USC Tops $1 Billion Endowment

BY Carol Tucker   December 2, 1996

The university closed its books for fiscal year 1996 with a net operating surplus of $175,000 that came remarkably close to target, and a total endowment that topped the $1 billion mark for the first time, according to the 1996 Financial Report published in November.

The end of the fiscal year found the university in sound financial health, with an all-time high of $1.022 billion in endowment. The university earned a total of $1.233 billion in revenues, including a gain of $131 million on long-term investments, $148 million in government-sponsored research and $141.3 million in gifts and pledges to departments, the report shows. The university’s financial health is also aided by a $100 million surge in future government-sponsored research.

The report includes a consolidated balance sheet and statement of financial activities as of June 30, 1996. It was audited by independent accountants Coopers & Lybrand LLP, who issued an “unqualified opinion” that the financial statement was presented fairly and in conformity with generally accepted accounting principles.

“For one more year, we operated without a deficit, which has been the case for the past 85 years,” said Dennis F. Dougherty, senior vice president for administration. The fact that the surplus is not too high is just as important as not being in the red, he added.

“It shows we’re not under-serving our students and making an extraordinary surplus,” he explained. “We want the students’ tuition to pay for what they get – not what a student 10 years from now will get. We have to be close to zero, but we have to be on the right side of zero.”

The $175,000 surplus against $673 million in education and general revenues once again met the board of trustees’ mandate to operate without a deficit, Dougherty said.

The surplus is measured against an operating budget consisting of revenues and expenses related to the principal educational mission of the university. The education and general category includes the operations of USC’s 65 academic and administrative units, managed by 21 deans and 44 directors.

Along with the education and general component, the operating budget – which was about $1 billion in fiscal 1996 – includes the revenues and expenses associated with health-care services, and sponsored research and gifts to departments. Revenues are also generated from the long-term investment fund, as well as contributions to temporarily restricted and permanently restricted net assets.
Overall, the university’s financial activities generated $1.233 billion in revenues and $1.06 billion in expenses, producing an overall surplus of about $171.6 million, Dougherty said.

The university’s net worth now stands at $1.835 billion.

Two of the key sources of revenue are sponsored research and gifts to departments, which amounted to $228.6 million in 1996. As one of the nation’s top 10 private research universities, USC garnered $148 million in federal research funds last year.

The future looks even brighter. Dougherty pointed out that the university has a substantial number of awards that research units have not yet spent – further evidence of the university’s health.

The value of contracts, grants and other awards for future research jumped from about $388 million in 1995 to $488 million as of June 30, 1996.

“This is a tribute to our principal investigators and the quality of their research,” Dougherty said.

Another key factor in the university’s financial health is total endowment and endowment growth. For the first time ever, the university’s endowment topped the billion-dollar mark, ending the fiscal year with $1.022 billion in total endowment.

“Through fund-raising for the Building on Excellence Campaign and a strong return of 17.1 percent on our endowment pool, we were able to obtain a solid increase in our endowment,” said William C. Hromadka, treasurer and associate senior vice president.

Hromadka said the total market value of the endowment pool increased by $117 million and stood at $768.9 million as the fiscal year ended. The university is continuing its multi-manager investment framework for the pool, which is composed of bonds (17 percent), stocks (54 percent), international investments and venture capital (23 percent), and other investments (6 percent). Not only is the portfolio diversified by investment categories, but the university uses managers with differing investment styles within each investment category.

“The result is a diversification which lowers the risk and the volatility of the pool,” Hromadka said.

Included in the university’s total net assets of $1.835 billion are the endowment and similar investment funds, Dougherty said, such as restricted gifts, annuities and living trusts. When these are combined, the university’s endowment plus similar funds continues to be well over $1 billion – about $1.3 billion.

The university’s sound financial health again earned it a AA rating from Wall Street. Moody’s Municipal “Daily Rating Recap” noted that USC’s prudent fiscal oversight reflects an effective and decentralized management structure.

In reporting the AA rating, Moody’s also cited the university’s sizable endowment resources, which were “boosted by a $1 billion campaign and reduced spending,” its manageable debt levels and its national reputation.