

An Analysis of Revenues and Expenditures at the University of
Northern Iowa

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A Fundamental Analysis of Expenditures at the University of Northern Iowa

This study conducts a fundamental analysis of expenditures at the University of Northern Iowa (UNI). Fundamental analysis is a technique developed by financial analysts to shed light on the performance of a publicly owned company, such as General Motors, Microsoft, or IBM. Applying this technique to a state university, such as UNI, is not without its problems. Because a state university does not depend upon the sale of a product as its primary source of revenue, fundamental analysis of the revenues of a state university is not particularly revealing. On-the-other-hand, fundamental analysis of the expenditures of a state university can be very revealing. In a fundamental analysis of expenditures, the financial analyst examines how the subject company's expense ratios compare to those of comparable companies. An expense ratio is simply the amount spent in one particular standard expenditure category (such as advertising) divided by total expenditures over a given period of time, usually one year. This technique can easily be applied to UNI's expenditures, because the U.S. Department of Education requires universities receiving federal funds (such as grants, contracts, and student loans) to report their expenditures (and revenues) using well-defined, standard, expenditure categories. Specifically, a fundamental analysis of expenditures at UNI is performed using data obtained from the U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS). The analysis is enriched using data from the University of Northern Iowa's Supplement to the Comprehensive Annual Financial Report

(Supplement Reports) for various years, and selected Board of Regents reports. IPEDS is the most reliable source of data for comparing multiple institutions of higher education, because this data is certified by the reporting institutions as being complete and accurate. Also, the UNI Supplement Reports are certified by the Controller and Vice President for Administration and Finance at UNI to be in conformance with the highest standards of financial accountability. Similarly, the data contained in Board of Regents reports is regarded as being accurate. In short, there are no sources of revenue and expenditure data more accurate than those used in this study.

A comparison of UNI expenses with those at similar universities is performed using the ten peer institutions used by the Board of Regents to study faculty salaries at UNI. The Board of Regents also has compiled similar lists of peer institutions for the other two Regents Universities in Iowa. The institutions in the UNI peer list represent the Board's best effort at identifying universities that are comparable to UNI, and the institutions on this list have not changed in many years.

Expense ratios (expenditures on a particular item divided by total expenditures) can be interpreted as measures of the priority or importance of each expense category within the institution. Comparing UNI to its peer's ratios reveals the differences in the priority or importance of each expense category to the institutions. For example, if UNI spends a larger proportion of its funds in some particular area than any of its peers, then UNI places a higher priority or greater importance on that area than its peers. However, the data cannot explain why any particular area has a higher priority or greater importance than another. In general, expense ratios vary due to (1) external forces, such as the climate in which the institution is located or (2) internal forces, such as the

preferences and priorities of those who decide how the university's funds should be spent. Any forces that affect all of the universities in the group, such as competition for faculty, will not lead to differences in expense ratios. Only those forces, external or internal, that are unique to the university drive differences in expense ratios.

Unfortunately, the IPEDS data does not shed much light on expenses within any particular broad expenditure category. So, in order to study some of the expense categories with greater detail, other data is necessary. This study singles out a few of the more interesting expenses areas for further study using UNI Supplement Financial and Board of Regents Reports. Furthermore, the expenditure categories reported in the UNI Supplemental Financial Reports are not identical to the IPEDS expenditure categories.

Analysis of IPEDS Data

IPEDS collects expenditure data in twelve categories. Two of these categories (hospital services and independent operations) have zero dollar expenditures reported for UNI and all of its ten peer institutions, and the "other" expenditure category contains too little detail to be of practical interest. Therefore, the analysis will focus on the major nine IPEDS categories defined in Table 1.

Figure 1 shows the expenditure ratio at UNI among the IPEDS categories for the latest year (2005-06) for which IPEDS data is available, including the "other" category for completeness. As expected, instructional expenditures is the largest category at 30.72%. The spending on auxiliary enterprises (18.79%) ranks second. Spending in several areas (plant operations and management, institutional support, academic support,

and public services) hovers right around ten percent. Spending on student services (2.73%), scholarships (1.9%), and research (0.65%) rank very low at UNI.

The expenditure ratios reported in Figure 1 reveal the priorities of UNI very well. For example, because UNI is primarily a teaching university, we would expect the expense ratio for instruction to be the highest. But, to address whether or not UNI is spending too much or too little in any expenditure category requires us to compare UNI's expense ratios to those of our peer institutions. Table 2 reports the expense ratios for each of the eight major IPEDS expenditure categories for UNI and its peers. Within each category the institutions are arranged in rank order, from largest to smallest, with UNI in bold print. Table 2 also reports the percent of the average spending of UNI's peers within each category.

The data reveals that relative to its peers, UNI places a high priority/importance on public service, institutional support, and auxiliary enterprise expenditures, while placing a relatively low priority/importance on instructional, research, student services, and scholarships and fellowships expenditures. Expenditures at UNI on plant operations and maintenance rank close to the middle of its peers. Analysis of previous years IPEDS data (1996-97 thru 2004-05) shows that the expense ratios revealed in Table 2 for the 2005-06 fiscal year have not changed very much.¹

Spending in the instruction and auxiliary enterprises categories stand out in Table 2. These categories deserve closer attention. UNI devotes less of its budget to instruction than do all of the rest of its peers except one, The University of Minnesota-Duluth. UNI devotes 14 percent less of its budget to instruction than the average among

¹ In order to save space, these historical data are not included in this report, but are available from the author upon request.

its peers. As pointed out earlier, this difference is due to either external or internal forces unique to UNI. If the Board of Regent's peer institutions for UNI are truly comparable to UNI, then UNI faces the same external forces as its peers. Thus, much of the difference in the spending on instruction at UNI is attributable to internal differences. That is, UNI spends relative less than its peers on instruction primarily due to internal decision to do so. There is no doubt that if UNI desires to keep up with its peers, it should significantly the amount it spends on instruction. There are two primary ways to increase spending on instruction: (1) increase the salary of everyone who teaches at UNI or (2) hire more people to teach at UNI. Any combination of these two techniques would certainly have the effect of getting UNI's spending on instruction more in line with its peers.

UNI devotes more of its budget to auxiliary enterprises than any of its peers. In fact, UNI spends 52 percent more of its budget on auxiliary enterprises than the average among its peers. This difference is attributable to differences in either external or internal forces. To better understand these differences it is useful to examine spending on auxiliary enterprises more carefully.

Analysis of UNI Financial and Board of Regents Reports on Auxiliary Enterprises

The auxiliary enterprises IPEDS expenditure category is worthy of further analysis for three reasons: First, UNI devotes more of its budget to auxiliary enterprise activities than do any of its peers. Second, UNI's auxiliary enterprise expenditures represent a significant share (18.79%) of its total operating costs. Third, many auxiliary enterprise activities are not critical to the educational mission of a university. For example, there are many universities more renown than UNI that do not compete in

intercollegiate football, that do not operate wellness centers, or that do not operate a performing arts center. Indeed, it is not uncommon for the auxiliary enterprise areas of some universities to be completely self-sustaining, or even to produce an operating revenue surplus. The question of how much of its resources UNI should devote to these auxiliary activities is a normative question that cannot be answered by this study. However, the amount of resources that UNI devotes to these activities can be examined. Unfortunately, IPEDS data does not contain sufficient detail to make an analysis of expenditures within the auxiliary enterprises category. However, UNI financial and some Board of Regents reports do contain this detail.

Table 3 presents an overview of the major areas of auxiliary enterprise expenditures at UNI as reported in the university's (2005-06) Annual Financial Report. The residence halls represent the largest area within auxiliary enterprises at UNI, followed by intercollegiate athletics and miscellaneous. It is not uncommon for residence halls to be a large operation at a non-urban university, such as UNI, where many students live on campus. Also, Iowa law requires that all revenues generated by residence halls be devoted to its residence halls; the university cannot divert excess revenues generated from the operations of residence halls to subsidize other areas within the university. Figure 2 contains a bar chart of the revenues and expenses for all of the auxiliary enterprise areas except residence halls; the residence halls are omitted, because excess revenues in this area are required by state law to remain in the area. Figure 2 reveals the extent to which intercollegiate athletics dominates auxiliary expenditures at UNI.

The rather large level of revenues/expenditures in the miscellaneous area deserves further mention. The major items included in this area are parking operations, new

student programs, registration services, football playoffs, apple resale operating account, dramatic arts, PLS hot lunch program, rental properties, plus many small items related to intercollegiate athletics. The football playoffs item, of course, will vary from year to year, depending upon the success of the football team. The field house area represents UNI Dome operations.

Some areas within auxiliary enterprises receive support from the General Education Fund (primarily state appropriations, tuition and some fees) over and above any student fees dedicated to these areas. Table 4 presents the amount of General Education Funds allocated to subsidize the operations of these three areas in 2005-06. Each of these areas generates revenues. But, the revenues generated (earmarked student fees, ticket sales, etc.) are not sufficient to pay all of the expenses in some of these areas. Currently, UNI takes nearly nine million dollars out of its state appropriations and tuition and fees revenues to subsidize various auxiliary enterprise operations. The largest subsidy goes to support intercollegiate athletics. Figure 3 shows the General Education Fund subsidies paid to intercollegiate athletics, the Gallagher-Bluedorn PAC, the wellness and recreation center, and Mauker Union for the past seven years. Clearly, the size of the subsidy paid to intercollegiate athletics has been growing more dramatically than the other areas.

It is difficult to judge the extent to which any particular operation within the university should be subsidized. One way to assess these subsidies is to compare them to subsidies at other universities. Unfortunately, IPEDS data does not contain sufficient detail to perform this comparison. But, the Board of Regents singles out one of these areas, namely intercollegiate athletics, for comparison across the three Regents

Universities. Table 5 shows the dollar amount of General Education Funds and percent of total revenues that each university has budgeted in 2006-07 for the support of athletics. The percent of total revenues in athletics that comes from the General Education Fund varies widely among the three universities, with the UNI General Education Fund support of athletics representing over half of the total revenues going into this area. At SUI and ISU, the subsidy amounts to 2.81% and 8.86%, respectively, of their total revenues. Table 5 also reveals that the dollar amount of the subsidy paid to intercollegiate athletics at UNI is nearly double that paid to intercollegiate athletics at ISU and over three times the subsidy paid to SUI.

Summary

Examination of IPEDS data reveals that relative to its ten peer institutions, UNI places a higher priority on public services, institutional support, and auxiliary enterprises, while placing a lower priority on instructional support, research, student services, and scholarships and fellowships. Whether these priorities are appropriate or not is not addressed in this study. But, one possible guide for determining the appropriate priorities is the priorities at UNI's peer institutions reported in this study. The IPEDS data also reveals that UNI depends on state appropriations more than tuition and fees revenues relative to its peer institutions.

Examination of UNI's Financial Reports reveals that several areas within auxiliary enterprises receive substantial subsidies paid from the General Education Fund (primarily state appropriations and tuition and fees income). Intercollegiate athletics receives the largest subsidy, and the amount of this subsidy has been growing

dramatically over time. In addition, intercollegiate athletics at UNI depends much more heavily on General Education Fund subsidies than do intercollegiate athletics at the other two Regents universities. Certainly, intercollegiate athletics represents an important dimension of any university. But, the extent to which a university subsidizes intercollegiate athletics deserves careful study. The data reported in this study suggests that UNI places an extraordinarily high priority on, and diverts a substantially large amount of its state appropriations and tuition and fees income to support intercollegiate athletics at the expense of support to the instructional activities of the university. This practice deserves more careful scrutiny and evaluation.

The data also reveals that UNI places a relatively high priority on public service and institutional support activities. Unfortunately, detailed data regarding these two areas is not reported in the UNI Financial Reports similar to the data for auxiliary enterprises and intercollegiate athletics. But, simply because more detailed data is not readily available for these two areas, they too represent expenditures that deserve closer attention. Indeed, the fact that the expenditures in the areas of public service and institutional support are not easily identifiable in the standard UNI Financial Reports, suggests that these expenditures are probably not being scrutinized to the same degree as expenditures in the auxiliary enterprises area.

Similarly, the relatively low priority that UNI places on instruction might be a matter of grave concern for some. A reasonable person might regard instruction as the major mission of a university such as UNI. Yet, according to the data, instruction is given a relatively low priority at UNI. Unfortunately, UNI's Financial Reports do not report instructional expenditures in the same manner as auxiliary enterprises. A more

detailed examination of the instructional expenditures at UNI might reveal valuable insight into the most important operations of the university.

Table 1

Definitions of the Major IPEDS Expense Categories

Instruction - total expenses is the sum of all operating expenses associated with the colleges, schools, departments, and other instructional divisions of the institution and for departmental research and public service that are not separately budgeted. This would include compensation for academic instruction, occupational and vocational instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students.

Research - total expenses is the sum of all operating expenses associated with activities specifically organized to produce research outcomes and commissioned by an agency either external to the institution or separately budgeted by an organizational unit within the institution. The category includes institutes and research centers and individual and project research. This function does not include non-research sponsored programs (e.g., training programs).

Public service - total expenses is the sum of all operating expenses associated with activities established primarily to provide non-instructional services beneficial to individuals and groups external to the institution. Examples are conferences, institutes, general advisory services, reference bureaus, and similar services provided to particular sectors of the community. This function includes expenses for community services, cooperative extension services, and public broadcasting services.

Student services - total expenses is the sum of all operating expenses associated with admissions, registrar activities, and activities whose primary purpose is to contribute to students' emotional and physical well-being and to their intellectual, cultural, and social development outside the context of the formal instructional program. Examples include student activities, cultural events, student newspapers, intramural athletics, student organizations, supplemental instruction outside the normal academic program (remedial instruction for example), career guidance, counseling, financial aid administration, and student records.

Institutional support - total expenses is the sum of all operating expenses associated with the day-to-day operational support of the institution. Includes expenses for general administrative services, central executive-level activities concerned with management and long range planning, legal and fiscal operations, space management, employee personnel and records, logistical services such as purchasing and printing, and public relations and development.

Table 1
(Continued)

Operation and maintenance of plant - total expenses is the sum of all operating expenses associated with operations established to provide service and maintenance related to campus grounds and facilities used for educational and general purposes.

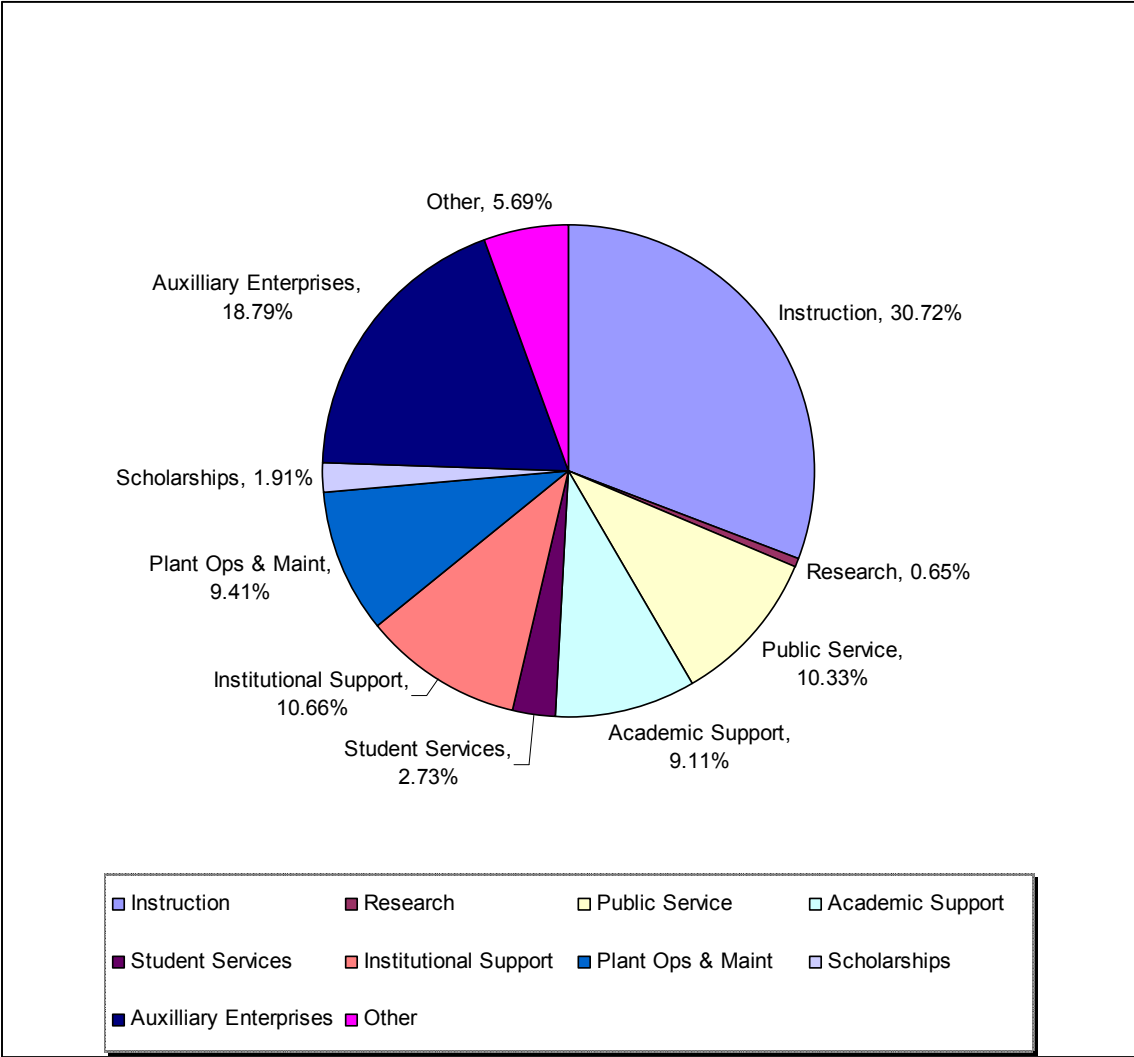
Academic support - total expenses is the sum of all operating expenses associated with activities and services that support the institution's primary missions of instruction, research, and public service.

Scholarships and fellowships - total expenses is the sum of all operating expenses associated with scholarships and fellowships treated as expenses because the institution incurs an incremental expense in the provision of a good or service. Thus, payments, made to students or third parties in support of the total cost of education are expenses if those payments are made for goods and services not provided by the institution. Examples include payments for services to third parties (including students) for off-campus housing or for the cost of board provided by institutional contract meal plans. The amount of expense in this function is the total of all institutional scholarships reduced by the amount that is classified as discounts and allowances.

Auxiliary enterprises - total expenses is the sum of all operating expenses associated with essentially self-supporting operations of the institution that exist to furnish a service to students, faculty, or staff, and that charge a fee that is directly related to, although not necessarily equal to, the cost of the service. Examples are residence halls, food services, student health services, intercollegiate athletics (only if essentially self-supporting), college unions, college stores, faculty and staff parking, and faculty housing.

Source: U.S. Department of Education, IPEDS.

Figure 1
 Expenditure Ratios at UNI
 (2005-06)



Source: U.S. Department of Education, IPEDS.

Table 2

Rank Ordering of Major IPEDS Expense Ratios
(2005-06)

| Institution | Instruction | % of AVG |
|--|---------------|-------------|
| University of Wisconsin-Eau Claire | 38.76% | 1.09 |
| Central Michigan University | 38.63% | 1.09 |
| University of North Texas | 37.59% | 1.06 |
| Ohio University-Main Campus | 37.39% | 1.05 |
| California State University-Fresno | 35.02% | 0.99 |
| University of North Carolina at Greensboro | 35.02% | 0.99 |
| Illinois State University | 34.20% | 0.96 |
| Northern Arizona University | 33.29% | 0.94 |
| University of Northern Iowa | 30.72% | 0.86 |
| University of Minnesota-Duluth | 29.73% | 0.84 |

| Institution | Auxiliary Enterprises | % of AVG |
|--|-----------------------|-------------|
| University of Northern Iowa | 18.79% | 1.52 |
| University of Minnesota-Duluth | 18.53% | 1.50 |
| Central Michigan University | 17.96% | 1.45 |
| Ohio University-Main Campus | 15.27% | 1.24 |
| Illinois State University | 14.11% | 1.14 |
| Northern Arizona University | 11.58% | 0.94 |
| University of Wisconsin-Eau Claire | 11.36% | 0.92 |
| University of North Carolina at Greensboro | 10.37% | 0.84 |
| University of North Texas | 8.77% | 0.71 |
| California State University-Fresno | 3.35% | 0.27 |

| Institution | Public Service | % of AVG |
|--|----------------|-------------|
| University of Northern Iowa | 10.33% | 2.62 |
| Northern Arizona University | 8.36% | 2.12 |
| Illinois State University | 5.23% | 1.33 |
| University of North Carolina at Greensboro | 5.22% | 1.33 |
| Central Michigan University | 5.09% | 1.29 |
| Ohio University-Main Campus | 4.31% | 1.10 |
| University of Wisconsin-Eau Claire | 2.52% | 0.64 |
| University of Minnesota-Duluth | 2.03% | 0.52 |
| University of North Texas | 1.79% | 0.45 |
| California State University-Fresno | 0.90% | 0.23 |

Table 2 (Continued)

Rank Ordering of Major IPEDS Expense Ratios
(2005-06)

| Institution | Institutional Support | % of AVG |
|--|-----------------------|-------------|
| University of Northern Iowa | 10.66% | 1.38 |
| Northern Arizona University | 10.58% | 1.37 |
| Illinois State University | 8.84% | 1.14 |
| University of North Carolina at Greensboro | 8.72% | 1.13 |
| California State University-Fresno | 8.16% | 1.06 |
| University of North Texas | 7.74% | 1.00 |
| Central Michigan University | 7.68% | 0.99 |
| University of Wisconsin-Eau Claire | 6.91% | 0.89 |
| University of Minnesota-Duluth | 5.69% | 0.74 |
| Ohio University-Main Campus | 5.22% | 0.68 |

| Institution | Academic Support | % of AVG |
|--|------------------|-------------|
| California State University-Fresno | 13.92% | 1.49 |
| University of Wisconsin-Eau Claire | 11.65% | 1.24 |
| University of North Texas | 10.41% | 1.11 |
| University of North Carolina at Greensboro | 10.28% | 1.10 |
| Ohio University-Main Campus | 9.62% | 1.03 |
| University of Northern Iowa | 9.11% | 0.97 |
| Northern Arizona University | 8.33% | 0.89 |
| University of Minnesota-Duluth | 8.31% | 0.89 |
| Central Michigan University | 7.66% | 0.82 |
| Illinois State University | 4.18% | 0.45 |

| Institution | Student Services | % of AVG |
|--|------------------|-------------|
| University of Wisconsin-Eau Claire | 13.47% | 1.73 |
| University of North Texas | 11.75% | 1.51 |
| Illinois State University | 10.75% | 1.38 |
| California State University-Fresno | 8.26% | 1.06 |
| Northern Arizona University | 6.88% | 0.88 |
| Central Michigan University | 5.07% | 0.65 |
| Ohio University-Main Campus | 5.00% | 0.64 |
| University of North Carolina at Greensboro | 4.66% | 0.60 |
| University of Minnesota-Duluth | 4.39% | 0.56 |
| University of Northern Iowa | 2.73% | 0.35 |

Table 2 (Continued)

Rank Ordering of Major IPEDS Expense Ratios
(2005-06)

| Institution | Scholarships | % of AVG |
|--|--------------|---------------|
| California State University-Fresno | 14.04% | 261.02% |
| University of North Texas | 7.96% | 147.97% |
| Illinois State University | 5.41% | 100.64% |
| Central Michigan University | 4.61% | 85.76% |
| University of North Carolina at Greensboro | 4.47% | 83.04% |
| University of Minnesota-Duluth | 4.45% | 82.79% |
| Northern Arizona University | 3.80% | 70.59% |
| University of Wisconsin-Eau Claire | 2.96% | 55.02% |
| University of Northern Iowa | 1.91% | 35.47% |
| Ohio University-Main Campus | 0.71% | 13.17% |

| Institution | Research | % of AVG |
|--|--------------|-------------|
| University of Minnesota-Duluth | 8.73% | 2.06 |
| Ohio University-Main Campus | 7.94% | 1.87 |
| Northern Arizona University | 6.83% | 1.61 |
| Illinois State University | 5.00% | 1.18 |
| University of North Carolina at Greensboro | 3.96% | 0.93 |
| University of North Texas | 3.25% | 0.77 |
| Central Michigan University | 1.56% | 0.37 |
| University of Northern Iowa | 0.65% | 0.15 |
| University of Wisconsin-Eau Claire | 0.61% | 0.14 |
| California State University-Fresno | 0.30% | 0.07 |

| Institution | Other | % of AVG |
|--|--------------|-------------|
| Ohio University-Main Campus | 6.34% | 1.33 |
| Central Michigan University | 6.26% | 1.32 |
| University of Minnesota-Duluth | 6.11% | 1.28 |
| University of Northern Iowa | 5.69% | 1.20 |
| Northern Arizona University | 5.09% | 1.07 |
| Illinois State University | 5.04% | 1.06 |
| University of Wisconsin-Eau Claire | 4.14% | 0.87 |
| University of North Carolina at Greensboro | 3.75% | 0.79 |
| University of North Texas | 3.34% | 0.70 |
| California State University-Fresno | 2.77% | 0.58 |

Source: U.S. Department of Education, IPEDS.

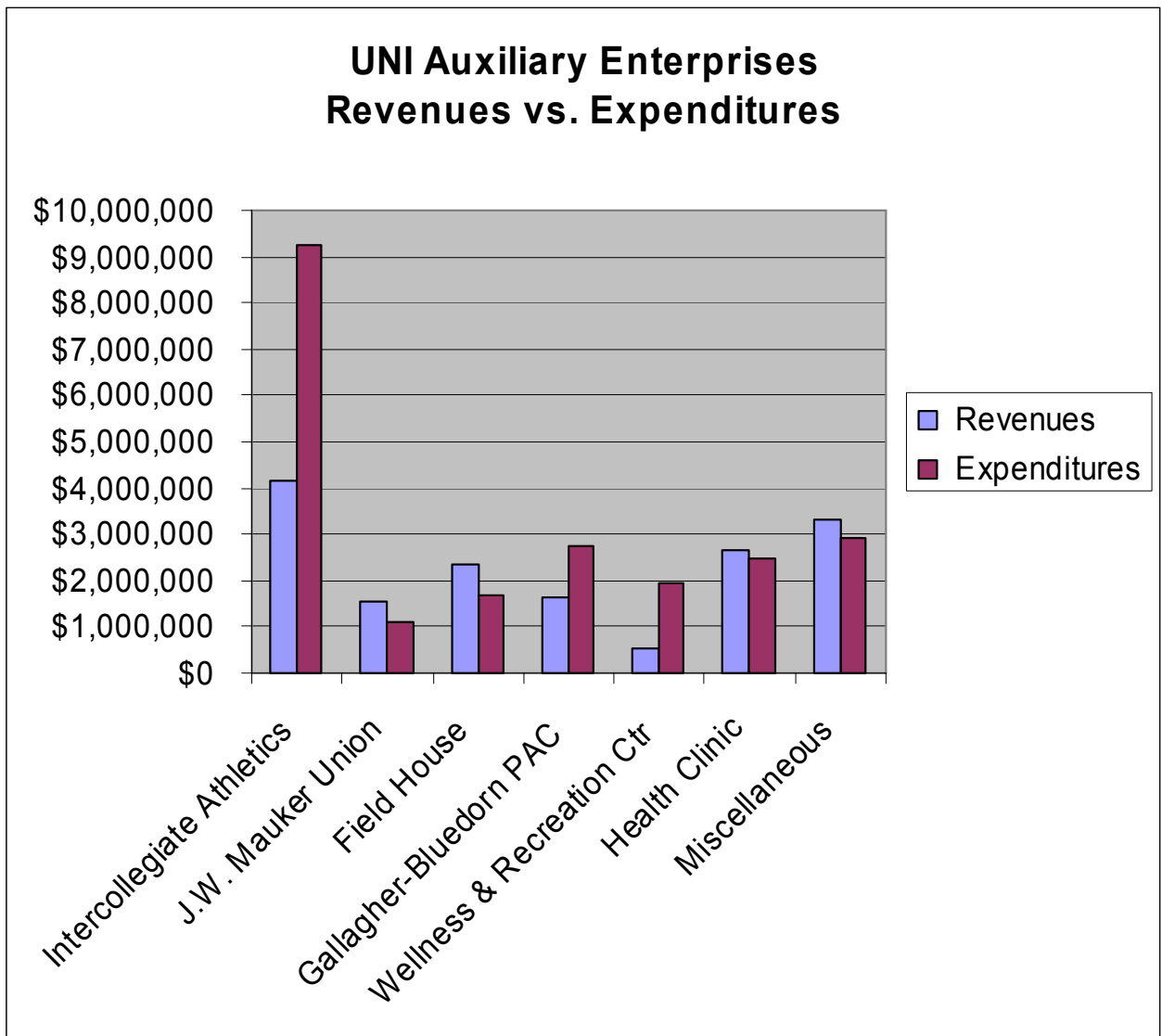
Table 3

Summary of Auxiliary Enterprise Revenues and Expenditures at UNI
(2005-06)

| Area | Revenues | Expenditures |
|-----------------------------|--------------|--------------|
| Residence System | \$27,343,895 | \$21,164,769 |
| Intercollegiate Athletics | \$4,172,916 | \$9,260,964 |
| J.W. Mauker Union | \$1,560,743 | \$1,121,446 |
| Field House | \$2,353,994 | \$1,700,875 |
| Gallagher-Bluedorn PAC | \$1,619,195 | \$2,735,877 |
| Wellness & Recreation Ctr | \$529,076 | \$1,930,989 |
| Health Clinic | \$2,670,545 | \$2,493,100 |
| Miscellaneous | \$3,299,268 | \$2,902,197 |
| Total Auxiliary Enterprises | \$45,549,632 | \$43,310,217 |

Source: 2005-06 Supplement to the Comprehensive Annual Financial Report, University of Northern Iowa.

Figure 2



Source: UNI Supplement to the Comprehensive Annual Financial Report, 2005-06.

Table 4

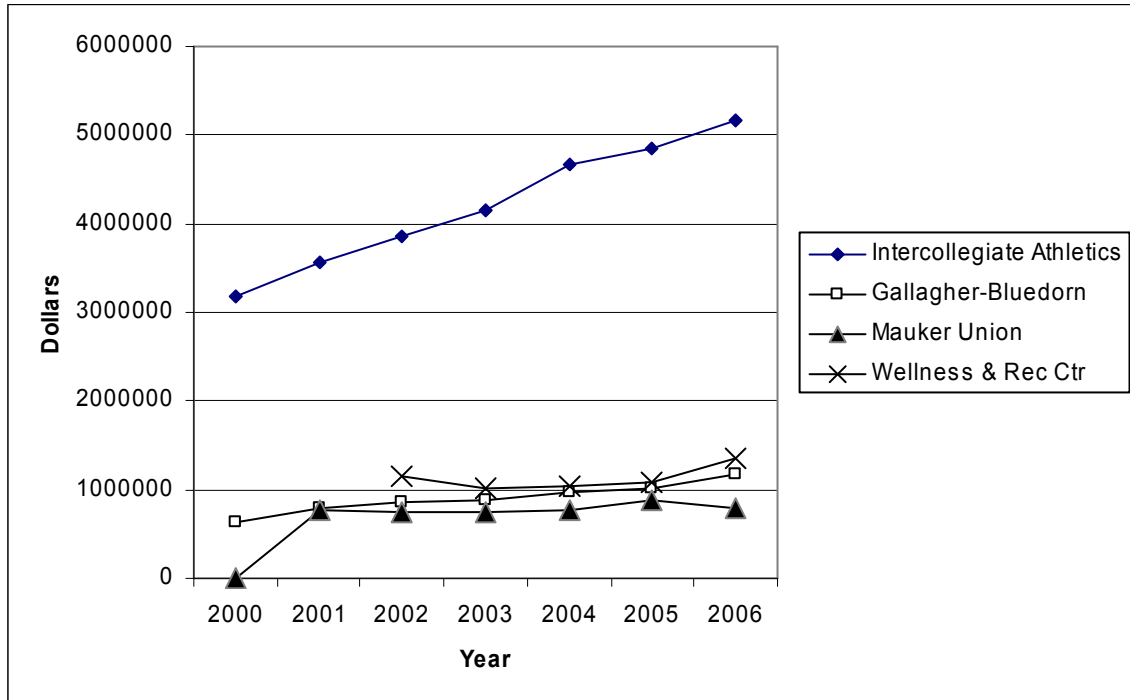
General Education Funds Diverted to Subsidize Auxiliary Enterprise Areas
(2005-06)

| Area | Amount |
|---------------------------|-------------|
| Intercollegiate Athletics | \$5,156,086 |
| Gallagher-Bluedorn PAC | \$1,164,205 |
| Wellness & Recreation Ctr | \$1,351,482 |
| J.W. Mauker Union | \$796,277 |
| Health Clinic | \$389,040 |
| Total | \$8,857,090 |

Source: 2005-06 Supplement to the Comprehensive Annual Financial Report, University of Northern Iowa

Figure 3

Intercollegiate Athletics, Gallagher-Bluedorn PAC, Mauker Union, and Wellness & Recreation Center General Education Fund Subsidies
(2000 thru 2006)



Source: UNI Supplement to Annual Financial Report, 2000 thru 2006.

Table 5

Comparison of General Education Funds Allocated to Intercollegiate Athletics at UNI, SUI, and ISU

| Area | SUI | | ISU | | UNI | |
|--------------------------------|-------------|------------|-------------|------------|-------------|------------|
| | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| General Education Fund Support | \$1,573,359 | 2.81% | \$2,974,067 | 8.86% | \$5,083,347 | 53.63% |

Source: “Approval of FY 2007 University Budgets, Agenda Item 7, August 8-9, 2006”
Board of Regents, State of Iowa.