Progress through adversity: This phrase summarizes Fiscal 2009’s financial performance. Investments of endowment, working capital, and pension assets declined significantly as Wall Street had its worst performance since the Great Depression. University administration moved early in response to the downturn, suspending hiring, delaying capital expenditures, and reducing other operating expenses.

These actions improved operating results and protected liquidity, allowing the University to manage through a difficult year without the significant layoffs and/or borrowing that were required by many of our peer institutions. The University also benefited from conservative financial practices that minimized investments in illiquid assets like private equity and real estate and favored fixed-rate bonds over variable- or auction-rate debt. We were not invested in funds that had liquidity problems or with managers who were accused of illegal activities.

We ended 2009 with stable finances and a balanced budget for the year ahead.

Operating revenues from tuition and fees, health care, grants and contracts, and auxiliaries increased from the prior year—in many cases by substantial amounts, a product of strategic initiatives across the University. Philanthropy, including restricted and unrestricted gifts and trusts, declined 12 percent, a modest amount considering changes in market conditions. We are grateful for the generosity of our trustees, alumni, and other supporters.

Operating revenues increased $240 million, or 13 percent, to a record $2.1 billion. Tuition revenue, net of financial aid, increased 3.3 percent. Grants and contracts were up 1 percent. Auxiliary enterprise revenues increased 7.8 percent.

Medical professional practice revenue from the University’s 900 physicians increased 10.3 percent, while hospital and clinic revenues increased 45.4 percent. All three University hospitals had revenue growth, with Sylvester Comprehensive Cancer Center/UMHC up 13.6 percent and University of Miami Hospital up 36.4 percent when compared to the previous 12 months, during which the University owned the facility for six months. Anne Bates Leach Eye Hospital (ABLEH) revenues increased 5.3 percent. For the sixth consecutive year, Bascom Palmer Eye Institute, resident at ABLEH, was named the country’s top eye hospital by U.S. News & World Report.

Operating expenses increased $286 million, or 16 percent, due primarily to the University of Miami Hospital acquisition, new faculty recruits, and targeted investments in research, teaching, and patient care.

Unrestricted net assets from operating activities declined $50 million, due primarily to a $17 million decrease in interest income on working capital and investment in strategic initiatives at the Miller School of Medicine.

The University had a reduction in net assets from non-operating activities of $294 million, due primarily to a decline in endowment, annuity, and other investment return, and negative pension-related changes of $112 million, due to the decline in the value of investments in the Employee Retirement Plan. Total net assets declined by $456 million.

The Growth Pool, made up of endowment and a portion of working capital, had a negative investment return of 24.7 percent. All classes of assets—domestic and international equities, real estate and commodities, private equity, and hedge funds—declined. It’s small consolation that the Growth Pool exceeded its benchmark by 2 percent and fared better than the S&P 500, which declined 32.6 percent. Under the guidance of the Investments Committee, the administration reevaluated asset allocation of Growth Pool and pension asset investments. We continue to believe that a highly diversified portfolio will have the best return on investment in the long term. Unlike some other private research institutions, endowment spending accounts for less than 2 percent of operating revenues. While a decline in asset value is painful, its effect on short-term operations is minimal.

University of Miami Hospital executed its pre-acquisition business plan, maintaining a solid base of admissions from community physicians and growing through referrals from UM specialists. Of particular note, the cardiology and sports medicine programs had significant volume growth. Versus the previous 12 months, admissions increased 15 percent. Catheterization lab cases increased 79 percent. Surgeries jumped 19 percent.

A number of capital projects were completed during the year at the Miller School of Medicine. The 188,000-square-foot Biomedical Research Building opened in May with major tenants including the Husman Institute for Human Genomics and the Interdisciplinary Stem Cell Institute. A 1,500-space parking garage and 28,000-square-foot central energy plant were also completed.

On the Coral Gables campus, phase two of the renovation and expansion of Mark Light Field at Alex Rodriguez Park, home to the four-time national champion Hurricanes baseball team, was completed, as was the 30,000-square-foot Fieldhouse, which serves as a
Confidence—and, with it, liquidity—disappeared overnight, leading to severe asset price deflation. Those investors with liquidity required a much higher expected return to invest in risky assets; those in need of liquidity drove prices precipitously lower, and many assets were sold at fire-sale prices. Risk throughout the global financial system was re-priced rapidly, and only sovereign debt performed well in 2008.

As we begin to sort through the damage and understand better what happened, one event stands out: The global economy and most of its markets suffered what economists call a “sudden stop” after the disorderly failure of Lehman Brothers investment bank in mid-September. As in a cardiac arrest, the sole focus thereafter has been to resuscitate and stabilize the “patient” and keep him alive.

In the midst of the economic meltdown, the financial world learned of the largest and perhaps longest-running Ponzi scheme in history. This led to an additional loss of confidence in the financial system and its regulatory oversight. Fortunately, the University has had in place a strong process of due diligence that has thus far allowed it to avoid such scams and investment frauds.

Investing for the Future

The past 12 months were the most difficult in memory for global economies, financial markets, and, by extension, the University of Miami’s endowment. Fiscal 2009 saw the bursting of three important bubbles simultaneously: U.S. residential property prices, U.S. mortgage creation and securitization, and the negative impact on the global “shadow” (non-FDIC-insured) banking system.

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