

# 2007 Year-end Financial Review

**Drake University**  
Campus Budget Presentation  
October 10, 2007

# Overview of Presentation

- Measuring Financial Success
- FY07 Operating Budget Review
- FY07 Broader Financial Picture
- FY08 Budget Status
- Future Budget Planning
- Q&A

# Measuring Financial Success

- Year-end Financial Report Card
  - Six financial objectives to be met annually
  - Focus is on results for that specific year
- Key Financial Indicators Report
  - Multiple measures focused on results over time compared with various external benchmarks

# 6 Annual Financial Objectives

- 1) Achieve Balanced Operating Budget
- 2) Generate Increase in Net Assets
  - a) Increase Unrestricted Net Assets =>5%
- 3) Produce Positive Cash Flow
- 4) Meet/exceed Debt Covenants
- 5) Exceed Investment Benchmarks
- 6) Receive Unqualified Audit Opinion

# Key Indicators Report

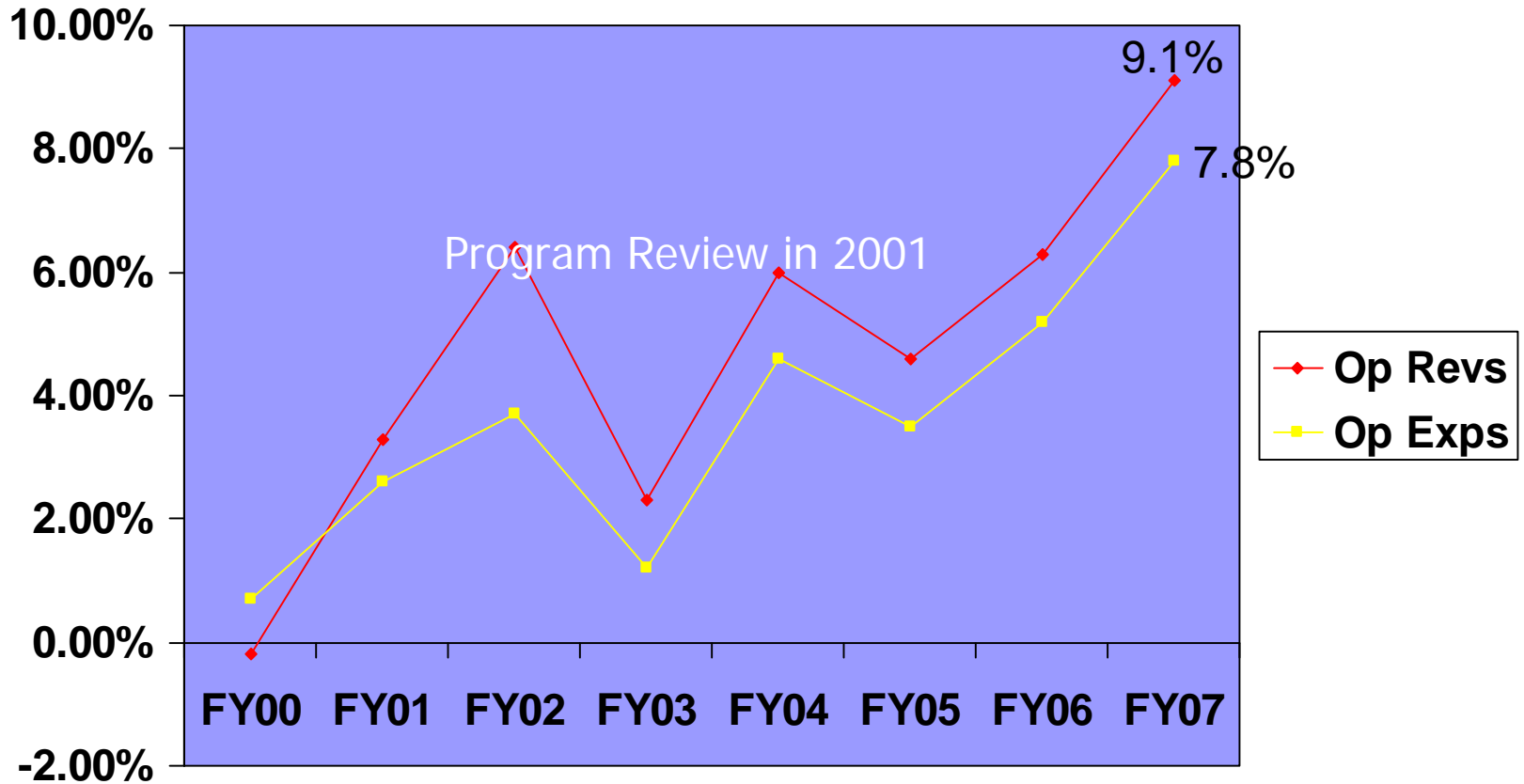
- Longitudinal (since FY00)
  - Tracks trends
  - Compares Drake to benchmarks
  - Provides early warning signal
  - Helps establish LT financial goals

# FY07 Operating Budget (YE 5/31/07)

Op Revenues	\$107,563,254
Op Expenditures	\$104,834,618
Op Surplus	\$ 2,728,636

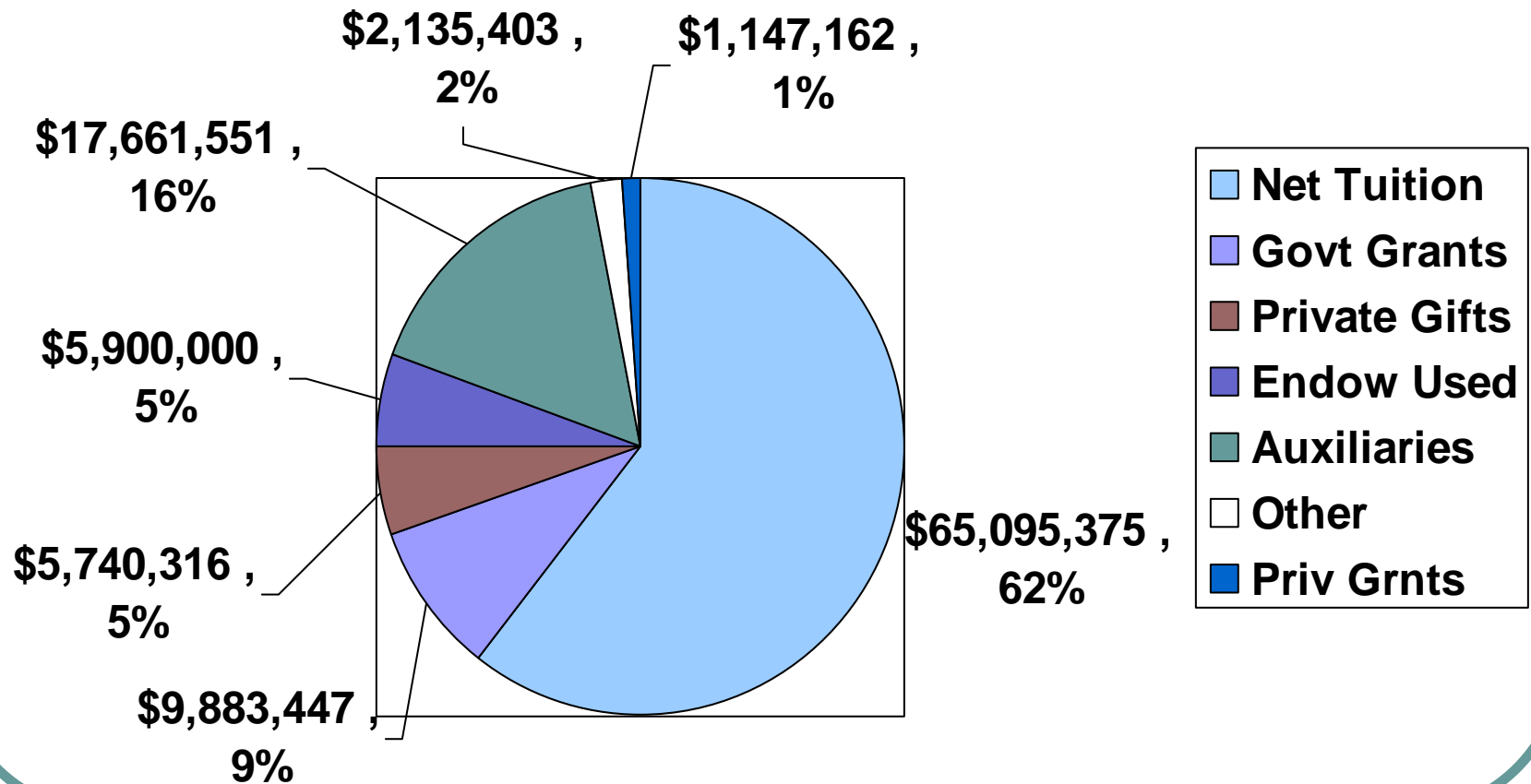
- Significant Growth
  - Revenues by 9.1% (norm 4 to 6%)
  - Expenditures by 7.8% (norm 3 to 5%)

# Growth in Operating Revenues vs. Expenses



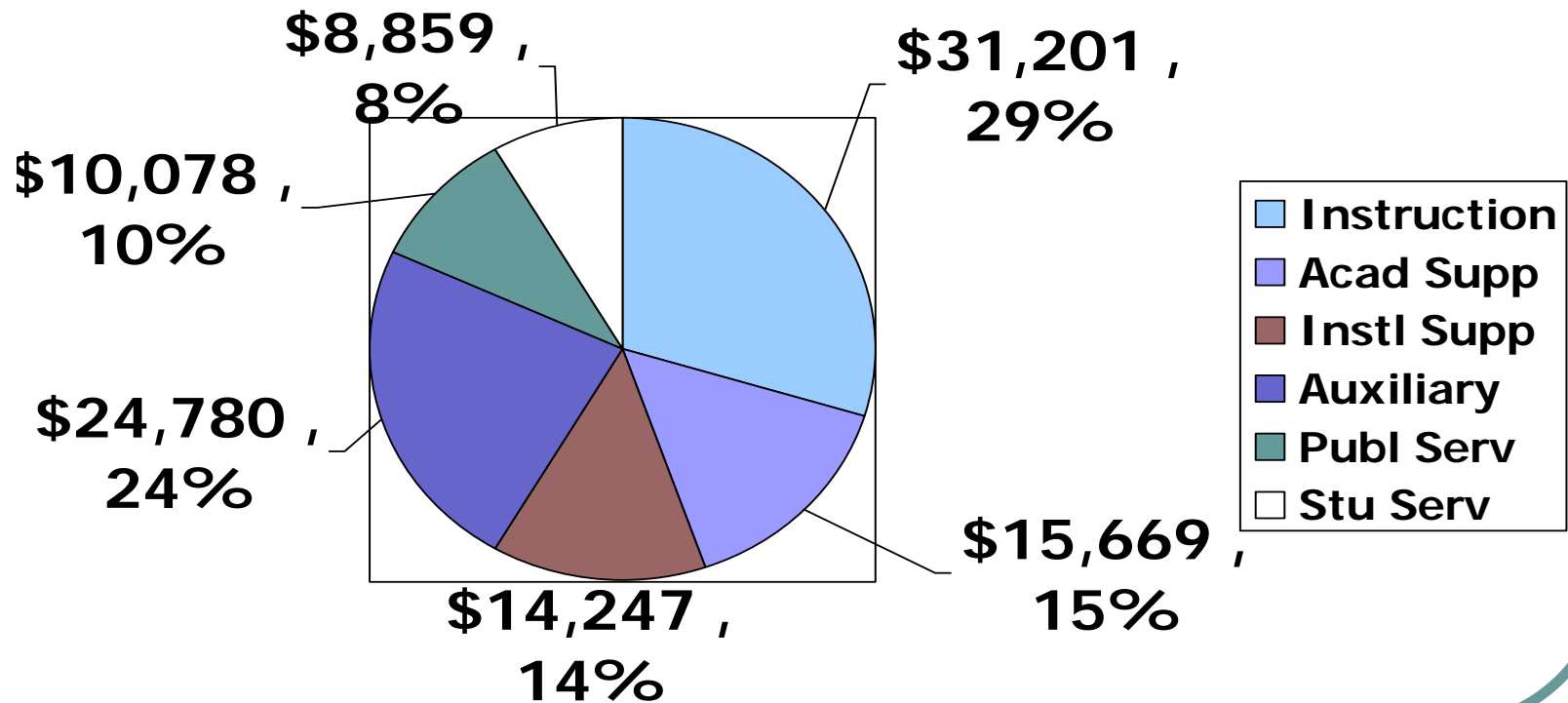
# Operating Revenues, FY07

(\$107,563,254)



# Operating Expenditures, FY07

(\$104,834,618) (Chart in 000s)



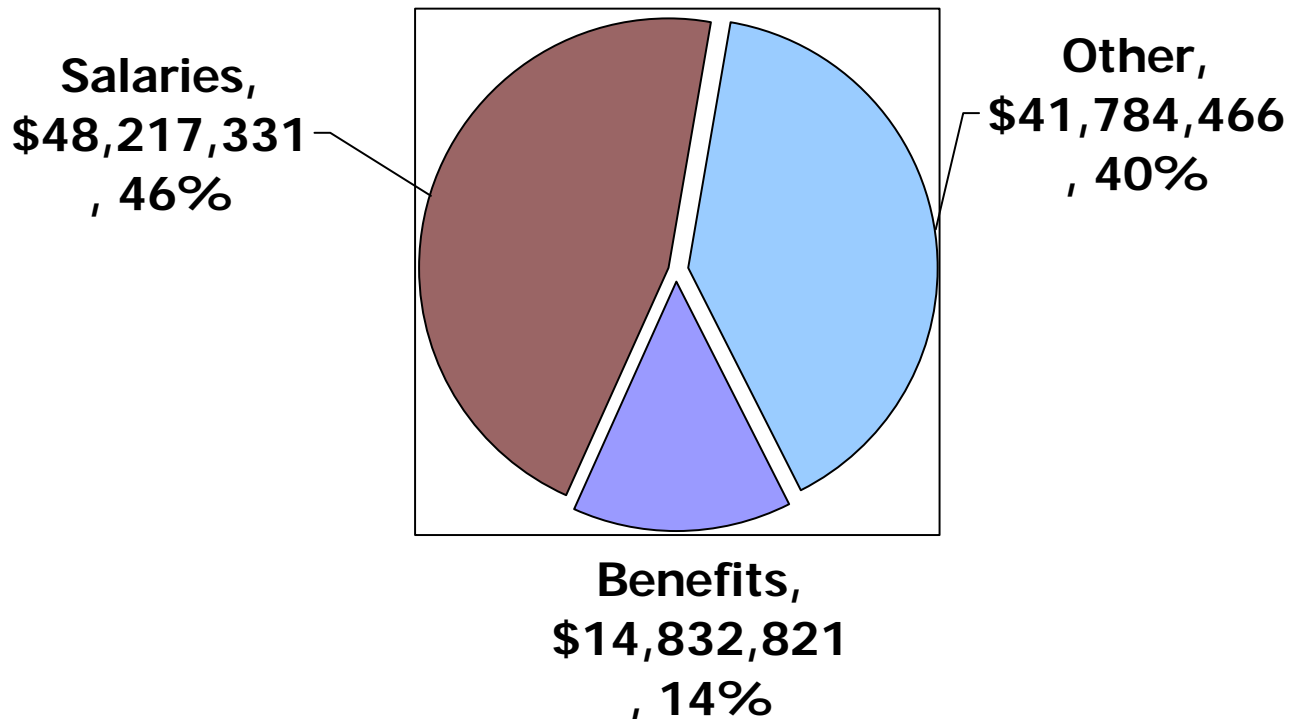
# ANAC Op Expense per FTE Student

(latest FY05 w/o Susquehanna)

	High	Low	Drake/ <i>ANAC Avg</i>
Instruction	\$10,012 Ithaca	\$5,911 Drury	<b>\$6,107</b> \$8,432
Academic Support	\$3,750 Mercer	\$613 Drury	<b>\$3,375</b> \$2,040
Student Services	\$3,848 Valpariaso	\$1,490 Drury	<b>\$1,767</b> \$2,770
Institutional Support	\$4,908 Westminster	\$1,784 Drury	<b>\$2,774</b> \$3,627
Auxiliaries	\$5,480 Ithaca	\$1,627 Drury	<b>\$4,901</b> \$3,567

# Operating Expenditures, FY07

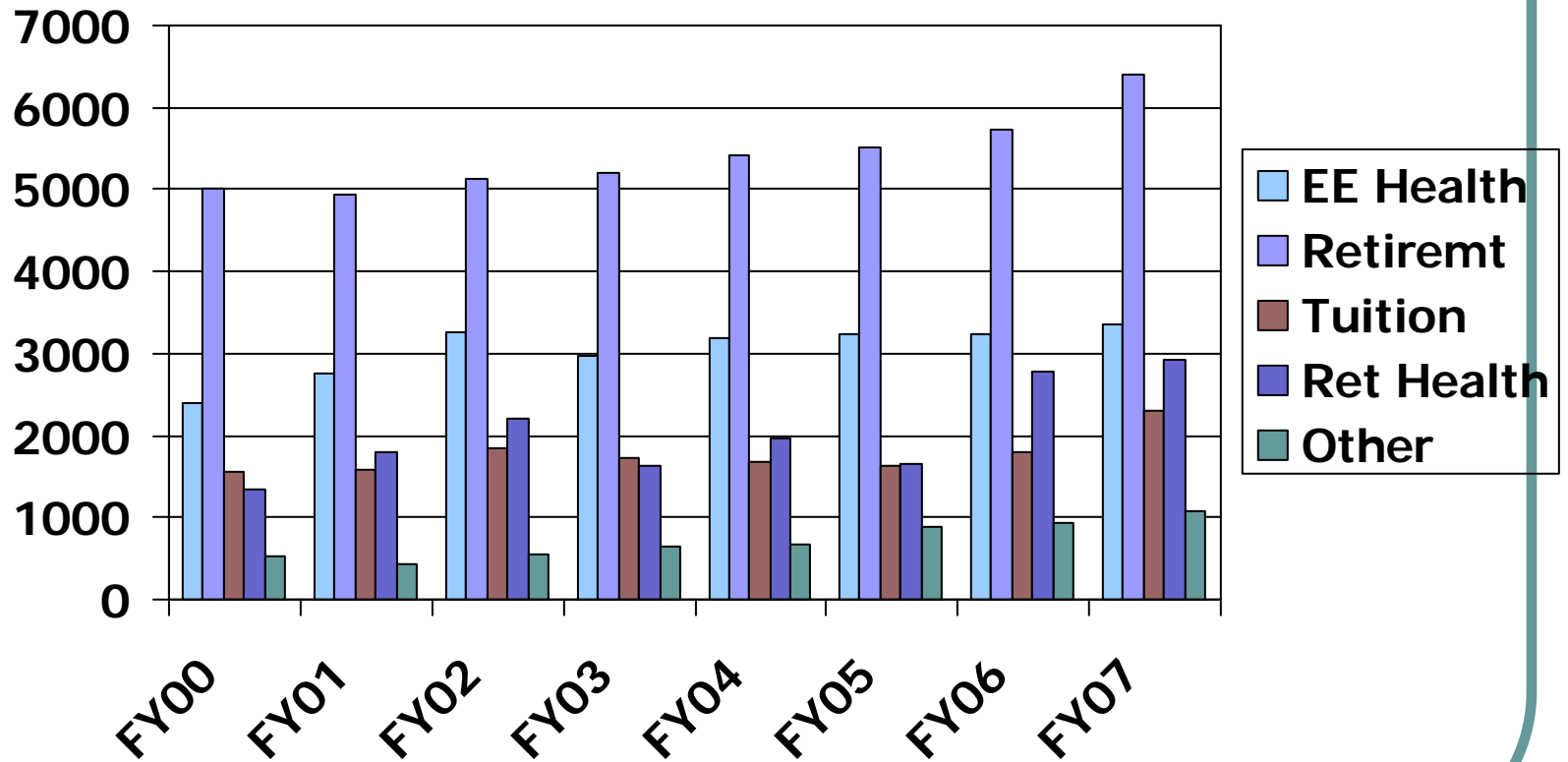
(\$104,834,618)



# History of Salary Increase Funding

FY04	\$1.6M
FY05	\$1.8M
FY06	\$1.9M
FY07	\$1.75M
FY08	\$1.85M
5 Year Total	\$8.9M

# Employee Benefit Trend (in 000s)

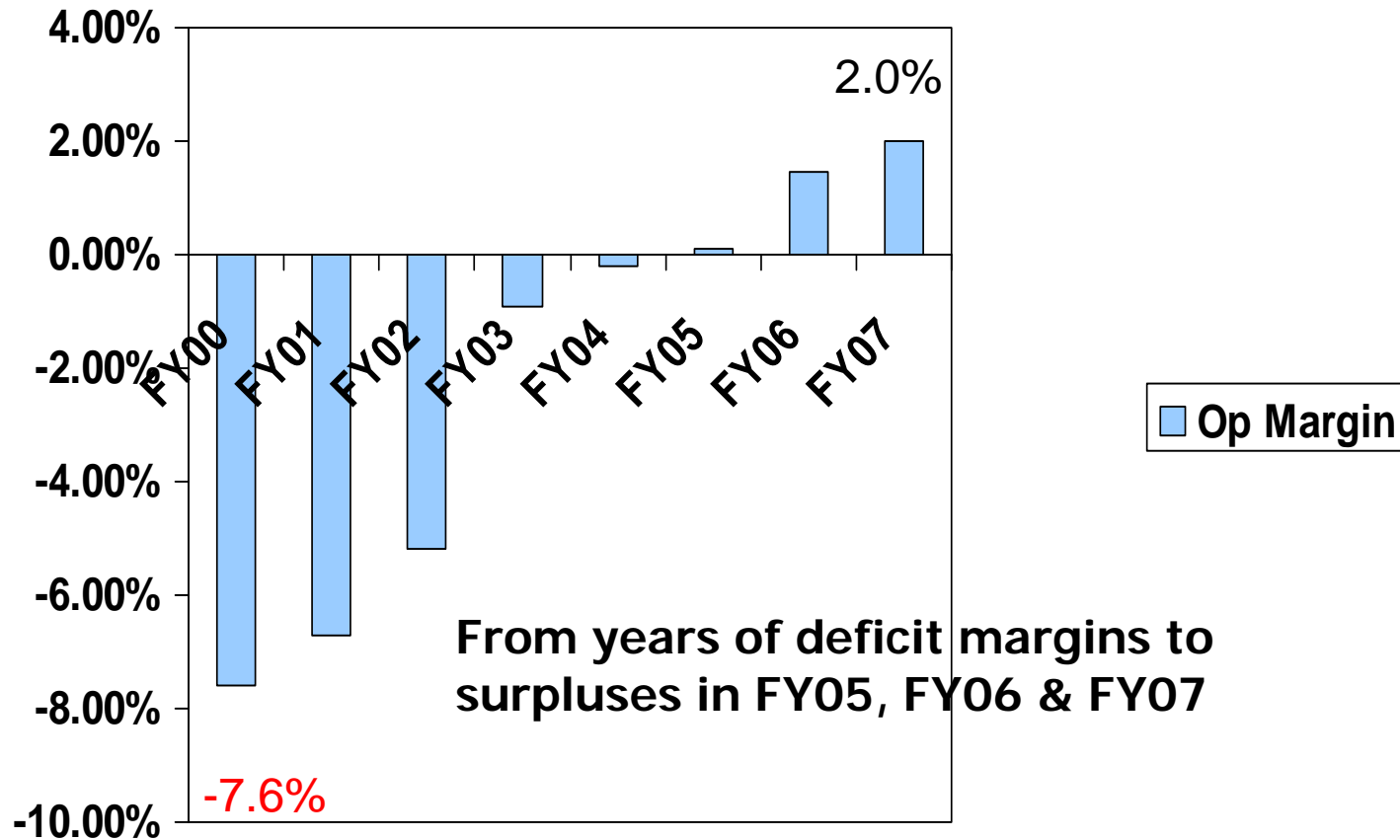


# Budget to Actual Results (in 000s)

	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Budget Target	-\$5,269	-\$5,080	-\$3,422	-\$1,354	\$102	\$472	\$500
Actual Results	-\$4,547	-\$2,610	-\$1,686	-\$576	\$337	\$1,380	\$2,729

# Annual Operating Margin%

(Unrestricted Op Deficit/Surplus as % of Unrestricted Op Revenues)



# Use of FY07 Surplus

- Capital Improvements:
  - Morehouse Residence Hall
  - 10 Classrooms
  - Olmsted Lot
  - Quad Bridges
  - Meredith Painting
  - Medbury, Cultural Centers, Security
  - Other Deferred Maintenance

# Broader Financial Picture (YE 5/31/07)

Assets	\$ 410,975,784
Liabilities	-\$147,031,424
Net Assets (Equity)	\$ 263,944,360

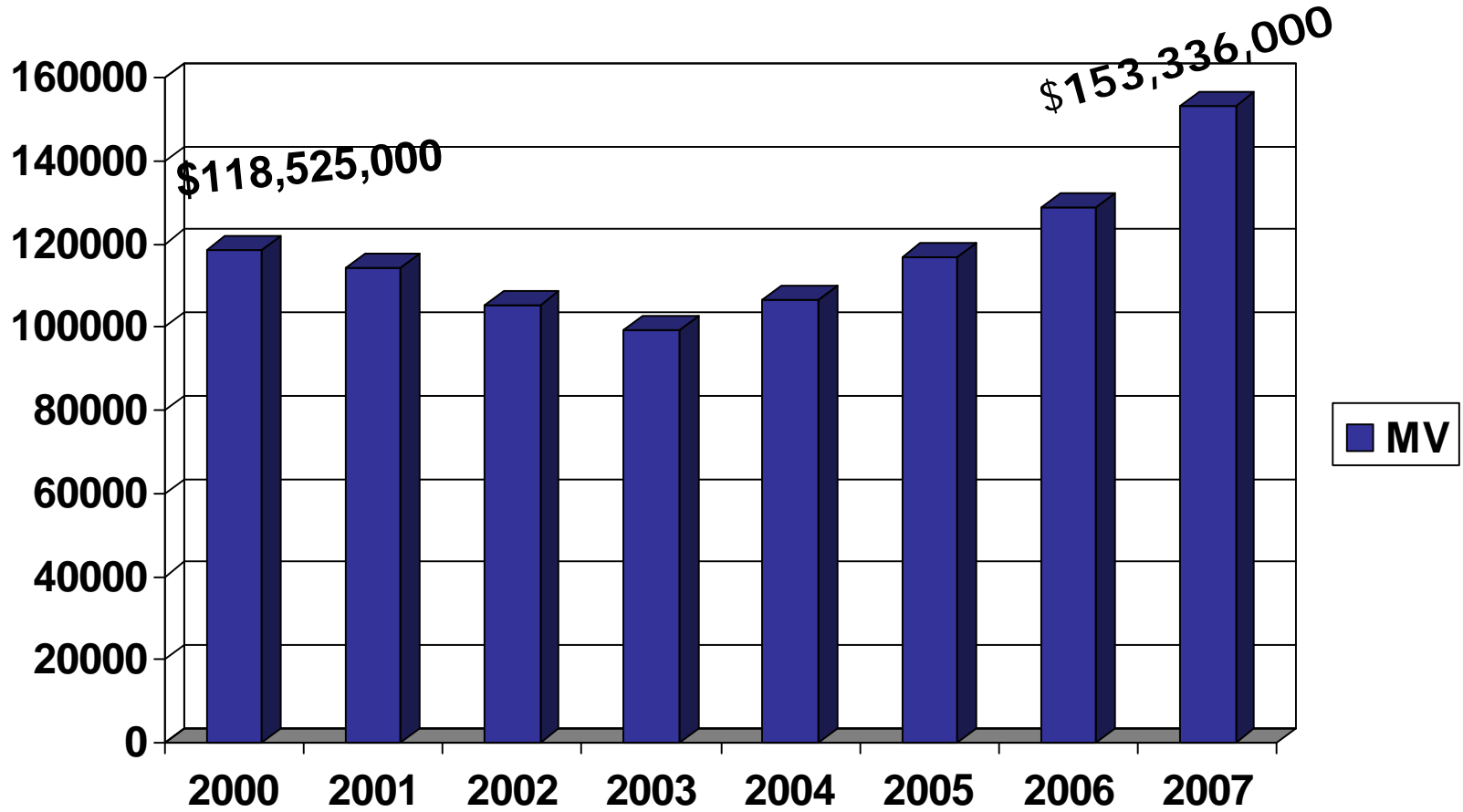
- Growth in Net Assets=\$34,735,750 or 15.2%
  - 61% from unrealized market appreciation
  - 28% from non-operating gifts
  - 8% from operating surplus

# Largest Asset Groups (85% of total assets)

- Total Investments (mostly endowment) at \$210M—grew >\$20M from FY06
- Fixed Assets (net of depreciation) at \$138M—grew >\$10.5M from FY06

# Endowment Market Value

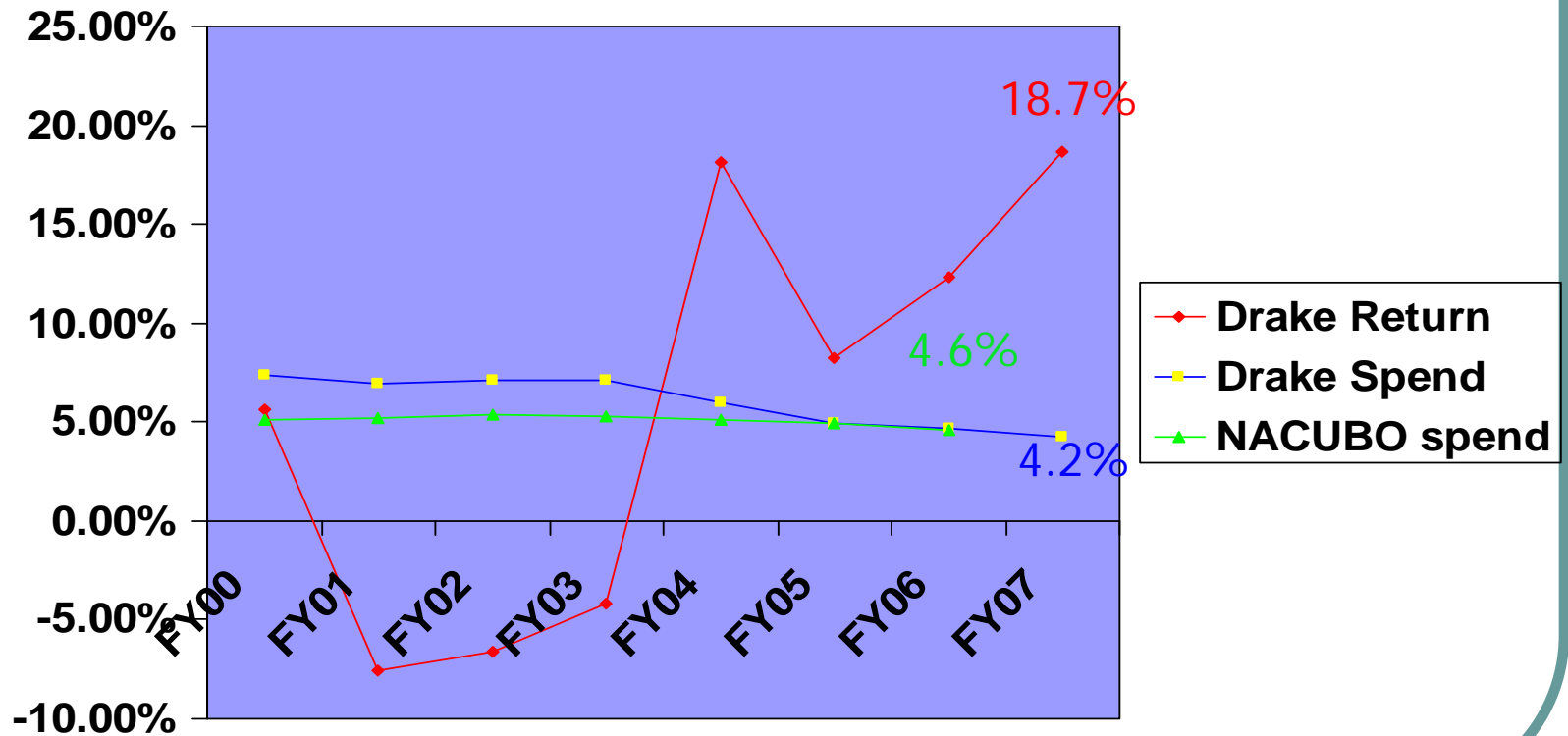
at May 31 (000's)



# Endowment Asset Allocation

- Investment Policy & Asset Allocation are determined by Board of Trustees:
  - Large Cap Equity 35%
  - Small Cap Equity 15%
  - Internat'l. Equity 15%
  - Hedge Fund 15%
  - Fixed Income 20%

# Endowment Return vs. Spending Rate



# Largest Liabilities (69% of total liabilities)

- LT Debt at \$70.5M grew about \$15M
  - New Quad/Cole debt of \$22M
  - Paid off Stadium debt of \$5.8
- Annuities Payable decreased by \$7.4M to \$30.5M

# LT Debt Summary @ 5/31/07

	Balance 5/31/07	Purpose	Interest Rate	Annual P & I	Final Maturity
1996 Bonds	\$5.695M	Knapp, Opperman, & other	5.5 to 6.5% Fixed	\$1.422M	Dec. 2011
2005 Bonds	\$42.775M	Refunded 1996,2001, 2003 Bonds	3.89% YE Variable w/ swaps	\$1.605M	Various— 2011 to 2031
2007 Bonds	\$22.02M	Quads & Cole	4.0 to 5.0% Fixed		Apr. 2022
Total	\$70.49M			\$3.027M	

# FY07 Financial Report Card

- ✓ Balance the operating budget & meet surplus targets: **done**; target=.5% of op revenues; actual=2.5%
- ✓ Increase net assets: **done**; \$34.7M incr.
- ✓ Increase UNR net assets by minimum of 5%: **done**, 19.5%
- ✓ Create positive cash flow: **not done**; decrease of \$4.1M (due to early stadium debt payoff)
- ✓ Meet or exceed all debt covenants: **done**; target=.35 or higher Liquidity Ratio; actual=.911
- ✓ Meet or exceed investment benchmarks: **done**; 18.7% total return compared to target of 5% over inflation (or 7.7%); endowment spending target=5%; actual=4.2%
- ✓ Receive an unqualified audit opinion: **done**

# FY08 Budget Status

Enrollment Changes

Tuition Discount Rate

Expenditures for First Year Students

Net \$ Impact

# FT Enrollment to Budget Plan

	FY08 Original Budget	FY08 Stretch Goal	FY08 Fall 2007 Actual
EFR	780	800	924
Other FT UG	2,240	2,262	2,278
FT Pharm Grad	488	499	474
FT Law	410	420	419
Total	3,918	3,981	4,095
Incr > Orig		63	177

# Financial Aid Discount

	FY04	FY05	FY06	FY07	FY08
Freshman Tuition Discount Rate	47.6%	49.0%	48.9%	47.6%	51.1%
Total Financial Aid	\$30.2M	\$32.7M	\$34.7M	\$37.6M	\$41.5M (Estimated)

# Projected Increase in Op Revenues

FY08

- UG Net Tuition= \$1,801,000
- Pharmacy = -\$400,000
- Law Financial Aid= -\$1,000,000
- Summer School= \$625,000
- Fees= \$30,000
- Room and net Board= \$354,000
- **Total= \$1,410,000**

# Projected Increase in Op Costs FY08

- Academic Program & Student Services=\$597,000
- Facility Operations=\$50,000
- Expanded Residence Hall=\$500,000
  - **Total \$1,147,000**

# Adjusted FY08 Budget

- **\$263,000** Projected Increase in Operating Surplus from 177 additional FT students
- Financial implications of this large first year class will need to be included in the next multi-year budget plan

# Future Budget Plan

- FY09 is transitional year
  - 4<sup>th</sup> year of 4 Year Budget (FY06-FY09)
  - 1<sup>st</sup> year of new 4 Year Budget(FY09-FY12)
- FY10 will implement new multi-year budget linked to new Strategic Plan

# FY10-FY12 Budget Plan

- New 3 Yr Strategic Plan Budget:
  - New Process—clear link to Strategic Plan
    - Also tied to unit strategic plans
  - New Fiscal Priorities/Budget Committee
  - New Budget Calendar
  - Even More Transparency
  - New Financial Goals
    - Surplus Target 2 to 3% of operating revenues
    - 50% for Quasi Endowment Reinvestment
    - 50% for Deferred Maintenance

# Conclusion

- Stronger Financial Position, BUT. . .
- Need continued financial discipline
  - Concern re discount rate, personnel additions, & impact on future budget flexibility & cash flow
- Ensure strategic use of funds
- Balance LT and ST needs
- Use financial success to fulfill the Drake mission & improve the lives of students



# Questions & Answers