Strong Revenues as Steady Recovery Continues

Fiscal 2011 was marked by steady operational performance and strong investment returns. Our largest sources of operating revenue—tuition and fees, grants and contracts, and clinical care from UM physicians and facilities—each had significant growth over the prior year.

Investment returns for both the Growth Pool, composed of endowment and a portion of working capital, and the Employees Retirement Plan pension assets approached 20 percent. Unfortunately, there is no time to rest on our laurels. The new fiscal year started off with uncertainty in domestic and international markets and concerns about a double-dip recession. We continue to believe that the University’s long-term interests are best served by a diversified asset allocation coupled with talented investment managers.

Overall net assets increased $215.5 million, bringing total net assets to $1.574 billion. Unrestricted net assets from operating activities increased $14 million; unrestricted net assets from non-operating activities increased $187.7 million, principally from investment returns. Temporarily and permanently restricted net assets increased by a combined $13.8 million.

Operating revenues were driven by strong revenue growth throughout our operations.

Operating revenues grew $133.6 million, or 6 percent; operating expenses grew $132.1 million, also 6 percent.

Tuition revenue increased $17.9 million, or 5 percent. Freshman applications for fall 2011 reached a record high of nearly 28,000, an increase of 7 percent from the prior year.

Grants and contracts revenues increased $45 million, or 9 percent, to $518.8 million.

Clinical revenue, which accounts for half of all operating revenues, increased $73.6 million, or 7 percent. Medical professional practice revenue increased 4 percent. Each of our three hospitals had substantial revenue growth, with Sylvester Comprehensive Cancer Center/UMHC up 15 percent, University of Miami Hospital up 8 percent, and Anne Bates Leach Eye Hospital up 10 percent.

New state legislation extended sovereign immunity protection to private university physicians who treat patients at public hospitals. This applies to UM physicians who practice at Miami-Dade County’s Jackson Memorial Hospital. It provides the same protection to UM physicians as has historically existed for Jackson physicians, nurses, and staff. Over time this will reduce the University’s costs for medical malpractice from services provided at the county-owned facility. We expect the new legislation to become effective during the first half of fiscal 2012.

Growth Pool investments returned 19.9 percent as our diversified portfolio provided a strong risk-adjusted return. For the year, the endowment increased $101.7 million, ending the year with a balance of $719.9 million.

Pension assets, with a slightly more conservative asset allocation, returned 18 percent. The unfunded balance of the Employees Retirement Plan, a defined-benefit pension plan that has been closed to new participants since June 2007, was reduced by $62 million to $246 million on a GAAP accounting basis with plan assets of $526 million at year end. The University anticipates continuing to make significant annual contributions to the plan until such time as it is fully funded.

Gifts and trusts from operating and non-operating sources totaled $105.2 million, essentially flat with the prior year. Fundraising totals per CASE (Council for Advancement and Support of Education) standards reached $172 million, up 8 percent. The University is in the latter stages of planning its next fundraising campaign, successor to the record-breaking Momentum campaign, which concluded at the end of 2007 and raised more than $1.4 billion for endowed chairs and...
professorships, scholarships, facilities, academic and medical programs, and other initiatives.

An updated five-year financial plan was approved by the University’s Board of Trustees. The plan is ambitious, as befitting a University with great ambitions. It includes continuing to strengthen the balance sheet via a disciplined, multi-year approach while moving forward with programmatic initiatives and capital projects that enhance teaching, research, and clinical care.

New and returning students at the Coral Gables campus this fall were greeted by a renovated Whitten University Center and a cordoned-off area where a state-of-the-art, 118,000-square-foot Student Activities Center has broken ground. The new SAC will house the popular Rathskeller and other ground-floor retail spaces, offices for student organizations, lounges, and 12,000 square feet of multipurpose/meeting rooms. It was made possible by the generosity of the Fairholme Foundation, along with a dedicated student fee.

The new year will see groundbreaking of at least two other exciting projects. The 38,000-square-foot Interdisciplinary Neuroscience and Health Annex, an addition to the Cox Science Building, will include wet lab and auditory neuroscience facilities, a vivarium, faculty offices, and conference facilities. Funding will come primarily from an American Recovery and Reinvestment Act grant from the National Institutes of Health. And the 32,000-square-foot expansion of the Hecht Athletic Center to house the Theodore G. Schwartz and Todd G. Schwartz Center for Athletic Excellence will include new locker rooms, a players’ lounge, and a major expansion of academic space for student-athletes, which will benefit all sports. It will be funded by philanthropy, including a generous naming gift from Ted and Todd Schwartz.

In the planning stages are an 86,000-square-foot Marine Technology and Life Science Seawater Research Building for the Rosenstiel School of Marine and Atmospheric Science, along with phase-one facility expansions for both the School of Law and Frost School of Music.

Design development is complete for the UHealth Clinic, a 206,000-square-foot outpatient facility planned for the University’s Coral Gables campus. Planning is also well under way for the
consolidation and expansion of UHealth facilities in west-central Broward County. The geographic expansion of UHealth facilities will provide improved access to South Florida’s best physicians to residents, visitors, and the University’s own faculty, staff, and students. All of these major capital projects are managed by Vice President of Real Estate and Facilities Larry Marbert and his talented staff in the real estate and facilities division.

R+D Building One of the University of Miami Life Science & Technology Park (LSTP) opened this fall with the expanded UM Tissue Bank as its anchor tenant. The LSTP, a partnership between the University’s real estate subsidiary, Miami Asset Management Company (MAMCO), led by CEO Michael Katz, and developer Wexford Miami, LLC, is planned for five buildings totaling in excess of 1.5 million square feet. The park will house a diverse group of companies, including startups that will leverage discoveries made by UM faculty.

Technology will play a critical role in our future success. Last year saw implementation of the Epic electronic medical record and billing system throughout most of UHealth’s clinical operations. The University is about to launch a major project to replace student, human resources/payroll, and financial administrative systems. Technology throughout the University is already benefiting from the leadership of new Vice President and Chief Information Officer Steve Cawley, who moved to the University from a similar position at the University of Minnesota. Our faculty, students, and staff need cutting-edge tools to do their best work. We are committed to providing just that.

The University is committed to upholding the highest standards of personal and professional conduct in everything it does. Compliance with standards is tied to a system of internal controls that facilitates timely identification of inappropriate behaviors or transactions. Our goal is for internal controls and compliance efforts to operate at the highest levels. Nothing less is acceptable. The administration monitors University operations through enterprise risk management; ongoing reviews of policies and training that are provided to new hires and veteran employees; and by ensuring that compliance efforts throughout our operations are proactive and tenacious.

Continuing to climb the ranks of the nation’s best private research institutions will depend on the University’s talented and dedicated faculty and staff. We are grateful for all of their contributions in the past year and excited about the year ahead. Our Human Resources division, led by Vice President Nerissa Morris, will focus particularly on two initiatives this year—encouraging employee engagement and ensuring that the diversity of our students, faculty, and staff is valued and nurtured in ways that add to the specialness of our great University.

Let me close by thanking our faculty and staff for their extraordinary commitment to the University. Recent faculty and staff surveys showed that our people are proud to work for the University of Miami, believe strongly in its goals and objectives; and are willing to put in a great deal of extra effort to help the University of Miami succeed. That’s apparent and greatly appreciated, every day, in many ways.

Joe Natoli
Senior Vice President for Business and Finance
and Chief Financial Officer