Analysis of the Financial Audits of the University of South Florida

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1 *Purpose of the Financial Audit Analysis*

While the process of collective bargaining reflects the tension produced by management and labor strategies to represent their separate interests, both sides must cooperate in order to achieve an agreement that is satisfactory to both sides (Balliet, 1987). Cooperation is founded in trust, and the basis of trust in many negotiations is confidence in the audited financial information analyzed by both parties, as that information informs the financial status of the institution both sides serve. Other factors which address the efficiency and effectiveness of collective bargaining are covered in the literature (Julius & DiGiovanni, 2016). To the extent that the financial status of the institution is strong, both parties benefit in the short- and long-term.

The financial status of a public institution is best understood in the context of its audited financial statements. In the present case, these are provided in the annual financial audits conducted by the Florida Auditor General.[1] Supplemental data from the Florida Department of Education, the U.S. Department of Education's Institute for Education Sciences (IES), and the Carnegie Classification of Institutions of Higher Education at the Center for Postsecondary Research at the Indiana University School of Education were used to contextualize the University's financial information. Any errors that might exist in these materials may also be reflected in this document.

GASB Concepts Statement No. 1, Objectives of Financial Reporting, states that financial reporting is a means of communicating financial information to users (GASB, 2019, ¶4, B7). For this communication to be effective, the information in a financial report must be characterized by understandability, reliability, relevance, timeliness, consistency and comparability (GASB, 2019, ¶62, B22). In regards to comparability, it should be noted that the University implemented GASB Statement No. 68 in FY2015 (see page 2 of the State of Florida Auditor General's Financial Audit for the University of South Florida, FY2015). GASB Statement No. 68 changed financial reporting for postemployment benefits other than pensions, and, as such, represents a significant change in the reporting context of the University. Therefore, this financial audit analysis covers FY2015-19.

This report is intended solely for the leadership of the United Faculty of Florida (UFF) and the leadership of its local association at the University of South Florida. Every effort has been made to ensure that the information in this report is accurate. Any errors or misstatements are purely unintentional. It was conducted in order to provide information relative to the economic condition of the University in preparation for collective bargaining. This report builds upon the information provided to UFF staff in the text by Dubeck and Gascon (2013), and the unpublished 2018 update which was shared with UFF staff in October 2020. UFF is the bargaining unit representative for employees at the University of South Florida (National Education Association, 2018, pp. 99).

2 *University and Component Unit Descriptions*

The University of South Florida (USF) is a Preeminent State Research University located in the Tampa Bay region with campuses in Tampa, St. Petersburg and Sarasota-Manatee. As a Preeminent State Research University, it has received an increase of approximately $6.15 million in new funding from the State of

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[1] Under Florida law, the Florida Auditor General shall annually conduct financial audits of all state universities and Florida College System institutions and verify the accuracy of the amounts certified by each state university and Florida College System institution chief officer (§ 11.45(2)(c), Fla. Stat. (2020). The direct-support organizations which serve state universities are required to file a financial audit conducted by an independent certified public accountant in accordance with rules adopted by the Auditor General and by the university board of trustees (§1004.28 (5)(a), Fla. Stat. (2020).

Florida each year since 2018.[2] The University was founded in 1956, and currently offers more than 180 majors and concentrations through 14 colleges. The basic Carnegie Classification of the institution is one of doctoral universities: very high research activity.[3]

According to the National Center for Education Statistics (NCES) of the Institute of Education Sciences (IES), the University of South Florida (IPEDS ID 137351) is a four-year public university that offers awards up to doctor's degree – research/scholarship, - professional practice in a large city setting with campus housing. Its student population is 44,246 (32,684 undergraduate), and its student to faculty ratio is 23 to 1. As of autumn 2019, 76.1% (2212 / (2212+694) of its total faculty are full-time. NCES notes that the University is accredited by the Southern Association of Colleges and Schools of the Commission on Colleges. SACSCOC is one of six regional, independent, accreditors recognized by the United States Department of Education (USDOE) and the Council for Higher Education Accreditation (CHEA) that support the quality of higher learning. The U.S. Department of Education works with these accrediting agencies to ensure that its member institutions comply with federal laws and help determine institutional eligibility for federal assistance. The next SACSCOC review is scheduled for December 9, 2025.[4]

NCES provides a link to the USF mission statement on its website. Its mission is as follows:

> "The University of South Florida's mission is to deliver competitive undergraduate, graduate, and professional programs, to generate knowledge, foster intellectual development, and ensure student success in a global environment."

The University of South Florida is described in its latest annual audit as a reporting entity, along with its blended component unit (the University of South Florida Health Sciences Center Self-Insurance Program), and its direct-support organizations (see below). The University and its direct-support organizations are described in Note 1 of the FY2019 audit as such:

> Reporting Entity. "The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 years.

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[2] The amount of additional dollars awarded for preeminence is determined each year by the Legislature and Governor through the annual budget (source).

[3] The Carnegie Classification of Institutions of Higher Education® lookup function. Downloaded on January 9, 2021. Understanding the Carnegie Classification of the Institution is important in establishing benchmark organizations to compare an institution within the context of negotiations, as does the student to faculty ratio and proportion of full-time faculty (see footnote 3).

[4] Institute for Education Sciences, National Center for Education Statistics. Downloaded from the IES/NCES College Navigator on January 9, 2021. IPEDS is the Integrated Postsecondary Education Data System. It is a system of interrelated surveys conducted annually by the U.S. Department of Education's National Center for Education Statistics (NCES). IPEDS gathers information from every college, university, and technical and vocational institution that participates in the federal student financial aid programs. The Higher Education Act of 1965, as amended, requires that institutions that participate in federal student aid programs report data on enrollments, program completions, graduation rates, faculty and staff, finances, institutional prices, and student financial aid. These data are made available through the College Navigator and IPEDS Data Center.

The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations, and selecting the University President. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees....

… the University of South Florida is a component unit of the state of Florida, and its financial balances and activities are discretely presented in the State's Comprehensive Annual Financial Report.

<u>Direct-Support Organizations.</u> " The University's direct-support organizations are provided for in Section 1004.28, Florida Statutes, the Board of Governors Regulation 9.011. These legally separate, not-for-profit corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests and valuable education support services and are governed by separate boards. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- The University of South Florida Foundation, Inc. accepts, invests, administers, and distributes private gifts given for the funding of activities and facilities directly related to the mission, role, and scope of the University of South Florida.
- The University of South Florida Alumni Association, Inc. fosters the spirit of loyalty and fraternity among the graduates, former students, and friends of the University, and promotes their continued active interest in and on behalf of the University.
- The Sun Dome, Inc. operates a multi-purpose facility on behalf of the University of South Florida to provide the students, faculty, and staff of the University, as well as the general public, an array of cultural, athletic, and other educational events and activities, including a variety of entertainment events.
- The University of South Florida Institute of Applied Engineering, Inc. is organized and operated to provide applied engineering solutions to the United States Federal government as well as other State, County, and Municipal governments and industry. The Institute will enhance scientific research and educational opportunities for the University and community while attracting new technology-focused industries to the local geographic area.
- The University of South Florida Research Foundation, Inc. has been established to provide a means by which inventions and works may be developed, protected, applied, and utilized so that the results of University research will be made available to the public and funds will be made available from the commercial application of inventions and works to be dedicated to the benefit of the University and shared with the inventor/ author.
- The USF Financing Corporation (USFFC) was organized and operated to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University of South Florida.
- The USF Property Corporation was formed for the primary purpose of acting as lessor in connection with "lease-purchase" financings in support of the activities and educational purposes of the University of South Florida and of the USF Financing Corporation by assisting in acquiring facilities and construction facilities on the University campus and in general, furthering the University's education mission.

- The USF Health Professions Conferencing Corporation was established to provide educational, administrative, logistical, and financial services to support the USF Health's Office of Continuing Professional Development (OCPD). The OCPD is committed to sponsoring quality continuing educational activities to meet the needs of USF faculty, alumni, and healthcare professionals practicing throughout the State, nationally, and internationally.
- The University Medical Service Association, Inc. (UMSA) is approved as the USF Health Faculty Practice Plan (Plan) pursuant to Florida Board of Governors Regulation 9.017 and USF Regulation 9.017. UMSA specifically functions as the University's agent for the orderly collection and administration of income generated from University faculty practice in accordance with the Plan, and employs and provides personnel to support the USF Health clinical enterprise and mission.
- The University of South Florida Medical Services Support Corporation (MSSC) is organized and operated exclusively to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. At the September 16, 2015, Board meeting, the Board approved the transition of MSSC's operations to UMSA over the course of the 2015-16 fiscal year. MSSC continues to be a direct-support organization of the University but has no operations.

Thus, the University operates not only on the basis of its own resources, but on the considerable means of a number of institutions organized specifically to meet the mission of the University. The support provided by the organizations is considerable, and must be taken into account in any report of the financial condition of the University.[5]

3 *Accounting Standards and Financial Statements*

The independent auditor's reports on the University of South Florida offered an unmodified opinion on the University's financial statements and internal control over financial reporting and on compliance and other matters in each year under examination (State of Florida Auditor General, 2019, p. i; 2018, p. i; 2017, p. i; 2016, p. I; 2015, p. i). The audits disclosed that the basic financial statements of the University presented fairly, in all material respects, the respective financial position of the University and its discreetly presented component unit, and the respective changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Similarly, the independent auditors did not identify any deficiencies in internal control that they considered to be material weaknesses.

In Note 1 to the financial statements in all five financial audits under analysis, the University attested that its financial statements had been prepared using the economic resources measurement focus and the

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[5] Note 2 of the FY2019 USF audit indicates that those direct-support organizations (DSO) reporting previously under the FASB financial model converted to GASB in FY2019 as a result of a legal change made by the Florida Legislature (Chapter 2018-004).

While this impedes financial analyses of organizations before and after this change, it also means a material change between the University and one of its DSOs, the USF Financing Corporation (USFFC). The USFFC's conversion to GASB prompted a change in the accounting relationship between USFFC and the University from a conduit relationship accounted for in due to/due from transactions to a capital lease relationship pursuant to GASB Statement No. 62. In the conversion, the University recorded a capital lease payable and USFFC recorded a capital lease receivable related to USFFC's outstanding debt. USFFC derecognized the related capital assets, and the University recorded USFFC's derecognized capital assets as property under capital lease and leasehold improvements. The impact of this change echoes throughout the financial statements of the University as recorded below.

accrual basis of accounting (whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred) in accordance with accounting principles general accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

As a public institution which reports as being engaged only in business-type activities, three enterprise fund financial statements of the University are presented and examined herein: the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows (GASB, 2019, §Co5.106, p. 3438). While the financial statements of each classification of component units are not presented herein, pertinent financial information is provided in the context of the economic condition analysis of the University.

4 *Statements of Net Position*

To provide insights into an institution's assets and liabilities, a horizontal and vertical analysis of its statements of net position is useful. The statement of net position can be used to determine what an institution owns and owes and how that has changed over time; an institution's current financial status; and, to some extent, an institution's future financial status (Mead, 2018, p. 46). Total net position is measured by the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.[6] Total net position is one indicator of the University's current financial condition (University of South Florida, 2019, p. 6). The statements of net position for the fiscal years ended June 30, 2015 - 2019 can be found in Table 1.

The statement of net position reports all of an institution's financial and capital resources at a single point in time. It is the only financial statement that reports general capital assets and general long-term liabilities (American Institute of Certified Public Accountants, Inc., 2019, §2.16). Users read an institution's statement of net position to identify its relative liquidity, its ability to meet institutional obligations, and its need for external financing (National Association of College and Business Officers, 2006, p. 87).

As a government-wide financial statement, the statement of net position is prepared in the modified accrual basis of accounting, where revenues are recognized in the period in which they become available and measurable, and prepared using the current economic resources measurement focus, where assets and liabilities reported on the financial statements are limited to those representing currently available resources or requiring expenditure of said resources (Dubeck & Gascon, 2013, p.41). GASB Statement No. 34, as amended, encourages institutions to present assets and liabilities in order of relative liquidity.

Assets are resources with present service capacity that an institution presently controls. The present service capacity of an asset is its existing capability to enable an institution to provide services, which in turn enables it to fulfill its mission (GASB, 2019, Appendix B, GASB Concepts Statement 4, ¶8-16). Within the assets category, the University reports on current and non-current assets separately.

In Table 1, it can be observed that the current assets of the University consist of cash and cash equivalents; investments, accounts receivable, net; loans and notes receivable, net; assets due from the State and the University's component units; inventories; and other current assets. A horizontal analysis (variance across years) reveals that current assets have increased 20.9% ($150,684,535) from FY2015-19, with the largest dollar variance observed in investments which increased $181,873,521 over that time. The rise in current assets is positive. A vertical analysis (variance within each year's distribution of components relative to a reference base) demonstrates remarkable stability, with no current asset component varying more than 5% over this five-year span as measured through the range. This level of stability too is positive.

[6] AICPA, 2019, §10.03.

The noncurrent assets of the University are comprised of restricted cash and cash equivalents; restricted investments; loans and notes receivable, net; depreciable capital assets, net; nondepreciable capital assets; and other noncurrent assets. A horizontal analysis indicates that non-current assets increased by 51.7% ($465,786,342) from FY2015-19, with the largest dollar variance seen in the $293,279,697 rise in depreciable capital assets, net. This increase provides the University with flexibility and a hedge against risk. A vertical analysis indicates stability save for depreciable capital assets, net and nondepreciable capital assets. This is partially attributable to the change in the relationship between the University and the USFFC.

In FY2019, the University of South Florida Financing Corporation (USFFC) changed its financial reporting framework from the Financial Accounting Standards Board (FASB) to the Government Accounting Standards Board (GASB) as a result of State legislation regarding university direct-support organizations. This changed the accounting relationship between the University and USFFC "conduit relationship accounted for in due to/due from transactions to a capital lease relationship pursuant to GASB Statement No. 62. The University recorded a capital lease payable and USFFC recorded a capital lease receivable related to USFFC's outstanding debt. USFFC derecognized the related capital assets, and the University recorded USFFC's derecognized capital assets as property under capital lease and leasehold improvements… Unwinding the conduit relationship decreased net due to/due from USFFC by $68,519,250, from a $67,781,069 due to USFFC reported as of June 30, 2018, to a $738,181 due from USFFC as of July 1, 2018. The University recorded a capital lease payable in the amount of $233,266,032 and recognized $221,191,515 of property under capital lease and leasehold improvements with related accumulated depreciation of $48,638,358" (State of Florida Auditor General, 2019, pp. 26-27).[7] Across current and noncurrent assets, total assets rose 38.1% ($616,470,877) from FY2015-19.

The next item in Table 1 is deferred outflows of resources. Deferrals represent flows of resources into an institution in future periods like a grant that has been received this year but cannot be used until next year. Items that meet the definition of a deferred outflow are reported among the assets at present but relate to future reporting periods.[8] Deferred outflows of resources for the University include pensions and other postemployment benefits. A horizontal analysis shows that they increased 219.1% ($120,229,816) from FY2015-19 as a result of recognition required by Government Accounting Standards Board (GASB) Statements No. 63, 65, 68 and 75.

Liabilities represent present obligations to sacrifice resources that the government has little or no discretion to avoid (GASB, 2019, Appendix B, GASB Concepts Statement 4, ¶17-23). Within the liabilities category, the University presents separate information on current and non-current liabilities.

In Table 1, it can be observed that total current liabilities for the University consisted of accounts payable; construction contracts payable; salary and wages payable; deposits payable, due to component units; unearned revenue; and long-term liabilities. A horizontal analysis demonstrates that the current

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[7] This change results in a 35.3 increase in depreciation from FY2018 to FY2019 in the University's *Statement of Revenues, Expenses and Changes in Net Position*. Depreciation represents the process of converting the cost of a capital asset into an operational expense over the asset's estimated 'useful life'- the time an asset is likely to remain in service for the purpose of cost-effective revenue generation. Depreciation is subtracted annually from an asset's original purchase cost to yield its depreciated value over time. At the end of its useful life it is considered to be fully depreciated, and it is no longer considered a capital asset (Smith, 2019, 132-136). This process helps to match the cost of the asset with the revenue it generated over its useful life.

[8] Recall the GASB definition of the term net position: assets + deferred outflows - liabilities - deferred inflows = net position. See Government Accounting Standards Board, Concepts Statement No. 4, ¶ 37.

liabilities of the University fell by 29.0% (-$58,752,531) from FY2015-19 with the largest dollar variance occurring in the amount due to component units.

The noncurrent liabilities of the University are comprised of capital improvement debt payable; installment purchases payable; capital leases payable; estimated insurance claims payable; compensated absences payable; federal advance payable; dining fee facility payable; revenue received in advance; and other postemployment benefits payable. A horizontal analysis indicates that total non-current liabilities rose 263.0% ($811,570,449); the largest dollar variance was seen in other postemployment benefits payable ($337,268,000) and net pension liability ($222,305,871)[9] and capital leases payable ($214,240,670)[10]. A vertical analysis reflects the impact of these changes. Across current and noncurrent liabilities, total liabilities rose 147.2% ($752,817,918) from FY2015-19. This increase dwarfed the rise in total assets.

Deferred inflows of resources represent an acquisition of net assets by the University that is applicable to a future reporting period. Financial ratios which do not include deferrals are one approach to understanding the financial condition of an institution recommended by the GASB (Government Accounting Standards Board, 2013) and will be addressed in section 8 of this report. From FY2015-19, deferred inflows of resources increased by 207.0% ($157,002,506) as a result of recognition required by GASB Statements No. 63, 65, 68 and 75.

In accordance with GASB Statement No. 63, the University of South Florida reports net position in three components- net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted (GASB, 2019, §2200.117, p. 480). The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. As can be seen in Table 1, net investment in capital assets rose 29.5% ($210,436,361) from FY2015-19.

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position (GASB, 2019, §2200.124, p. 482). As of June 30, 2019, the unrestricted component of net position began to negative in FY2018. In this context it is important to note that financial analysts have recognized the phenomenon of negative unrestricted net position in the context of financial reporting standards of the GASB, n.b. "In such circumstances, the existence of an unrestricted net position deficit indicates that the government has deferred the funding of these liabilities, but it does not necessarily reflect positively or negatively on the government's ability to fund those liabilities when they come due" (Mead, 2018, p. 45). The University echoes this insight in Note 4 of its financial audit of FY2018: "… this deficit can be attributed to the recognition of long-term liabilities (i.e., compensated absences payable, OPEB payable, and net pension liabilities) in the current unrestricted funds that are expected to be paid over time and financed by future appropriations" (State of Florida Auditor General, 2018, p. 26).

Here the University offers a schedule demonstrating the way in which these accounting reporting standards makes the financial condition of the University look weak in this regard (i.e. a deficit net position in unrestricted funds. The schedule on page 27 of the FY2018 financial audit is reproduced below:

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[9] As a result of recognition required by GASB Statements No. 63, 65, 68 and 75.

[10] As a consequence of the accounting relationship between the University and the University of South Florida Financing Corporation (USFFC) that resulted from a change in State law.

Figure 1: *Financing Schedule of Long-Term Liabilities and Deferred Outflows/Inflows of Resources*

Description		University
Total Unrestricted Net Position Before Recognition of Long-Term Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources		$ 583,035,226
Amount Expected to be Financed in Future Years:		
Compensated Absences Payable	85,519,634	
Other Postemployment Benefits Payable and Related Deferred Outflows of Resources and Deferred Inflows of Resources	498,011,000	
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	165,344,352	
Total Amount Expected to be Financed in Future Years		(748,874,986)
Total Unrestricted Net Position		$ (165,839,760)

Figure 1 demonstrates the way in which $748,874,986 of expenses which come due in the future are reported as a present liability on the books in the present.[11] The real issue is the likelihood of meeting the University's future expenses given its past performance with those entities. The likelihood of these events is informed by the 'Required Supplementary Information' portion of each annual financial audit under 'Schedule of University Contributions – Florida Retirement System Pension Plan and – Health Insurance Subsidy Pension Plan' on pages 74 and 75, respectively. A review of those schedules demonstrates that the University has faithfully made its contractually required contributions in each of the years presented (in FY2018, 2014-2018).[12] Thus, when considering the meaning of a deficit net position in unrestricted funds, the total unrestricted net position before recognition of long-term liabilities, deferred outflows of resources, and deferred inflows of resources should be examined over time to inform the level of such funds stripped of the impact of the reporting recognition requirements of the GASB.

Total net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The University of South Florida's total net position fell 15.9% (-$173,119,731) from FY2015-19 (Table 1).

[11] In its FY2019, USF modifies the schedule by removing the payment of compensated absences payable in the future. As such, its total unrestricted net position before recognition of long-term liabilities, deferred outflows of resources, and deferred inflows of resources is $493,924,082. This figure should be looked upon as the baseline value for future estimates of unrestricted funds which removes the effect of the reporting changes required under the GASB.

[12] While this required supplementary information is considered by the GASB to be "essential for placing the basic financial statements in an appropriate operational, economic, or historic context" (AICPA, 2019, §2.49, p. 30).

Table 1: *Statements of Net Position*

ASSETS	2019	2018	2017	2016	2015
Current Assets:					
Cash and Cash Equivalents	$50,651,401	$68,640,494	$70,037,117	$40,783,046	$44,777,369
Investments	703,311,064	669,949,225	611,678,974	574,743,513	521,437,543
Accounts Receivable, Net	67,282,190	70,724,581	110,056,643	75,053,314	74,912,562
Loans and Notes Receivable, Net	2,056,770	2,151,145	2,142,161	2,078,612	1,092,707
Due from State	29,346,530	85,718,548	90,478,039	75,022,122	66,635,883
Due from Component Units	16,571,549	11,907,956	8,980,754	15,903,745	9,268,445
Inventories	269,386	268,651	232,038	236,295	239,645
Other Current Assets	903,033	1,261,276	1,109,654	2,179,984	1,343,234
Total Current Assets	**870,391,923**	**910,621,876**	**894,715,380**	**786,000,631**	**719,707,388**
Noncurrent Assets:					
Restricted Cash and Cash Equivalents	978,039	1,718,280	2,050,823	876,456	1,328,561
Restricted Investments	72,918,849	68,226,862	65,165,184	56,911,006	58,125,412
Loans and Notes Receivable, Net	2,461,135	2,953,651	3,973,077	4,192,757	4,162,147
Depreciable Capital Assets, Net	1,091,113,304	858,853,336	791,478,969	785,847,252	797,833,607
Nondepreciable Capital Assets	190,620,344	98,553,782	60,861,732	59,837,220	38,868,197
Other Noncurrent Assets	8,012,595	-	-	-	-
Total Noncurrent Assets	**1,366,104,266**	**1,030,305,911**	**923,529,785**	**907,664,691**	**900,317,924**
Total Assets	**2,236,496,189**	**1,940,927,787**	**1,818,245,165**	**1,693,665,322**	**1,620,025,312**
DEFERRED OUTFLOWS OF RESOURCES					
Other Postemployment Benefits	9,867,000	11,492,000	137,405,152	73,081,903	54,882,912
Pensions	165,245,728	156,442,037	-	-	-
Total Deferred Outflows of Resources	**175,112,728**	**167,934,037**	**137,405,152**	**73,081,903**	**54,882,912**
LIABILITIES					
Current Liabilities:					
Accounts Payable	22,545,736	35,605,056	27,149,357	22,464,585	23,695,332
Construction Contracts Payable	13,938,944	7,474,189	3,695,086	4,109,233	1,721,131
Salary and Wages Payable	38,407,836	35,279,851	32,791,372	28,086,559	21,746,783
Deposits Payable	4,531,968	4,621,485	13,901,809	13,959,353	15,234,211
Due to Component Units	4,026,930	69,044,772	78,033,189	88,224,952	92,460,404
Unearned Revenue	31,424,740	29,664,755	43,587,540	40,619,946	34,225,755
Long-Term Liabilities - Current Portion:					
Capital Improvement Debt Payable	2,598,479	2,538,479	2,483,479	2,222,370	3,158,759
Installment Purchases Payable	113,888	138,865	61,385	27,015	26,777
Capital Leases Payable	10,059,528	129,661	43,180	16,267	40,936
Estimated Insurance Claims Payable	1,400,487	1,597,571	1,332,333	771,083	1,961,260
Compensated Absences Payable	6,629,745	6,694,028	6,342,167	6,591,719	6,418,661
Dining Facility Fee Payable	22,117	20,865			
Other Postemployment Benefits Payable	6,279,000	6,279,000			
Net Pension Liability	2,057,588	2,209,005	2,607,447	2,751,108	2,099,508
Total Current Liabilities	**144,036,986**	**201,297,582**	**212,028,344**	**209,844,190**	**202,789,517**

Table 1: *Statements of Net Position Continued*

	2019	2018	2017	2016	2015
Noncurrent Liabilities:					
Capital Improvement Debt Payable	12,335,875	14,934,354	17,472,833	19,886,817	22,109,187
Installment Purchases Payable	75,361	189,249	174,343	55,702	82,731
Capital Leases Payable	214,308,360	314,854	16,658	16,268	67,690
Estimated Insurance Claims Payable	27,957,375	26,087,669	25,085,161	20,058,639	17,468,988
Compensated Absences Payable	81,807,227	78,825,606	75,779,205	71,705,610	67,999,806
Federal Advance Payable	2,850,182	2,796,390	3,086,504	3,216,794	4,293,571
Dining Fee Facility Payable	4,683,171	4,705,288	-	-	-
Revenue Received in Advance	20,000,000	-	-	-	-
Other Postemployment Benefits Payable	429,500,000	440,115,000	145,284,000	118,976,000	92,231,000
Net Pension Liability	326,584,640	305,610,715	274,845,673	168,055,137	104,278,769
Total Noncurrent Liabilities	**1,120,102,191**	**873,579,125**	**541,744,377**	**401,970,967**	**308,531,742**
Total Liabilities	**1,264,139,177**	**1,074,876,707**	**753,772,721**	**611,815,157**	**511,321,259**
DEFERRED INFLOWS OF RESOURCES					
Other Postemployment Benefits	87,752,000	63,109,000	2,060,328	25,914,593	-
Pensions	28,580,958	13,966,669	3,611,450	-	75,841,215
Deferred Service Concession Arrangement Receipts	116,510,763	54,511,702	-	-	-
Total Deferred Inflows of Resources	**232,843,721**	**131,587,371**	**5,671,778**	**25,914,593**	**75,841,215**
NET POSITION					
Net Investment in Capital Assets	922,846,418	808,911,963	743,214,908	723,762,640	712,410,057
Restricted for Expendable:					
Debt Service	1,751,434	1,753,532	1,752,396	1,737,878	1,754,091
Loans	5,118,344	5,051,075	5,801,357	5,780,790	6,682,312
Capital Projects	23,538,596	91,374,371	100,734,861	79,812,974	74,322,384
Other	173,088,603	161,146,565	131,629,778	113,945,755	103,016,757
Unrestricted	(211,717,376)	(165,839,760)	213,072,518	203,977,438	189,560,149
TOTAL NET POSITION	**$914,626,019**	**$902,397,746**	**$1,196,205,818**	**$1,129,017,475**	**$1,087,745,750**

5 *Statements of Revenues, Expenses, and Changes in Net Position*

In order to separate the operating results from non-operating revenues and expenses, the University's statements of revenues, expenses and changes in net position are provided in Table 2. The purpose of the statement is to provide information to stakeholders regarding the operating performance of the institution and the effects of non-operating transactions and events that change its net position (National Association of College and University Business Officers, 2006).

The format of the statement focuses on revenues and expenses; within the former, operating revenues are detailed while in the latter, operating expenses are separated from non-operating revenues. As a proprietary fund financial statement, the statement of revenues, expenses and changes in net position is prepared in the accrual basis of accounting, where revenues and expenses are recognized when earned or incurred, and prepared using the economic resources measurement focus, which reports all inflows, outflows, and balances affecting or reflecting an entity's net assets.

In the statement, activities are classified as either operating or non-operating. Normally there will be an operating deficit since any state appropriation is classified as non-operating revenues, as are investment income (except interest income on student loans) and gifts due to the fact that they were not generated by normal institutional operations (Smith, 2019, p. 225). The term 'operating revenues' means that these revenue sources represent charges levied by the institution for services it has provided. The GASB considers state operating appropriations, investment income (except interest income on student loans) and gifts as nonoperating revenues because they were not generated by normal university operations such as teaching an research (Smith, 2019, pp. 224-225). Here the FY2019 operating loss of -$631,594,571 can be observed as total operating revenues ($849,212,274) minus total operating expenses ($1,480,806,845).

The operating revenues of the University consist of student tuition and fees net of scholarship allowances; federal, state, and local grants and contracts; sales and services of educational departments; sales and services of auxiliary enterprises; interest on loans and notes receivable; and other operating revenues. A horizontal analysis of the operating revenues of the University indicate that they rose by 12.3% ($93,256,421) from FY2015-19; the largest dollar contributor to the variance was in nongovernmental grants and contracts ($42,649,692). This is positive. A vertical analysis demonstrates that no component of operating revenues varied by more than five percent as measured by the range; such stability is positive.

The operating expenses of the University are provided in their functional classification; as such, they are comprised of compensation and employee benefits; services and supplies; utilities and communications; scholarships, fellowships, and waivers; depreciation; and self-insurance claims. A horizontal analysis of total operating expenses reveal an increase of 24.0% ($287,078,003) from FY2015-19; a vertical analysis demonstrates that no component of total operating expenses varied by more than 5% during this time, a sign of solidity.

Nonoperating revenues (expenses) for the University consist of state noncapital appropriations; federal and state student financial aid; noncapital grants, contracts and gifts; investment income; investments and investment expenses; other nonoperating revenues; the disposal of capital assets; interests on capital asset-related debt; and other nonoperating revenues. A horizontal analysis indicates that net nonoperating revenues increased by 36.5% ($160,389,569) from FY2015-19; the largest dollar variance was a $73,739,497 increase in state appropriations. A vertical analysis reveals a substantial increase not only in state noncapital appropriations, but investment income as well ($35,312,075).

Table 2: *Statements of Revenues, Expenses, & Changes in Net Position*

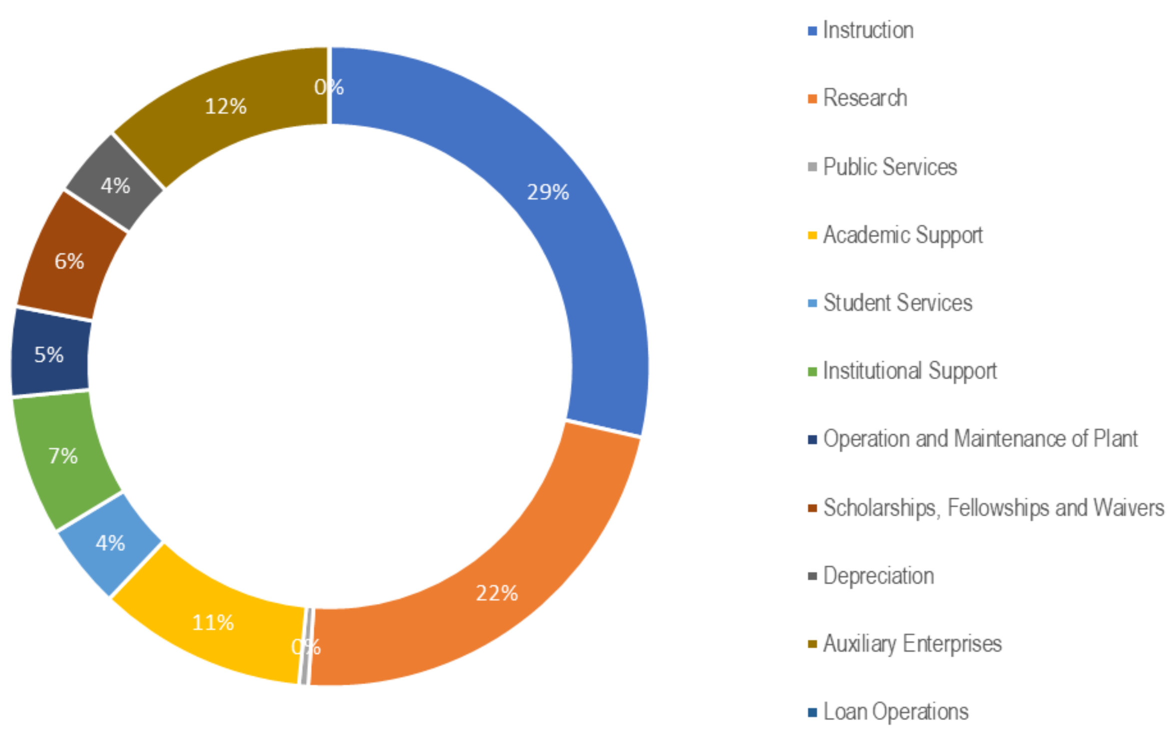
REVENUES	**2019**	**2018**	**2017**	**2016**	**2015**
Operating Revenues:					
Student Tuition and Fees, Net of Scholarship Allowances	$268,893,387	$281,289,221	$293,197,695	$291,042,666	$274,735,379
Federal Grants and Contracts	210,238,794	207,919,289	201,794,458	193,876,033	183,370,349
State and Local Grants and Contracts	30,116,310	28,009,470	26,825,208	25,126,909	22,431,767
Nongovernmental Grants and Contracts	179,009,018	195,672,801	167,072,179	161,962,620	136,359,326
Sales and Services of Educational Departments	-	-	-	-	96,744
Sales and Services of Auxiliary Enterprises	149,506,341	146,151,702	147,664,677	133,239,293	128,139,973
Interest on Loans and Notes Receivable	214,381	202,009	203,894	177,388	223,780
Other Operating Revenues	11,234,043	12,719,725	11,410,671	10,280,272	10,598,535
Total Operating Revenues	$849,212,274	$871,964,217	$848,168,782	$815,705,181	$755,955,853
EXPENSES					
Operating Expenses:					
Compensation and Employee Benefits	971,769,168	928,091,379	882,382,402	825,087,039	772,151,583
Services and Supplies	311,801,720	323,126,306	298,358,831	291,174,092	266,866,906
Utilities and Communications	24,789,873	24,512,272	24,411,949	24,217,311	25,011,467
Scholarships, Fellowships, and Waivers	97,140,544	90,214,079	70,601,198	74,843,702	77,295,002
Depreciation	71,168,998	52,588,444	49,081,846	49,547,440	49,456,584
Self-Insurance Claims	4,136,542	3,019,925	7,866,825	3,876,519	2,947,300
Total Operating Expenses	1,480,806,845	1,421,552,405	1,332,703,051	1,268,746,103	1,193,728,842
Operating Income (Loss)	(631,594,571)	(549,588,188)	(484,534,269)	(453,040,922)	(437,772,989)
NONOPERATING REVENUES (EXPENSES)					
State Noncapital Appropriations	426,590,843	420,566,069	387,159,939	368,733,441	352,851,346
Federal and State Student Financial Aid	147,473,848	134,685,331	91,883,518	94,867,168	100,562,374
Noncapital Grants and Donations	25,560,853	21,953,799	23,735,290	24,949,129	26,897,457
Investment Income	41,388,166	18,288,834	24,951,906	10,161,004	6,076,091
Other Nonoperating Revenues	2,621,244	2,293,561	6,029,809	1,710,073	318,769
Loss on Disposal of Capital Assets	(391,589)	(839,711)	9,965,433	(811,709)	(6,282,331)
Interest on Capital Asset-Related Debt	(13,445,230)	(736,154)	(762,863)	(1,129,506)	(1,373,265)
Other Nonoperating Expenses	(30,121,465)	(49,502,267)	(31,487,894)	(45,517,175)	(39,763,340)
Net Nonoperating Revenues (Expenses)	599,676,670	546,709,462	511,475,138	452,962,425	439,287,101
Income (Loss) Before Other Revenues	(31,917,901)	(2,878,726)	26,940,869	(78,497)	1,514,112
State Capital Appropriations	19,879,661	27,971,267	39,310,559	40,094,279	43,842,065
Capital Grants, Contracts, Donations, and Fees	16,460,138	10,937,387	936,915	1,255,943	3,228,748
Increase in Net Position	4,421,898	36,029,928	67,188,343	41,271,725	48,584,925
Net Position, Beginning of Year	$902,397,746	$1,196,205,818	1,129,017,475	1,087,745,750	1,174,889,647
Adjustment to Beginning Net Position	7,806,375	(329,838,000)			(135,728,822)
Net Position, Beginning of Year, as Restated	910,204,121	866,367,818			1,039,160,825
Net Position, End of Year	$914,626,019	$902,397,746	$1,196,205,818	$1,129,017,475	$1,087,745,750

GASB Statements No. 34 and 35 provide flexibility in reporting expenses in either functional or natural categories. While the University chose to use the functional classification in its statement of revenues, expenses and net position, it provided the information for a natural classification in its notes to the financial statements (State of Florida Auditor General, 2019, pp. 64-65; 2018, pp. 60-61; 2017, p. 59; 2016, p. 55; and 2015, pp. 52-53). This information is provided in Table 3 and Figure 2, which reveal the concordance between the mission of the University (see page 2 of this report) and its investments in instruction and research from FY2015-19.

Table 3: *Functional Classification of Operating Expenses, FY2015-19*

Component	2019	2018	2017	2016	2015
Instruction	409,031,735	406,038,623	379,326,083	364,919,628	339,860,097
Research	323,674,859	320,011,552	305,407,041	286,639,474	263,589,687
Public Services	19,084,447	6,683,967	6,977,031	5,318,116	6,263,166
Academic Support	157,552,733	149,997,596	144,865,398	128,650,108	112,462,683
Student Services	62,160,120	60,539,595	58,106,553	52,528,379	47,798,960
Institutional Support	105,191,038	101,063,535	94,547,866	86,895,782	89,674,327
Operation and Maintenance of Plant	67,680,831	64,651,466	57,383,029	63,073,941	55,132,051
Scholarships, Fellowships and Waivers	97,140,544	90,214,079	70,601,198	74,843,702	77,295,002
Depreciation	71,168,998	52,588,444	49,081,846	49,547,440	49,456,584
Auxiliary Enterprises	167,892,465	169,468,373	166,336,813	156,228,571	152,104,841
Loan Operations	229,075	295,175	70,193	100,962	91,444
Total Operating Expenses	$1,480,806,845	$1,421,552,405	$1,332,703,051	$1,268,746,103	$1,193,728,842

Figure 2: *Functional Classification of Operating Expenses, FY2019*



As was seen on page 11, total operating expenses increased of 24% from FY2015-19. The functional classification was provided in the financial statement, while the functional classification was provided in the notes to the financial statements. The latter provides a clear insight into the priorities of the University. To understand the University's priorities, it is helpful to review the rules behind the functional classification of operating expenses.

The National Association of College and University Business Officers provides guidance on the types of expenses that can be included under each operating expense category in their Financial Accounting and

Reporting Manual for Higher Education in § 702.3. Each of the standard expense categories are explained below.

Instruction expenses include general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students. This also includes training, and addresses non-credit as well as credit activities. Operating expenses for instruction increased by 20.4% ($69,171,638) from FY2015-19.

The research category includes all expenses for activities specifically organized to produce research, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution. Subject to these conditions, the category includes expenses for individual and/or project research as well as that of institutes and research centers. This category does not include all sponsored programs; nor is it necessarily limited to sponsored research, since internally supported research programs, if separately budgeted, might be included in this category under the circumstances described. Expenses for departmental research that are separately budgeted are included in this category. However, the research category does not include expenses for departmental research that are not separately budgeted. Such expenses are included in the instructional category. Operating expenses for research increased 22.8% ($60,085,172) from FY2015-19.

The public service category includes expenses for activities established primarily to provide non-credit designated course offerings and services beneficial to individuals and groups external to the University. These activities include community service programs, cooperative extension services and noncredit continuing education. Included in this category are conferences, institutes, general advisory services, reference bureaus, radio and television, consulting, and similar non-instructional services to particular sectors of the community. Noncredit continuing education for nonregistered students includes expenditures for noncredit courses, including workshops, provided for the general public. From FY2015-19, operating expenses for public service increased 204.7% ($12,821,281).

Expenses for academic support include expenses for support services that are an integral part of the institution's primary mission of instruction, research, or public service and that are not charged directly to these primary programs. This includes expenses for libraries, museums, galleries, audio/visual services, academic development, academic computing support, course and curriculum development, and academic administration, as well as expenses for medical, veterinary and dental clinics if their primary purpose is to support the institutional program (and they are not part of a hospital). From FY2015-19, operating expenses for academic support increased 40.1% ($45,090,050).

Student services include expenses for 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 are career guidance, counseling, financial aid administration, student records, athletics, and student health services, except when operated as a self-supporting auxiliary enterprise. Operating expenses for student services increased by 30.0% ($14,361,160) from FY2015-19.

Institutional support expenses include those for the day-to-day operational support of the institution. Include expenses for general administrative services, executive direction and planning, legal and fiscal operations, administrative computing support, and public relations/development. Operating expenses for institutional support increased 17.3% ($15,516,711) from FY2015-19.

Operation and maintenance of plant expenses include those incurred for the administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant. Important subclasses include physical plan administration, building maintenance, and major repairs and renovations.

Operating expenses for the operation and maintenance of plant increased 22.8% ($12,548,780) from FY2015-19.

Scholarship expenses refer to scholarships expenses in the form of outright grants to students selected and awarded by the institution. This is the amount that exceeds fees and charges assessed to students by the institution and that would not have been recorded as discounts & allowances. This classification will include the excess of awards over fees and charges from Pell Grants and other resources, including funds originally restricted for student assistance. From FY2015-19, operating expenses for scholarship, fellowships, and waivers, net, increased 25.7% ($19,845,542).

Depreciation expenses are calculated in accordance with the institution's capitalization and depreciation policies. Depreciation refers to the allocation or distribution of the cost of capital assets, less any salvage value, to expenses over the estimated useful life of the asset in a systematic and rational manner. Depreciation for the year is the amount of the allocation or distribution for the year involved. Depreciation expense is considered both a functional and natural expense classification under GASB Statements. Operating expenses for depreciation increased 43.9% ($21,712,414) from FY2015-19.

An auxiliary enterprise exists to furnish goods or services to students, faculty, staff, other institutional departments, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of an auxiliary enterprise is that it is managed to operate as a self-supporting activity. Over time, the revenues will equal or exceed the expenses, although in any individual year there may be a deficit or a surplus. Examples are residence halls, food services, intercollegiate athletics (only if essentially self-supporting), college stores, faculty clubs, parking, and faculty housing. Student health services, when operated as an auxiliary enterprise, also are included. Hospitals, although they may serve students, faculty, or staff, are classified separately because of their financial significance.

The auxiliary enterprise category includes all expenses relating to the operation of auxiliary enterprises, including expenses for operation and maintenance of plant, depreciation (if allocated to functional expense categories), and administration. Also included are other direct and indirect costs, whether charged directly as expenses or allocated as a proportionate share of costs of other departments or units. To ensure that data regarding individual auxiliary enterprises are complete and adequate for management decisions, cost data should be prepared using full costing methods. Full costing means that the costs attributed to each enterprise include a portion of indirect costs related to that enterprise, as well as the costs directly attributable to its operation. From FY2015-19, operating expenses for auxiliary enterprises increased 10.4% ($15,787,624).

Using the University's FY2018 audited financial statements and information provided by the federal government, these expenses can be compared to the practices of public four-year colleges and universities nationally to provide context for local spending priorities (IPEDS, 2019). While the University of South Florida's instructional spending comprised 28.6% of total operating expenses in FY2018, public four-year universities across the U.S. spent an average of 27.4% on instruction.[13]

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[13] Note that the phrase 'total expenses' for IPEDS includes the total expenses for the essential education activities of the institution. Core expenses for public institutions reporting under GASB standards include expenses for instruction, research, public service, academic support, student services, institutional support, scholarships and fellowships, and other operating and nonoperating expenses.

Core expenses for FASB (primarily private, not-for-profit and for-profit) institutions include expenses on instruction, research, public service, academic support, student services, institutional support, net grant aid to students, and other expenses. For both FASB and GASB institutions, core expenses exclude expenses for auxiliary enterprises (e.g., bookstores, dormitories), hospitals, and independent operations.

6 *Statements of Cash Flows*

The purpose of the statement of cash flows is to provide information to stakeholders regarding the cash receipts and cash payments of an institution during a specified time period. This can help readers estimate the institution's ability to generate net cash flows and meet its obligations as they come due, and provide insight on its need for external financing (National Association of College and University Business Officers, 2006). This statement allows readers to determine if the institution's business-type activities met their cash needs and, if so, how they met them during the time under observation.

As a proprietary fund financial statement, the statement of cash flows is prepared in the accrual basis of accounting, wherein revenues and expenses are recognized when earned or incurred, and prepared using the economic resources measurement focus, which reports all inflows, outflows, and balances affecting or reflecting an entity's net assets.

The format of this statement focuses on cash flows from operating activities, non-capital financing activities, capital financing activities, and investing activities (Dubeck & Gascon, 2013, p. 49). The statements of cash flows are reported using the direct method. The direct method of cash flows reporting portrays net cash flows from operations as major classes of operating receipts (e.g., tuition and other student fees) and disbursements (e.g. payments to employees). GASB Statement No. 34 and No. 35 require this method to be used.

The statements of cash flows for FY2015-19 can be found in Table 4. It is divided into five parts. The first, cash flows from operating activities, provides data on the source and use of cash from ordinary operating activities. Cash flows from operating activities generally are the cash effects of transactions and other events that enter into the determination of operating income. An example of a cash inflow from operating activities include cash inflows from the sales of goods or services. An example of a cash outflow for operating activities include cash payments to employees for services rendered. (Governmental Accounting Standards Board, 2019, §2450.113-.117). A horizontal analysis demonstrates that net cash used by operating activities increased by 33.4% from FY2015-19.

The second, cash flows provided by noncapital financing activities, addresses cash received and spent for nonoperating, noninvesting and noncapital financing activities. An example of a cash inflow from noncapital financing activities include cash received from property and other taxes collected for the governmental enterprise and not specifically restricted for capital purposes. An example of a cash outflow for noncapital financing activities includes cash paid as grants or subsidies to other governments or organizations except those for specific activities that are considered to be operating activities of the grantor government (Governmental Accounting Standards Board, 2019, §2450.118-.120). A horizontal analysis indicates Here net cash provided by non-capital financing activities increased by 24.3% from FY2015-19.

The third, cash flows from capital and related financing activities, provides information on cash from capital and related financing activities. These include acquiring and disposing of capital assets used in providing services or producing goods; borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest; and paying for capital assets obtained from vendors on credit (Governmental Accounting Standards Board, 2019, §2450.121-.123). Here net cash used by capital financing activities rose by 121.4% from FY2015-19.

The fourth, investing activities, identifies cash from investing activities. Net cash from investing activities fell by 107.8% from FY2015-19. Examples of cash inflows include receipts from sales of equity

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However, these expenses are included in the sum of total expenses and included in the calculation of the 27.4% estimate in the federal report.

instruments and from returns of investment in those instruments; examples of cash outflows include payments to acquire equity instruments and deposits into investment pools. (Governmental Accounting Standards Board, 2019, §2450.124-.126). Across the years, the net effect was a 12.0% increase ($5,523,510) in end of year cash and cash equivalents from FY2015-19 (Table 4).

Table 4: *Statements of Cash Flows*

CASH FLOWS FROM OPERATING ACTIVITIES	**2019**	**2018**	**2017**	**2016**	**2015**
Student Tuition and Fees, Net	$271,191,896	$282,347,825	$293,850,565	$293,000,721	$271,573,351
Grants and Contracts	$420,047,609	$430,567,675	$391,424,939	$381,085,199	$343,642,488
Sales and Services of Educational Departments	$0	$0	$0	$0	$96,944
Sales and Services of Auxiliary Enterprises	$170,525,069	$146,121,868	$145,712,501	$135,536,665	$125,409,296
Interest on Loans Receivable	$197,967	$189,636	$187,812	$177,818	$237,470
Payments to Employees	($923,493,539)	($876,091,174)	($828,946,180)	($791,786,077)	($756,730,551)
Payments to Suppliers for Goods and Services	($349,943,226)	($339,522,803)	($317,592,369)	($317,001,720)	($288,281,333)
Payments to Students for Scholarships and Fellowships	($97,140,544)	($90,214,079)	($70,601,198)	($74,843,702)	($77,295,002)
Payments on Self-Insurance Claims	($2,463,920)	($1,752,179)	($2,279,053)	($2,477,045)	($2,527,462)
Loans Issued to Students	($409,728)	($504,144)	($984,101)	($1,182,949)	($1,314,166)
Collection on Loans to Students	$997,019	$1,514,587	$1,140,232	$1,307,699	$1,444,831
Other Operating Receipts	$13,315,213	$12,318,683	$5,011,677	$9,695,425	$11,077,604
Net Cash Used by Operating Activities	($497,176,184)	($435,024,105)	($383,075,175)	($366,487,966)	($372,666,530)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
State Noncapital Appropriations	$426,590,843	$420,566,069	$387,159,939	$368,733,441	$352,851,346
Federal and State Student Financial Aid	$147,473,848	$134,685,331	$91,883,517	$94,867,168	$100,562,374
Noncapital Grants, Contracts and Donations	$25,030,113	$21,542,758	$22,972,925	$26,010,873	$24,852,623
Federal Direct Loan Program Receipts	$226,112,604	$238,042,443	$248,823,125	$253,111,708	$252,386,862
Federal Direct Loan Program Disbursements	($226,112,604)	($238,042,443)	($248,823,125)	($253,111,708)	($252,386,862)
Operating Subsidies and Transfers	($7,262,190)	$2,417,706	$11,166,157	($12,404,378)	($3,027,682)
Net Change in Funds Held for Others	($320,743)	($1,811,498)	($761,124)	($567,041)	$854,690
Other Nonoperating Receipts	$32,309	$20,024,408	$209,809	$196,752	$318,769
Other Nonoperating Disbursements	($29,158,475)	($62,329,465)	($41,763,807)	($44,202,270)	($24,054,499)
Net Cash Provided by Noncapital Financing Activities	$562,385,705	$535,095,309	$470,867,416	$432,634,545	$452,357,621
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
State Capital Appropriations	$76,251,679	$32,730,759	$23,854,642	$31,708,040	$19,452,842
Capital Grants, Contracts, Donations and Fees	$22,379,254	$2,149,628	$200,000	$21,084	$899,242
Other Receipts for Capital Projects	$0	$0	$9,275,000	$0	($18,673,292)
Purchase or Construction of Capital Assets	($160,371,648)	($90,330,903)	($67,340,254)	($56,048,580)	($36,661,430)
Principal Paid on Capital Debt and Leases	($12,056,734)	($2,811,035)	($2,394,252)	($3,267,882)	($3,158,670)
Interest Paid on Capital Debt and Leases	($13,434,119)	($491,926)	($725,127)	($1,123,264)	($1,257,776)
Net Cash Used by Capital and Related Financing Activities	($87,231,568)	($58,753,477)	($37,129,991)	($28,710,602)	($39,399,084)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sales and Maturities of Investments	$33,240,582	$14,791,877	$48,121,451	$26,258,530	$41,673,408
Purchases of Investments	($72,318,664)	($75,480,398)	($87,600,000)	($84,000,000)	($98,353,650)
Investment Income	$42,370,795	$17,641,628	$19,244,737	$15,859,065	$14,521,372
Net Cash Provided by Investing Activities	$3,292,713	($43,046,893)	($20,233,812)	($41,882,405)	($42,158,870)
Net Decrease in Cash and Cash Equivalents	**($18,729,334)**	**($1,729,166)**	**$30,428,438**	**($4,446,428)**	**($1,866,863)**
Cash and Cash Equivalents, Beginning of Year	$70,358,774	$72,087,940	$41,659,502	$46,105,930	$47,972,793
Cash and Cash Equivalents, End of Year	**$51,629,440**	**$70,358,774**	**$72,087,940**	**$41,659,502**	**$46,105,930**

7 *Discretely-Presented Component Units*

As noted in section 2 of this report, the University of South Florida is supported by one blended component unit and 10 direct-support organizations. The total net position of the direct-support organizations as reported in their latest audits to date (State of Florida Auditor General, 2019, pp. 69-10) of are as follows:

Table 5: *Direct-Support Organizations by Total Net Position*

Organization	Total Net Position
University of South Florida Foundation, Inc.	$ 636,781,248
University of South Florida Research Foundation, Inc.	66,487,922
University Medical Service Association, Inc. (Faculty Practice Plan)	66,355,340
USF Financing Coporation and USF Property Corporation	17,029,156
University of South Alumni Association, Inc.	5,711,555
USF Health Professions Conferencing Coporation	4,139,130
Sun Dome, Inc.	165,932
USF Institute of Applied Engineering, Inc.	96,669
Total	$ 796,766,952

The University of South Florida Foundation, Inc. just released its annual financial audit for FY2020. In its MD&A, the Foundation reflects the fact that the economic resources held by these component units are for the direct benefit of the University:

> "Charitable support is an important resource to the University providing a direct impact on enhancing University programs through annual contributions and endowments. In the future, due to the growth in the endowment from new gifts and investment returns, expenditure of funds from the endowment payout to benefit the University is anticipated to increase. The COVID-19 global pandemic is anticipated to continue to have far reaching and devastating economic impacts in the U.S. and globally. Despite five official recessions since 1980, philanthropy overall has increased year to year. The University has initiated several efforts related to COVID-19 to provide aid to support students adversely impacted by the crisis and to increase efforts in research and the pandemic relief response. The University also has several significant facility enhancement projects underway in Academic areas, Athletics and USF Health; therefore, a higher rate of incoming expendable gifts to support these initiatives is expected" (University of South Florida Foundation, Inc., 2020, p. 13).

The University of South Florida Foundation, Inc. represents the most significant direct-support organization of the University. At the conclusion of FY2020, the Foundation had a total net position of $688,054,452 with $18,247,516 unrestricted.

8 *Economic Condition*

As a preface to this section of the report, a caveat is in order. Economic condition analysis is more of an art than a science. While definitions of several financial ratios are based upon the same or similar calculations, the interpretations that follow from them can differ from analyst to analyst depending upon a variety of factors. Ratios need to be placed in context to given them meaning, and the results should be analyzed iteratively over time to detect trends, patterns and anomalies. Lastly, one ratio alone rarely summarizes the situation of an institution adequately. For clarity to sharpen a basket of measurements taken in a standardized fashion over time is most appropriate (Mead, 2018, pp. 307-309).

With that being stated, the economic condition of a public higher education institution can be viewed as a composite of its financial position, its fiscal capacity (liquidity and solvency) and its service capacity. While service capacity is informed by inputs, outputs, outcomes and service efficiency and judged at a system level, financial condition and fiscal capacity can be estimated using the financial statements of an institution. Thus, information on financial position and fiscal capacity is provided in Table 6.

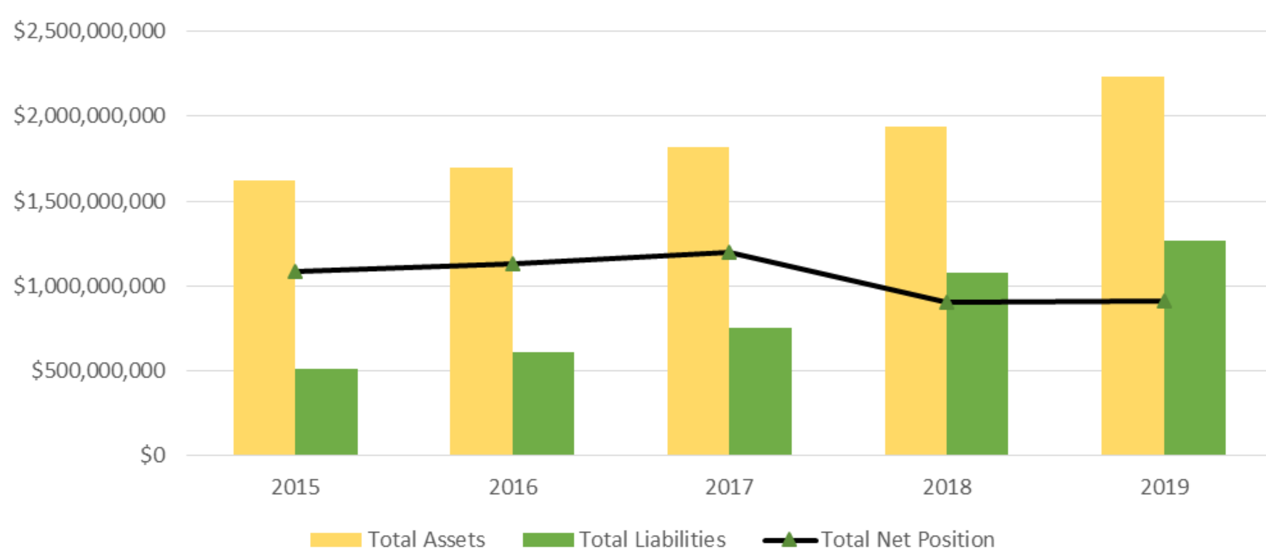
Table 6: *Financial Ratio Analyses*

Economic Condition Ratios	2015	2016	2017	2018	2019
Financial Position					
Total Net Position	$1,087,745,750	$1,129,017,475	$1,196,205,818	$902,397,746	$914,626,019
Fiscal Capacity					
Liquidity					
Current Ratio	3.55	3.75	4.22	4.52	6.04
Solvency					
Liabilities to Assets Ratio	0.32	0.36	0.41	0.55	0.57
Ability to raise revenue					
Net Tuition revenue per FTE	$6,505	$6,783	$6,829	$6,429	$6,132
State noncapital appropriations per FTE	$8,354	$8,594	$9,018	$9,612	$9,729

Financial Position

The financial position of a public higher education institution is assessed directly through a trend analysis of its net position, or the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Total net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The University of South Florida's total net position fell 15.9% (-$173,119,731) from FY2015-19, though the decrease was not constant (Figure 2). Theoretically, the University can pay its debts if its assets and deferred outflows of resources exceeds its liabilities and inflows of resources (net position), thought this assumes that all assets can be converted into cash. Moreover, the trend of net position should be taken into account as well, and its decline is noted above in Figure 2.

Figure 2: *Total Net Position, Total Assets and Total Liabilities (in Thousands), FY2015-19*



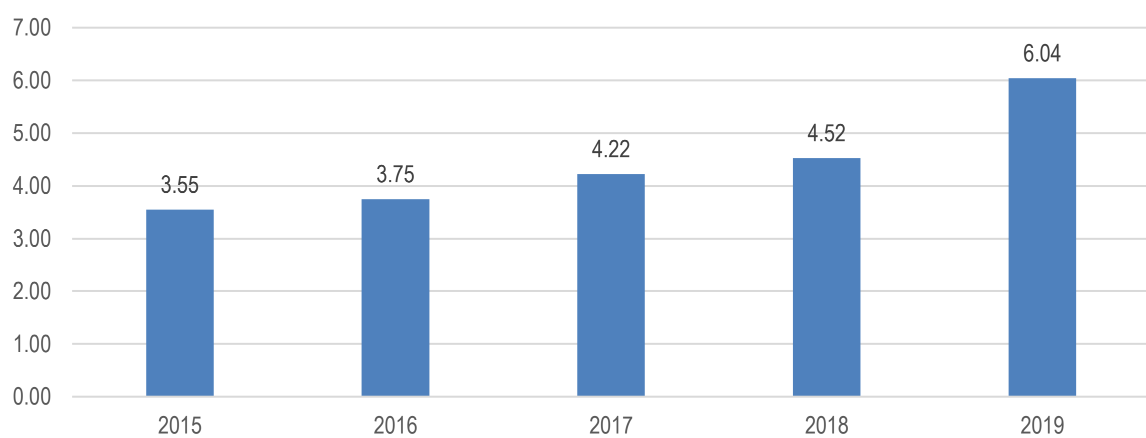
As it is calculated, net position includes inflows and outflows of resources that are related to future periods. As the GASB has written, "ratios calculated using assets or liabilities alone will more accurately measure what they are intended to assess" (Government Accounting Standards Board, 2013), p. 6). Thus, the relationship between total assets and total labilities were provided in Figure 2 to provide that context. Figure 2 demonstrates that the gap between assets and liabilities has narrowed from FY2015 onwards due to, among other factors, the recognition of pension and other postemployment liabilities occurring as a result of accounting reporting changes.

Fiscal Capacity

Fiscal capacity refers to an institution's ability to meet its financial obligations as they come due, and can be interpreted through liquidity (short-term), solvency (long-term), and ability to pay. Here, liquidity is estimated with the current ratio.

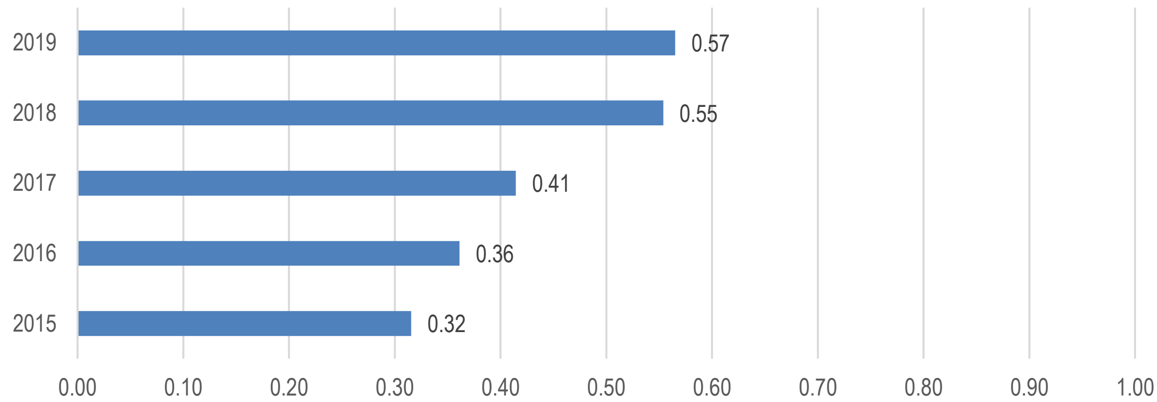
The current ratio is calculated as total current assets divided by total current liabilities. From FY2015-19, the current ratio has grown from 3.55 in FY2015 to 6.04 in FY2019 (Figure 3). To interpret the FY2019 estimate, we could say that the University had 6.04 more current assets than current liabilities in FY2019. This is a very large current ratio, one which provides it great flexibility and strength for withstanding future challenges. As one seminal text has indicated, although liquidity ratios must be greater than 1.0x, the degree to which is it is above that minimum is an institution-specific decision (Tahey, Salluzzo, Prager, Mezzina, & Cowen, 2010, p. 110). In the University of South Florida's case, a strong current ratio has grown even stronger over time.

Figure 3: *Fiscal Capacity (Liquidity), FY2015-19*



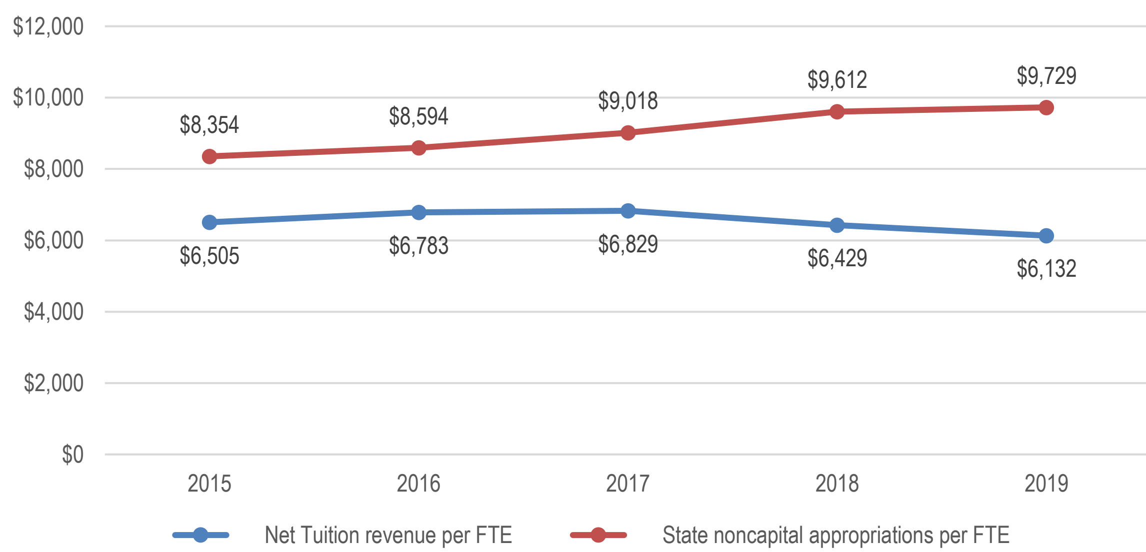
Fiscal capacity can also be measured through solvency ratios. These ratios are used to examine an institution's ability to fulfill its long-term obligations. Leverage ratios measure the degree to which an institution's assets are financed through borrowing and other long-term obligations. The liabilities-to-assets ratio represents total liabilities divided by total assets, and is presented in Table 5 and Figure 4. The quotient has risen over the years. The ending value of 0.57 indicates that 57 percent of the University's assets are financed with borrowing of one form or another. This negative trend could act as a drag on the success of the institution in meeting its mission.

Figure 4: *Fiscal Capacity (Solvency), FY2015-19*



Ability-to-pay ratios combine financial statement information with nonfinancial data to provide a perspective on the economic indicators that imply a constituency's ability to pay for governmental services. One type of ratio is an ability to raise revenues and pay for services ratio. In the context of public postsecondary education, these measures can generally be calculated as sources of revenue divided by FTE enrollment. Figure 5 provides an insight into two of the University's most important sources of revenue, nonoperating revenue from state noncapital appropriations and net student tuition and fees. While the rise in state noncapital appropriations is slight but positive, the trend in net revenue is negative.

Figure 5: *Fiscal Capacity (Ability to Raise Revenue), FY2015-19*



9 *Future Economic Conditions*

Over time, increases or decreases in net position are one indicator of the improvement or deterioration of a higher education institution's financial health. Other factors such as enrollment growth and the state's economy need to be taken into account. Enrollment data from State University System of Florida is provided in Table 7 and Figures 6 and 7. From Fall 2015 to Fall 2019, USF student headcount increased 4.3%; from the 2014-15 school year to 2018-19, total full-time equivalent (FTE) students increased 3.8%. This is a positive sign of the future of USF.

Table 7: *Headcount and Full-time Equivalent Student Enrollment, FY2015-19*

Headcount	Fall 2015	Fall 2016	Fall 2017	Fall 2018	Fall 2019
Undergraduate	35,990	36,373	36,955	37,235	37,284
Graduate	10,698	10,983	11,569	11,438	11,389
Total Headcount	46,688	47,356	48,524	48,673	48,673
FTE	2014-15	2015-16	2016-17	2017-18	2018-19
Undergraduate	33,680	34,2169	34,215	34,837	34,992
Graduate	8,555	8,687	8,718	8,919	8,856
Total FTE	42,236	42,905	42,932	43,756	43,849

Figure 6: *Student Headcount Enrollment, FY2015-19*

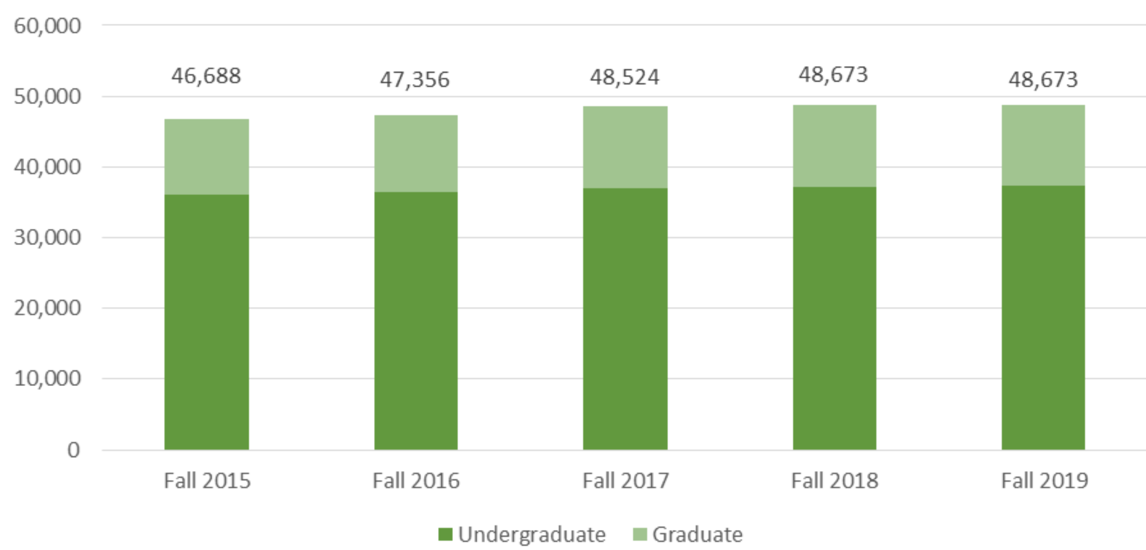
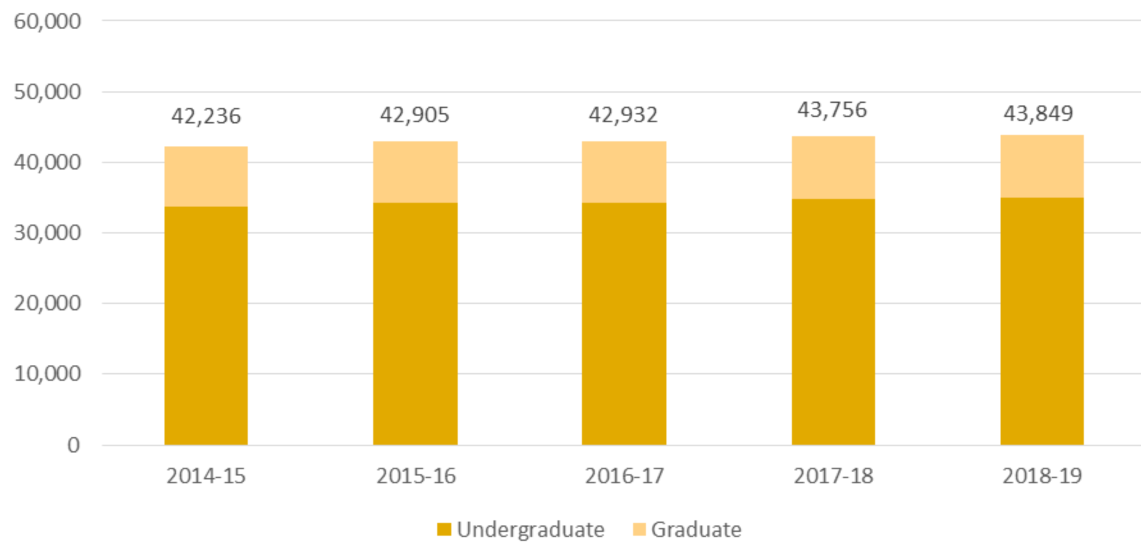


Figure 7: *Full-time Equivalent Study Enrollment, FY2015-19*



Unlike most universities, USF does not consider most of the economic factors that will affect its future. Instead, the administration merely notes the following in FY2019's Management's Discussion and Analysis:

> "The University's economic condition is closely tied to that of the State of Florida. The budget that the Florida Legislature adopted for the 2019-20 fiscal year provided a 1.2 percent increase for State universities. In June 2018, the University was designated a Preeminent State Research University by the Florida Board of Governors. This will increase the proportion of future preeminence performance-based funding allocated to the University each year" (State of Florida Auditor General, 2019, p. 14).

This cursory discussion is equally unhelpful in each of the other audits conducted for FY2015-19.

10 *Conclusions*

All five independent financial audits conducted on behalf of the University of South Florida yielded a clean opinion on the financial statements and reporting of the institution. This provides stakeholders with assurance that the information in the financial statements is correct, and that they can make sound decisions on the basis of the data. It also is a reflection of the integrity of the financial managers of the institution.

Given the University's mission, the working assumption of the financial audit analysis was that the University would prioritize instruction and research. Each of these assumptions was confirmed in the financial audits under consideration.

An analysis of the University's statement of net assets found that its asset growth has outpaced in growth in liabilities, and while its net position has declined due to its recognition of long-term pension and other post-employment employee benefits. The deficit in unrestricted funds is substantially addressed by the University in its presentation of data that provides insight into the impact of accounting changes, while a review of the required supplemental information (RSI) in its audits provides evidence that it has met its statutorily required contributions for pensions and health insurance subsidies.

The University's statements of revenues, expenses and changes in net position demonstrate solid growth in total operating revenues, but significant increases in operating expenses led by compensation and employee benefits and services and supplies. While the former is expected given the proportion of operating expenses devoted to the labor which drives the value of the University, the growth in services and supplies warrant attention given their growth of 16.8% from FY2015-19. The 20.9% increase in state noncapital appropriations and 581.2% increase in investment income are the most significant observations within nonoperating revenues, and bode well for the future of the University.

In terms of cash flow, the 12.0% increase in end of year cash and cash equivalents from FY2015-19 provide the University with great flexibility to address future challenges. This strength and flexibility is mirrored in the University's most impactful direct-support organization, the University of South Florida Foundation, Inc., which is not only financially strong, but has stated its readiness and willingness to support the University through any future challenges it might encounter.

The economic condition of a public institution is a composite of its financial position and fiscal capacity (liquidity and solvency) and its ability to provide needed services to the community. While its net position fell from FY2015-19, the growth of total assets was still superior to total liabilities though the gap has narrowed significantly over the time observed in this report. Its liquidity is extremely strong, while solvency has weakened slightly. Its ability to raise revenues is strong as well. Lastly, undergraduate and graduate enrollment is growing. All of these observations, however, are overshadowed by exogenous factors that have conspired to close college and university campuses across the country.

11 *Subsequent Events*

In December 2019, an outbreak of coronavirus disease (COVID-19) caused by the 2019 novel coronavirus (SARS-CoV-2) occurred in Wuhan, Hubei Province, China and has since spread throughout the globe. Early estimates of its reproducibility demonstrated considerable human-to-human transmission causing governments to slow its rapid transmission by employing mitigation interventions.

On March 13, 2020, the President of the United States declared that a national emergency concerning the COVID-19 outbreak began on March 1, 2020, as stated in "Declaring a National Emergency Concerning the Novel Coronavirus Disease (COVID-19) Outbreak," Proclamation 9994 of March 13, 2020, Federal Register Vol. 85, No. 53 at 15337-38.

On March 1, Florida Governor Ron DeSantis issued COVID-19 Order No. 20-52, declaring a state of emergency due to the outbreak of the 2019 novel coronavirus. The order was extended May 8 by Executive Order 2020-111.[14] As of the date of this report, the Coronavirus Resource Center at the Johns Hopkins University has tracked more than 42.7 million confirmed cases worldwide, with more than 8.6 million in the U.S. The state of Florida has experienced 1,548,067 confirmed cases and 23,799 deaths to date.

At this time, the impact of COVID-19 on higher education in general and the University of South Florida are largely unknown. To gather evidence on potential responses to the pandemic among higher education institutions, the Association of American Colleges and Universities (AACU) released a survey of 285 college and university presidents conducted in March 2020. In July, 2020 the AACU followed up with a second survey to identify any response shifts. The proportion of post-secondary institutions intending to lay off staff or implement furloughs increased, the proportion anticipating benefit cuts increased, and the proportion decreasing reliance on tenured and full-time staff fell. Most institutions anticipated hiring freezes (Table 6).

[14] See COVID-19 Executive Orders, https://www.flgov.com/covid-19-executive-orders/.

Table 6: *Anticipated Actions of Post-Secondary Institutions to COVID-19 Pandemic*

Anticipated Actions	March	July	Difference
Laying Off Staff	55%	59%	4%
Implementing Furloughs	57%	60%	3%
Cutting Benefits	21%	42%	21%
Increasing Non-Tenure Track Faculty	28%	14%	-14%
Increasing Part-time Faculty	30%	17%	-13%
Freezing Hiring	83%	82%	-1%

Many of the factors associated with the economic condition of public higher education institutions- state appropriations, enrollment and tuition- are in flux at this point. Governor DeSantis signed the FY2020-21 budget on June 29, 2020, the largest budget in state history, which included state operating funding for the Florida College System and State University System. By September 2020 the State was anticipating a $2.7 billion shortfall due to the recession that occurred in the wake of the pandemic (Kennedy, 2020). During those times, however, federal coronavirus aid provided assistance to the State.

Much of the federal aid came to Florida via the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136). Several of the higher education provisions have provided and will continue to provide relief from the pandemic. A variety of student aid interventions were included in the bill, including the Federal Supplemental Educational and Opportunity Grant and Federal Work-Study Program. Federal student loan modifications were also made to ease the burden for higher education borrowers. Several institutional aids were also included in the law, including a Higher Education Emergency Relief Fund (HEER) of $14 billion to institutions of higher education to address needs directly related to coronavirus, including but not limited to transitioning courses to distance education and grant aid to students for their educational costs.

The University of South Florida has not taken advantage of all of these funds. As of November 30, 2020, the University has been awarded $36,569,143 in HEER funds (50% for students, 50% for the institution), but spent only 58.8% ($21,496,278) of the funds.[15] Given this fact, it is important to find out why the University has not taken advantage of the relief fund to better prepare the University for addressing the challenges of the pandemic.

While the impact of the 2019 novel coronavirus (SARS-CoV-2) pandemic has been substantial, it does not represent the only time that financial challenges have threatened higher education's ability to operate. Indeed, the history of higher education in America is a testament to its resilience in addressing change and confronting challenges (Thelin, 2019). In fact, a seminal college financing text published by the National Association of College and University Business Officers (NACUBO) addresses potential college and university responses to financial exigency.

In it, the author writes that higher education institutions should develop plans to accommodate financial crises just as they develop plans for disaster recovery and emergency preparedness to avoid retrenchment (Goldstein, 2019, p. 310). Goldstein continues: "Generally, the less time an institution has to react to a fiscal emergency, the narrower the range of options available. Rather than carefully considering their options- which could include tapping into reserves or using a budget contingency, along with unallocated initiative funds- the institution typically responses by implementing travel bans, hiring freezes, and across-the-board budget costs" (p. 310).

[15] U.S.D.O.E.; Higher Education Emergency Relief (HEER) Fund. Available at https://covid-relief-data.ed.gov/profile/entity/069687242.

Goldstein cautions that "… personal cutbacks have lasting negative effects on institutional culture…" (p. 309) that lasts for years. Therefore, he offers several short- and long-term strategies designed to avoid such cuts such as leaving vacant positions open, relying on attrition, and identifying new revenue streams. The University can also consider putting plans for new construction on hold for the time being.

To help address the many needs of higher education institutions during the 2019 novel coronavirus (SARS-CoV-2), a number of organizations have provided resources for higher education leaders including the National Education Association, National Association of College and University Business Officials, and the Society for College and University Planning.

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