

## University of South Florida Faculty Senate President's Report to the Faculty

August 2008 through January 2009

I want to take this occasion to share with you some of what the USF Faculty Senate and your colleagues who are members of the Senate have been up to during the last six months.

During this academic year, the USF Faculty Senate has continued to advocate strongly for shared governance as a worthy and important goal, even during this difficult budget era. Frequently, the Faculty Senate has been able work collegially with the administration, and some positive results include:

- After an academic reorganization in the Summer and Fall of 2008 that some viewed as violating the principles of shared governance, we have developed a Memorandum of Understanding (MOU) with the USF System VP for Academic Affairs (who has responsibilities for USF Tampa Academic Affairs; USF Polytechnic; and USF Sarasota/Manatee) about the principles/guidelines/procedures that should be followed when any academic restructuring is proposed (see Appendix A). We hope that a similar MOU will be forged with the USF VP for Health.
- The Faculty Senate is considering a major revision to its Constitution and Bylaws under the leadership of Michael Barnett, COBA, the Secretary of the Senate. Two changes were approved at the January Faculty Senate meeting (one defining who can be a member of the Faculty Senate and the other extending the advisory capacity of the Faculty Senate to the VP for Health, in addition to the Provost and the President). As required by the Faculty Senate Bylaws, both changes will be distributed to all faculty shortly for a full vote.
- The Faculty Senate is implementing a faculty assessment of the university's President, Provost, and VP for Health in the spring of 2009. This will be the first opportunity for a systematic assessment by faculty of these administrators. The assessment will be implemented online, with special procedures for those who fear their responses could be tracked (we are assured they will not be). Paul Terry, COE, is Chair of the Faculty Issues Committee that oversaw the development of these assessments.
- The Faculty Senate, the Student Government Association, and the United Faculty of Florida-USF Chapter co-hosted a discussion of the USF budget, led by Professor Leroy Dubeck, on January 22, 2009. The USF administration and BOT declined to co-sponsor the event. A copy of his presentation is included as appendix B.
- The President of the University announced a new process for developing the budget for USF, under the direction of the Provost and consistent with the University's Strategic Plan. In turn, the Provost announced a USF System Annual Strategic Budget Planning Process that will be guided by the principles of openness, transparency, mutual trust, and respect among faculty, administration, and staff, and that includes the President of the Faculty Senate as one of its members. When the process achieves its promise, we will all be very pleased.

- The Faculty Senate passed a resolution that is intended to initiate our gaining control over the process of appointing faculty representatives as members of the various Workgroups of the Board of Trustees. Historically, such appointments have been made sometimes without input from the Senate, and typically with no feedback mechanism to the Senate. A copy of the resolution is attached as Appendix C.
- The Faculty Senate has expressed its concern over the trend of the last several years to create new administrative positions without any consultation, to appoint senior administrators without appropriate searches, and in too many cases without any searches at all. We anticipate additional discussions with the administration about this issue.

If you have any comments or suggestions about any of these or any other issues that concern you as a faculty member at USF, please let me or any other senator know. A copy of the current list of senators is attached as Appendix D; an announcement of the upcoming Faculty Senate elections is contained in Appendix E.

Thank you.

Laurence G. Branch  
President, University of South Florida Faculty Senate

**Memorandum of Understanding Concerning Principles, Guidelines, and  
Procedures for Major Organizational Restructuring of Academic Units at the  
University of South Florida.**

**I. Introduction**

Consistent with its role as the principal advisor on academic affairs to the Provost, the Faculty Senate and Provost herein agree upon the guidelines to be followed when major organizational restructuring of academic units is proposed by the administration.

**II. Statement of Guidelines**

Major organizational restructuring is defined as any creation, dissolution, merger, or separation of academic departments, schools, or colleges. Proposals for major organizational restructuring must be presented to the Faculty Senate and must include a detailed written proposal, including at a minimum:

- a. A description of the proposed changes.
- b. A rationale for the changes.
- c. A reasonable statement of the financial and budgetary implications of the changes.
- d. An examination of the likely consequences of the changes.
- e. A proposed timeline for the reasonable implementation of the changes.
- f. A brief description of the nature of consultations with the academic entities affected by the changes, including a summary of the responses.

**III. Implementation**

Upon receipt, the written proposal will be considered as a resolution to be discussed at the next meeting of the Faculty Senate. Members of affected academic entities will be invited to comment in writing, with consensus and minority opinions concerning the proposed changes considered at the next (second) meeting of the Faculty Senate. At the third Faculty Senate meeting, discussion of the original proposal and the written responses may be continued, and a vote will be taken on the original proposal. If a proposal is amended, the Faculty Senate will solicit a second round of written comments for discussion at the next Faculty Senate meeting, with a vote occurring on the amended proposal at the subsequent meeting of the Faculty Senate. It is agreed that a final vote on a proposal should ordinarily take no longer than ninety (90) days from initial presentation. The President of the Faculty Senate may call a Special Meeting or, at the request of the Provost, shall call a Special Meeting to expedite consideration and/or a vote, including during the summer months, if necessary.

It is mutually recognized that the administration holds ultimate authority and responsibility for determining the most appropriate academic structure and organization within the university, including Sec. 447.209, Florida Statute, while the Faculty Senate is bound to fulfill its responsibility as the principal advisor on academic affairs to the Provost including through voting.

This memorandum of understanding will remain in effect through June 30, 2010, at which time it will be reviewed.

Signed:

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Laurence G. Branch, PhD  
President, Faculty Senate  
Affairs, USF System

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Date

Ralph C. Wilcox, PhD  
Senior Vice President for Academic

Provost

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Date

**REVIEW OF THE ANNUAL FINANCIAL AUDITS  
OF THE UNIVERSITY OF SOUTH FLORIDA**

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April 2008

## **INTRODUCTION**

My comments refer to the Annual Financial Audits for the years ending June 30, 2003 through June 30, 2007 prepared by The Auditor General of the State of Florida.

The Tables included in this document were compiled from those documents. Any errors that might have existed in those documents may also be reflected in this Review.

## FUNDAMENTALS OF FUND ACCOUNTING

In order to understand the overall financial condition of any institution of higher learning in the United States, one must be aware that the accounting principles applied to the finances of such an institution involve distinct, but interrelated, entities called “funds.” Each fund has a self-balancing set of assets, liabilities, and a fund balance. One must examine all of the funds of an institution in order to assess its financial status.

An analogy to fund accounting is the following. Suppose that your assets consisted of five bank accounts, each with \$10,000 in it as of a certain date. Your net worth, if you had no debts, would then be \$50,000 and would remain unaffected by moving funds from one bank account to another. Similarly, assets are often moved between funds of a college. Consequently, the Tables included in this document utilize the net assets in all of the funds of the University of South Florida.

There are different types of funds. “Unrestricted” funds are those solely under the control of the institution’s governing board. These are the funds which allow the institution flexibility in addressing its various needs. Although there may be some “restrictions” placed on the use of unrestricted funds, these “restrictions” normally refer only to resolutions of the governing board which may be rescinded at any time by action of that board. While Endowment Funds are Restricted Funds, Funds Functioning as Endowment funds are Unrestricted funds since they have merely been designated Funds Functioning as Endowment by the Board of Trustees.

By contrast, “restricted” funds are resources which have external, legally binding restrictions placed upon their use. For example, a government grant (minus any indirect

cost in the award, which can be treated as unrestricted revenue) can only be expended for the purpose for which it was awarded. Similarly, gifts sometimes carry legally binding stipulations restricting their usage. Thus, an institution's administration and governing board are not at liberty to use restricted funds except for stated purposes. However, in some cases, even these funds can be expended for activities which free up unrestricted funds.

Investment in Capital Assets Net of Related Debt are classified separately from Unrestricted and Restricted Funds and are considered to be resources generally not available for other uses by an institution.

You may wish to refer to Chapter 2, Fund Accounting, of the *Budget Handbook for Association Leaders in Higher Education Units*, which I wrote for the National Education Association. That Chapter expands upon the prior comments and illustrates them for a fictitious college.

## REPORTING ENTITY

Pages 20 through 22 of the 2007 Financial Audit describe the University of South Florida and its various component units as of June 30, 2007. First there is a “blended component unit”, the Medical Professional Liability Self-Insurance Program, which is included within the heading “University” in the Financial Statements rather than being listed under the heading “Component Units” which consists of the “Discretely Presented Component Units.”

There are two categories of Discretely Presented Component Units. The first category consists of seven “Direct Support Organizations”, namely:

The University of South Florida Foundation

The University of South Florida Alumni Association, Inc.

The University Of South Florida Medical Services Support Corporation

The Sun Dome. Inc.

The University of South Florida Research Foundation, Inc

The USF Financing Corporation

The USF Property Corporation

Page 21 of the 2007 Financial Audit describes the purposes of each of these organizations.

The second category of Discretely Presented Component Units is the Faculty Practice Plan, described on page 22 of the 2007 Financial Audit.

The University of South Florida Foundation has most of the Net Assets of all eight organizations. On page 46 of the 2007 Financial Audit, the University of South Florida Foundation is shown to have as of June 30, 2007 Net Assets of \$463,007,266 out

of a total of Net Assets for all eight organizations of \$574,745,920. The details of the Net Assets in each Component Unit are presented on page 46.

One must examine the Net Assets in all of the Discretely Presented Component Units as well as in the University itself to get a complete picture of the financial condition of the University. That is the reason that the assets of these other organizations are presented on the same page in each Audit as that of the University itself.

### **UNIVERSITY OF SOUTH FLORIDA STATEMENT OF NET ASSETS**

First note that all of the fiscal data used for each fiscal year came from that year's Financial Audit even if a subsequent Financial Audit restated some of those numbers.

Table 1 presents the assets held by the University and the total assets held by all eight of the Component Units as of the last day of each fiscal year. Under GASB (Government Accounting Standards Board) accounting rules there are four categories of Net Assets: Invested in Capital Assets, Net of Related Debt; Restricted Nonexpendable (the true endowment); Restricted Expendable (grants, gifts, earmarked appropriations, etc); and Unrestricted. While Net Assets for each of these categories of assets is presented in each Financial Audit for both the University and the Component Units, on page 23 of the 2007 Financial Audit it states that some of these Component Units, including the University of South Florida Foundation, follow FASB (Financial Accounting Standards Board) rules. Under FASB, Unrestricted Funds =Unrestricted Funds under GASB plus Invested in Capital Assets Net of Related Debt under GASB. I presume that the proper change in allocation of assets have been made by the auditors in order to produce the Statement of Net Assets (for example on page 15 of the 2007 Financial Audit) in the GASB format for both the University and all of the Component

Units. However there is some chance that the Unrestricted Funds for the Component Units total could be overstated and the Invested in Capital Assets could be understated. The overall Total Net Assets for the Component Units would not be changed, however.

Before discussing Table 1, one must be aware that over the four year period covered (from June 30, 2003 to June 30, 2007) there were a number of accounting changes that impacted Table 1. In fiscal 2005, the “University changed its accounting estimate for depreciating buildings from 50 to 40 years and building improvements from 35 years to 25 years.” This resulted in a one time increase in depreciation of \$45,795,453, or in other words, in a decrease in the Invested in Capital Assets, Net of Related Debt of the same amount (see page 27 of the 2005 Financial Audit). This accounts for the decrease in Invested in Capital assets net of related Debt in Table 1 from \$443,508,000 as of June 30, 2004 to \$418,986,783 one year later despite new capital additions during fiscal 2004-5. The administration stated on Page 7 of the 2005 Financial Audit that this decrease “is misleading as a change in accounting estimate was made”.

During the 2005-06 fiscal year the USF Financing Corporation and the USF Property Corporation (which had both been established in fiscal 2004-05) were moved from “blended units” that were treated as part of the University with respect to their Assets and Liabilities to become two discretely presented Component Units which is where they remained in 2006-07. See pages 6 and 24 of the 2006 Financial Audit for details. However as indicated on page 45 of the 2006 Financial Audit, the Total Net Assets of these two Corporations was zero so their separation should not have affected the Net Asset Totals for either the University or the Component Units.

Also on page 6 of the 2006 Financial Audit the Administration reported that

“Amounts due from the State and University component units decreased by \$16.6 million as a result of a reduction in funds due from the State for construction and the correction of errors in the University Medical Service Association, Inc.’s, prior fiscal year financial statements.” I do not know what part of the \$16.6 decrease was due to “errors”.

Finally consider one point made by the administration in each Financial Audit (see page 33 of the 2007 Financial Audit) about Compensated Absences Payable. “The University reports a liability for the accrued leave; however state appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2006, the estimated liability for compensated absences, which includes the University’s share of the Florida Retirement System and FICA contributions, totaled \$55,994,342.” In other words the Administration is pointing out that in reality their Unrestricted Net Assets are even larger than that reported (by about \$59,429,430 on June 30, 2007).

Table 1 indicates that for the University of South Florida Invested in Capital Assets, Net of Related debt has increased from \$413,168,390 as of June 30, 2003 to \$460,680,148 as of June 30, 2007. As noted above the decrease reported for fiscal 2005 was due to a change in accounting calculations. **Note that this increase of \$37 million occurred despite the reduction in this category of net assets due to depreciation of about \$212 million dollars over the four year period!** See Table 2 which lists the charges for depreciation each fiscal year. This means that the University has made large investments in capital assets over the four year period covered by Table 1. The

Component Units also had an increase in Invested in Capital Assets Net of Related Debt of more than \$18 million over the same time frame.

Restricted nonexpendable (held by Component Units) is the true endowment and it increased from \$286,832,495 as of June 30, 2003 to \$458,022,908 as of June 30, 2007.

Restricted Expendable (held by the University) includes Debt Service, funds received for Capital Projects, Loans, and Grants and Contracts. It increased from \$74,001,636 as of June 30, 2003 to \$205,384,816 as of June 30, 2007,

**Unrestricted Funds of the University increased from \$117,185,420 as of June 30, 2003 to \$240,036,330 as of June 30, 2007. Note the administration acknowledges that “Unrestricted assets are available to the University for any lawful purpose of the University.” (page 8 of the 2007 Financial Audit) These are the funds of greatest importance to settle collective bargaining issues. The Unrestricted Funds of Component Units also increased by about \$30 million over the same 4 year period.**

Finally, Total Net Assets of the University increased from \$604,355,446 as of June 30, 2003 to \$906,101,294 as of June 30, 2007 and Total Net Assets of Component Units increased from \$355,516,739 as of June 30, 2003 to \$574,745,920 as of June 30, 2007.

On page 7 of the 2007 Financial Audit, the Administration stated “The Changes in net assets that occur over time indicate improvement or deterioration in the University’s financial condition.” On page 14 of the 2007 Financial Audit the Administration also stated “There was an increase in total net assets of \$148.3 million and this contributed to the sound financial position of the University” Well stated!!!

**I was asked two questions re the USF :**

1. Does the USF Financial Audit include USF-St. Petersburg campus?

Answer : Yes. In fact on page 30 of the 2005 Financial Audit, the issuance of Certificates of Participation to fund a housing and parking facility at the University of South Florida St. Petersburg campus is explicitly discussed.

2. “It appears from the financial statement of the USF Foundation that what is restricted income in one year is fairly close to the unrestricted income in the next. Is that common, and is that a direct consequence of how foundation accounts work?

Answer: I have not seen the separate audit for the USF Foundation, but from the information appearing in the USF Financial Audits (see for example page 42 of the 2005 Financial Audit) the Restricted Net Assets were \$351,656,101 while the Unrestricted Net Assets were only \$2,071,293 as of June 30, 2005. In the 2007 Financial Audit, the Restricted Net Assets in the USF Foundation were \$455,799,682 and the Unrestricted Net Assets were only \$4,291,916. These differ by two orders of magnitude so I do not see how the Unrestricted Net Assets (nor income) in one year could be equal to the Restricted Net Assets in the next year. There is no accounting reason why they should be equal.

#### **UNIVERSITY OF SOUTH FLORIDA REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

Table 2 presents this data for the five year period 2002-03 through 2006-07. The 2006-07 data comes from page 17 of the 2007 Financial Audit. I have only presented the data for the University in Table 2. You will find the similar data for the Component Units in a column adjacent to the University’s data in each Financial Audit. As Table 2 indicates the University had a large positive surplus Before Other Rev/Exp in fiscal 2003,

2004 and 2007. In fiscal 2005 the loss of \$12,242,148 was due to the huge depreciation expense of \$87,279,146 due to the change in depreciation rules that year which I have discussed previously. The loss of \$12,516,473 in fiscal 2006 would also have been a positive number but for the depreciation expense of \$43,603,026. Finally, the income before other Rev/Exp was a positive \$47,943,271 for fiscal 2007 even after applying depreciation of \$45,741,653.

The Administration stated on page 8 of the 2005 Financial Audit that “A more indicative measure of the University’s financial activity during the year would be the income (loss) before other revenues, expenses, gains or losses.” That is why my comments focused on those numbers. If one adds in capital Appropriations, and Capital Grants, Contracts and Donations one gets the Increase in Net Assets of Table 2 which is large and positive for every year in the Table, with the largest being the \$148,272,350 increase for fiscal 2007.

Note that for the expenses for fiscal 2003 I had guesstimate some of the entries since the 2003 Financial Audit had some different categories of expense from all of the other Audits. The data for Operating Expenses for fiscal 2004 through 2007 come directly from each year’s Financial Audits. They are presented by so-called “natural classifications” such as Compensation and Benefits.

Table 3 converts each of the operating expenses into a percentage of the total to see if one can discern significant trends over time. On page 8 of the 2005 Financial Audit the Administration states that it changed the way it reports certain Federal and State student financial aid moneys. “The effect of these changes is that, although net income is unaffected, the net operating loss is substantially increased.” (page 9 of the 2005

Financial Audit). Thus the increase in Scholarships and Waivers from fiscal 2004 to fiscal 2005 may be more a reflection of accounting changes than of substantive results. Similar comments apply to the spike in the percentage for depreciation in fiscal 2005 as mentioned previously.

#### **TABLE 4: OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION**

In Table 4 the operating expenses are presented in terms of “functional classifications”.

The data for fiscal 2007 comes from page 43 of the 2007 Financial Audit which also states that “When the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification”. Table 5 converts the raw data of Table 4 into percentages of the total expenses. The two most interesting trends in the data are the decrease in the percentage of expenses going for Instruction and the increase going into Research,

**Suggestion:** Why has the percentage of Expenses going for Instruction decreased by over 4 % between Fiscal 2003 and Fiscal 2007? In my analysis of other university budgets this has happened due to one of three causes: (1) enrollment decreases; (2) less expensive faculty are hired, i.e. non tenure track or part timers and/or (3) faculty teaching workloads have increased. You might wish to examine this issue further.

#### **SIGNIFICANT DEFICIENCY FOUND IN 2007 FINANCIAL AUDIT**

On page 1 of the 2007 Financial Audit the State Auditor reported a significant deficiency in the way the University reported accounts receivable and deferred revenue. The University’s response appears on page 49 of that Audit.

## **CONCLUSIONS**

**The University of South Florida is in excellent financial condition. Its Unrestricted Assets have increased from \$117,185,420 as of June 30, 2003 to \$240,036,330 as of June 30, 2007. Its Total Net Assets have increased from \$604,355,446 as of June 30, 2003 to \$906,101,294 as of June 30, 2007. Its Component Units have also substantially increased both their Unrestricted and Total Net Assets over the same period of time.**

**Finally, the administration stated on page 14 of the 2007 Financial Audit that “Revenues from sources other than State appropriations, such as sales and services of auxiliary enterprises, student tuition and fees, and grants and contracts all showed increases in the 2006-07 fiscal year and are expected to remain strong.” (page 14 of the 2007 Financial Audit).**

**The following Resolution was passed unanimously by the USF Faculty Senate Executive Committee on October 29, 2008, offered at the full Faculty Senate meeting on November 19, 2008, and passed unanimously by the USF Faculty Senate on January 21, 2009.**

Whereas the University of South Florida Board of Trustees has the responsibility to establish policies at the University of South Florida,

Whereas the University of South Florida Faculty Senate has the responsibility to advise the USF President, Provost, and Senior Vice-President for Health on matters that affect the university,

Whereas the University of South Florida Faculty Senate is the elected body of the faculty and is the sole representative body of the faculty,

Whereas the University of South Florida Board of Trustees has organized itself into three workgroups that focus on the attainment of institutional goals adopted by the Board of Trustees,

Whereas the Board of Trustees seeks to ensure that the actions of the Board are informed by the experience and perspectives of faculty, and the Board has established the practice of naming faculty liaisons to each workgroup,

Whereas the Board of Trustees seeks to support the principle of shared governance,

Therefore, be it resolved that henceforth the duly elected representative body of the University of South Florida faculty, the Faculty Senate, through its Committee on Committees, following consultation with the Chair of the Board of Trustees, shall nominate all faculty liaisons to the Board of Trustees' workgroups, and

Be it further resolved that henceforth all faculty liaisons to the Board of Trustees' workgroups will serve staggered three-year terms, with the possibility of one uninterrupted reappointment.

Dear Colleagues,

I am writing to urge you to nominate yourself, a colleague, or both, for the upcoming USF Faculty Senate elections. The Faculty Senate is the “voice” of the USF faculty and is a “voice” that is both sought out and listened to by the University Administration and the Board of Trustees. In turn, the faculty of the university have an obligation to ensure that their contribution to decision making through the Faculty Senate is thoughtful, collegial, and constructive. In this context, I encourage you to carefully consider this request for nominations and nominate individuals who can effectively participate in this important aspect of shared governance. These are turbulent times in the world, and in our university. Please seriously consider taking a role in an organization that will help guide USF through this turmoil. For more about the USF Faculty Senate, please visit our website:

<http://web.usf.edu/FacultySenate/>

Michael L. Barnett  
Secretary, USF Faculty Senate

**Qualifications:**

- Nominees must be full-time members of the general faculty *and* must hold the rank of assistant professor, associate professor, professor, assistant librarian, associate librarian, or librarian.
- Current Senators may seek re-election for a second three-year term.
- Senators who are fulfilling a term of less than three years may run for a full-term seat at the next election following completion of that term.
- Before the balloting, nominees will be asked to submit brief biographical data. Candidate web link for biographical information should also be provided (see nomination form).
- ***Self-nominations are encouraged.***
- You may nominate colleagues within or outside of your college for seats in their college.
- ***You must obtain a nominee's consent and signature before placing her/his name in nomination.***

The nomination form is attached. Nominations will be accepted only for vacancies that are listed on this form. The deadline for submission of

nominations to the Faculty Senate Office (ADM 226) is 5:00 p.m., Friday, February 6, 2009.