapidly between 2002 and 2009 but spending in these areas were scaled back between 2009 and 2014. The other notable change is the scaling back of scholarships and fellowships, which increased at an average annual rate of 7.9% between 2002-2009 but actually declined at an average annual rate of 1.9% between 2009-2014. Figure 25 shows the allocation of expenses.

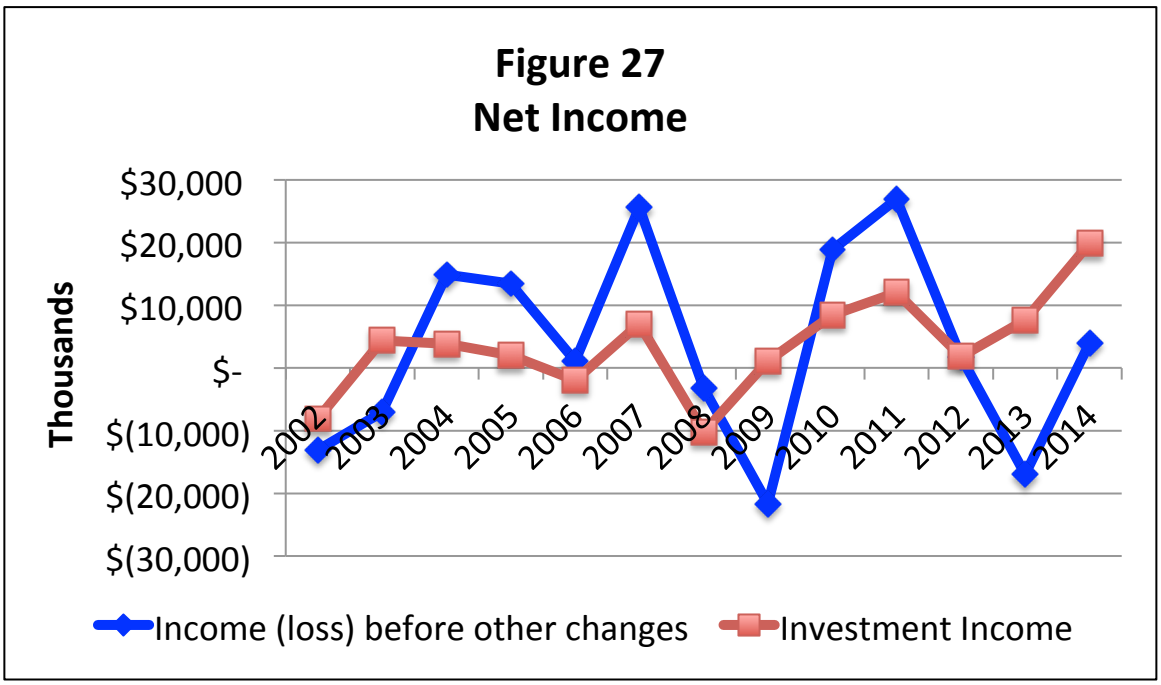


Finally, with respect to the allocation of resources, using data from the Integrated Postsecondary Educational Data System (IPEDS), we look at faculty salaries as a percent of operating expenses. IPEDS data only are available through 2013. Figure 26 shows faculty salaries as percent of operating expenses have been declining.



Operating Losses, Net Income and Changes in Net Position

The operating losses shown in Table 8 are purely artifacts of the GASB 34 & 35 reporting format. Virtually every state university shows an operating loss because state appropriations are not included with operating revenues. A better indicator of how a university is doing is its income (loss) before other changes (net income from operations). Net income is the difference between revenues and expenses, excluding the revenues a university receives for capital equipment and buildings or additions to its endowment. Figure 27 shows the net income of the University.



In 2002, the University had a $13.1 million loss and from Figure 26 we can see that most of the loss was due to a decline in investment income likely associated with the stock market crash of 2001. Declines in investment income are due largely to unrealized losses due to the decline in the value of investment. In most cases, these are really paper losses. In 2003 the University had a $7 million loss but more than half the loss was due to losses from the disposal of property, which is a non-cash expense, i.e., a paper loss. The timing of these losses is purely arbitrary since the University can choose to dispose of property and take losses in any given year.

In 2004, the University had a net income of $14.8 profit. In 2005 the University had net income of $13.5 million followed by net income of $1.1 million in 2006. The increase in net income in 2004 and 2005 was due to relative large increases in revenue, somewhat slower growth in expenses and increases in investment income. In 2006, the University had a net income of $1.1 million. The decline net income in 2006 was caused by an increase in operating losses due to a decline in tuition and fees, a sharp decline in auxiliary revenue, losses on investments, and increased expenses due to public service, institutional support, operation and maintenance of plant and auxiliary enterprises.

In 2007, the University had a net income of $25.6 million. The high net income in this year was due to faster growth in revenue driven principally by a large increase in tuition and fee revenue, slower growth in expenses and high levels of investment income. Finally in 2008, the University showed a loss of $3.3 million due to slower growth in revenue, large increases in expenses, including a $4.9 million loss on disposal of property and a sharp decline in investment income. In the absence of this charge the University would have had a positive net income of $1.6 million.

In 2009, the University reported a loss $21.7 million. Of that amount, approximately $1.4 was accounted for by disposal of assets, which is a non-cash expense. In addition, Auxiliary Enterprises accounted for $9.9 million of the loss. Until 2006, Auxiliary Enterprises had been running in the black. Since 2007 they have been losing money and losses gone from $5.5 million in 2007 to $9.9 million in 2009. If other expenses outside of auxiliary operations had increased at the same rate as faculty salaries (3.5 percent) and auxiliaries had just broken even, the University would have had a net income of $2 million in 2009. Another major factor in the loss for 2009 was the sharp decline in investment income, which dropped from $14.2 million in 2008 to $5 million in 2009.

In 2010 and 2011, the University had net income of $18.9 million and $26.9 million respectively. The increase in 2010 was due to a large increase in net tuition and fees, $15.2 million in Federal stimulus funding, flat operating expenses, positive investment income and a decline in interest payments. In 2011, there was also a substantial increase in tuition and fee revenue, an increase in revenue from auxiliaries, another round of stimulus spending, and another increase in investment income. In 2012 the University had a net income of $1.7 million due to a decline in investment income due to lower income and the loss of Federal stimulus funds and a large jump in spending on instruction and departmental research.

In 2013, the University lost $17 million due to a decline in tuition, a decline in Federal grants and contracts, as well as declines in other sources of operating revenue and a significant increase in operating expenses which was only partially offset by $7.9 million in investment earnings (unrealized gains). In 2014, the University had record investment income, a decrease in operating revenue and a huge decrease in operating expenses and as a result made $4 million.

In addition to looking at overall revenues and expenses we also look specifically at what has been happening to revenues and expense in auxiliaries. Auxiliaries are any operations that are not related to the primary mission of the institution. Auxiliaries include bookstores, food service, dormitories, vending operations, parking and intercollegiate athletics. Figure 28 shows the net income (losses) from auxiliary operations. Before 2007 the University actually had positive net income from its auxiliary operations. However, beginning in 2007 and continuing through 2014 the University's auxiliary operations have shown a loss. This loss does not include depreciation expenses, which would make the losses even larger.

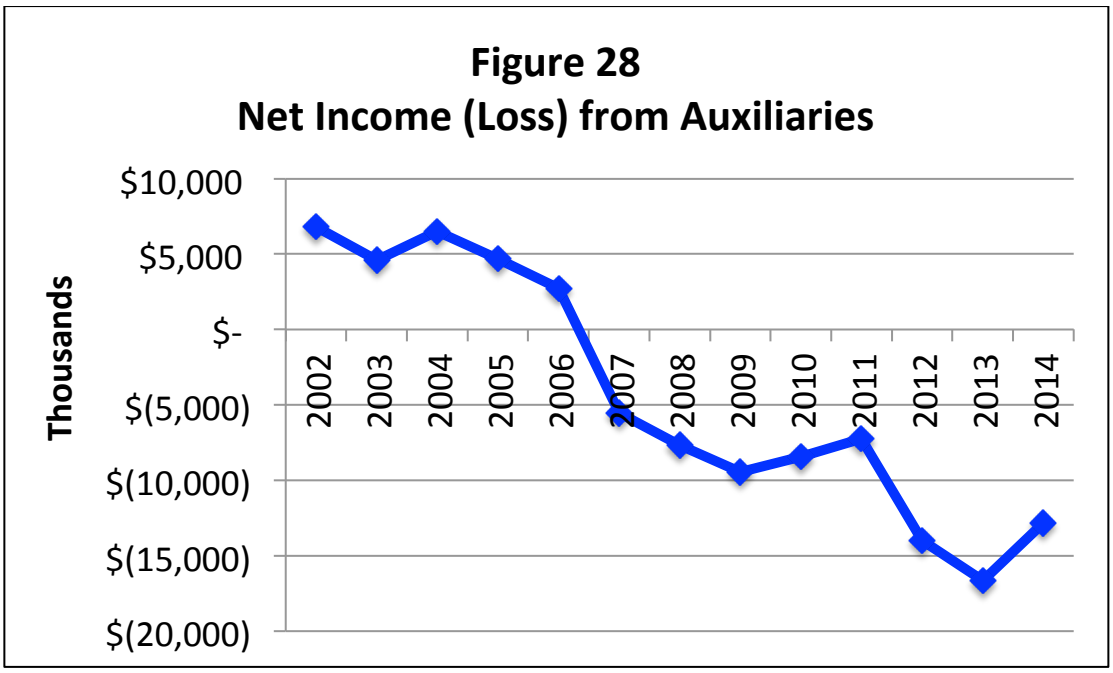
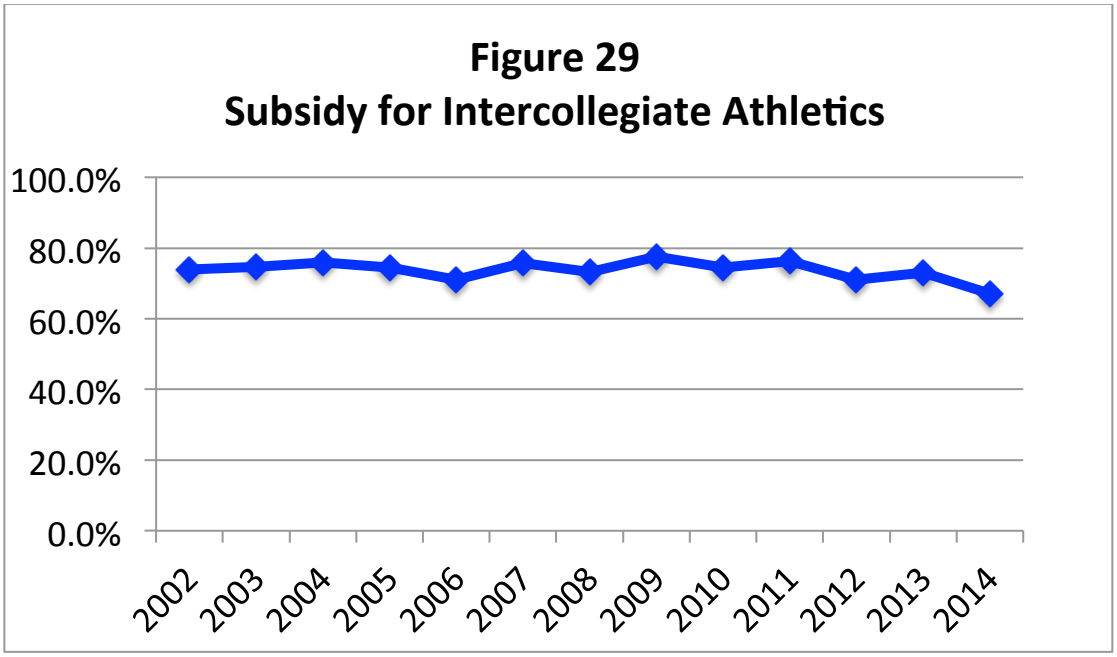


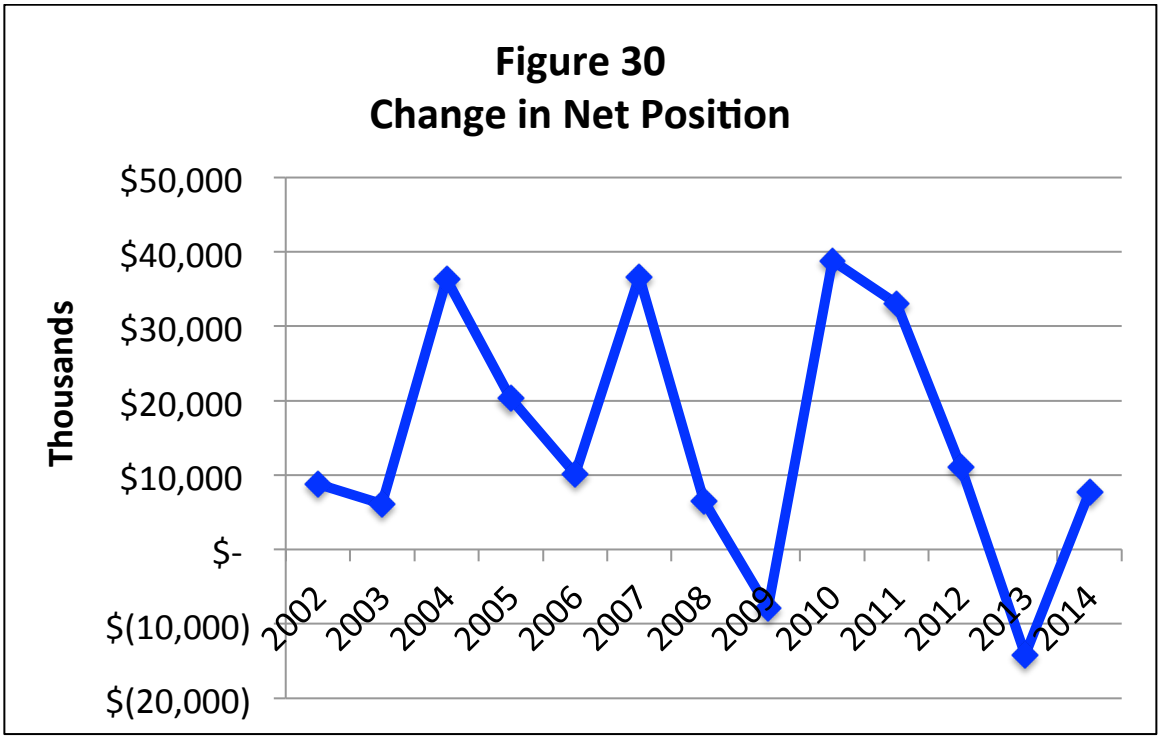
Table 10 shows revenues and expenses for intercollegiate athletics. Ticket sales for intercollegiate athletics account for about 6% of total revenue. The overwhelming majority of revenue comes from student fees and institutional support. Figure 29 shows the subsidy for intercollegiate athletics. This is money that could have been used to fund academic programs. On the expense side, only 25% of expenses are for student aid (athletic scholarships). The bottom line is that most athletic spending does not go for scholarships and the overwhelming majority revenue to support these activities comes directly from educational and general funds that could support academic programs.

Table 10 Intercollegiate Athletics For the year ending June 30 Thousands of $						
	2009	2010	2011	2012	2013	2014
Tickets	$666,529	$1,533,517	$1,187,699	$1,623,296	$1,177,127	$1,668,865
Student Fees	$15,624,017	$16,355,704	$17,698,300	$17,698,300	$19,109,155	$16,885,055
Institutional Support		$1,269,290	$1,643,078	$1,631,677	$1,660,331	$1,676,904
Other	$4,379,752	$4,031,294	$5,054,653	$6,264,200	$6,007,551	$7,488,000
Total Revenue	$20,670,298	$23,189,805	$25,583,730	$27,217,473	$27,954,164	$27,718,824
Student Aid	$5,501,724	$5,840,195	$5,897,598	$6,104,814	$6,776,068	$6,840,858
Other Expenses	$14,622,389	$17,835,528	$19,446,861	$21,120,916	$21,631,669	$20,826,506
Total Expenses	$20,124,113	$23,675,723	$25,344,459	$27,225,730	$28,407,737	$27,667,364
Surplus (Deficit)	**$546,185**	**$(485,918)**	**$239,271**	**$(8,257)**	**$(453,573)**	**$51,460**



Finally, returning to Table 8, we see the bottom line for the University, which is the change in net assets (change in net position). The change in net assets includes not only the net income of the University, but also capital appropriations, capital gifts and grants and additions to the University's endowment. To the extent that these are regular sources of revenue they can be counted as "net income", although clearly they cannot be used for operating purposes. Figure 30 shows the change in net assets

Figure 30 shows that the changes in net assets (change in net position) are somewhat volatile. However, the change in net assets has only been negative twice in the last 13 years, in 2009 and 2013.



Operating Margins

Figure 31 shows the operating margins for the University. The net income margin is net income (income (loss) before other revenue) divided by operating and non-operating revenue and the net asset ratio is the change in net assets (change in net position) divided by total revenue. The two operating margins mirror each other with the net asset ratio generally being a little higher than the net income ratio. This is the most comprehensive measure of the net earnings of the University. It includes not only the net income of the University, but also the state capital appropriations, capital gifts and grants and additions to the permanent endowment of the University. While these sources of revenue cannot be used for operations they are important because they contribute to the overall financial strength of the institution. The net asset ratio is one of three indicators used by the Ohio Board of Regents to assess the financial health of institutions. It is also important because it is one of the factors that bond-rating agencies look at when assessing the financial health of the institution.

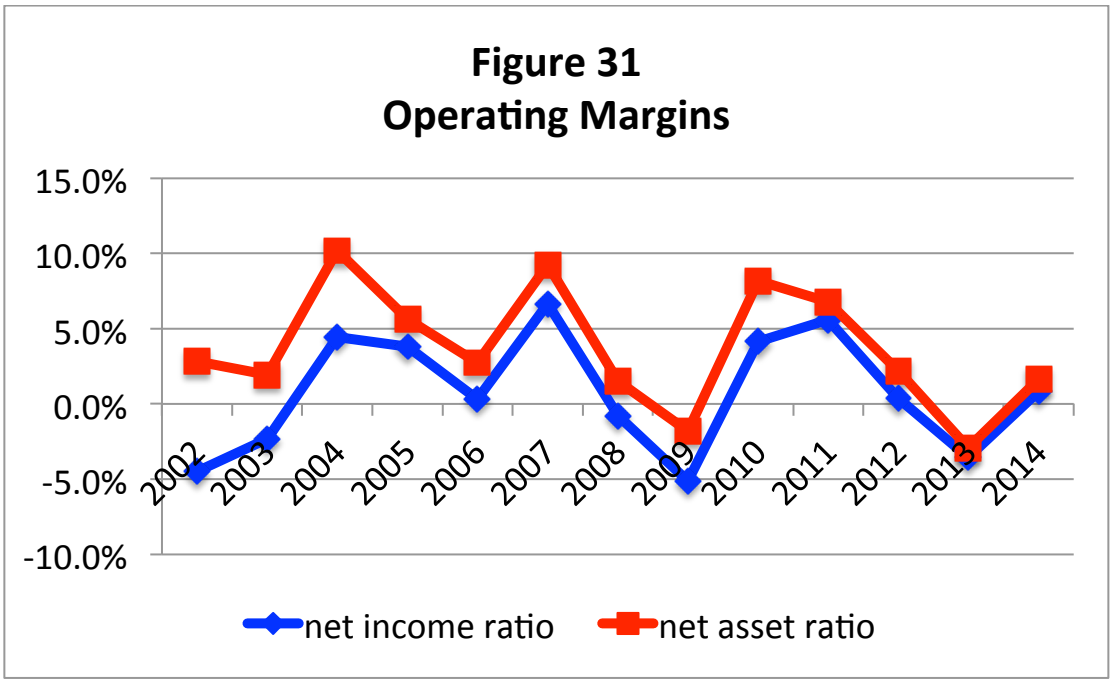


Figure 31
Operating Margins
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
net income ratio
net asset ratio

The Cash Flow Statement

The third financial statement is the statement of cash flows. Universities and colleges use a system of accrual accounting, which means they book revenues when they earn them and book expenses when they are incurred. However, recognizing revenue is not always the same as collecting cash. For example a college may send a bill to a student for tuition but not immediately collect the money that is owed. This shows up on the college's balance sheets as an increase in accounts receivable and is booked on the statement of revenues, expenses and changes in net assets as revenue. While the college shows an increase in revenue it does not actually have more cash. Hence the role of the cash flow statement is to show the inflows and outflows of cash. Looking at the Statement of Cash Flows one can see another picture of the flows of resources into and out of a university or college. The basic outline of the statement of cash flows is found in Figure 32.

Figure 32.

The Statement of Cash Flows at public colleges and universities has four major components. First, cash flows from operations, which includes inflows in the form of tuition and fees, grants and contracts, sales and services and outflows in the form of payments to employees, suppliers and students. The second major component is cash flows from non-capital financing activities. The most important item in this category is state appropriations. Also now shown in this category are Federal direct lending receipts and Federal direct lending disbursements as well as gift and grants for non-capital purposes. Third are cash flows from capital and related financing activities which include inflows in the form of capital appropriations and capital grants and outflows in the form of purchases of capital assets as well as outflows for principal and interest payments. Finally, there are cash flows from investing activities such as the purchase and sale of investments and interest received on investments. The sum of each of the categories of cash flow results in an increase or decrease in cash held by the college or university.

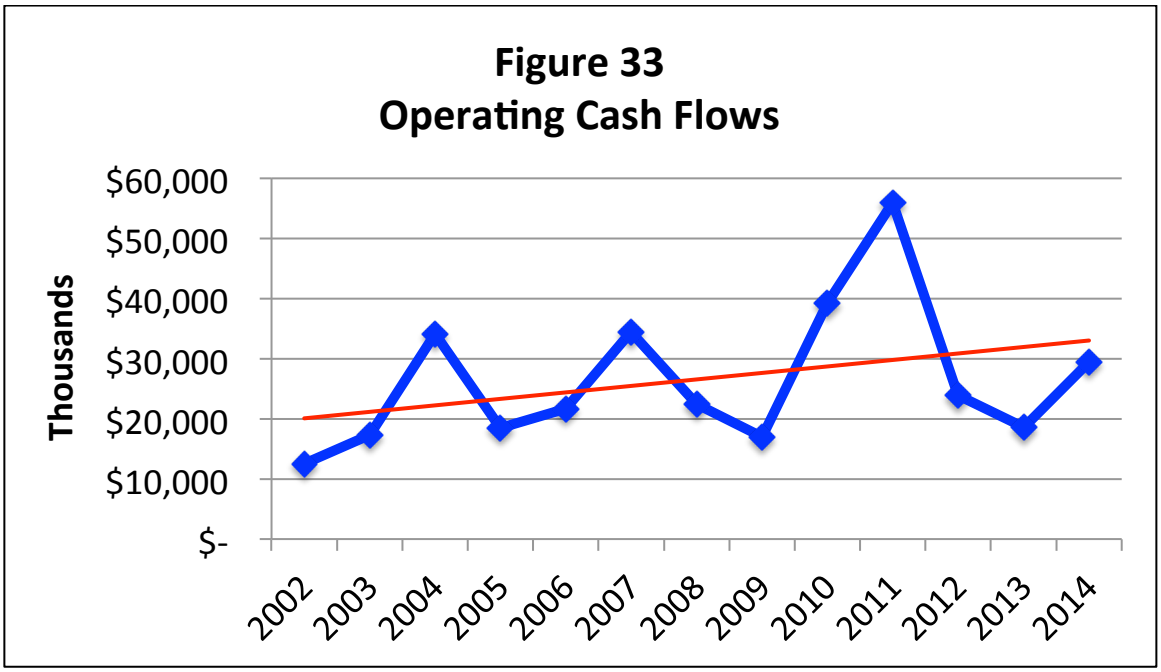
The net cash from operations can be reconciled with the university or college's operating loss. The operating loss minus depreciation and losses on the disposal of capital assets (another non-cash expense) plus change in assets and liabilities equals the net cash used for operating activities.

The cash flow from operations shows the actual inflow and outflow of resources used to fund the operation of a college or university. At public institutions operating cash flow is the sum of cash flows from operations plus cash flows from non-capital financing activities and interest payments on debt. One of the major differences between operating cash flows and income (loss) before other revenue (net income) is that net income includes depreciation as an expense. However, since depreciation is a non-cash expense it does not represent an outflow of cash i.e., it is an expense only on paper. Thus, operating cash flow is one of the most important indicators of how a college or university is doing from a financial perspective. The same would be true for the expense associated with post retirement benefits.

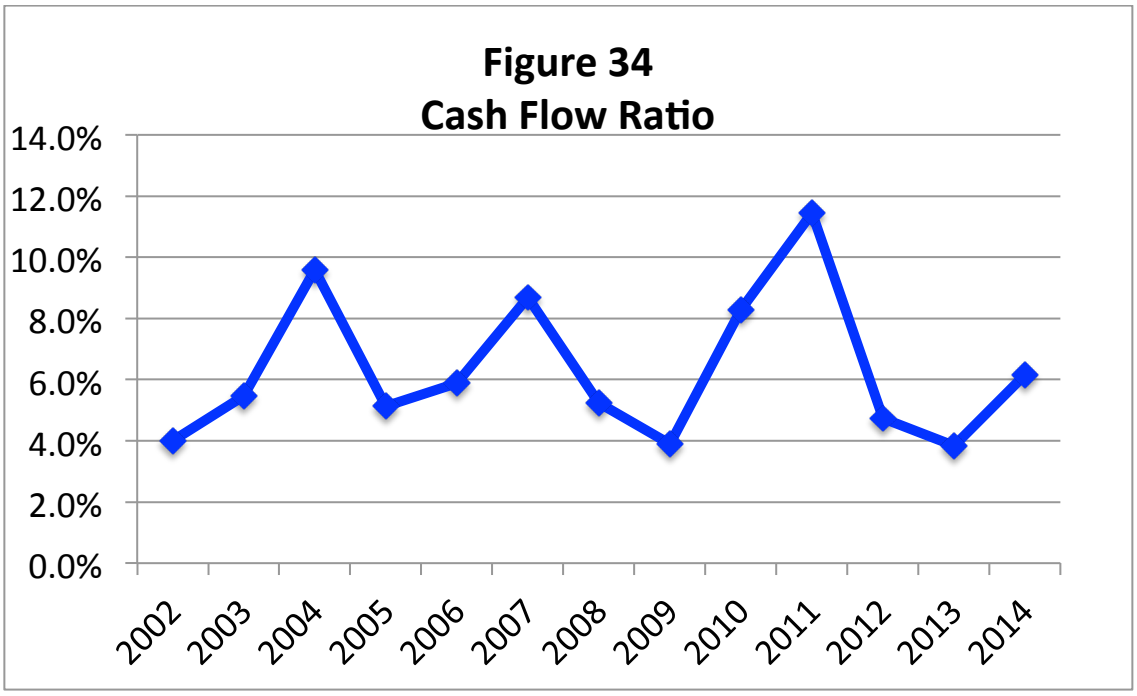
Table 11 below shows the Statement of Cash Flows for the University from 2009-2014 and Figure 33 shows the operating cash flows for the University from 2002 to 2014. In general one can see an upward trend in operating cash flows. In 2002 the operating cash flow for the University was $21.8 million and 2014 the operating cash flow was $29.4 million. Over the thirteen-year period the operating cash flow varied between a low of $12.6 million in 2002 and a high of $55.9 million in 2011. Looking at Figure 33 we can see an unmistakable upward trend in operating cash flows.

Table 11 Cash Flows Thousands of $ For the year ending June 30						
	2009	2010	2011	2012	2013	2014
CASH FLOWS FROM OPERATING ACTIVITIES						
Tuition and fees	$192,641	$189,763	$196,464	$228,603	$224,221	$216,336
Grants and contracts	$23,794	$30,644	$33,757	$32,050	$36,891	$40,822
Auxiliary enterprises	$48,039	$50,627	$57,124	$52,871	$50,037	$53,524
Sales and service of educational activities	$12,281	$13,494	$14,572	$14,789	$13,583	$9,868
Payments to suppliers	$(104,511)	$(97,786)	$(110,131)	$(99,366)	$(105,821)	$(103,263)
Payments for compensation and benefits	$(252,268)	$(261,289)	$(263,457)	$(301,847)	$(306,530)	$(299,549)
Payments for scholarships and fellowships	$(18,492)	$(24,067)	$(25,259)	$(31,755)	$(29,021)	$(25,739)
Loans issued to students	$(2,095)	$(2,205)	$(1,119)	$(698)	$(1,012)	$(2,188)
Collection of loans to students	$1,208	$1,202	$1,816	$1,560	$1,528	$1,732
Other payments	$(6,111)	$(5,281)	$(7,859)	$(778)	$(531)	$(246)
Net cash used in operating activities	**$(105,513)**	**$(104,898)**	**$(104,091)**	**$(104,571)**	**$(116,655)**	**$(108,705)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
State appropriations	$107,665	$95,836	$95,959	$96,759	$97,020	$97,877
Federal fiscal stabilization funds	$-	$15,244	$15,664	$-	$-	$-
Gifts for other than capital purposes	$38,865	$52,596	$62,740	$62,311	$58,655	$53,904
Private gifts for endowment purposes	$413	$1,033	$437	$258	$139	$283
Other payments	$(360)	$(1,092)	$(2,556)	$(213)	$(106)	$(237)
Net cash provided by noncapital financing activities	**$146,583**	**$163,617**	**$172,244**	**$159,115**	**$155,708**	**$151,828**

Table 11 (Continued) Cash Flows Thousands of $ For the year ending June 30						
	2009	2010	2011	2012	2013	2014
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	$1,800	$3,400	$8,275		$31,815	$59,571
Repayment of capital debt					$(30,510)	$(13,707)
Capital appropriations	$11,369	$17,029	$4,215	$8,082	$2,478	$3,180
Capital grants and gifts received	$2,719	$4,965	$7,074	$1,259	$893	$5,442
Purchases of capital assets	$(101,634)	$(80,721)	$(35,075)	$(72,461)	$(34,108)	$(41,862)
Principal paid on capital debt and leases	$(9,085)	$(9,522)	$(13,913)	$(18,491)	$(13,840)	$(13,707)
Interest paid on capital debt and leases	$(24,097)	$(19,471)	$(12,246)	$(30,650)	$(20,518)	$(22,121)
Loans issued for capital purposes	$(181)					
Collection of loans issued for capital purposes	$128	$175	$180	$140	$165	
Net cash used in capital financing activities	**$(118,981)**	**$(84,146)**	**$(41,490)**	**$(112,122)**	**$(63,626)**	**$(23,204)**
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	$567,906	$509,646	$325,816	$198,006	$257,542	$257,968
Interest on investments	$(1,701)	$5,717	$6,340	$1,847	$6,937	$18,659
Purchase of investments	$(545,162)	$(478,569)	$(344,199)	$(174,721)	$(242,632)	$(296,839)
Net cash provided by investing activities	$21,042	$36,795	$(12,043)	$25,131	$21,846	$(20,212)
Net increase in cash	**$(56,869)**	**$11,368**	**$14,620**	**$(32,446)**	**$(2,727)**	**$(294)**
Cash and cash equivalents - beginning of the year	$80,901	$24,032	$35,400	$50,021	$17,574	$14,847
Cash and cash equivalents - end of the year	$24,032	$35,400	$50,021	$17,574	$14,847	$14,554



It is not surprising that there is an upward trend in operating cash flows. Over time as the revenue of the University increases it is likely that operating cash flows will increase. Therefore it is also import to look a margin ratio for cash flows. Figure 34 shows the cash flow margin for the University, which is the operating cash flow divided by total revenue. The cash flow ratio mirrors the pattern of actual cash flows, showing similar volatility but without the trend.



Summary Indices and Conclusion

In 2014 Moody's gave the University of Akron an A1 rating with a stable outlook. A1 is the fifth highest rating out of 21 possible ratings. According to Moody's the major negative factors affecting the University's financial position are high levels of debt and declining enrollment.

On the positive side the University has diversified sources of revenue and has had a positive cash flow every year since 2002. Moody's noted that cash flow was adequate in 2013 and that management had reported that cash flow had improved in 2014, something we discussed in the previous section.

If the financial statements are like report cards, summary indices are like a GPA. These indices can be used to summarize the overall financial status of the institution. One popular summary index is the composite index developed by Moody's for the Ohio Board of Regents (OBR). The composite index used by OBR assigns scores to three ratios 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 first is the ratio is known as the viability ratio, which is the ratio of expendable net assets to long-term debt. The second ratio is the primary reserve ratio, which measures the ratio of expendable net assets to operating expenses and interest payments. The net asset ratio is the change in net assets divided by total revenues (operating and non-operating).

Scores for each of the three ratios are whole numbers from 0 to 5 with 5 being the highest score. The table below shows the how scores are assigned to each ratio. A weighted average of these scores is then used to calculate a composite index that reflects the overall financial health of the institution. The weights used by OBR are 50% for the primary reserve score, 30% for the viability score and 20% for the net asset score. Assigning the smallest weight to the net asset score is recognition of the fact that there is significant variability in the change in net assets for many institutions largely due to fluctuations in the value of investments and fluctuations in capital appropriations.

Under Ohio law an institution with a composite index of 1.75 or less for two consecutive years will be placed on fiscal watch. This allows the governor to replace trustees and in effect put an institution in receivership.

Although SB 6 index used by the Ohio Board of Regents is a good index it does have certain deficiencies. The three main deficiencies of this index are that it uses a step function for scoring, so that relatively small changes in any ratio can cause a particular score to jump up or down, it gives a to high a weight to the primary reserve ratio and totally ignores cash flows. With increasing volatility in financial markets, changes in the market value of investments have caused increased volatility in the change in net assets. However, in many cases these changes in net assets reflect only unrealized gains and losses in investments.

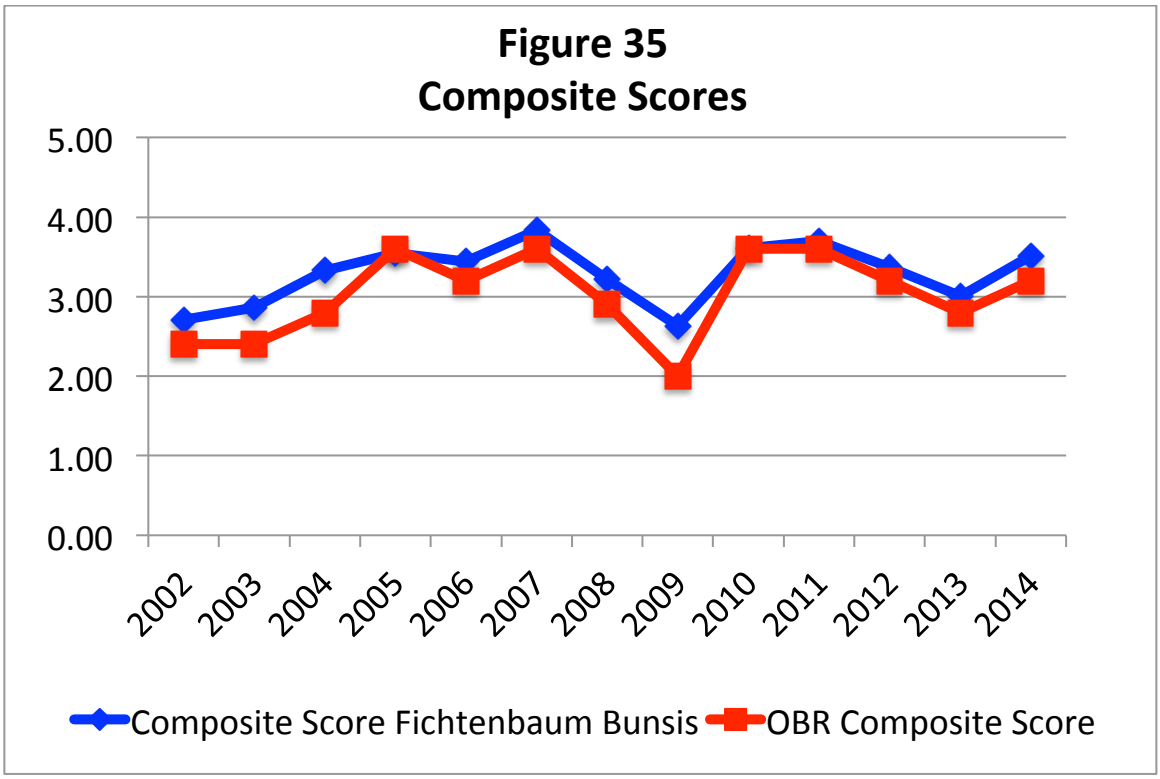
This report also uses an index developed by the author and Howard Bunsis a Professor of Accounting at Eastern Michigan University that avoids these pitfalls. The scores for each ratio are assigned making use of the scores in Table 12 and a piecewise continuous function, so that small changes in ratios are reflected in small changes in scores. In addition, Fichtenbaum-Bunsis index lessens the effects of volatility in financial markets, by including a cash flow ratio. The viability ratio is given a weight of 22.5%, the primary reserve ratio a weight of 45%, the cash flow ratio a weight of 20% and the net asset ratio a weight of 12.5%. Table 13 shows the ratio scores for the University from 2009-2014 and Figure 35 shows the composite scores for the University from 2002-2014.

Table 12
Ratio Scores

	0	1	2	3	4	5
Viability Ratio	< 0	0 to .29	.30 to .59	.6 to .99	1.0 to 2.5	> 2.5 or N/A
Primary Reserve Ratio	< -.1	-.1 to .049	.05 to .099	.10 to .249	.25 to .49	.5 or greater
Cash Flow Ratio	< -.05	-.05 to 0	0 to .009	.01 to .029	.03 to .049	.05 or greater
Net Asset Ratio	< -.05	-.05 to 0	0 to .009	.01 to .029	.03 to .049	.05 or greater

Table 13
Composite Scores
For the year ending June 30

	2009	2010	2011	2012	2013	2014
Viability Score	1	2	2	2	2	2
Primary Reserve Score	3	4	4	4	4	4
Net Asset Score	1	5	5	3	1	3
SB 6 Composite Score	**2.00**	**3.60**	**3.60**	**3.20**	**2.80**	**3.20**
Viability Score	1.21	1.54	1.65	1.77	1.80	1.71
Primary Reserve Score	3.17	3.64	3.79	3.80	3.78	3.94
Cash Flow Score	3.95	5.00	5.00	4.37	3.92	5.00
Net Asset Score	1.14	5.00	5.00	3.09	0.91	2.81
F-B Composite Score	**2.63**	**3.61**	**3.70**	**3.37**	**3.00**	**3.51**



Clearly the University has improved its financial position since my last report in 2009. Although the composite scores did decline between 2011 and 2013, the scores are much better than they were in 2009. Therefore, I conclude that the University of Akron is in good financial condition.