I. Call to Order and Comments

The meeting of the Finance and Audit Workgroup was called to order by Chair Hal Mullis at 9:00 am. The following members and liaisons were present: Hal Mullis, Stephanie Goforth, Scott Hopes, Brian Lamb, Judy Genshaft, Alan Bomstein, Dipayan Biswas, Carl Pacini and Ninon Sutton. Trustee Steve Mitchell was also present.

Chair Mullis thanked the Trustees for their attendance at the BOG meeting and Trustee Summit last week. USF was the only university with all its Trustees registered for the event.

II. Public Comments Subject to USF Procedure

No requests for public comments were received.

III. New Business – Action Items

a. Approval of September 8, 2015 Meeting Notes

Chair Mullis requested changes to the draft meeting notes and hearing none called for a motion for approval, it was seconded and the September 8th meeting notes were approved as submitted.

b. Approval of October 6, 2015 Special Meeting Notes

Chair Mullis requested changes to the draft meeting notes and hearing none called for a motion for approval, it was seconded and the October 6th meeting notes were approved as submitted.

IV. New Business – Information Items

a. Draft 2015 USF Financial Statements

Jennifer Condon, University Controller, provided highlights of the FY 2015 financial statements. Ms. Condon presented an historical view of operating results as well as the historical change in cash and investments. The USF System had a modest operating surplus of $3.5M in FY 2011; operating losses of ($91.2M) in FY 2012 due to reductions in state appropriations (at which time cost cutting measures including a hiring freeze were instituted) and ($46.6M) in FY 2013 (the result of some appropriations restored and due to cost cutting measures); an operating profit of $27.1M in FY 2014; and a slight operating loss of ($0.5M) in FY 2015. Operating profit/loss is a key Moody’s bond rating metric. The historical change in cash and investments follows the same trend line as the operating results, but with higher peaks
and lower valleys. Non-cash activities account for the differences between the two measures. USF had an increase in cash and investments of $46.4M in FY 2015.

Net operating results (year over year) include increases in state appropriations (performance based funding), auxiliary revenues (did not increase fees but rather had a change in business process for dining services), contracts and grants revenue (also a corresponding increase in contracts and grants expenses), and net tuition and fees revenue (no increase in tuition rates, but a change in student mix). Net investment income decreased (PY was a record year for investments); compensation and employee benefits increased (largely due to increase in employer share of health insurance); and service and supply expenses increased (change in dining service business process, contract and grant expenses and minor renovations across the university).

The change from a net operating gain of $27.1M in FY 2014 to a net operating loss of ($0.5M) in FY 2015 is a total of ($27.6M).

Ms. Condon explained GASB 68 – accounting and financial reporting for pensions. The net pension liability for the state of Florida is $15.5B as of 06/30/14. USF’s net pension liability as of 06/30/14 is $106.4M. This consists of $43.8M for the Florida Retirement System (funded at 96%) and $62.6M for the health insurance subsidy for retirees (pay-as-you-go and is unfunded). This results in an adjustment to beginning net position of $135.7M. This is a one-time adjustment to get the liability on our books. Going forward we will just record the change in liability. Trustee Lamb explained this is why understanding cash flow is so important and the workgroup needs to be well informed on this as decisions will be made based on cash flow.

Trustee Lamb asked how many other SUS institutions will be affected negatively by GASB 68. Ms. Condon responded that all of them would be impacted but at least three may move to a negative unrestricted net position, including the largest. Mr. Trivunovich noted that the credit rating agencies are aware of this issue as it is a national issue.

Ms. Condon also presented and explained variances between 2015 and 2014 in excess of $10M and 10% as well as variances in excess of $20M. She noted no reds on the stoplight chart. The University is stable despite things that are out of our control.

Trustee Hopes would like to see benchmark against mean of SUS and research universities in SUS.

b. USF/DSO External Audit Findings

Fell Stubbs, University Treasurer, reviewed the USF/DSO Outstanding External Audit Findings Annual Report. The University and DSOs will receive 18 audits from independent external auditors for the fiscal year ended June 30, 2015. The Report describes the results of 9 audits, which disclose 2 new findings from the University’s A-133 audit; 9 audit reports are expected to be received within the next 2 months. The 2 A-133 audit findings were both “significant deficiencies.” The audit findings, auditor recommendations, management’s response to the auditor, current status and target completion date were discussed.

Trustee Lamb asked when the Intercollegiate Athletics audit is due. Mr. Trivunovich responded 12/31/15. Mr. Stubbs stated that a final External Audit Findings Report will be provided to the Workgroup in February with the results of the remaining 9 audits.
Chair Mullis stressed that “repeat” finding should not appear on this report.

Trustee Hopes requested that the report list the audit due dates as well.

Mr. Stubbs reported that each year the DSOs certify that they complied with laws, regulations, policies and professional standards, and have implemented effective systems of internal controls, compliance reporting and governance. The statements certify compliance with 19 standards and are signed by the DSO Board Chair, CEO and CFO. The certified statements were due last Friday.

c. Annual Foundation Investment Report

Chip Newton, Chair of the USF Foundation Investment Committee, and Mark Brubaker, Wilshire Associates, presented the Annual Foundation Investment Report.

The USF Foundation had a very good year last year and recently closed FY 2015 with approximately $524M in total assets under management, of which $417M are restricted endowment assets. The Foundation’s investment objective is to preserve the intergenerational equity of endowed gifts while providing a consistent source of funding to University programs, faculty, and students. Assets in the pool are invested in compliance with USF System Investment Policy.

The Endowment Pool posted a return of 4.2% for the fiscal year, which was ahead of its policy benchmark of 2.3%. Performance for last year was primarily driven by US equity markets as well as strong returns from alternatives. Endowment performance has consistently ranked in the top quartile among industry peers.

NACUBO is the primary benchmarking tool. Investment returns place USF Foundation at the top quartile in all time periods. We have significantly outperformed our peers. USF has the second largest endowment among institutions established in the 1950’s and 1960’s. FY 2015 endowed assets totaled $417.4M. Over $25M is due from the Florida state match. Distributions to USF reached nearly $16M in FY 2015; over $147M over the last 10 years. The Foundation is always looking at liquidity needs and down-side risk.

Attribution for the continued top quartile results include the endowment abstaining from investing in hedge funds (a detractor for many peer endowments); relative overweight in US equity; private equity program producing strong long-term numbers; and prudent overall manager selection.

Typical endowment has 17% allocated to hedge funds – this has been a detractor. USF Foundation has never invested in hedge funds.

Losses and market volatility were the story for the first quarter of FY 2016 (quarter ended 9/30/2015) – the portfolio was down about 6%. Rally since September, portfolio up 3% in October.

USF Foundation continuously looks at asset allocation. USF is an equity-centric portfolio.
d. INTO USF: A Core Strategic Partnership

Provost Ralph Wilcox and Nick Setteducato gave a presentation on INTO USF – its background, the current results, and expected future outcomes. INTO USF is aligned with the strategic goals of the University.

INTO USF provides Academic English and Pathways programs on the USF campus utilizing USF instructional faculty. The partnership began in Fall 2010 with 453 students. The number of students in Fall 2015 is 1,233 (51% are Pathways programs, 63% are graduate students) – nearing program growth goal of 1,400. Students have an 80% progression rate from Pathways to USF matriculation (highest of all US INTO centers). 450 students now fully matriculating. These students have high retention rates. Through Fall 2015, 668 degrees have been awarded to INTO students.

While in English or Pathways programs, INTO USF students pay for these programs via a tuition charge (plus room and board) and USF is reimbursed for both the cost of instruction and for use of USF facilities/services. INTO collects the tuition; USF instructors teach courses.

USF has a 30-year agreement with INTO. Already achieving academic and strategic success, as well as financial success. Initial investment in INTO USF was $500K ($250K from each shareholder). In FY 2015, revenues were $28.5M, net profit was $2.2M, and ending cash balance was $14.6M. Ownership of profit is 50/50. Prior to INTO, ELI (English Language Institute) was producing $2M in revenue.

Once students move onto degree seeking status, out-of-state tuition is collected by USF as with any non-resident student. USF pays INTO a commission (ranges between 16-22% of tuition) for each student recruited to USF. INTO USF has had a significant positive impact on USF’s international student enrollment.

There are approximately one million international students in the US today. 4% of US students are international students. There is a 10% cap on international/out-of-state students in the SUS - this number is currently about 5%. There is room for growth, but limited capacity.

INTO USF was the third such partnership in the US. USF has exclusivity with INTO in Florida. But the competitive landscape is changing. Currently there are approximately sixty centers in the US from a variety of competitors. In Florida, both UCF and FIU are partnered with Shorelight Education. In January, UCF will open a $15M, 60,000 square foot global study center.

There are four strategies going forward for INTO USF to secure our sector leading competitive advantage in Florida: enhancing geographical diversity of the USF student body to mitigate risk; collaboration between IUP and USF in international student talent recruitment; expanding global internships for USF students (international and domestic); and consider building a **USF Global Studies Center** on campus (estimated 60,000 gsf, of classroom, student support, and office building space; paid in full upfront by INTO USF’s accrued cash balance (50%/50%); owned solely by USF).

There was a discussion about the living arrangements of the INTO students. Most live on campus, this attributes to their success. Dr. Glen Besterfield, INTO Center Director, stated that INTO students occupy 376 beds on campus this semester. Trustee Hopes is concerned that non-degree seeking INTO students are occupying housing beds and this is taking away from
beds for degree-seeking students. Mr. Trivunovich explained that INTO demand for housing was taken into account in the number of beds needed for the PPP housing project. President Genshaft stated that all freshmen that wanted housing this Fall got it.

There was also a discussion about INTO versus direct admits. The INTO non-academic program is strong and contributes to student success. English language skills have been vetted by USF faculty.

Trustee Mitchell remarked that this program is helping USF get more even with out-of-state students which helps us economically. He expressed congratulations on this program and its success.

V. Adjournment

President Genshaft reported that Money magazine ranked USF #1 for veteran friendly campuses.

General Counsel Prevaux announced that a recent ACE (American Council on Education) publication announced that only 8% of US Universities have established any internationally focused criterion for tenure and promotion guidelines. USF is a leader in this regard due to revisions made to our guidelines last year.

Having no further business, Chair Mullis adjourned the Finance and Audit Workgroup meeting at 11:30 am.