

University of Florida – Illustrative Guide to the Annual Financial Report 2017-18

INTRODUCTION

We realize that reading and understanding financial statements can be boring and complex. This guide will help explain the various parts of the financial statements to nonaccountants. It was created with you in mind, incorporating suggestions from employees throughout the University who are NOT accountants.

STATEMENT OF NET POSITION (BALANCE SHEET)

The Statement of Net Position, also known as the Balance Sheet, is the first part of the Annual Financial Report. This is where the University reports the resources it holds (assets) and the claims against those resources (liabilities).

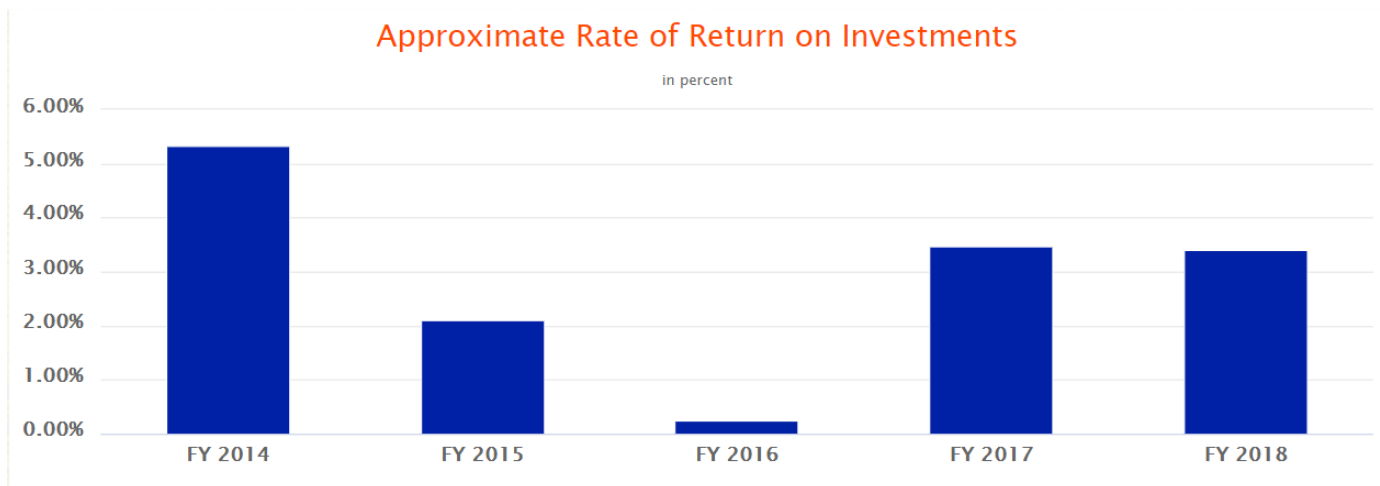
We will start by reviewing the different types of assets held by the University of Florida. After that, we will talk about the liabilities, or claims on the University's assets. Finally, we will bring the two together by discussing UF's net position, which is the difference between the University's assets and liabilities.

ASSETS

Assets can be current assets or noncurrent assets, depending on when they are expected to be used or could be converted to cash. Three major assets on UF's balance sheet are described below.

INVESTMENTS

Investments on the balance sheet can change a great deal each year depending on interest rates or market value. This is because the financial statement reflects the changes in the fair value of UF's investments, even though these changes are unrealized because UF has not sold the investments. Market interest rates fluctuate greatly from year to year, significantly impacting the University's results each fiscal year (commonly abbreviated to "FY").



CAPITAL ASSETS

These make up another major portion of UF's assets, and consists mainly of buildings, construction in progress, infrastructure and other improvements, furniture and equipment, library resources and computer software. However, unlike cash, capital assets cannot easily be spent and therefore cannot fund daily University operations.

LEARN MORE ABOUT CAPITAL ASSETS

There are two main categories of capital assets. Depreciable capital assets, such as buildings, computer software and equipment, will last for more than one fiscal year, but will not last indefinitely. This means that during each accounting period some of the cost of these assets is being used up, and this is reported as depreciation expense over the useful life of the asset. Nondepreciable capital assets, such as land, are assumed to last indefinitely and are not depreciated.

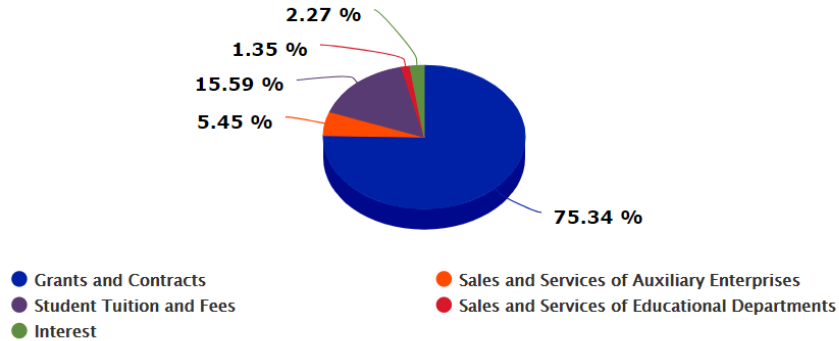
The vast majority (over 90%) of UF's capital assets are depreciable.

ACCOUNTS RECEIVABLE

Accounts Receivable are payments owed to UF from various sources. These include grant and contract reimbursements, sales and services to students and third parties, student tuition and fees, and interest accrued on Loans and Notes Receivable. Unfortunately, not all of the payments owed to UF will be collected. Therefore, UF records the estimate of the amount that will not be collected as allowances for uncollectable receivables on the Statement of Net Position.

WHAT MAKES UP UF'S ACCOUNTS RECEIVABLE?

Accounts Receivable



WHAT ARE AUXILIARY ENTERPRISES?

Auxiliary Enterprises are self-supporting activities that charge students, faculty, and staff for their services. The general public may be served only incidentally by these enterprises. Think student dormitories, parking and transportation, etc.

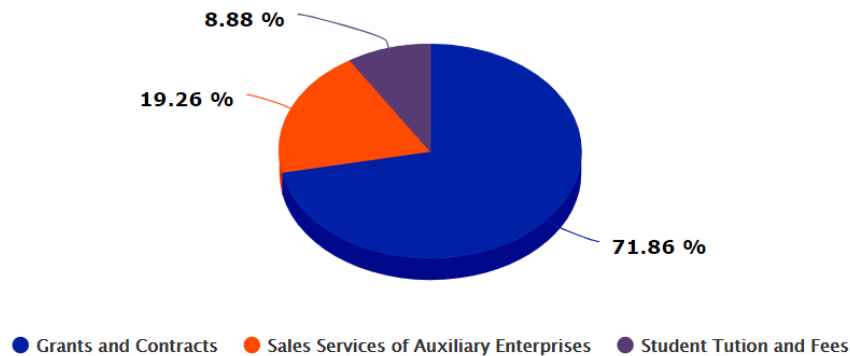
LIABILITIES

Liabilities are claims on the University's assets. Just like assets, liabilities can be current liabilities or noncurrent liabilities depending on when they are due.

UNEARNED REVENUE

Unearned revenue is money that has come in to the University before the end of the fiscal year, for services that have yet to be provided. The University still has an obligation to fulfill in return for these payments, and therefore they are recorded as a liability. The majority of this liability is from sponsor payments for grants and contracts that are received before the research or work has been performed.

Unearned Revenue



HOW CAN STUDENT TUITION AND FEES BE UNEARNED?

These are amounts paid for summer courses that have not ended by June 30th, the end of UF's fiscal year.

CAPITAL IMPROVEMENT DEBT PAYABLE

Capital improvement debt is issued to build facilities for UF, such as parking garages or student housing. It is not used to pay for normal University operations. The debt is paid from the revenue specified in debt agreements.

COMPENSATED ABSENCES PAYABLE

This liability, called compensated absences payable, is recorded based on UF's policy for leave payout, and consists of the dollar value of the paid time off UF employees have earned but not yet used, including corresponding employer payroll taxes. The current part of the compensated absences liability is the amount UF expects to pay to employees in the upcoming fiscal year, based on the payouts over the last three years.

EXAMPLE

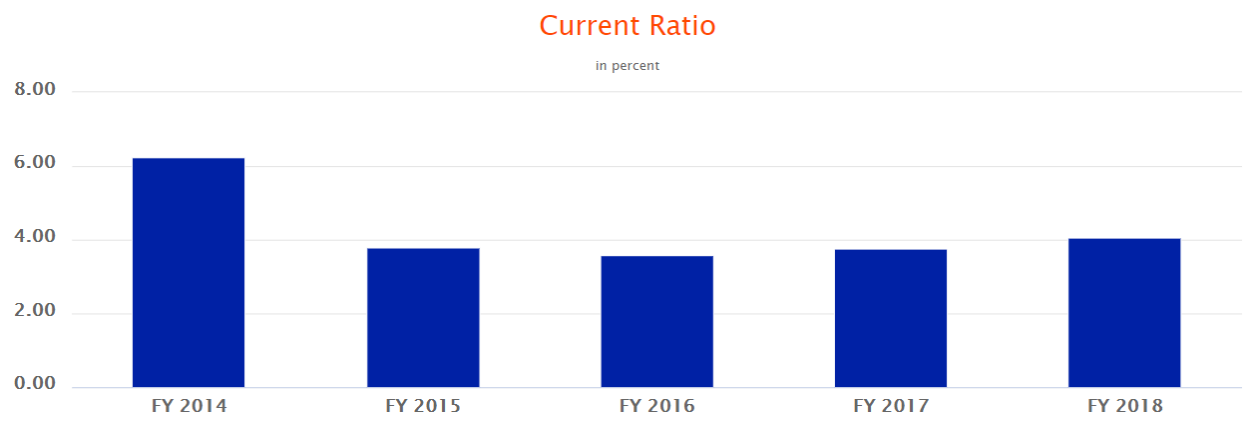
A UF employee that earns \$50,000 annually has 40 hours (1 week) of unused annual leave as of June 30th. UF has accrued about \$962 (plus amounts related to Medicare and Social Security taxes) in compensated absences. Sick leave is calculated differently, due to payout policies.

RATIO ANALYSIS

It is important that the balance sheet shows both assets and liabilities as current and noncurrent, so that ratio analysis can be performed.

WHAT IS ONE TYPE OF RATIO ANALYSIS?

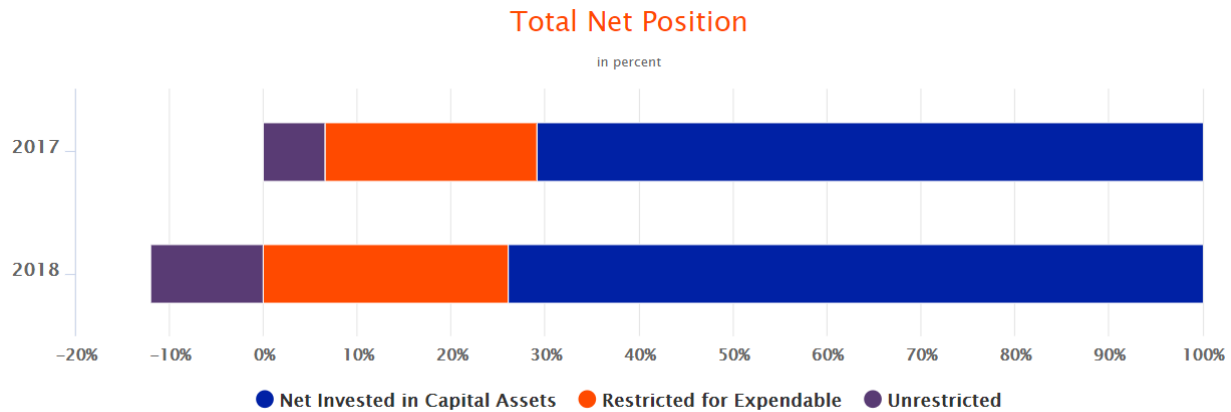
One example is the current ratio, which compares current assets to current liabilities. This ratio can help determine if the University has the capability to pay debts as they are due. Therefore, a ratio greater than 1 is favorable because it is one indicator of financial health.



NET POSITION

Now we are going to combine everything discussed previously and look at the overall Net Position of the University. In addition, Net Position is broken down into four categories so we will discuss each of those below.

How is this calculated? $\text{Net Position} = (\text{Assets} + \text{Deferred Outflows}) - (\text{Liabilities} + \text{Deferred Inflows})$



NET INVESTMENT IN CAPITAL ASSETS

This amount is UF’s capital asset balance, after subtracting the debt that is associated with funding these capital assets. Net Investment in Capital Assets makes up the majority of UF’s total net position.

How is this calculated? $\text{Net Investment in Capital Assets} = \text{Capital Asset Balance} - \text{Debt Issued to Fund Capital Assets}$

NET POSITION RESTRICTED FOR NONEXPENDABLE PURPOSES

This is made up of endowments received as gifts where only the investment earnings on the gift can be spent, and then only on specific things. This balance is comprised of over 3,000 individual endowments. Each endowment fund has unique donor restrictions and the principal balance is an asset that must be retained permanently. This means the original funds and any additional principal cannot be withdrawn, spent or used in any way.

EXAMPLE

A donor gives \$3 million to UF with the requirement that the University has to establish an endowment, invest the gift, and maintain the principal intact permanently. The donor stipulates that the investment income from the endowment must be spent on scholarships for low-income students majoring in health administration. These funds would be included in the net position restricted for nonexpendable purposes.

NET POSITION RESTRICTED FOR EXPENDABLE PURPOSES

These funds are set aside for a specific period of time or until a certain event, as established by the University or a donor. However, funds can only be spent according to the established restrictions.

EXAMPLE

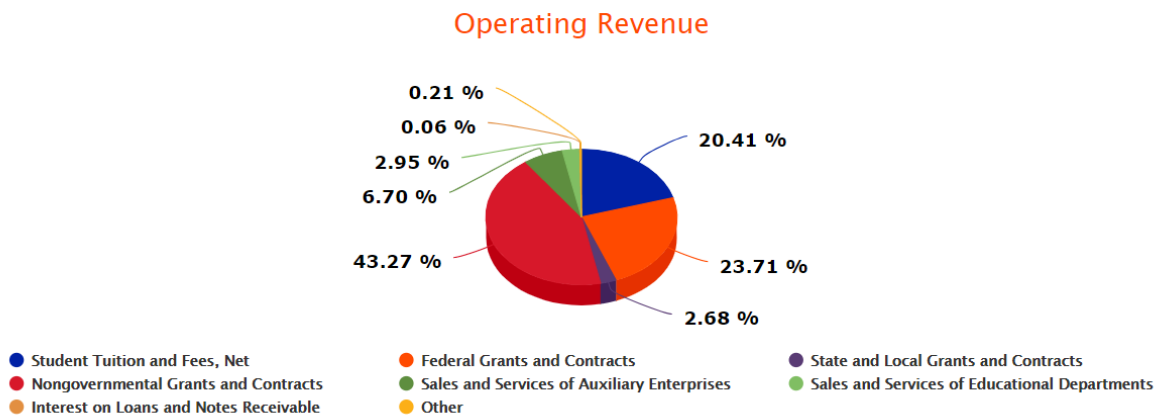
A donor gives \$100,000 to UF with the requirement that the University has to invest the principal amount of the gift and spend the investment income on summer research grants for chemistry faculty. There is also a requirement that after the donor's death the University should withdraw the principal and spend it, again on summer research grants for chemistry faculty. These funds would be included in the net position restricted for expendable purposes, as the principal can be spent but only according to the restrictions.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (INCOME STATEMENT)

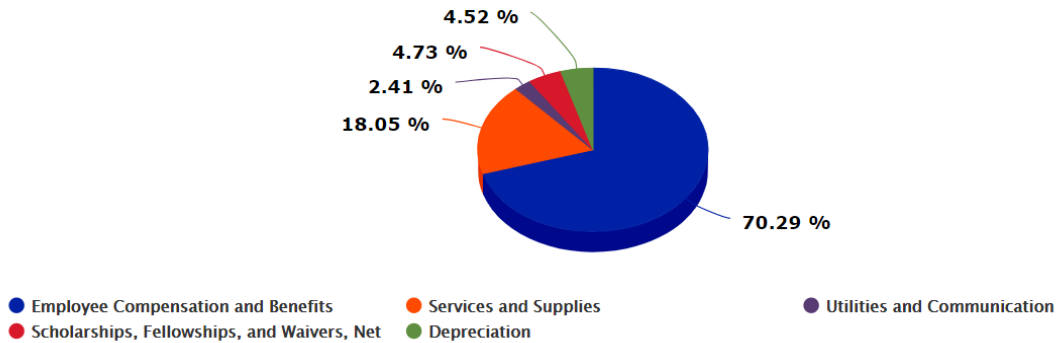
The next part of the Annual Financial Report is the Statements of Revenues, Expenses, and Changes in Net Position, also called the Income Statement. The Income Statement shows where UF gets its money (revenues) and how it spends its money (expenses). There are three separate sections of the Income Statement.

OPERATING REVENUES AND EXPENSES

Operating Revenue is the money UF makes when performing its primary missions: teaching, research, and public service. Operating Expenses are the costs that UF incurs through these activities.



Operating Expenses



NONOPERATING REVENUES AND EXPENSES

This category is made up of revenues and expenses that are not directly related to UF's primary mission. The biggest sources of Nonoperating Revenues are noncapital state appropriations, federal and state financial aid, investment income, and noncapital grants, contracts, and gifts. Nonoperating expenses mostly consist of investment expenses and interest on capital asset-related debt.

OTHER REVENUES

The Other Revenues section is made up of capital state appropriations and capital gifts and grants. These are funds to be used only for the construction of buildings or other capital assets. Or, the gift might be a donation of actual capital property.

WHAT'S THE TREND?

Other Revenues have steadily increased for UF over the past few years. The state of Florida and donors continue to demonstrate support for UF's growth, preeminence initiative, and overall mission each year.

Helpful Definitions

Accounts Receivable - assets due to the University, typically due from students (for tuition & fees); from federal, state, and private sponsors (for research); and from patients

Allowances for Uncollectible Receivables - reported based on management's best estimate as of fiscal year-end, considering type, age, collection history, and other factors considered appropriate; there is no allowance for grants and contracts receivable, as these are considered to be fully collectable

Assets - resources held by the University with future economic value that can be measured and expressed monetarily

Capital Assets - assets not easily converted to cash in the regular course of the University's operations; expected that the benefits gained from the asset will extend beyond a time frame of one year

Compensated Absences - employees earn the right to be compensated during absences for vacation and sick leave, and this accrued leave is to the credit of the employee; records are kept on each employee's unused leave balance and the University reports a liability for the accrued and unused leave in accordance with its policy regarding leave payment upon separation from employment

Current Assets - assets on the balance sheet that are cash, a cash equivalent, or which can be converted to cash within one year

Current Liabilities - debts or obligations of the University that are due within one year

Current Ratio - a liquidity ratio that measures a company's ability to pay short-term and long-term obligations by considering the current assets of the company relative to the current liabilities

Deferred Inflows - an acquisition of net assets by the University that is applicable to a future reporting period

Deferred Outflows - a consumption of net assets by the University that is applicable to a future reporting period

Depreciable - assets in which the cost of the asset is allocated over its useful life; this is done with a process called depreciation for tangible assets (e.g., cars) or amortization for intangible assets (e.g., software)

Depreciation Expense - the allocated portion of the cost of the University's fixed assets that is appropriate for the accounting period shown on the University's Income Statement

Endowment - proper transfers of money and/or property donated with the intention to support the University and its discretely presented component units in perpetuity; they often come with stipulations regarding usage (by donor or trustees) of fund

Fair Value - the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a specific date

Fiscal Year - UF's fiscal year runs July 1 - June 30

Liabilities - claims against the University's resources (assets)

Loans and Notes Receivable - all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs

Net Position - the difference between assets plus deferred outflows and liabilities plus deferred inflows

Noncurrent Assets - an asset that is not likely to turn into cash within one year of the balance sheet date; also called a long-term asset

Noncurrent Liabilities - long-term financial obligations listed on the University's balance sheet that are not due in the present fiscal year

Nondepreciable - capital assets that are inexhaustible or where the useful life does not decrease or expire over time; examples would include land or art collections

Unearned Revenue - when the University receives payment for a service or product, but the University has not yet performed the service or delivered the goods

Unrealized - an unrealized gain is a profit as a result of any type of investment increasing in value after it has been purchased, but the investment has not been cashed in; an unrealized loss occurs when an investment decreases after it is purchased, but the investment has not been sold. Gains and losses are "realized" when the investment is sold